

Bank of England

Record of the Financial Policy Committee meeting on 25 September 2026

30 September 2026

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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 19 November 2026 and the record of that meeting will be published on 26 November 2026.

Record of the Financial Policy Committee meeting on 25 September 2026

Headline judgements and policy actions

- **The likelihood that interconnected vulnerabilities in the financial system crystallise has risen since the Financial Policy Committee's (FPC) previous meeting.** The re-escalation of the conflict in the Middle East has renewed uncertainty around growth and the path of interest rates in a number of advanced economies, re-intensifying the risk that vulnerabilities in sovereign debt markets, risky asset valuations, and risky credit markets crystallise at the same time. The rapid increase in artificial intelligence (AI)-related debt issuance broadens the exposure of capital markets to developments in AI. At the same time, recent incidents in frontier AI have drawn further focus to the pace of AI development and associated vulnerabilities, including cyber and operational risks. **The Committee underscores the importance of timely and careful management of these intensifying, interconnected risks.**
- **Specifically, the re-escalation of the conflict and the associated rises in oil, gas and refined product prices are leading to a more protracted negative supply shock to the global economy.** This has contributed to sustained increases in sovereign bond yields across a number of advanced economies, to levels not seen since 2008.
- **The financial system has so far been resilient in response to these increases in sovereign bond yields, and market adjustments have been mostly gradual.** Although hedge fund leverage in the gilt market has been stable, it remains elevated, and deeper interconnections between vulnerabilities means the risk of a sharp adjustment persists. This underlines the importance of the Bank's work on gilt repo market resilience.
- **Equity markets in aggregate have, thus far, been resilient to increases in bond yields and the tightening in financial conditions. Equity valuations for AI companies fell sharply in July.** The scale of the adjustment was amplified by an unwinding of stretched positions and associated deleveraging activity. Despite significant losses for some leveraged investors with concentrated positions, there was no spillover to core markets. Concerns about the sustainability of AI-related earnings and capital expenditure growth may have contributed to market sentiment. The risk of a sharper correction persists, notably if there is a more significant shock to earnings expectations reflecting concerns around the pace of AI development or adoption.

- **Recent frontier AI test-environment incidents, where autonomous models have taken unexpected actions, reinforce the FPC's calls for firms to prepare for AI-related cyber and operational risks.** In particular, the Committee underlines the importance of firms engaging with guidance and analysis from regulators and other relevant authorities, the National Cyber Security Centre, and outputs from sector engagement groups (including the Cross Market Operational Resilience Group, Frontier AI Information Sharing Forum and AI Consortium).
- **Financing of AI-related investment continues to grow rapidly and is expected to remain on a strong upward trajectory.** This is increasing the extent to which developments in AI could affect a wide range of investors and funding markets. An increasing volume of AI-related investment is being financed through debt issuance, with global issuance in 2026 expected to exceed that of countries such as the UK. The increasing indebtedness of AI firms combined with opacity and, at times, 'circular arrangements' that can be associated with this financing, can complicate the assessment of risks and could amplify losses if expectations disappoint. In addition, growth prospects and fiscal outlooks depend in part on expectations that AI development and adoption will generate significant productivity gains. A reassessment of those expectations could therefore affect not only AI-related asset valuations but also sovereign debt markets.
- **Risky credit markets, including parts of private credit, remain vulnerable to a tightening in financing conditions.** The FPC notes the importance of the private markets System-Wide Exploratory Scenario (PM SWES) exercise underway to fill data gaps and improve understanding of how such an important source of financing for the real economy might be impacted in a stress scenario.
- **Domestically, the Committee judges that households and corporates remain resilient and the UK banking system remains appropriately capitalised with high levels of liquidity.** Past stress test results have demonstrated that the UK banking system would be resilient to a scenario with higher energy prices and interest rates and in which macroeconomic conditions turn out materially worse than currently expected. Household and corporate debt vulnerabilities are broadly unchanged, while GDP growth has proven somewhat more resilient than had been expected, despite higher energy prices and borrowing costs.
- **The FPC has maintained the UK countercyclical capital buffer (CCyB) rate at its neutral setting of 2%.** Maintaining a neutral setting of the UK CCyB in the region of 2% helps to ensure that banks continue to have capacity to absorb unexpected future shocks without restricting lending in a counterproductive way.

- **The FPC has considered the implications for market leverage of the leverage ratio reforms proposed at its June meeting.** Market leverage provided by the global banking system has increased over the last 18 months. The proposed reforms have the potential to result in a meaningful increase in leverage capacity for UK-regulated banks. Some of that additional capacity could be used to support more prime brokerage to hedge funds or leverage in the gilt market, where the FPC has previously identified concentrated leveraged positions as a vulnerability. The Committee judges that market-based reforms to enhance the resilience of the gilt repo market in stress would be the most effective and targeted means of addressing risks to core sterling markets arising from higher market leverage. The FPC was briefed on, and continues to support, the PRA's work to enhance risk management at banks active in prime brokerage, and views it as an important factor in ensuring the risks arising from banks' provision of market leverage are well managed.
- **The Committee agrees to proceed with the proposed leverage ratio reforms as set out in the July Record, which the Bank expects to consult on in early 2027. This increases the importance of continuing to develop and implement measures to improve the resilience of the gilt repo market.** The Committee will continue to monitor developments in market leverage. If, in future, the Committee were to judge that risks were heightened and that additional resilience was warranted, it would consider increasing the general leverage ratio buffer above 25 basis points.
- **Consistent with the Chancellor's request in the 2025 Remit letter, the FPC continues to monitor and strengthen its assessment of climate-related risks to the UK financial system.** In particular, the Committee judges that the most material channels are the potential long-run impacts of climate change on sovereign debt pressures globally and the provision of flood insurance to UK households and businesses. The analysis underpinning the FPC's judgements will be published in a forthcoming Bank Insights article.

Record of the Financial Policy Committee meeting on 25 September 2026

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 25 September 2026 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, and its judgements are recorded below.

The overall risk environment

3: The likelihood of interconnected vulnerabilities in the financial system crystallising had risen since the Committee's previous meeting. The re-escalation of the conflict in the Middle East had renewed uncertainty around growth and the path of interest rates in a number of advanced economies, re-intensifying the risk that vulnerabilities in sovereign debt markets, risky asset valuations, and risky credit markets crystallise at the same time. The rapid increase in AI-related debt issuance had broadened the exposure of capital markets to developments in AI. At the same time, recent incidents in frontier AI had drawn further focus to the pace and vulnerabilities of AI development, including cyber and operational risk. The Committee underscored the importance of timely and careful management of these intensifying, interconnected risks.

The Middle East conflict and sovereign debt vulnerabilities

4: Geopolitical tensions had intensified following the re-escalation of the conflict between the US and Iran. Oil, gas and refined product prices had risen significantly, with Brent crude oil increasing to above \$100 per barrel, and they continued to be volatile. At the same time, pressures on refineries in several countries meant that crack spreads – the difference between the prices of refined petroleum products and Brent crude oil – had remained well above their pre-conflict levels. Oil inventory releases that had previously helped to moderate price rises had slowed. Gas prices had also risen to above 175 pence per therm. In addition, European gas storage levels were below EU targets, while maintenance work was reducing gas exports to Europe. Alongside expectations that the conflict was likely to be more protracted, this suggested energy prices were likely to be higher for longer.

5: The more protracted negative supply shock to the global economy had renewed uncertainty around growth and the path of interest rates in a number of advanced economies, which could expose existing financial vulnerabilities, amplify stress and impair the provision of vital financial services.

6: There had been a sustained increase in sovereign bond yields across a number of advanced economies. Gilt yields and US Treasury yields had reached levels not seen since 2008 and Japanese government bond yields had risen to near three-decade highs. These increases reflected both higher interest rate expectations and an increase in term premia. Persistently higher sovereign yields could contribute to tighter financing conditions for households and businesses, increase market volatility and constrain advanced economies' capacity to respond to future shocks.

7: The financial system had so far remained resilient in response to higher sovereign bond yields, and market adjustments had been mostly gradual. Hedge fund leverage in the gilt market, a vulnerability previously identified by the FPC, had been stable. However, leverage

remained elevated and deeper interconnections between vulnerabilities meant that the risk of a sharp adjustment remained. This underlined the importance of the Bank's work on gilt repo market resilience.

Developments in artificial intelligence and connections with funding markets

8: Equity markets in aggregate had, thus far, been resilient to increases in bond yields and the tightening in financial conditions. AI-related and semiconductor stocks had fallen sharply in July. As volatility increased, some leveraged investors had been forced to unwind positions, amplifying equity market moves through deleveraging and portfolio rebalancing. The sell-off exposed vulnerabilities among some leveraged investors with concentrated positions. However, despite significant losses for some of these firms, market functioning remained orderly, with no spillovers to core markets and no signs of broader systemic stress. Concerns about the sustainability of AI-related earnings and capital expenditure growth may have contributed to market sentiment. The risk of a sharper correction with spillovers to core markets persisted. Hedge fund leverage across these markets remained elevated, while valuations remained high and were underpinned by strong expectations of future earnings. A more significant shock to those earnings expectations, reflecting concerns around the pace of AI development or adoption, could trigger a sharper repricing.

9: AI capabilities had continued to advance across leading providers, including in models' ability to complete complex tasks without human direction and to identify and exploit software vulnerabilities in testing environments. New models released during 2026 Q3 highlighted continued advances across both open-weight models, where core parameters were widely available and could be amended by users, and closed-weight models, where core parameters were known only to their developers. More capable open-weight models could pose additional risks to financial stability, including because their safeguards could more readily be removed or modified. A narrowing of the current capability gap between open-weight and closed-weight model capabilities would reduce the time available to prepare before advanced capabilities became widely accessible, including to malicious actors. The use of such models could also bring benefits in supporting firms' cyber defences. The increased pace and scale of vulnerability identification had made vulnerability patching critically important, but also a source of risk.

10: Recent frontier AI test-environment incidents in 2026 Q3 demonstrated that, under permissive or weakened safeguards, increasingly autonomous models could take unexpected actions, including exploiting vulnerabilities and accessing systems beyond their intended task. These developments provided further evidence that containment, monitoring and governance arrangements could be challenged further as models became more capable and autonomous. These developments reinforced the Committee's assessment, set out in the [July 2026 Financial Stability Report \(FSR\)](#), that advances in frontier AI could increase

cyber and operational risks. The Committee therefore reiterated the importance of firms continuing to prepare for and reduce frontier AI-related cyber and operational risks, supported by analysis and guidance from regulators and other relevant authorities, the National Cyber Security Centre, and outputs from sector engagement groups (including the Cross Market Operational Resilience Group, Frontier AI Information Sharing Forum and AI Consortium).

11: Financing of AI-related investment continued to grow rapidly and was expected to remain on a strong upward trajectory. This increased the extent to which developments in AI could affect a wide range of investors and funding markets. An increasing volume of AI-related investment was being financed through debt issuance, with global issuance in 2026 expected to exceed that of countries such as the UK. As of early September, Morgan Stanley estimated that global AI-related debt issuance totalled around \$450 billion, more than double the total issuance in all of 2025. JP Morgan analysts estimated that AI-related capital expenditure financed through debt issuance would total around \$4.1 trillion between 2026 and 2030. Although issuance by AI hyperscalers in sterling credit markets remained significantly smaller than in the US and euro area, it had nevertheless accounted for 47% of GBP corporate bond issuance so far this year.

12: The growth in AI-related financing was also evident in wider markets. The Committee noted that private markets were expected to play an increasingly important role in the financing of AI-related investment. For example, Morgan Stanley analysts estimated that \$700 billion of data centre capital expenditure between 2026 and 2028 would be financed by private credit. The combination of increasing leverage, opacity and, at times, ‘circular arrangements’ that can be associated with this financing, could complicate the assessment of risks and could amplify losses if expectations disappointed.

13: In addition, growth prospects and fiscal outlooks depended in part on expectations that AI development and adoption would generate significant productivity gains. A reassessment of those expectations could therefore affect not only AI-related asset valuations but also sovereign debt markets.

Private markets and risky credit

14: Private markets continued to provide an important source of finance to the real economy. Total assets under management across private markets funds had reached around \$16 trillion globally, with private equity and private credit having grown from \$3 trillion to around \$11 trillion over the past decade. By comparison, global equity market capitalisation and fixed income outstanding had each roughly doubled over the past decade, reaching around \$160 trillion by 2025. Private equity-sponsored corporates had accounted for around 15% of total UK corporate debt and 10% of UK private sector employment. These markets had brought benefits, such as additional and longer-term sources of financing, which could be important

for improving productivity growth. Given their growing role in financing economic activity, and their complicated interconnections with the wider financial system (including insurers), the FPC had focused on ensuring that the risks in these markets were understood and effectively managed, as set out in previous FSRs.

15: The Committee judged that risky credit markets, including parts of private credit, remained vulnerable to a tightening in financing conditions. Risk-taking in parts of private markets and risky credit markets¹ remained elevated, as illustrated by high-profile defaults of firms using the broadly syndicated loan and private credit markets during the previous year. Higher interest rates could increase debt servicing pressures for leveraged borrowers, particularly those using broadly syndicated loans or private credit markets, where loans are predominantly floating-rate and interest costs therefore adjust rapidly as policy rates rise. Lower growth could also weigh on corporate earnings and reduce asset quality. Redemptions at foreign private credit funds with a retail and wealth investor base remained elevated, with withdrawal pressures in business development companies (BDCs) continuing in Q3. The FPC noted that the PM SWES exercise would help fill data gaps and improve understanding of how UK financial stability and the provision of finance to the real economy might be impacted and function in a stress scenario.

Other vulnerabilities in market-based finance

16: The FPC judged that the resilience of the wider non-bank financial institutions (NBFI) sector remained broadly unchanged. Money market funds continued to be supported by strong liquidity positions and stable investor behaviour, while most liability-driven investment funds continued to operate with substantial buffers despite higher interest rates. Relatedly, the FPC was briefed on progress being made on the Committee's recommendation that The Pensions Regulator take into account financial stability considerations on a continuing basis, including ensuring it had the appropriate remit and powers to do so.

UK household and corporate debt vulnerabilities

17: The Committee judged that vulnerabilities in the UK household and corporate sectors were broadly unchanged since the July 2026 FSR, despite higher energy prices and borrowing costs placing greater pressure on some households and corporates. The effective interest rate on new loans from banks to UK private non-financial corporations increased by 20 basis points to 5.62% in July, while the effective interest rate on new lending to small and medium-sized enterprises (SMEs) rose to 6.61% from 6.36%. Average quoted rates for fixed-rate mortgages had risen by around 40–60 basis points, based on average daily rates data.

¹ Risky credit markets include markets with broadly or near non-investment grade risk such as syndicated leveraged loans, high yield bonds and some parts of private credit.

18: Although UK GDP growth had proven somewhat more resilient than had been expected, headwinds to demand associated with the conflict in the Middle East, including higher energy prices and tighter financial conditions, remained. While these conditions were likely to continue to place pressure on households and businesses, indicators of financial distress remained subdued.

19: Household and corporate balance sheets remained strong in aggregate, and overall indebtedness remained low relative to historical averages at around 70% and around 50% of GDP respectively. Nevertheless, pockets of vulnerability remained among highly leveraged corporates and SMEs, particularly those most exposed to energy prices or tighter financial conditions, or both. Around 18% of energy-intensive firms' high-yield bonds were due to mature by end-2027, compared with around 10% of high-yield bonds and leveraged loans overall. These exposures were small relative to total corporate leverage. Additionally, official insolvencies were around 7% higher in July relative to the previous month, although they were 5% lower than in July 2025.

20: Following the FPC's updated Recommendation in 2025 Q2, the Committee noted that the aggregate share of mortgage lending at high loan-to-income (LTI) ratios had continued to increase and was now at 14.1% for the current quarter, while the four-quarter rolling average was 12.0%. This partly reflected a greater appetite for lending to first-time buyers, among whom the high-LTI share had risen to 18.1% from 16.4% in the previous quarter, compared with 10.9% for other mortgages from 10.3% in the previous quarter.

Banking sector resilience

21: The UK banking system remained appropriately capitalised with high levels of liquidity. Past stress test results demonstrated that the UK banking system would be able to absorb a severe energy price shock and associated economic downturn while continuing to support lending to the real economy. Consistent with this, banks had continued to supply credit to households and businesses despite the deterioration in the macroeconomic outlook and heightened uncertainty, with no sign of lending being restricted to protect capital positions.

22: UK banks' impairments remained low and underlying return on tangible equity had increased to 17.1% in 2026 Q2. The average of UK banks' price-to-tangible-book ratios had risen to 1.9x.

23: UK banks' 12-month growth rate for lending to large corporates and SMEs stood at 9.4% and 4.1% respectively in July, while mortgage lending had grown at 3.6% over the same period. Lending growth across all three categories remained above their 2015-19 averages of 2.6%, 0.6% and 3.1%, respectively. Supervisory intelligence had suggested that terms and conditions on project finance lending had eased significantly, and that there had been strong investor demand for this debt, including from private market participants and international banks.

UK CCyB rate

24: The FPC discussed its setting of the UK CCyB rate. The Committee's principal aim in setting the UK 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.

25: In considering the appropriate setting of the UK CCyB rate, the FPC discussed its judgements around underlying vulnerabilities that could amplify economic shocks. The Committee noted that while the global risk environment remained elevated, UK households and corporates remained resilient in aggregate and credit conditions reflected the macroeconomic outlook. Past stress test results indicated that the banking system could withstand a scenario substantially more severe than the current outlook.

26: 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 an unwarranted restriction in essential services, such as the supply of credit, to the UK real economy.

Bank capital requirements

Market leverage

27: In its June 2026 meeting, the FPC had set out its intention to consult on a package of proposed leverage ratio reforms that would make the UK leverage ratio framework more proportionate and more effective by being better targeted. The Committee discussed the importance of maintaining credibility in the leverage regime by making changes where there was a case for doing so, given undesirable and unintended features in the current implementation. Members had also noted the interaction with international standards, the importance of ensuring there were releasable buffers in the leverage framework that could provide appropriate resilience to different risks, and the need to guard against an unsustainable build-up of leverage in low risk-weighted assets, including leverage in financial markets.

28: Notwithstanding the benefits of the proposed changes, given the importance of the leverage ratio in determining capital requirements associated with activity in core sterling markets, some FPC members had expressed concerns that the proposal might lead to an unwanted increase in market-based leverage, with implications for the resilience of core UK

markets. As such, the Committee had agreed in June that the implications for market leverage of the proposed leverage ratio reforms merited further consideration.

29: In response to this, the FPC assessed the potential impact of the package of proposed leverage ratio reforms on core market resilience, through channels previously identified by the FPC. In particular, the assessment considered the potential impact on leverage in core markets via hedge funds' gilt repo borrowing as well as the potential for an increase in hedge fund leverage via equity prime brokerage, which would further heighten the risk of sharp equity market corrections, creating financial stability risks via potential losses to prime brokers and cross-market interconnections. The leverage ratio was an important factor influencing banks' balance-sheet-intensive market activity. But it was one of multiple different factors for banks considering expanding activities – which also included group-level capital requirements, liquidity requirements, funding needs, and internal risk appetite.

30: Market leverage provided by the global banking system had increased over the previous 18 months as a result of both supply and demand factors. Hedge fund net gilt repo borrowing remained elevated by historical standards and demand for global equity prime brokerage leverage remained strong, alongside AI-linked stock price momentum. Changes to leverage ratio requirements in the US had created capacity for additional market leverage, including through UK subsidiaries. However, there was also some evidence that this had created capacity for US banks to take on more fixed income relative value trades themselves, reducing hedge fund demand for leverage. Since 2023, Sterling Money Market Daily data showed gilt repo dealer net cash lending to key NBFIs had increased from around £100 billion to around £200 billion while global prime brokerage notional had doubled.

31: The proposed leverage ratio reforms could increase leverage capacity at UK banks with significant market activity by around 5% from current levels. The ultimate impact this would have on banks' activities would depend on the other factors previously mentioned, as well as the level of underlying demand for additional leverage. The FPC judged that if all of this additional capacity was utilised, the increase in bank leverage would be meaningful.

32: The FPC was focused on ensuring leverage in core markets was well managed. As such, the Committee considered the successful implementation of measures to improve resilience in the gilt repo market to be an important part of managing risks both from the increase in market leverage already seen over the past 18 months, and the potential for it to increase further in light of additional leverage capacity at banks. That work included consideration of market-based measures such as greater central clearing or minimum haircuts set out in the [2025 discussion paper](#), which directly addressed the risks the FPC was concerned about in the gilt repo market by making leverage safer and better managed. The Bank intended to publish a comprehensive update on that work, including potential policy proposals, in early 2027.

33: The FPC was also briefed on the PRA's approach to supervising banks that are active in financial markets, including in prime brokerage. Ongoing PRA supervision, in coordination with overseas authorities, had helped to identify risks and contributed to the improvement of banks' management of counterparty, liquidity and operational risks arising from prime brokerage and other lending to NBFIs. The FPC continued to support the PRA's work to enhance risk management at these banks, and viewed it as an important factor in ensuring that the risks arising from banks' provision of market leverage were well managed.

34: Taking all of these factors into account, the Committee judged that market-based reforms would be the most effective means of ensuring risks to core sterling markets which could arise from increased market leverage were well managed. While the changes in bank capital requirements might allow for greater leverage in market-based finance, market-based reforms would provide a more targeted approach to increasing the overall resilience of core UK markets. During the period in which gilt repo reform would progress, supervision of banks and enhancements in their risk management practices would reduce the likelihood of spillovers to those core sterling markets.

35: The Committee agreed to proceed with the proposed leverage ratio reforms as set out in the 2026 Q2 Record, which the Bank expected to consult on in early 2027. This increased the importance of continuing to develop and implement measures to improve the resilience of the gilt repo market. The Committee would continue to monitor developments in market leverage. If, in the future, the Committee were to judge that risks were heightened and that additional resilience was warranted, it could consider increasing the general leverage ratio buffer above 25 basis points.

Annual leverage ratio review

36: In line with its statutory obligations, the FPC had also reviewed its Direction to the PRA on the leverage ratio, issued in September 2022.

37: The FPC continued to consider a leverage ratio to be an essential part of the framework for capital requirements for the UK banking system, and judged that the leverage ratio set out in the 2022 Direction should remain unchanged, pending the implementation of the package of changes that had been set out in July.

38: Having regard to the interaction between monetary and macroprudential policy, the Committee confirmed the appropriateness of continuing to exclude central bank reserves from the leverage ratio. The FPC would keep this under review as part of future reviews of the leverage ratio framework.

Climate-related risks to UK financial stability

39: Consistent with the Chancellor's request in the 2025 Remit letter, the FPC noted that climate change and the transition to Net Zero created financial risks that would continue to increase over time, particularly absent a globally coordinated transition and material physical adaptation.

40: The PRA had introduced [Supervisory Statement 5/25](#) to support banks and insurers in building the capabilities and resilience needed to manage these risks. The Committee welcomed SS5/25 and noted the wider financial stability benefits of increased firm resilience to microprudential climate risks.

41: The Committee noted its role in identifying risks above and beyond the microprudential risks addressed by SS5/25, and discussed staff analysis of both short and long-term macroprudential risks. The Committee judged that the most material climate-related channels to UK financial stability were the potential long-run impacts of climate change on sovereign debt pressures globally and the provision of flood insurance to UK households and businesses.

42: As set out in its [December 2025 FSR](#), the FPC judged that a rapid repricing of climate-related risks in sovereign and corporate bond markets remained the most material near-term climate-related risk to UK financial stability. Improvements in climate scenario analysis and market resilience, including through SS5/25, would increase firms' abilities to manage this risk.

43: While the FPC noted that climate change created financial and operational risks for individual firms, the Committee judged there was limited evidence that additional macroprudential climate risks would on their own threaten the UK financial system's resilience over the next three to five years. That said, the Committee recognised this partly reflected the fact that climate-related vulnerabilities tended to develop over longer time horizons.

44: The FPC discussed analysis of longer-term climate risks which could compound existing vulnerabilities and potentially become systemic. In particular, the Committee discussed staff analysis suggesting that lower growth, higher expenditure and higher borrowing costs associated with climate change could add to longstanding pressures on sovereign debt sustainability globally over coming decades. This could reduce resilience to future shocks and increase risks in sovereign debt markets.

45: The FPC noted that rising physical risks could also reduce the availability and affordability of insurance over time. Lower insurance coverage could transfer risk to households, businesses and governments, reduce access to credit, and amplify losses during downturns. The Committee also noted that Flood Re was scheduled to end in 2039 and had a statutory

objective to manage the transition of the market to risk-reflective pricing. Actions to improve physical resilience, as outlined in the [December 2025 FSR](#), would also support insurance and credit provision, mitigating risks to financial stability.

46: The FPC noted that nature-related risks could also affect financial stability through disruption to ecosystem services that support economic activity. While such risks could affect the macroeconomy, the FPC judged that the most significant nature-related risk to the UK economy, drought-driven water scarcity, was unlikely to pose a material risk to financial stability in the near term. As with climate-related risks, the Committee noted the substantial uncertainty around the materiality of nature-related risks, including over long time horizons. Many actions that support adaptation to physical climate risks would also help mitigate nature-related risks, given the similar channels through which both risks impacted the financial system.

47: In line with the Remit letter, the FPC would continue to monitor and strengthen its assessment of climate-related risks to the UK financial system, which were highly uncertain. The Committee encouraged firms to continue improving their understanding of climate-related risks, including through engagement with SS5/25. It supported continued international collaboration to strengthen climate scenario analysis, including through the Network for Greening the Financial System. The analysis underpinning the FPC's judgements would be published in a forthcoming Bank Insights article.

Other developments

Financial Sector Assessment Program

48: The FPC noted that the International Monetary Fund's Financial Sector Assessment Program (FSAP) review of the UK financial sector was underway. The Committee would consider the findings of the FSAP in due course.

Critical Third Parties

49: The FPC welcomed the announcement by HM Treasury in July 2026 of the first firms to be designated as Critical Third Parties (CTPs). The CTP regime will support a more resilient environment for firms to operate in and, in turn, support financial stability and confidence in UK financial markets.

The following members of the Committee were present at 25 September Policy meeting:

- Andrew Bailey, Governor
- Nathanaël Benjamin
- Stephen Blyth
- Katharine Braddick
- Sarah Breeden
- Jon Hall
- Randall Kroszner
- Clare Lombardelli
- Liz Oakes
- Dave Ramsden
- Nikhil Rathi
- Carolyn Wilkins

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:

- Carolyn Wilkins had notified the Committee of her Non-Executive Directorship of Intact Financial Corporation (including the holding company of Royal Sun Alliance Group). It was agreed that she would recuse herself from discussions involving non-public information on general insurance, which for this round included the material on climate-related risks to financial stability, and that she would not receive the related papers.
- Carolyn Wilkins had also notified the Committee that she would be taking an advisory role at Tetra Trust, a company registered and regulated in Canada, which was developing a Canadian-dollar stablecoin. The company had no UK operations. It was agreed that she would recuse herself from discussions on stablecoins and tokenized deposits (and related payment systems), and that she would not receive the related papers. No papers were circulated on these topics ahead of the 25 September meeting.
- Finally, Jon Hall had previously notified the Committee of his shareholding in Guardtime (a blockchain-based information security provider), in respect of which he had been recused from discussions on digital assets and CBDC. Ahead of the 25 September meeting, Jon Hall notified the Committee that he had disposed of this shareholding. In light of this, the Committee agreed that the recusal was no longer required and should be lifted. No papers were circulated on these topics ahead of the 25 September meeting.

Annex 1: Financial Policy Committee policy decisions

Outstanding FPC Recommendations and Directions (as at the date of the FPC's meeting on 25 September 2026)

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 27 June 2025, the FPC made the recommendation (25/Q2/1) that:

- The PRA and FCA should together (i) aim to ensure that the aggregate flow of new residential mortgages from mortgage lenders at loan-to-income ratios (LTIs) at or greater than 4.5 does not exceed 15% of total new residential mortgages, and (ii) allow individual lenders to increase their share of lending at such high LTIs while aiming to ensure the aggregate flow remained consistent with the limit of 15%. The FPC recognises that, in doing so, such high LTI lending by individual lenders could exceed 15% of their total number of new residential mortgages while the aggregate flow remains consistent with the 15% limit. The aggregate flow is calculated based on new residential mortgages extended by lenders which extend residential mortgage lending in excess of £150 million per annum.

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 25 September 2026, unchanged from its 26 June 2026 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 the 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 2026 Q3.