Bank of England

Financial Stability in Focus: Outcomes of the FPC's review of the bank capital framework

Financial Policy Committee
November 2026



Financial Stability in Focus

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The primary responsibility of the Financial Policy Committee (FPC), a committee of the Bank of England, is to contribute to the Bank of England's financial stability objective. It does this primarily by identifying, monitoring and taking action to remove or reduce systemic risks, with a view to protecting and enhancing the resilience of the UK financial system. Subject to that, it supports the economic policy of His Majesty's Government, including its objectives for growth and employment.

The Financial Stability in Focus (FSiF) sets out the FPC's view on specific topics related to financial stability. It complements the Financial Stability Report, which is published twice a year, and sets out the FPC's overall view of the outlook for UK financial stability, including its assessment of the resilience of the UK financial system and the main risks to UK financial stability, and the action it is taking to remove or reduce those risks.

The Financial Policy Committee:

Andrew Bailey, Governor
Katharine Braddick, Deputy Governor responsible for prudential regulation
Sarah Breeden, Deputy Governor responsible for financial stability
Clare Lombardelli, Deputy Governor responsible for monetary policy
Dave Ramsden, Deputy Governor responsible for markets and banking
Nathanaël Benjamin, Executive Director of financial stability strategy and risk
Nikhil Rathi, Chief Executive of the Financial Conduct Authority
Stephen Blyth
Jon Hall
Randall Kroszner
Liz Oakes
Carolyn Wilkins
Gwyneth Nurse attends as the Treasury member in a non-voting capacity.

This document, unless otherwise stated, uses data available as at 18 November 2026.

For the avoidance of doubt, the Financial Stability in Focus is not intended to satisfy the requirements of Section 9W of the Bank of England Act 1998.

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Executive summary

The FPC has completed its review of the bank capital framework – looking at how much capital the UK banking system needs and how the framework delivers it.

In recent years, the UK's capital framework has helped banks meet the everyday needs of households and businesses and continue supporting the economy through material shocks. It has also underpinned investor confidence in the banking sector, as reflected in a fall in the premium investors require on bank equity relative to debt.

It is important that the capital framework adapts to reflect how the banking system has evolved and that it is adjusted where it can be made more efficient, effective and proportionate. The FPC's capital review has sought and taken account of stakeholder feedback, evaluated how the UK compares to other major jurisdictions, and considered carefully and critically how the framework best serves the needs of the UK economy.

The FPC and the Prudential Regulation Authority (PRA) have proposed changes to capital requirements. And they are taking steps to enhance banks' confidence in using their capital to support the economy.

Changes proposed as part of the review will make capital requirements for the banking system more proportionate, better targeted and – as a result – lower.

A series of policy changes have been put forward as part of the review over the past 12 months:

- **In December 2025 the FPC reduced its benchmark for Tier 1 system-wide requirements from around 14% of risk-weighted assets to around 13%**, to reflect the evolution of the banking system since the benchmark was first introduced.[1] This change in the benchmark should give banks the certainty that reductions in capital requirements that were already in train – arising from a reduction in systemic importance of some banks and improvements in risk measurement – will endure.
- **In July 2026, the FPC proposed reforms to the leverage ratio framework.** This includes removing the countercyclical leverage ratio buffer (CCLB) to address unintended consequences of how it was implemented, and moving the calibration of the additional leverage ratio buffer into line with international standards. The package will reduce aggregate leverage ratio requirements for UK banks, leaving them within the range of other jurisdictions globally.
- **As an outcome of the final part of the capital review, outlined in this Financial Stability in Focus, the PRA will consult on lower minimum requirements related to domestic lending.** This is to reflect more fully the resilience provided by maintaining a 2% neutral countercyclical capital buffer (CCYB) rate in the UK, and to better reflect the risks of

geographic concentration. After this reduction, system-wide risk-weighted Tier 1 requirements for major UK banks will be consistent with the FPC's updated benchmark of around 13%.

Taken together, the changes announced across the review as a whole will make the capital framework more proportionate by making requirements more evenly distributed across UK and international activity, and more targeted, for example by making the calibration of leverage requirements more closely linked to the financial market activity for which it is a key prudential constraint.

As a result of being more proportionate and better targeted, capital requirements will also be lower. While the reduced benchmark will give banks certainty that reductions in requirements that were already in train will endure, the further changes to leverage and risk-weighted requirements that have been proposed over the course of the review will reduce Tier 1 capital requirements for major UK banks by an amount equivalent to around 50 basis points of risk-weighted assets in normal times. There would be additional reductions in capital banks need to maintain through stress scenarios. The impact will vary by bank, depending on their business model. These measures will free up further capacity to lend to UK households and businesses.

The changes will maintain a level of resilience that balances the costs and benefits of bank capital to support sustainable growth. Capital requirements will also remain consistent with international standards and with international peers.

> **The FPC and PRA intend to enhance banks' confidence in using their capital resources to support the economy.**

Banks currently maintain capital in excess of UK regulatory requirements – sometimes worth several percentage points of risk weighted assets – driven by a range of factors including impediments to the use of regulatory capital buffers.

Regulatory capital buffers are intended to be used to absorb losses and to help maintain the provision of services to the real economy by reducing the need for banks to reduce lending to preserve capital during a stress event. But a range of interrelated factors can impede the usability of regulatory capital buffers in practice. These factors can also contribute to banks maintaining capital in excess of regulatory requirements.

To address these factors:

- In July 2026 the FPC set out its vision of a single releasable buffer that – as part of a capital benchmark of around 13% – could be used, critically, without automatic distribution restrictions. Such reform of the capital buffer framework will ideally be achieved in co-

ordination with international bodies and the Bank will continue to pursue this in the first instance. The FPC and PRC will evaluate progress on this work in 2027 Q4.

- The FPC and PRA will also consider how further action by UK authorities can reduce incentives for firms to maintain capital in excess of requirements and will bring forward proposals in 2027. As part of this, the PRA will consider banks' feedback around greater clarity on the use of PRA buffers outside of a systemic stress. The PRA will also engage further with banks, investors and ratings agencies to understand better the drivers of management buffers, including banks' commercial decision-making, as well as factors such as the role of the supervisory reaction function and Maximum Distributable Amount (MDA) restrictions. The PRA will discuss how they might be mitigated and support understanding of the role of regulatory capital buffers and how the framework is intended to operate.
- This builds on actions the FPC and PRA are already taking domestically to support buffer releasability. On 18 November, the PRA published a consultation paper on proposed changes to its approach to implementing systemic buffers for domestic banks, clarifying how it could release these buffers to support the economy in a systemic stress. This included guidance on its approach to releasing and rebuilding those buffers. The FPC's leverage ratio reforms have also made a greater share of leverage requirements releasable.

> **The changes announced as part of the review will allow the banking system to continue to support the economy in both good times and bad.**

The FPC's assessment of the appropriate level of capital requirements is set to maximise sustainable economic growth by balancing the macroeconomic benefits of fewer and less severe financial crises and the macroeconomic costs that can come about through higher borrowing costs. As such, it allows the banking system to support the economy in good times, while retaining the resilience to support the economy in bad times.

Taken together, the changes proposed in this review will deliver that resilience in a way which is more effective, efficient and proportionate and better calibrated to the risks in today's financial system. The framework will retain key desirable features, including systemically important banks holding more capital than non-systemic banks and the ability to build and release capital requirements as the economic cycle evolves.

> **Lowering capital requirements much further would put financial stability, and hence sustainable economic growth, at risk.**

Capital requirements will be reduced as a result of the changes set out in this review, but will remain consistent with the FPC's benchmark of around 13%. That benchmark itself is towards the lower end of the range of capital requirements likely to maximise sustainable growth. It is

also towards the lower end of the range of academic estimates of the optimal level of capital, in part because it takes into account other post-crisis reforms, such as the existence of an effective resolution regime and the FPC's active use of the CCyB.

Were capital requirements to be reduced much further, that would put financial stability, and hence sustainable economic growth, at risk. Banks could lose market confidence more quickly when losses did arise, with consequences for their (and hence household and business) borrowing costs. Lower capital could also reduce the credibility of the resolution regime by reducing the overall capacity for losses to be absorbed without putting depositors or public finances at risk.

Materially lower capital requirements would also risk undermining international standards intended to promote financial stability and a level playing field. Since the UK is a global financial centre, and is therefore exposed to shocks from abroad, the UK depends upon other jurisdictions implementing robust standards. Were the UK to reduce capital requirements in a way that was significantly below those standards it would undermine UK authorities' ability to promote a robust implementation of standards by others, and hence the competitiveness of UK financial services.

> **With this review complete, the FPC and PRA have begun to consult on the changes outlined above, with a view to implementing them as soon as possible.**

As well as the consultation already launched to clarify that systemic buffers on domestic banks are releasable and explain its proposed release and rebuild approach, the FPC and PRA will launch further consultations on proposals to implement changes to the leverage ratio and Pillar 2A requirements in early 2027 and the first half of 2027 respectively. The FPC will consider the implications of the policy measures proposed as part of this review for the hurdle rate in the 2027 Bank Capital Stress Test ahead of its launch in Q1.

Prompt implementation of these changes will provide clarity and certainty to firms about the capital framework in the years to come. The updated capital framework will provide a strong core to support ongoing evolution in the prudential framework as part of the PRA's strategic priorities of resilience, growth, innovation and transparency.

> **The reforms delivered through this review deliver meaningful change, remain consistent with international standards, and balance the costs and benefits of bank capital to support sustainable growth for the UK economy.**

1: The FPC's review of the bank capital framework

1.1: The FPC's role in ensuring the banking system can support the UK economy

The UK banking system plays a vital role in the economy by providing lending and financial services to households and businesses.

In recent years, the UK's capital framework has helped banks meet the everyday needs of households and businesses and be able to continue supporting the economy through material shocks – such as those related to Covid, the energy and supply shocks caused by Russia's invasion of Ukraine and the turbulence associated with the failures of Silicon Valley Bank and Credit Suisse. This is in contrast to the experience of the global financial crisis, when bank deleveraging significantly worsened the economic shock.

The capital framework has also underpinned investor confidence in the banking sector. Higher returns on equity – major UK banks have returned around £100 billion[2] to shareholders through buybacks and dividends over the past three years – have supported a material increase in UK banks' valuations. There has been a decline in the premium investors require on bank equity relative to debt funding, and major UK banks' average price to tangible book (PtTB) ratio is well above 1.

In turn, high returns relative to the cost of capital has helped reinforce banks' incentives to support the economy, including through periods of heightened economic uncertainty. For example, as set out in the **November 2026 Financial Stability Report**, bank lending to large and small businesses grew by 12% and 5% respectively in the year to Q3.

The FPC has completed its review of the bank capital framework – looking at how much capital the UK banking system needs and how the framework delivers it.

Ensuring an appropriately resilient financial system is the most important contribution the FPC can make to support economic growth. Financial stability underpins the continued provision of vital financial services and contributes to a stable and predictable economic environment. This in turn supports consumer and business confidence, facilitates investment that drives long-term productivity growth, makes the UK an attractive place to do business for international investors, and supports UK firms' ability to compete abroad.

An appropriate level of capital helps ensure that the banking system is resilient – able to absorb rather than amplify shocks – so that it can continue to support UK growth, in good and bad times. Holders of bank capital are the first to bear the costs when a bank's assets decline in value. This provides protection from losses to holders of some other types of liabilities, including depositors.

It is important that the level of capital requirements adapts to how the banking system has evolved, and that the capital framework is adjusted where it can be made more proportionate and better targeted. In July 2025, the FPC committed to reviewing the bank capital framework since it had been 10 years since the FPC's initial assessment of the appropriate system-wide level of capital, and five years since it was last revisited. The review has sought and taken account of a wide range of stakeholder feedback, evaluated how the UK compares to other major jurisdictions, and considered carefully and critically how the framework best serves the needs of the UK economy.

The findings of the FPC's capital review have been published in a series of Financial Stability in Focus (FSiF) publications.

- The **December 2025 FSiF** updated the FPC's benchmark for the appropriate level of system-wide capital requirements and identified three priority areas for review with a view to making the system more effective, efficient and proportionate. It summarised additional steps that the Bank was taking to address feedback already received and invited further evidence in writing and through broader stakeholder engagement.
- The **July 2026 FSiF** set out the FPC's findings with regards to the first two areas it had identified as priorities for review: further enhancing the usability and releasability of regulatory capital buffers and the implementation of the leverage ratio in the UK. It also included a summary of the evidence that had been received from stakeholders including academics, banks, industry bodies, investors and ratings agencies.

This FSiF summarises the final area identified for review: capital requirements related to domestic exposures (Section 2). With the review now complete, the remainder of this section sets out the conclusions of the review overall, as well as plans for implementation of its proposals.

This review sits alongside other wider steps already being taken by the Bank and the PRA to improve the efficiency and effectiveness of the prudential framework. In 2027, the PRA will set out its long-term strategy for delivering greater resilience, growth, innovation and transparency.

1.2: Update to the FPC's benchmark

> **In December 2025, the FPC updated its benchmark for the system-wide level of Tier 1 capital requirements to around 13% of risk-weighted assets (RWAs). This is 1 percentage point lower than the previous benchmark of around 14%.**

The 13% benchmark comprises a judgement on the underlying optimal level of 11% based on the range of capital requirements likely to maximise sustainable economic growth, and additional capital to account for outstanding gaps and shortcomings in the measurement of

RWAs (of around 2% based on expectations for the level of Pillar 2A requirements after improvements in risk measurement from the implementation of Basel 3.1). It is equivalent to a Common Equity Tier 1 (CET1) ratio of around 11%. System-wide requirements include aggregate capital requirements and buffers for the major UK banks but exclude firm-specific PRA buffers and requirements set by overseas authorities, such as the international component of the CCyB. Within the banking system, in practice, there will be a distribution of capital requirements reflecting individual banks' business models, their level of systemic importance, the degree of gaps and mismeasurement in their RWAs, and the PRA's view of firm-specific risks.

The FPC's assessment of an appropriate benchmark balances the macroeconomic costs and benefits of bank capital. Macroeconomic costs arise because loss-absorbing capital is a more expensive way for banks to fund lending than debt liabilities, which could mean higher capital requirements increase the cost of credit to the real economy and reduce household spending and business investment. Macroeconomic benefits arise as the likelihood and costs of financial crises, which tend to have very large and long-lasting negative effects on economic growth, are reduced.

The FPC's assessment takes account of this trade-off, reflecting the level of capital it believes would be best for the wider economy by maximising sustainable economic growth. The FPC's updated benchmark for systemwide Tier 1 capital requirements is towards the lower end of the 12%–16% range for optimal Tier 1 capital set out in previous Bank analysis.[3]

> **The FPC's updated judgement is consistent with the evolution in the financial system since its first assessment, including a reduction in the systemic importance of some banks and improvements in risk measurement.**

In updating its benchmark, the FPC took account of how the banking system and the capital framework had evolved since previous assessments.

The FPC reviewed judgements underpinning past assessments about the effectiveness of post crisis reforms in capital requirements and the broader prudential framework. It continues to judge that they have reduced the probability and costs of future crises. Credible and effective resolution arrangements are expected to reduce materially both the probability of future financial crises and the economic costs of any future firm failure. Active use of the UK CCyB also continues to facilitate lower capital requirements outside periods of elevated risk. And forward-looking, judgement-led prudential supervision by the PRA helps ensure the safety and soundness of UK banks. Without the combined benefits of these elements, the FPC's benchmark would be higher.

The FPC also took into account how the banking sector and capital framework has evolved. Some UK banks have become less systemically important over the past decade, meaning that systemic buffers are lower than envisaged at the time of the FPC's initial assessment in

2015, contributing less to overall capital requirements than had been expected. The implementation of Basel 3.1 on 1 January 2027 will improve risk measurement, allowing the PRA to reduce minimum requirements for major UK banks by around ½ percentage point. Average risk weights had fallen since the beginning of 2016, such that the nominal level of capital consistent with the previous benchmark was around £60 billion less than would have been the case absent the fall in risk weights.

The FPC judged that these changes to capital requirements reflected the intended and desirable responsiveness of the capital framework to the evolution of the banking system, and that it was therefore desirable to update its benchmark rather than take action to restore actual capital requirements towards the previous benchmark. The change in the benchmark should therefore give banks the certainty that reductions in capital requirements that were already in train – arising from a reduction in systemic importance of some banks and improvements in risk measurement – will endure. In turn that should enhance banks' confidence in using their capital resources to support the economy.

1.3: International comparisons

The FPC evaluated how UK capital requirements compared to international peers.

The Basel Committee sets a common baseline level of capital standards for internationally active banks. This enhances financial stability, especially for banks whose failure could have cross-border effects. It also helps maintain a level playing field for banks to be competitive internationally and aids comparability across banks in different jurisdictions.

Individual jurisdictions retain flexibility to tailor their implementation to reflect the nature of their banking systems and the risks they face. The existence of differences in capital requirements between the UK and other jurisdictions is therefore not reason for change in and of itself, but those differences should be well understood and justified by differences in risk.

Comparisons of capital requirements across jurisdictions is challenging. Analysis outlined in the December 2025 FSiF, based on requirements at the time, concluded that risk-based capital requirements for large banks in the UK were broadly similar to that in the euro area, and lower than in the US after adjusting for key differences in the way that risks are captured. However, leverage ratio requirements for large domestically focused banks were higher than in some other jurisdictions, which in turn informed the proposed changes to the leverage ratio.

The July 2026 FSiF considered stakeholder feedback received on comparing international capital requirements. It noted that while there were different ways of comparing regulatory frameworks, further consideration of how risks are captured in the US framework continued to suggest a sizeable adjustment for differences in approach to capturing these risks in capital requirements is appropriate when making comparisons between the two jurisdictions. It also noted that the PRA's decision to maintain the requirement for full deduction of software assets

from capital was based on evidence that the realisable or recoverable value of software assets could not absorb losses effectively in liquidation or stress. In addition, the July 2026 FSiF also summarised future changes to overseas capital frameworks which would likely bring US requirements closer in line with those applied in the UK and the EU.

1.4: Risk-weighted capital requirements related to domestic exposures

> **As set out in this FSiF, following a review of risk-weighted capital requirements relating to domestic exposures, the PRA will consult on changes that would lower minimum requirements related to domestic lending.**

Domestic-related capital requirements include the UK CCyB, other systemically important institutions buffers (O-SII buffers) and Pillar 2A capital for credit concentration risk. The FPC and PRC reviewed the role and calibration of the individual measures and judge that each domestic-related capital requirement fulfils a distinct and important role.

The Committees noted, however, that the sum of capital requirements for cyclical risk, geographic concentration and systemic importance tended to be higher for more UK-focused banks, compared to firms that were more internationally active. At the same time, results from recent stress tests had not suggested that banks which undertake a greater portion of their lending domestically were more exposed to cyclical risks than those that undertake more of their activity overseas. While these outcomes did not necessarily indicate a change in capital requirements was warranted, the FPC and PRC nevertheless considered it important to revisit the calibration of each component to ensure it remained appropriate in aggregate.

Following its review, the FPC supports two changes to the calibration of the framework:

- First, the PRA would consult on changes to Pillar 2A requirements for geographic concentration risk (GCoR), following a review of the methodology used to calibrate them. It was appropriate that the calibration of the GCoR was reviewed, to capture methodological improvements and updated data since the last review in 2015. The proposed changes would update the model to capture geographic concentration risk more robustly and proportionately. The update would result in reduced requirements for more geographically concentrated firms, including UK-focused firms.
- Second, the PRA would consult on a further reduction in Pillar 2A requirements to reflect more fully the resilience provided by maintaining a 2% neutral UK CCyB rate. The FPC noted that the increase in capital requirements that had accompanied the 2019 increase in the CCyB had had a disproportionate impact on requirements related to domestic lending. The Committee therefore supported allowing the effect of the 1 percentage point increase in the neutral UK CCyB rate in 2019 to be reflected in a further reduction in major banks' Pillar 2A requirements.

The changes in respect of domestic-related requirements would reduce system-wide risk-based Tier 1 capital requirements by around 30 basis points, taking the system-wide level of Tier 1 capital requirements that count towards the FPC's benchmark to 12.8%. For domestically focused systemically important banks, system-wide risk-weighted requirements would fall by 60 basis points, from 13.6% of RWAs to 13.0%. The reduction in Tier 1 requirements for ring-fenced banks, including the ring-fenced entities of global systemically important banks (G-SIBs), resulting from these changes is also expected to be around 60 basis points of risk-weighted Tier 1 capital requirements.

The FPC judged that these changes would make the distribution of capital more proportionate across UK and international lending while maintaining a level of resilience consistent with its benchmark for system-wide capital requirements of around 13%. The framework would continue to ensure that systemically important banks held more capital than non-systemic banks, that geographic concentration risk was reflected in capital requirements, and that releasable buffers were available to support lending to UK households and businesses in stress.

Section 2 discusses this work on capital requirements related to domestic exposures in more detail.

1.5: Implementation of the leverage ratio

> **In July 2026, the FPC and PRA agreed to consult on a package of measures to make the leverage ratio framework more proportionate and better targeted.**

Leverage ratio capital requirements are an important part of the capital framework and an effective complement to risk-weighted capital requirements. They make the system more robust against the inherent errors and uncertainties in measuring risk when assigning risk weights and help to curtail balance sheet growth that is unsustainable from a systemic perspective.

Over the past decade, leverage ratio requirements have become more binding, partly due to the fall in banks' average risk weights. There is some evidence that this has been driven by a reduction in the underlying riskiness of banks' exposures. But there has also been growth in more complex and opaque forms of lending where the leverage ratio may be particularly effective in guarding against errors in risk measurement. Declining average risk weights are to some extent to be expected in a framework with both leverage and risk-based capital requirements, as banks are incentivised to allocate capital and structure exposures to minimise their binding constraint.

The FPC's review found evidence that the UK's implementation of some elements of the leverage ratio framework had resulted in unintended consequences, particularly associated with the countercyclical leverage ratio buffer (the CCLB) and its interaction with the increase

in neutral rate for the UK CCyB from 1% to 2% in 2019. In July, the FPC set out a package of measures that would address these unintended consequences and make the framework more proportionate and more effective by being better targeted. These measures include three elements:

- removing the CCLB to address the unintended consequences associated with its implementation, and reflecting the fact that its calibration is not closely linked to the systemically important financial market activity for which the leverage ratio is a key prudential constraint;
- moving the calibration of the Additional Leverage Ratio Buffer that applies to systemically important banks to 50% of risk-weighted systemic buffers, in line with international standards; and
- making a greater share of leverage ratio requirements and buffers releasable by reducing Tier 1 minimum leverage ratio requirements from 3.25% to 3% and establishing a releasable general leverage ratio buffer set at 25 basis points of the leverage exposure measure.

The general leverage ratio buffer would be releasable, if necessary to zero, to help ensure that banks can absorb losses in an economic or financial market stress while continuing to support the real economy and the functioning of financial markets. If, on the other hand, the FPC were to in future judge that risks were heightened and that additional resilience was warranted, it could consider increasing the general leverage ratio buffer above 25 basis points. Like all buffer requirements in the UK capital framework, the general leverage ratio buffer would be met with CET1 capital.

In Q3, the FPC assessed the implications of this package on banks' provision of market-based leverage and the resilience of core sterling markets. The FPC agreed to proceed with the proposed leverage ratio reforms having 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. The Bank expects to consult on the leverage ratio package in early 2027 and intends to publish a Roadmap in the first half of 2027 setting out how it would take forward gilt repo market reforms.

The Bank would expect to adjust the leverage ratio hurdle rate in the Bank Capital Stress Test to take account of these proposals. Taken together, this package would reduce the leverage ratio that large UK banks need to maintain by around 20 basis points in aggregate, with the impact varying by bank. This would leave leverage ratio requirements for UK large domestically focused banks and G-SIBs within the range of other jurisdictions globally.

1.6: Enhancing banks' confidence in using capital to support the economy

> **The FPC and PRA intend to enhance banks' confidence in using their capital resources to support the economy.**

Banks currently maintain capital in excess of UK regulatory requirements – sometimes worth several percentage points of risk weighted assets, driven by a range of factors including impediments to the use of regulatory capital buffers.

Regulatory capital buffers are intended to be used to absorb losses and to help maintain the provision of services to the real economy in a downturn. Evidence from the Covid-19 pandemic suggests that releasing capital buffers can support the real economy by reducing incentives for banks to take defensive actions to preserve capital, such as deleveraging during stress.

But a range of interrelated factors can impede their use in practice, including the role of MDA restrictions and uncertainty around the supervisory response when buffers are used. This could encourage banks to prioritise maintaining capital ratios by procyclically reducing the supply of lending to creditworthy households and businesses in a stress, thereby amplifying shocks. This can also contribute to how much capital banks hold above regulatory requirements in normal times. Other contributing factors include investor and rating agency expectations, banks' business models and strategic plans (including planned share buybacks or mergers and acquisitions activity), regulatory requirements set by overseas regulators and capital volatility.

As part of the capital review, the FPC and PRA have taken steps to increase banks' confidence in using capital that would otherwise be held in excess of requirements. As set out above, the reduction in the FPC's benchmark for the appropriate level of capital requirements is intended to give banks greater certainty that reductions in capital requirements that were already in train – arising from a reduction in systemic importance of some banks and improvements in risk measurement – will endure. In turn that should enhance banks' confidence in using their capital resources to support the economy.

In addition, to address factors impeding the usability of regulatory capital buffers in practice:

- The FPC has set out its vision of a single releasable buffer that – as part of a capital benchmark of around 13% – could be used, critically, without automatic distribution restrictions. This would reduce complexity in the framework and improve understanding and confidence in the usability of capital buffers. Such reform of the capital buffer framework will ideally be achieved in co-ordination with international bodies and the Bank will continue to pursue this in the first instance. The FPC and PRC will evaluate progress on this work in 2027 Q4.

- The FPC and PRA are also acting domestically to support buffer releasability. In July, the PRA clarified that it could use its existing discretionary powers to release the O-SII buffer to support the economy in the event of a systemic stress. On 18 November, it published a consultation paper clarifying its approach to the implementation of the O-SII buffer, including proposals on the release and rebuild of the buffer. Upon releasing the O-SII buffer, the PRA would provide an indicative period over which no increase would be expected, to better allow the capital which has been released to be used. When released, this would lower the level of capital at which automatic distribution restrictions apply, supporting buffer usability. Feedback is sought by 18 February 2027.
- In July, the FPC set out that a greater share of leverage requirements and risk weighted buffers would also be made releasable. The general leverage ratio buffer would be releasable, if necessary to zero, to help ensure that banks can absorb losses in an economic or financial market stress while continuing to support the real economy and the functioning of financial markets. The releasability provided by the general leverage ratio buffer when combined with O-SII buffer release would increase the total amount of releasable capital relative to now.
- In addition to these steps to enhance releasability, the FPC and PRA will also consider how further actions by UK authorities can reduce incentives for firms to maintain capital in excess of requirements and will bring forward proposals in 2027. As part of this, the PRA will consider firms' feedback around greater clarity on the use of PRA buffers outside a systemic stress. The PRA will also engage further with relevant stakeholders, including banks, investors and ratings agencies to understand better the drivers of management buffers, including firms' commercial decision making, as well as factors such as the role of the supervisory reaction function and automatic distribution restrictions. The PRA will discuss how they might be mitigated and support understanding of the role of regulatory capital buffers and how the framework is intended to operate.

1.7: Wider steps to improve the efficiency and effectiveness of the capital framework

> **These proposed changes build on wider steps already being taken by the Bank and the PRA to improve the efficiency and effectiveness of the framework.**

Proportionality is an integral part of the UK prudential framework and the Bank and the PRA have taken significant steps to ensure that prudential outcomes are achieved efficiently, avoiding unnecessary regulatory burden. Progress has already been made on a number of issues outside the capital review.

The Bank has moved to a biennial frequency for its main Bank Capital Stress Test, representing a reduced frequency compared to the annual cyclical scenario tests under the previous approach. This updated approach reflects the build up of capital since the global financial crisis and the need to be proportionate, yielding material efficiency gains. The Bank

has also made changes to the Bank Capital Stress Test to avoid earlier loss recognition under the IFRS 9 accounting standard resulting in an unwarranted increase in capital requirements through its impact on stress test results.

The implementation of Basel 3.1 at the beginning of 2027 will deliver a better balanced and more risk-sensitive approach to calculating regulatory capital – aiming to support the resilience of the banking system, the UK's growth and competitiveness, and alignment with global standards. The policy has been adjusted following feedback, in areas where the evidence received suggested too much conservatism in the PRA's original proposals, or where the proposals would have been too difficult or costly to implement in practice. This has included adjustments to the treatment of SME and infrastructure lending and the calibration of certain off-balance sheet conversion factors.

The Strong and Simple framework will also be implemented at the beginning of 2027. This is a key PRA initiative designed to deliver a more proportionate and simplified prudential framework for Small Domestic Deposit Takers (SDDTs) in the UK, while maintaining their resilience. This includes the introduction of a Single Capital Buffer for SDDTs that would replace the multiple capital buffers under the current framework and would not involve automatic capital conservation measures. The PRA considers that the framework will materially reduce costs for SDDTs and enhance competition in the UK banking sector.

The Bank and PRA have recently updated the thresholds that apply to its resolution regime, O-SII buffers, and the application of leverage ratio requirements, to adjust for nominal growth in the economy since they were implemented and thereby keep requirements proportionate. The PRA is currently consulting on a proposal for a transparent, rules-based framework that would automatically update in-scope regulatory thresholds every five years, a first among major financial regulators.

The PRA is engaging with banks and building societies in relation to internal models for residential mortgages. It is continuing to assess firms' feedback and supporting evidence around a range of possible policy changes to address observed barriers that medium-sized firms may face in developing internal ratings based (IRB) models (**DP1/25**). These barriers may limit the ability of those firms to access the IRB approach, which in turn may constrain effective competition and the ability of firms to scale and grow.

1.8: Overall impact

> **Taken together, the impact of these changes will make capital requirements for the UK banking system more proportionate, better targeted and, as a result, lower.**

Some banks are bound by risk-weighted requirements while others are bound by leverage requirements. When the binding requirement for each bank is taken into account, the changes proposed across the review as a whole will reduce binding capital requirements for major UK

banks by an amount equivalent to around 50 basis points of RWAs in normal times, with further reductions in capital banks need to maintain through stress scenarios. The impact will vary by bank, depending on their business model. Reductions in Tier 1 capital requirements will be larger for domestically focused systemically important banks and major banks' ring-fenced subsidiaries. The changes to the Pillar 2A GCoR methodology would also apply to non-systemic banks and building societies and the fuller Pillar 2A offset would be available to those non-systemic firms for which the offset has been limited by minimum requirements for own funds and eligible liabilities (MREL) being higher than total capital requirements.

The changes announced as part of the review maintain a level of resilience that balances the cost and benefits of bank capital to support sustainable growth. The changes free up further capacity to lend to UK households and businesses and will allow the banking system to continue to support the economy in normal times and in periods of stress, while remaining consistent with international standards and with international peers.

Reducing capital requirements much further would risk financial instability.

Capital requirements, reduced as a result of the changes set out in this review, will remain consistent with the FPC's benchmark of around 13%. That benchmark itself is towards the lower end of the range of capital requirements likely to maximise sustainable growth. It is also towards the lower end of the range of academic estimates of the optimal level of capital, in part because it takes into account other post-crisis reforms, such as the existence of an effective resolution regime and the FPC's active use of the CCyB.

Were capital requirements to be reduced much further, it would put financial stability, and hence sustainable economic growth, at risk. Banks could lose market confidence more quickly when losses did arise, with consequences for their (and hence household and business) borrowing costs. Lower capital could also reduce the credibility of the resolution regime by reducing the overall capacity for losses to be absorbed without putting depositors or public finances at risk.

Materially lower capital requirements would also risk undermining international standards intended to promote financial stability and a level playing field. Since the UK is a global financial centre, and is therefore exposed to shocks from abroad, the UK depends upon other jurisdictions implementing robust standards. Were the UK to reduce capital requirements in a way that was significantly below those standards it would undermine UK authorities' ability to promote a robust implementation of standards by others.

1.9: Implementation of the review

With this review complete, the FPC and PRA will consult on the changes outlined, with a view to implementing them as soon as possible.

As well as the consultation already launched to make systemic buffers on domestic banks releasable, the FPC and PRA will launch further consultations on proposals to implement changes to the leverage ratio and Pillar 2A requirements in early 2027 and the first half of 2027 respectively. The FPC will consider the implications of the policy measures proposed as part of this review for the hurdle rate in the 2027 Bank Capital Stress Test ahead of its launch in Q1.

Prompt implementation of these changes will provide clarity and certainty to firms about the capital framework in the years to come. The updated capital framework will provide a strong core to support evolution in the prudential framework as part of the PRA's strategic priorities. These include resilience of the UK's banking and insurance sectors including to operational and cyber risks, supporting sustained and sustainable economic growth in line with the PRA's secondary competitiveness and growth objective, innovation and use of data, and greater transparency to provide a stable and predictable business environment. In 2027, the PRA's long-term strategy will set out how it will deliver these priorities.

> **The reforms proposed as part of the capital review deliver meaningful change, remain consistent with international standards, and balance the cost and benefits of bank capital to support sustainable growth.**

2: The calibration of capital requirements related to domestic exposures

The FPC and PRA have reviewed the calibration and interactions of capital requirements related to domestic exposures.

In the December 2025 FSiF, the FPC supported further work to consider how capital requirements that relate to domestic exposures interact, and the extent to which individual elements address risks appropriately. These requirements include the UK component of the CCyB, Pillar 2A requirements for geographic credit concentration risk (GCoR), and O-SII buffers, each of which is calibrated separately with reference to banks' UK lending.

To help inform its assessment, the FPC and PRA held evidence-gathering sessions and invited written feedback. A summary of feedback received is available in Box A of the **July 2026 FSiF**.

In that evidence, respondents from the banking industry argued that the domestic-related capital requirements overlap, citing a high degree of correlation between the requirements, and arguing that banks hold more capital against these risks than historical losses would justify, consistent with recent stress test results. Other respondents noted that the FPC's benchmark – rather than the individual components – should be used to assess the adequacy of overall capital requirements, that different elements of the capital stack related to domestic exposures target different risks, and suggested that the UK economy is particularly susceptible to the impact of macroeconomic shocks (given its high level of integration in global trade and financial markets).

The FPC judges that the requirements related to domestic exposures fulfil distinct and important roles.

- The FPC reviewed the role and calibration of each of the requirements related to domestic exposures, including how they have been used and developed since their introduction (as set out in the Annex).
- The UK CCyB helps banks absorb shocks while continuing to support the economy through a downturn. The FPC sets the UK CCyB rate according to the strategy set out in its **CCyB policy statement**. In 2019 the FPC increased the neutral rate of the UK CCyB from around 1% to around 2% to provide insurance against risks building too quickly for the buffer to be built gradually, and to increase the capital that could be released to support lending when a shock occurs. This was accompanied by a reduction in Pillar 2A requirements worth 50% of the increase in the CCyB. That left overall loss-absorbing

capital requirements, including additional minimum requirements for MREL, broadly unchanged but increased Tier 1 capital requirements.

- O-SII buffers increase the resilience of domestic systemically important banks to reflect the greater impact their distress or failure could have on UK households and businesses, relative to that of non-systemic firms. The FPC maintains a framework for calibration of O-SII buffer rates, on the basis of which the PRA sets O-SII buffers for a given firm. O-SII buffer rates are currently between 1% and 2% of RWAs. Following the FPC's 2025 review of the O-SII buffer framework, thresholds for O-SII buffer rates were indexed to reflect changes in the level of nominal GDP. As covered in Section 1, in July 2026 the PRA indicated that the O-SII buffer could be released in systemic stress.
- Pillar 2A requirements for GCoR address losses arising from concentrated exposures that are not adequately captured by Pillar 1, which assumes geographic diversification. As part of minimum requirements, capital held for GCoR contributes to loss absorption at the point of failure and orderly resolution, distinct from the going-concern role of capital buffers. The framework for calibrating Pillar 2A requirements for GCoR was published in 2015. Under it, firms' requirements average around 0.35% of total RWAs, though requirements are higher for banks whose activity is geographically concentrated in the UK (or any other global region).

The FPC judges that each of these requirements fulfils a distinct and important role in the capital framework. Active use of the CCyB allows capital to be built and released in line with the economic and financial cycle. It is appropriate that systemically important banks generally have higher capital requirements than non-systemically important banks, and that geographic concentration is reflected in the level of capital banks need to hold.

The Committee continues to judge that a 2% neutral rate of the UK CCyB helps provide time for the Committee to observe building financial vulnerabilities and respond in a way that does not require banks to raise capital quickly which could cause lenders to reduce credit abruptly. It also provides a meaningful buffer that can be released if it anticipates that banks may face losses that could otherwise cause them to act to protect their capital positions by restricting lending by more than is warranted by the macroeconomic environment – as the FPC had done following the Brexit referendum and the onset of the Covid-19 pandemic.

However, the sum of capital required for cyclical risks, geographic concentration and systemic importance is generally higher for major banks that are UK-focused.

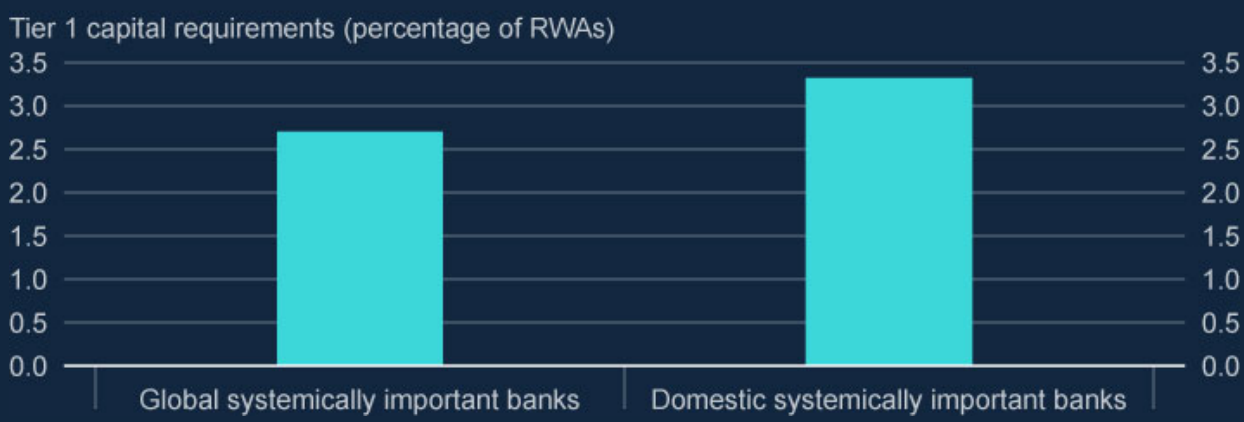
Chart 1 shows that the combination of systemic, geographic, and cyclical capital requirements for the major UK banks is generally higher for those banks which undertake a greater proportion of their lending in the UK than those who are more internationally active. One reason for this is that the increase in the neutral rate of the UK CCyB rate from 1% to 2% increased capital requirements related to domestic exposures. For major firms, the

accompanying reduction in variable Pillar 2A requirements offset 50% of the relevant firm-specific increase in the UK CCyB rate. Because lower Pillar 2A requirements also reduced additional MREL, overall loss-absorbing capacity was broadly unchanged. Its composition nevertheless shifted towards capital rather than bail-inable debt, increasing the quality of loss-absorbing capacity, and the amount of Tier 1 capital required.

Results from recent stress tests do not suggest that banks which undertake a greater portion of their lending domestically are more exposed to cyclical risks than those that undertake more of their activity overseas. The average reduction in capital for domestically focused banks in the 2025 Bank Capital Stress Test was somewhat lower than for internationally active banks, and a similar pattern was observed in the results of the 2022/23 stress test, which also marked an improvement in banks' asset quality relative to previous tests.

These outcomes do not necessarily indicate a change in capital requirements is warranted. The system-wide nature of the FPC's benchmark would imply variation in individual firms' capital requirements around it, including for differences in the riskiness of assets, the degree of geographic concentration and the systemic importance of each bank. And it was important to ensure that banks were resilient to a range of severe but plausible scenarios, as well as the single scenario used in the Bank Capital Stress Test. But the FPC and PRC nevertheless considered it important to revisit the calibration of each component to ensure it remained appropriate in aggregate.

Chart 1: Major UK banks' capital requirements for addressing cyclical risk, geographic concentration and systemic importance (a)



Sources: PRA regulatory returns and Bank calculations.

(a) The requirements shown in this chart are: the UK CCyB adjusted to reflect the reduction in Pillar 2A requirements that accompanied the 2019 increase in the neutral rate for the UK CCyB; the international component of the CCyB; the PRA buffer (excluding any risk management and governance assessment); Pillar 2A add-ons for geographic credit concentration risk; and systemic buffers. Global systemically important banks (G-SIBs) are the UK banks designated as G-SIBs by the Financial Stability Board. Domestic systemically important banks (D-SIBs) are firms subject to an O-SII buffer that are not G-SIBs. These are group-level requirements. They are expressed as a percentage of estimated RWAs under Basel 3.1.

The FPC supports two updates to minimum requirements related to domestic exposures, which will be lower as a result.

Taking into account the evidence and outcomes set out above, the FPC supports two changes to the calibration of requirements related to domestic exposures. The first regards the calibration of Pillar 2A requirements for geographic concentration risk, which the PRA has reviewed to ensure its methodology is up to date. The second regards the reduction in Pillar 2A requirements that accompanied the increase in the neutral rate for the UK CCyB in 2019.

The PRA will consult on changes to the Pillar 2A requirements for geographic credit concentration risk.

The PRA has reviewed its multi-factor capital model for GCoR, which guides how Pillar 2A add-ons are set. It is appropriate that the calibration of the GCoR has been reviewed to capture methodological improvements and updated data since the last review in 2015. The review has assessed the entire methodology, including focusing on the most relevant data period and updated assumptions, and identified changes to the methodology that would mean GCoR is captured more robustly and proportionately, by refining how the model measures the tail risks associated with geographic concentration (eg, by updating model data and parameters). These changes are expected to result in decreases in the Pillar 2A GCoR add-ons for the most geographically concentrated firms, including UK-focused firms.

Subject to consultation, the FPC and PRA anticipate these changes would reduce average risk-based Tier 1 capital requirements for major UK banks by 10 basis points, and for domestic systemically important banks by 27 basis points of RWAs. The PRA expects to consult on how these changes would apply to firms outside the SDDT regime in the first half of 2027, with updates to the SDDT regime being considered afterwards.

The PRA will also consult on a further reduction to Pillar 2A requirements, to reflect the resilience provided by maintaining a 2% neutral UK CCyB rate.

As set out above, when the FPC increased the neutral rate that it expected to set for the UK CCyB in a standard risk environment from (in the region of) 1% to 2% in 2019, the PRA reduced Pillar 2A capital requirements by 50% of the relevant firm-specific increase in the UK CCyB rate for major firms. While this offset left overall loss-absorbing capacity in the banking system broadly unchanged, it increased the quantity and quality of capital requirements, in a way that had a disproportionate impact on requirements related to domestic lending.

The FPC therefore supports the PRA's intention to consult on a further reduction to variable Pillar 2A capital requirements to reflect the resilience provided by maintaining a 2% rather than a 1% neutral UK CCyB rate, bringing the total offset to 100% of the increase in total capital that would have followed the 2019 increase in the UK CCyB. The PRA will also consider whether more non-systemic firms that do not currently receive a reduction to Pillar 2A capital requirements of 100% of the relevant firm-specific increase in the neutral UK CCyB rate should do.

Subject to consultation, this further reduction to Pillar 2A would reduce overall risk-based Tier 1 capital requirements for major UK banks by a further 17 basis points. Of those, requirements for domestically focused major firms will fall by 33 basis points of RWAs, on average.

The changes to capital requirements related to domestic exposures will make the capital framework more proportionate, while retaining a level of resilience consistent with the FPC's benchmark of around 13%.

These two changes to the calibration of requirements related to domestic exposures would reduce average system-wide Tier 1 risk-weighted capital requirements for domestically focused systemically important banks from 13.6% of RWAs to 13.0%. The impact of the changes on the capital requirements of ring-fenced banks, including the ring-fenced entities of G-SIBs, is also expected to be around 60 basis points.

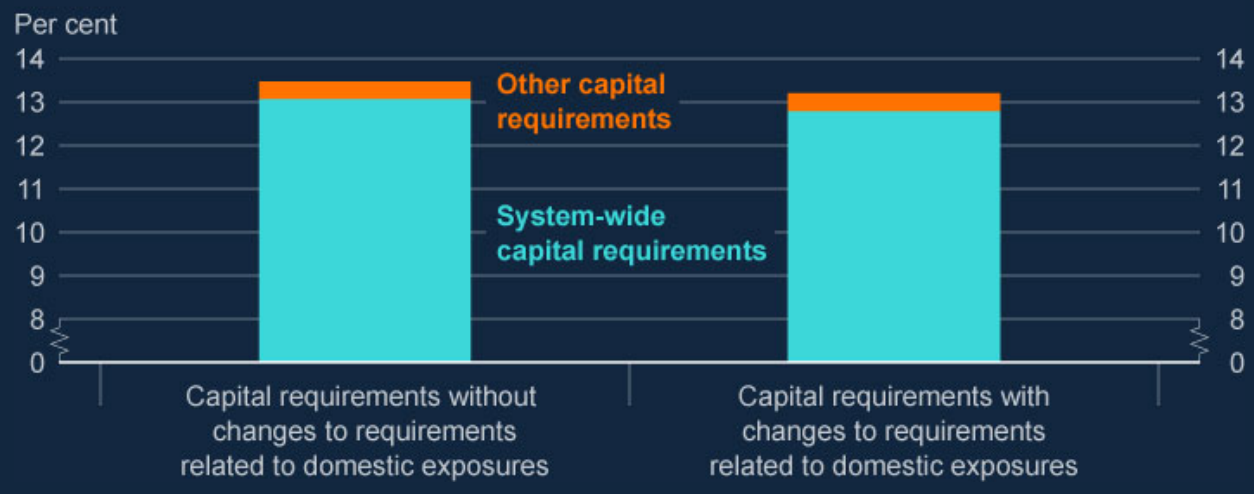
As shown in Chart 2, for all the major UK banks in aggregate, those requirements would fall from 13.1% to 12.8% of RWAs, a reduction of around 30 basis points. In addition, individual firms would continue to be required to hold capital to meet firm-specific PRA buffers and

CCyB requirements set by overseas authorities on non-UK exposures. Taking these elements into account would bring overall Tier 1 capital requirements to 13.2%.

Some of the proposed reduction in total capital requirements to more fully offset the 2019 increase in the neutral UK CCyB rate would come through reductions in Tier 2 capital requirements. This was because Pillar 2A capital requirements can be partly met with Tier 2 capital. On a like-for-like basis, total loss-absorbing capacity requirements would be lower than it was prior to the 2019 increase in the neutral CCyB rate, while the proposals would reduce the extent to which Tier 1 requirements rose when the neutral CCyB rate was increased.

These changes will also make the distribution of capital more proportionate across UK and international lending while maintaining a level of resilience that is consistent with the FPC's benchmark of around 13%. The changes will retain key desirable features of the capital framework including that systemically important banks hold more capital than non-systemic banks, that geographic concentration risk is reflected in capital requirements, and that releasable buffers are available to support lending to UK households and businesses in stress.

Chart 2: Tier 1 risk-weighted capital requirements, with and without changes to requirements related to domestic exposures (a)



Sources: PRA regulatory returns and Bank calculations.

(a) System-wide capital requirements include Pillar 1 and Pillar 2A minimum requirements, the capital conservation buffer, systemic buffers, and the UK CCyB. Other capital requirements are firm-specific PRA buffers and the international component of the CCyB (which is set by overseas authorities). The chart is based on group-level requirements for major UK banks, expressed as a percentage of estimated RWAs under Basel 3.1.

Annex: Developments in domestic-related capital requirements since 2016

This Annex presents developments in domestic-related capital requirements, which formed part of the FPC and PRA's assessment of the purpose and calibration of each individual requirement.

UK CCyB

The CCyB is used to help ensure capital levels respond to the risk environment.

The FPC's principal aim in setting the UK CCyB rate is to help ensure that the UK banking system is better able to absorb shocks without an unwarranted restriction in essential services, such as the supply of credit, to the UK real economy. Active use of the CCyB is taken into account in the FPC's assessment of the appropriate system-wide level of capital, and is one reason why the FPC's benchmark is lower than external estimates of the optimal level of capital.

By increasing the CCyB when vulnerabilities are judged to be building, the FPC ensures banks have an additional cushion of capital, which the FPC can release to help banks absorb losses, enhancing their resilience and helping to ensure the stable provision of financial services. The CCyB is composed of UK and overseas elements set by authorities in individual jurisdictions. The FPC is responsible for the element of the buffer that is calculated with reference to banks' relevant UK exposures.

In 2019, the FPC increased the neutral rate that it expected to set for the UK CCyB from in the region of 1%, to in the region of 2%.

In doing so, the FPC noted that ahead of the global financial crisis many of its indicators did not point to financial vulnerabilities being elevated until 2004 or later. Given that any decision to increase the UK CCyB rate normally takes 12 months to become effective because it takes time for banks to increase their capital buffers, the FPC judged that it was unlikely the Committee would have been able to identify risks sufficiently early to build the CCyB from a rate of 1% and ensure the banking system was appropriately capitalised for its risks at the peak of the cycle. These estimates of the capital required at the peak of the cycle took account of other buffers, including the O-SII buffer (and, in doing so, they were assumed to be usable, as intended to be).

In 2019 the FPC increased the neutral rate for the UK CCyB from around 1% to around 2% to provide insurance against risks building too quickly for the buffer to be built gradually, and to increase the capital that could be released to support lending when a shock occurs. This was

accompanied by a reduction in Pillar 2A requirements worth 50% of the increase in the CCyB. That left overall loss-absorbing capacity, including additional MREL, broadly unchanged but increased Tier 1 capital and overall capital requirements.

In 2023, the FPC updated its CCyB policy statement to reflect its experience of using the CCyB to respond to different shocks to financial stability.

The FPC sets the UK CCyB rate according to the strategy set out in its **CCyB policy statement**. The FPC first assesses the level of financial vulnerabilities to judge where the UK is in the financial cycle. It then forms a view on the resilience of UK banks and their ability to absorb shocks without an undue restriction in lending. If vulnerabilities were increasing and there was evidence that regulatory capital buffers were insufficient for the banking system to absorb losses on UK exposures without an unwarranted restriction in lending, it would be evidence in favour of raising the UK CCyB.

The FPC expects to reduce the UK CCyB rate – if necessary to zero – to create extra capital headroom if it anticipates that banks may face losses that could otherwise cause them to act to protect their capital positions by restricting lending by more than is warranted by the macroeconomic environment. In such circumstances, cutting the CCyB instead encourages banks to continue lending to creditworthy households and businesses, limiting potential damage to the economy.

The FPC has made active use of the CCyB in this way, reducing the CCyB rate to zero twice: following the Brexit referendum in 2016 and the economic shock of the Covid-19 pandemic in 2020. In both cases the ability to reduce capital requirements encouraged banks to continue lending to creditworthy households and businesses rather than protect their capital positions by undertaking deleveraging that could damage the economy.

Evidence from the Covid period suggests that banks whose requirements were reduced the most, as a result of the release of the UK CCyB, tightened lending conditions by less and were less likely to take defensive balance sheet actions (**Mathur et al (2023)**). This is corroborated by the evidence of the experience of euro-area banks in respect of positive neutral CCyB rates (**ECB (2022)**)

In part reflecting the experience of Covid, an increasing number of jurisdictions internationally have chosen to introduce a positive CCyB when risks are judged to be neither subdued nor elevated, including at 2% of RWAs (**BIS (2024)**, **ECB/European Systemic Risk Board (2025)**).

O-SII buffer

The O-SII buffer increases the resilience of domestic systemically important banks to reflect the greater risk that their distress or failure could pose to the provision of credit to UK households and businesses.

Under UK legislation, the FPC must maintain a framework for setting O-SII buffer rates, while the power to set an O-SII buffer for a given firm in a given year falls to the PRA. Positive O-SII buffer rates can be set in 0.5 percentage point intervals between 1% and 3% of RWAs, but in practice they are currently between 1% and 2%.

The calibration of the O-SII buffer framework reflects the FPC's assessment that domestic systemically important firms warrant higher capital requirements given the potential greater impact of their distress on the UK economy. In its initial calibration of the framework in 2016,[4] the FPC took account of post-crisis regulatory reforms. In particular, it judged that the introduction of credible and effective bank resolution regimes and the prospect of time-varying capital buffers (ie the UK CCyB) materially reduced the appropriate level of going concern capital relative to earlier estimates. The FPC also considered the benefits of stronger prudential supervision, which help to ensure that individual banks do not take excessive risks, and structural reforms, including ring fencing, which support bank resolvability and improve resilience to risks originating in other parts of their group.

In its 2021 framework review, the FPC changed the metric for determining the O-SII buffer rates from total assets to the UK leverage exposure measure. The FPC considered this was a better proxy for the risk of disruption of the supply of credit to the real economy in distress, compared to total assets, because total assets does not include undrawn credit facilities, which help credit supply in stress, and it would prevent changes in bank's appetite for central bank reserve balances inadvertently affecting their lending decisions by interacting with the O-SII buffer (or vice versa).

The thresholds for O-SII buffer rates were indexed in 2025, reflecting the growth in nominal GDP since 2019, in order to prevent undue tightening in the framework. Indexing from 2019 ensured that the framework reflects broadly the same level of risk appetite as when the FPC had last set the thresholds. To ensure the framework continues to operate as intended in the future, and to avoid significant one-off increases in the thresholds, the FPC expects to assess the thresholds as part of its regular reviews of the framework – which take place at least every three years – and to update them in line with nominal GDP growth, as appropriate.

In July 2026, the PRA clarified that it could release O-SII buffers in the event of systemic stress,[5] and has since published a consultation paper on how it could release and rebuild those buffers.[6] Releasing the O-SII buffer would lower the level of capital at which automatic

distribution restrictions apply in stress. Upon releasing the O-SII buffer, the PRA would provide an indicative period over which no increase would be expected. This would better allow the capital which has been released to be used.

Pillar 2A requirements for geographic credit concentration risk

Pillar 2A requirements for geographic credit concentration risk are intended to cover losses that could arise due to concentrated exposures.

It is required to correct for potential lack of risk capture in Pillar 1 capital requirements, which, in line with the Basel standards, assume that banks' assets are well diversified internationally. As part of Pillar 2A minimum requirements, GCoR contributes to ensuring capital is sufficient to absorb losses at the point of failure and ensure an orderly resolution. This is distinct from the role of regulatory capital buffers like the CCyB and O-SII buffer, which are intended to provide banks with the ability to absorb losses while continuing to operate as a going concern.

The maximum Pillar 2A capital add-on for GCoR is currently 1.4% of in-scope credit risk RWAs, for a firm fully concentrated in one of the nine global economic regions. Actual requirements are typically lower – when expressed as a percentage of total (ie, credit risk and other) RWAs in Tier 1 capital they are on average 0.29% for major UK banks.

The current framework for assessing Pillar 2A GCoR was published by the PRA in 2015, and prior to the changes set out in this FSiF had not been subject to material revision since. The PRA's framework combines a multi-factor model, used for calibration, with a Herfindahl-Hirschman Index (HHI) to calculate individual firm capital add-ons. The multi-factor model estimates the additional capital required for lower diversification. The HHI is used to estimate the degree of concentration for a particular firm based on its specific breakdown of exposures across nine global economic regions, with the UK treated as a single region.

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1. Throughout this document, references to 'system-wide requirements' refer to aggregate capital requirements and buffers for the major UK banks, excluding firm-specific PRA buffers and requirements set by overseas authorities such as the international component of the CCyB. Within the banking system, in practice, there will be a distribution of capital requirements reflecting individual banks' business models, their level of systemic importance, the degree of gaps and mismeasurement in their RWAs, and the PRA's view of firm-specific risks.
2. Calculated as CET1 impact of dividends and buybacks (including foreseeable dividends) as reported in published accounts.
3. This range includes a range for the optimal level of capital of 10%–14% of banks' RWAs assuming no gaps or shortcomings in the measurement of risk weights, and an additional 2 percentage points to reflect the impact of outstanding gaps and shortcomings in the measurement of risk weights (based on expectations for the level of Pillar 2A requirements after taking into account improvements in risk measurement from the implementation of Basel 3.1).
4. Calibration of the **systemic risk buffer (SRB) framework**, which the O-SII buffer framework was originally called.
5. **PRA statement on enhancing the usability and releasability of capital buffers**.

6. **CP16/26 – Clarifying the PRA's approach to the implementation of the O-SII buffer**.