RICHARD TICE MP

HOUSE OF COMMONS
LONDON SW1A 0AA

Andrew Bailey Esq
Governor of the Bank of England
Bank of England
Threadneedle Street
London
EC2R 8AH

8th June 2025

Dear Governor,

Reform UK is now leading in the national polls and recently won the elections by a considerable margin. We are increasingly being recognised as a serious contender for government at the next general election.

As you will recall, during last year's general election campaign, we made clear that the Bank of England should not be paying voluntary interest on the reserves created through Quantitative Easing. I was the first politician to raise this issue—largely because few others fully understood it. However, numerous reputable economists, as well as former Deputy Governors of the Bank, have since voiced agreement with my position.

The purpose of this letter is to make absolutely clear to you and the Monetary Policy Committee where we stand. The Bank of England is unnecessarily wasting tens of billions of pounds of taxpayers' money, while enriching City institutions.

Some have suggested that not paying this voluntary interest would constitute a form of default. That is simply untrue. This money was created out of thin air by the Treasury and the Bank of England to support the economy during two periods of acute national stress over the past 18 years. It was never the property of City institutions. It is no coincidence that commercial bank profits have soared as interest rates rose as the Bank of England paid out tens of billions of this voluntary interest. These institutions cannot believe their luck.

Secondly, I made it clear last year that the Bank should not be selling these Bank owned QE gilts back into the market under the process known as Quantitative Tightening (QT). Once again this is a voluntary decision by the Bank of England that is imposing tens of billions of pounds of unnecessary losses on the taxpayer since the General Election as you have continued this QT policy. Frankly it amounts to the systemic misuse of taxpayers' money by the Bank of England, at a time when the nation's accounts are already under very severe pressure. QT is also partly responsible for keeping gilt yields higher than they otherwise would be, resulting in even more punitive interest costs, imposing yet more strain on the Government's Profit & Loss account.

Some will no doubt accuse Reform of interfering with the independence of the Bank of England. I totally disagree. There is a big difference between the Bank setting interest rates independently based on its mandate, and extraordinary strategic decisions which amount not to monetary policy but to fiscal policy, costing the taxpayer tens of billions of pounds of losses. The role of elected Governments and politicians is to protect taxpayer's money and the broader interests of the electorate. It would be negligent of us to ignore this very significant issue and leave it in the hands of unelected people. Our job is to challenge, scrutinise and question.

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This is a matter of pressing national importance that, with the Government's Spending Review upon us, needs open debate. So I am placing this letter in the public domain.

I propose an open meeting with you to discuss this, together with any other members of the Bank's Monetary Policy Committee at your discretion.

I look forward to your response.

Yours sincerely,

Richard Tice
Deputy Leader
Reform UK

Bank of England

Mr Richard Tice MP
House of Commons
London
SW1A 0AA

Andrew Bailey
Governor

20 June 2025

Dear Mr Tice,

Thank you for your recent letter concerning the Bank's policies on reserve accounts and Quantitative Tightening. I agree with you that these are important issues. I welcome your interest and that of the Treasury Select Committee, to which the Bank is formally accountable. In what follows I have addressed these two points in turn but also provided broader context on how they fit together.

1. **Reserve Accounts**

You have questioned the Bank's policy towards paying interest on the reserve accounts held by commercial banks. Our policy in steady state is to meet the demand of the banks to hold reserves at the Bank. These reserves take the form of cash accounts which can be used to meet immediate requirements for liquidity. From the Bank's perspective, they are the foundation of both of our statutory policy objectives, namely monetary and financial stability.

For monetary policy, our implementation of the MPC's chosen level for Bank Rate is anchored by remunerating reserve accounts at that rate. This helps to ensure that the rates at which banks lend to businesses and households – and the rates they pay on customers' savings – move broadly with Bank Rate. Over time, we have been able to demonstrate that this approach reduces interest rate volatility at the short-end of the interest rate curve, and thus improves the efficiency of implementation of monetary policy, with real benefits for the economy as a whole.

For financial stability, reserve accounts provide one form of what are called High Quality Liquid Assets (HQLA). Assets such as gilts and other high-quality debt also qualify as HQLA.

In terms of the scale of reserves required to achieve our two policy objectives, there is a difference. We could operate monetary policy successfully with quite a low level of reserves, as was done before the financial crisis. With this level of reserves, Bank Rate could still anchor the interest rate curve although it would be less robust to shocks. However, the experience of the financial crisis demonstrated that this policy could not ensure financial stability – for which a much larger stock of reserves is needed.

It follows that the overall level of reserves is driven by our financial stability objective rather than the monetary policy objective. However, it also follows that, as the overall regulatory requirement for banks is set in terms of high-quality liquid assets that can be readily converted into cash if needed, there is no requirement specifically on reserves. So, in steady state banks have choices over the amount of reserves they wish to hold. This is what I meant when I referred earlier to the Bank meeting the demand for reserves of the banks.

An important question that follows is therefore what determines that demand for reserves? One determinant will be the price, in other words the rate paid by the Bank as interest on the reserve accounts. This is because the alternative forms of HQLA – like gilts - carry their own remuneration. It is therefore reasonable to think that were the Bank to cut or eliminate the return paid on reserves, the demand for reserves would fall – possibly substantially. Hence, reserves would not be a reliable or large-scale source of income to the public purse in the way that might be thought just by looking at the level of reserves today.

There would be a way to avoid this outcome, namely by mandating the level of reserves that banks must hold. I will make two points on this. First, by mandating reserves, they would in effect be frozen and hence we could not treat them as liquid assets available for banks to use as we do today. Locking up reserves in this way would undermine the liquidity of the banking system, and thus financial stability. Moreover, there would need to be a liquid asset buffer held in addition to the locked in reserves, and this would mean less scope for the banks to lend. Nor would these locked in reserves be able to perform the monetary policy function, because they would not anchor the interest rate curve.

The second point follows from this. It would not be within the remit of the Bank to require such a system, because it would not serve our statutory purposes. Rather, it would be fiscal policy, which is something that must be enacted by the Government and Parliament. Indeed, we have in the past noted that removing remuneration on reserves is akin to a tax on banks. It is only appropriate that such a tax be imposed by the elected Government of the day.

I will now turn to the impact of the current reserve remuneration on both the Bank's income and that of the banks. Moreover, since the Bank is a public body, income above our operational needs is part of the public purse.

In steady state (I will come on to QE and QT), the reserve remuneration arrangements are neutral in terms of the Bank's income. Put simply, and after meeting our costs, we aim to both receive and pay rates around Bank Rate. The Bank is therefore not losing money on these arrangements. Ceasing to remunerate reserves would be an attempt to shift from a situation that is cost neutral to the Bank and the public sector more broadly, to one that is profit making. However, as I set out above, in order to make money we would have to alter the remuneration of reserves in a way that is not consistent with our statutory objectives, and that would likely lead to a natural reduction in the demand for reserves.

As far as the banks are concerned, they have to fund the reserves they place at the Bank (in other words, they are depositing with us the money that customers deposit with them). Depending on arrangements, they will earn an interest rate spread which will contribute to their earnings, but the important point here is that the interest paid on reserves is not free money for the banks, not least as most of it is paid on to customers in the form of interest on their deposits. Any reduction in income received on banks' reserve assets would therefore likely be reflected in either the interest received by depositors on their deposits with banks or in increased interest charged on other bank assets. In this sense, although constructed as a tax on banks, one might consider it a tax on banking services.

In your letter, you suggest that the banks are now earning excess profits, fuelled at least in part by the reserves arrangements. The question of what is excess is a matter of judgement of course, but I will set out what I see as the technical basis for rebutting this point. From a commercial point of view, banks need to earn a rate of return which at least equals their cost of capital. A good measure of whether they achieve this, and are expected to do so in the future, is whether the ratio of their market value to book accounting value is at least unity.

For over a decade after the financial crisis, for most banks in the UK this test was not met. Capital requirements had, necessarily, increased, and their business models were adjusting to that change. In the last two or three years, that situation has changed, and most of our banks are meeting that test, but not excessively so either by historical or some international comparisons. The increase in interest rates has played a part in this, but not the largest part by any means.

I conclude from this that we do today have a stable banking system with adequate capital and liquidity buffers, which can support our economy and the people of this country, and that is what they should do. I would add that in my view the ringfencing regime helps here because it requires for the most part UK deposits to be used to lend into the UK economy.

2. Quantitative Easing / Quantitative Tightening

I will now turn to Quantitative Easing and Quantitative Tightening (QE and QT). I used the term steady state above to describe the regime where we meet the demand for reserves from banks. QE involves a different state of the world, where the central bank buys financial assets, thereby increasing the prices of these assets and reducing their yield. It thus has the effect of flattening the yield curve benefitting those who borrow at long maturities.

At the same time, it increases the money supply and, other things equal, increases the stock of reserves above the level of natural demand described above. QT puts that process into reverse, though it is generally accepted that the asset price and yield effects are smaller.

You have challenged the Bank's approach to QT and whether it represents value for money. There are two main ways to look at value for money here, and it is important to keep them distinct. One – which fits the Bank's statutory objectives – is to look at the economic costs and benefits and how they fit the Bank's two objectives. The other is to look at the cost in terms of cash flow and the public finances, which is outside the Bank's objectives but something that I recognise is important.

The first test is important but challenging. It requires a full set of alternative economic scenarios going back to 2009 when QE started and modelling what would have been the state of the economy in the absence of QE and QT. We have experienced major economic shocks during this period – the aftermath of the financial crisis, Covid, Ukraine. It is easy to forget the severe problems we faced with these shocks. Although the counterfactual is unknowable with any precision, most estimates indicate that QE provided very significant support to the UK economy, protecting both jobs and tax revenues.

Your focus though is on the second test. Here, it is important to consider cash flows, as you indicate, and moreover the impact on the overall public cash position. While QE was being used as an active policy tool, and interest rates remained low, the cash flow was positive, totalling £124bn that was transferred from the Bank to the Exchequer between 2013 and 2022. Once interest rates increased, the cash flow started to reverse, something the Bank had said since the start would happen. Today the net positive cash flow stands at £34bn, but we expect it to go negative over the remaining lifetime of the policies on this basis of calculation.

An important point to bear in mind here is that we ought to expect that the cash flow will over time be the same regardless of whether we sell the assets or hold them to maturity. This is because the price discount on an active sale is simply equal to the present discounted value of the carry cost that would be incurred were the assets held to maturity. The timing of the cashflows, but not their overall size, is affected by whether or not there are active sales. By avoiding disrupting markets, our gradual and predictable approach to QT supports this.

But this is not the end of the story, though it is the end in most of the accounts of the cash flows expected. An important missing element is that successive UK Governments have issued more long-term debt (gilts) than those of other major economies. The average term of outstanding UK Government debt is around 14 years, compared to around 6-7 years in, for instance, the US, Germany and Canada. The Bank's policy throughout QE was to buy equal amounts across the maturity distribution of gilts, to ensure that our operations were neutral for the gilt market. This means that the Bank now owns more long-term gilts, something that helps to explain why we are conducting more active sales (as we have a slower path for natural maturities). A consequence is that, with an upward sloping yield curve, we do have larger discounts (and would otherwise have larger carry costs) on our long-dated gilts. This has led some commentators to suggest that the Bank's QT programme is more expensive than those of other countries.

This misses an important part of the argument. Because it issued much more long-term debt than other countries when interest rates were low and QE had flattened the yield curve, the UK gets a longer lasting benefit in the form of lower debt costs. We estimate that today the average coupon on UK gilts is 2.8%, at a time when Bank Rate is 4.25%. Some of this advantage from QE reverses as Bank Rate goes up. We estimate that at current Bank Rate, the average coupon is 3.3% after taking into account that some of the bonds were bought in the secondary market as part of QE financed by the issuance of reserves. But the key point is that the UK will keep the benefit of lower debt costs for considerably longer than other countries. Yes, QE/QT reduces it from what it would otherwise be, but that is an artificial calculation because QE itself contributed to the improved cost of issuance. Put simply, the cash flow cost of QE/QT is not therefore what it seems, and the outcome in these terms will be better.

I must emphasise again that these cash flows are not a part of our objectives, but I recognise that we must, and do, have regard to value for money.

I hope that this explanation of the issues helps. I will be happy to meet if that would be useful. I am copying this letter to the chair of the Treasury Select Committee.

Yours sincerely,

Andrew Bailey

cc: Dame Meg Hiller, Chair of the Treasury Select Committee

RICHARD TICE MP

HOUSE OF COMMONS

Andrew Bailey Esq
Governor of the Bank of England
Bank of England
Threadneedle Street
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EC2R 8AH

22nd September 2025

Dear Governor,

I am writing to confirm our meeting on Thursday morning at 8am at the Bank of England. Nigel and I are very much looking forward to the discussion and welcome the opportunity to meet with you.

I can confirm that attendance from our side will be limited to Nigel and myself.

Yours sincerely,

Richard Tice MP
Deputy Leader of Reform UK

MEMBER OF PARLIAMENT FOR BOSTON AND SKEGNESS
EMAIL: RICHARD.TICE.MP@PARLIAMENT.UK

HOUSE OF COMMONS

LONDON SW1A 0AA

Sam Woods Esq,
Chief Executive Officer of the Prudential Regulation Authority
Bank of England
Threadneedle Street
London
EC2R 8AH

27th November 2025

Dear Mr Woods,

Re: Application of the PRA's Secondary Objective on International Competitiveness and Growth

I am writing to convey growing concerns within the financial services sector regarding the implementation of the Prudential Regulation Authority's statutory secondary objective to *facilitate the international competitiveness of the UK economy, including its financial services sector, and its medium to long-term growth.*

While the sector recognises the primacy of the PRA's safety and soundness mandate, it has been brought to my attention that many firms are increasingly concerned that the secondary objective is not yet being applied with the strength that Parliament intended or the speed and dynamism that modern financial services sector demands. You will be aware that identical concerns were expressed by Baron Forsyth of Drumlean in his recent Financial Services Regulation Committee report , and in his follow-up letter to the Chancellor expressing disappointment with the Treasury's response to the Committee report.

I note, in particular, the Fintech sector where it is clear that the Chancellor's efforts to encourage growth and investment are already faltering with nearly half of UK fintech founders now considering moving their businesses abroad due to concerns about taxes, regulation, and a perceived lack of confidence in the UK economy. The UK has had considerable success developing a number of leading global fintechs, including Revolut, Monzo and Starling for which the Bank of England has no doubt played its part. However, I am extremely concerned to see that all three are now actively considering listing elsewhere, following on from Wise moving its main listing over the summer.

There is a persistent perception that, although referenced in principle, competitiveness and growth considerations often receive insufficient weight when policy options are assessed or when supervisory judgements are made. Businesses report that the effect on supervisory culture, decision-making, and regulatory outcomes remains limited and glacial in speed.

This has led to several practical issues:

- **Regulatory processes remain slower and more risk-averse than competitors in peer jurisdictions,** particularly in areas relating to innovation, new capital models, and the authorisation of new market entrants.
- **Firms find that supervisory decisions rarely demonstrate how the PRA has balanced prudential considerations with the need to support growth,** even in areas where the trade-offs are clear and manageable.
- **Opportunities to streamline or modernise regulation** – especially where doing so would enhance the UK's attractiveness as a global financial centre – are not taken forward with the urgency required e.g. the barriers that medium-sized firms face in developing IRB models / MREL limits which, whilst recently relaxed, still present a barrier to global growth for rapidly expanding new entrants.

I do not believe that the sector is seeking a dilution of prudential standards but rather a far stronger and faster commitment to embedding the secondary objective into the PRA's operational mindset, so that the UK can retain and strengthen its competitive position in global financial markets while maintaining robust financial stability.

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LONDON SW1A 0AA

In particular, I believe the industry would welcome:

1. **Clearer demonstration of how the PRA weighs competitiveness and growth considerations** in policy statements, cost-benefit analyses, and supervisory decisions. It has come to my attention that MREL requirements, for example, continue to be set at a level which under no circumstances could be described as systemic in a UK context. Furthermore, I understand that officials at the FCA continue to restrict the ability of new banks to onboard customers years after self-reported failings have been addressed and appear to have little understanding of the competitive implications of such decisions.
2. **More proportionate, predictable, and responsive supervisory engagement**, including faster decision-making where appropriate. It has come to my attention that several banks have had IRB model applications with the PRA for a number of years(!). Furthermore, a number of new entrant banks are unable to even start the process given a requirement for historic data. Given that these models offer considerable competitive advantage it is unacceptable that processes to agree and approve models are not transparent, open to all and executed as a matter of urgency at the Bank.
3. **A more structured approach to assessing the international implications of UK regulation**, ensuring that UK-based firms are not placed at a disadvantage relative to equivalent jurisdictions. I note for example your recent consultation paper on a regulatory regime for stablecoin, building on feedback from your November 2023 discussion paper. It will not have escaped your attention that in the meantime the U.S. has already passed the GENIUS Act and that US dollar backed stablecoin issuance is now over $250bn. The ultimate success or otherwise of stablecoin remains to be seen, but with London the largest foreign exchange market in the world it is surprising that we are not leading global thinking in this area.
4. **Regular reporting on measurable outcomes** arising from the secondary objective, in line with Parliament's expectations for transparency and accountability.

I appreciate the PRA's ongoing engagement with industry and recognise the important work already underway. However, I am concerned that there is a genuine risk that the UK is in real danger of losing important businesses that have been developed, nurtured and grown in this country, due to an over-zealous and excessive focus on risk reduction at the expense of encouraging disruptive, innovative growth.

You will note that based on current opinion polls Reform UK is set to form the next government. We cannot accept the current situation for a country which in the past has been renowned for innovation and global leadership in financial services.

I would welcome the opportunity to discuss these matters further and to advance both financial stability and economic growth.

Yours sincerely,

Richard Tice MP
Deputy Leader of Reform UK

Bank of England PRA

Richard Tice MP
Deputy Leader of Reform UK
House of Commons
London
SW1A 0AA

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

11 December 2025

Dear Mr Tice,

Thank you for your letter regarding the Prudential Regulation Authority's (PRA) implementation of its secondary competitiveness and growth objective (SCGO). I am responding on the points most relevant to the PRA. My colleague Sarah Breeden will respond separately regarding points within her areas of responsibility – in particular the Bank of England's work on stablecoins and related matters.

We believe there is real scope to simplify our regime and make it more efficient while maintaining the resilience that protects against financial crises and has enabled the financial sector to support the economy through recent episodes like the Covid pandemic. With this in mind, we acted quickly when the SCGO came into force through the Financial Services and Markets Act (FSMA) 2023, and competitiveness and growth has remained a top priority for the PRA since then.

We have already delivered significant changes which include: a radically simpler capital regime for small banks and building societies; substantial reforms to the regime for bankers' pay, including the removal of the bonus cap and halving of bonus deferral periods; a balanced approach to Basel 3.1 implementation which supports lending to SMEs and infrastructure projects; supporting the Bank of England to establish more proportionate MREL requirements; a one-third reduction in reporting requirements for insurers; and capital changes which will enable the life insurance industry to deliver on its commitment to invest in the UK economy over the next decade. We also acted quickly to implement the Financial Policy Committee (FPC)'s recent changes to its loan-to-income (LTI) flow limit to enable firms to increase their share of high LTI mortgage lending.

Alongside this we have taken a number of important steps to make our own operations, and the experience for firms dealing with us, more efficient. As part of this we have recently established a scale-up unit with the FCA which will provide regulatory support to the kinds of innovative and fast-growing firms you mention in your letter, given their importance for economic growth. We also proposed in January to government, and have now launched together with other parties, a new "concierge service" to help attract foreign firms to the UK.

We will deliver further changes in consultation with industry over the coming period, including streamlining regulatory reporting requirements for banks, cutting bureaucracy in the Senior Managers Regime (SMR), creating a more efficient and accessible IRB models approval process for banks, and developing a new insurance captives regime. Additionally, working closely with the FPC, we have identified a set of areas for potential reform in light of the Committee's recent assessment of UK bank capital requirements. We expect these reforms to provide firms with greater confidence in using their capital resources to lend to UK households and businesses.

Taken together, our programme of reform is having a significant impact on the regulatory regime and the ease of doing business in the UK. In taking this forward we will continue to work closely with other authorities including international partners and the Financial Conduct Authority, which leads on the listing regime mentioned in your letter.

I provide some more information on key aspects of this work as follows.

Effective and transparent regulatory processes

- **Improving engagement on Internal Ratings Based (IRB) models:** Model outputs are used to calculate the level of capital we require firms to hold in order to absorb losses, so the process to define and maintain them is necessarily rigorous. Currently, a total of 22 banks and building societies hold model permissions for capital purposes, and 16 have IRB permission for credit risk. In total, firms with approval to use models for capital purposes are collectively using around 800 models, of which approximately half are IRB models. We are currently making some changes in order to make the process of applying for model approval more efficient. For example, for firms already using IRB and seeking approval for a model change, we have committed to enhance pre-application engagement and review complete applications within six months. For firms applying to use IRB for the first time, we will provide dedicated support (including account managers), and we are committing to a target of taking final decisions within eighteen months. The enhanced IRB process will be effective for model applications received from 1 January 2026.

- **Establishing a Matching Adjustment Investment Accelerator (MAIA):** We recently launched the MAIA, which will enable insurers to channel capital into productive investments more quickly. This facility will help the life insurance industry deliver on the commitment it made to make more investments in the UK economy.

- **Making supervisory KPIs more ambitious:** The Government has announced statutory changes to shorten regulatory approval timelines in areas such as new firm authorisations and senior manager regime applications. We have committed to going faster than legislative deadlines in a range of areas. For example, we will accelerate approvals of more straightforward appointments under the SMR, and we will approve applications from Insurance Special Purpose Vehicles (ISPVs) within much shorter timeframes.

- **Removing outdated supervisory guidance:** This month, following consultation with industry, the PRA deleted the Building Societies' Sourcebook (SS20/15) entirely. We consider that this suite of bespoke requirements for building societies is no longer necessary given developments in the sector's risk management capabilities since its introduction. We expect that withdrawing these expectations will boost the ability of building societies to compete in the UK banking sector.

- **Establishing a scale-up unit:** We recently launched the joint FCA-PRA scale-up unit which will enhance regulatory support for fast-growing and innovative firms, including providing a dedicated point of contact on key regulatory processes. These firms are important for growth, and the unit will build on the support we already provide early-stage firms through our New Bank and Insurer Start-up Units.

- **Rationalising our 'have regards':** The PRA must 'have regard' to 25+ factors when making policy, in addition to advancing our primary and secondary objectives. This slows the process of reforms to rulemaking down and makes our policy publications more voluminous, and HMT has therefore developed a proposal to streamline these requirements. If implemented effectively, it should remove an important bureaucratic barrier, allowing us to be more nimble in our rulemaking.

- **Supervisory efficiency:** The SCGO does not apply to firm-specific supervisory decisions. However, the efficiency of our supervision is being enhanced through many of the reforms identified above, including new authorisations targets and enhancements to our process for IRB model approvals. We are also looking for other ways in which we can raise the efficiency of our supervisory processes without undermining their effectiveness.

Streamlining and modernising regulation

- **Strong & Simple:** We have delivered a significantly simpler prudential regime for small, UK-focused, banks and building societies, covering capital, liquidity, and disclosure requirements, cutting unnecessary complexity while maintaining resilience. This will reduce compliance costs and free up resources that should support lending to households and businesses. Over 60 banks and building societies are already in the regime.

- **Future Banking Data (FBD):** Following a successful programme of regulatory reporting reductions in insurance, we launched the FBD programme and delivered the first stage of reductions on 8 December. These changes, which involved cutting 37 reporting templates, are expected to cut industry costs by around £26 million annually. We are now engaging with industry on the further development and prioritisation of this programme and expect significant additional cost reductions to follow in due course.
- **Making the IRB approach more accessible:** In addition to the process-focused improvements described above, we are also exploring how the IRB approach could be made more accessible to mid-sized firms. In July we published DP1/25 setting out potential options. Industry is engaging actively with our proposals, and we are working to ensure that the reforms we ultimately bring forward make a real difference to firms in terms of the ease with which they can use internal models to calculate their capital requirements.
- **Minimum Requirements for Own Funds and Eligible Liabilities (MREL):** The Bank of England is responsible for maintaining the UK's resolution framework, which is a critical part of addressing the prospect of "who pays" when a bank fails. As part of that framework, MREL is designed to ensure that losses fall on shareholders and subordinated creditors of a failed bank rather than taxpayers. The majority of banks are not in scope, and the Bank has recently raised the indicative threshold for coming into scope from £15-25 billion to £25-40 billion in total assets. This provides smaller banks with additional growing room before potentially being brought into scope and, to keep the threshold up to date, the Bank has committed to update it every three years as necessary to make sure it keeps up with nominal growth. To support firms as they grow there are substantial transitional arrangements for building up MREL.
- **Securitisation:** Securitisation, where properly executed, enables firms to manage their balance sheets efficiently. We are due to consult on reforms to our securitisation rules which will promote efficiency while maintaining the standards which mitigate against the securitisation risks which emerged during the Global Financial Crisis. Firms find the existing rules overly prescriptive and burdensome – our proposed reforms are expected to lower the cost of issuing and also investing in securitisations, enabling banks to lend more to UK businesses and consumers.

- **Senior Managers & Certification Regime (SM&CR):** Working closely with HMT and the FCA, we are reforming the SM&CR to ensure it better supports the competitiveness of the UK financial services sector. In July we published our Phase 1 proposals, which includes proposals aimed at lowering compliance costs. We also welcome recent HMT proposals that would allow for a reduction in the number of Senior Manager determinations made by the regulators and the removal of the Certification Regime from FSMA. We intend to consult – as part of a 'Phase 2' of reforms – to take advantage of the additional flexibility arising from HMT's proposals, and expect to reduce the number of Senior Manager roles requiring pre-approval by around 40%. Overall, our efforts are directed at materially reducing the regulatory burden of the SM&CR while recognising the important role it plays in ensuring accountability within financial services

- **Insurance Special Purpose Vehicles (ISPVs):** Insurance Special Purpose Vehicles are used by (re)insurers as an alternative to traditional reinsurance methods, enabling capital markets investors to fund risk transfer from the (re)insurer via a SPV-issued Insurance-Linked Securities (ILS). We have taken action to make the UK a more attractive destination for ISPVs. Historically, most of these vehicles have been registered outside the UK in jurisdictions such as Bermuda. The initiatives we implemented in July of this year support a wider range of transactions and mean that authorisations of relevant ISPVs can now be completed in around 10 working days instead of several weeks. In addition, we are working alongside HM Treasury to develop additional proposals based on future legislative changes to increase the attractiveness of the UK regime further.

- **Alternative life capital:** We are exploring ways to help UK life insurers access alternative capital beyond issuing equity or debt. UK life insurers, particularly publicly listed groups, have a relatively high cost of equity and report constraints in their ability to raise equity competitively. Therefore, in November we published a Discussion Paper (DP2/25) to seek industry feedback on potential policy changes. The PRA's overriding aim with this initiative is to work collaboratively with the industry to identify potential changes to the existing insurance regulatory framework to facilitate and attract new forms of capital, support UK economic growth, and maintain strong protection for policyholders.

- **Insurance Captives:** Currently, UK corporates looking to establish an insurance captive often find it easier to do so abroad. The PRA and FCA will therefore consult in summer 2026 on the rules and policies for an effective and competitive UK captive insurance regime. We are committed to developing a proportionate authorisation and regulatory regime for captives, reflecting the lower risk they pose to our primary objectives. We are working with HMT and a wide range of stakeholders, including users of captives as well as financial services firms, to deliver the regime.

- **Updating regulatory thresholds:** The Bank and PRA are mindful that although some policy thresholds have been updated recently to account for nominal GDP growth since they were implemented, others have not, which can lead to 'prudential drag' as the economy grows – with more firms being subject to policies than may be consistent with our original risk appetite. To this end, we are exploring an approach for automatic indexation of regulatory thresholds, which would provide greater transparency and predictability to industry. The PRA intends to consult on a proposed approach in 2026.

Enhancing the UK's status as an international financial centre

- **Basel 3.1:** We are implementing Basel 3.1 in a way that makes our capital framework more risk-sensitive and with UK-specific adjustments which facilitate lending to SMEs and infrastructure projects. Overall, the package is not expected to result in an increase in capital requirements, and we have delayed one element (internal modelling for market risk, where competitiveness issues are most relevant given the cross-border nature of many trading operations) in order to allow us time to assess developments in other jurisdictions.

- **Remuneration:** We recently built on our removal of the bonus cap by making additional changes to simplify and modernise the UK remuneration regime. These changes significantly reduce bonus deferral periods for senior bankers' bonuses – with deferral periods for the most senior staff halving to 4 years – and allow firms to pay out more cash up front. These reforms will help firms compete for, and retain, talent in the UK, without recreating the very dangerous pay structures that were common in many banks before the global financial crisis.

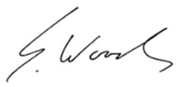
- **Establishing a 'concierge service':** International firms can face challenges navigating the regulatory framework when they locate their business here. We have therefore supported the launch of the Office for Investment: Financial Services, in partnership with HM Treasury, the FCA and the City of London. The service, which includes PRA staff, offers comprehensive and bespoke support in a structured, co-ordinated way to firms looking to establish and expand their presence in the UK.

- **Supporting international banking activity in the UK:** Our branching policy supports the UK's status as a leading financial centre by enabling openness to international banking activity. An International Monetary Fund assessment named the UK as the largest host jurisdiction to foreign financial services firms as branches (or subsidiaries) in the world – with assets held by UK branches exceeding £6 trillion. By balancing openness with robust standards, we reinforce the UK's position as a trusted, competitive hub for global finance. We continue to ensure that our supervisory expectations in this area reflect the global context, and the updates we made earlier this year will further support competitiveness and growth.

Conclusion

More detail on this work can be found in our recent Annual Reports on the SCGO.[1] The SCGO will remain a top priority for the PRA in the coming period, and I look forward to continuing engagement on this important topic.

Yours sincerely



Sam Woods
Deputy Governor and CEO, Prudential Regulation Authority

[1] The PRA's first Annual Report on the SCGO: **Competitiveness and growth: embedding the PRA's new secondary objective | Bank of England**; The PRA's second Annual Report on the SCGO: **Competitiveness and growth: the PRA's second report | Bank of England**

Bank of England

Richard Tice MP
Deputy Leader of Reform UK
House of Commons
London
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Sarah Breeden
Deputy Governor for Financial Stability

11 December 2025

Dear Mr Tice,

Thank you for your letter to Sam Woods on 27 November. Sam is separately responding to you regarding the Prudential Regulation Authority's implementation of its secondary competitiveness and growth objective. Your letter also asked about the Bank of England's work on systemic stablecoins, for which I am the responsible Deputy Governor. I am therefore responding on those points, in the context of the Bank's overall agenda on payments innovation.

Driving innovation in payments has been a high priority for the Bank for the past several years, working with other UK authorities and internationally. While retail and wholesale payment services have no doubt improved in the UK in recent decades, there is scope for significant further innovation.

We can already see retail payment systems in places like India, Brazil and Sweden that offer functionality not available in the UK – such as having the option easily and cheaply to pay retailers in-store or online directly from bank accounts without going via cards.

Looking ahead, applying tokenisation and distributed ledger technology (DLT), currently employed in crypto-asset markets, to real-world retail and wholesale payments offers the potential for payments to be embedded more efficiently and deeply into our increasingly digital economy, with benefits for households, businesses and financial markets.

The Bank's own technology experimentation, working with a range of private sector firms and the Bank for International Settlements, has identified several potential use cases for tokenisation in retail payments, such as enhancing online shopping by enabling a buyer's funds to be reserved at time of purchase and automatically released to the seller only once physical delivery of goods is confirmed.[1] That could enable greater competition in online retail if consumers are more confident to shop online with a new merchant or platform. Such functionality might also help to alleviate the perennial challenge of late payments to small businesses, as they could receive payments automatically upon delivery of a good or service.

Tokenisation could also facilitate faster, cheaper processes in wholesale financial markets[2] and cross-border payments[3] - with fewer intermediaries, shorter settlement windows and smart contracts automating processes such as coupon payments on bonds. Tokenisation could also increase the liquidity of a wider range of financial assets (for example private assets, units in investment funds, or real estate), enabling them to be held, traded or even used as collateral by a broader set of market participants.

There are also challenges to overcome. For example, we need to ensure that, when used in regulated infrastructure, DLT delivers the same levels of operational resilience, clearly accountable governance and settlement finality (assurance in law that the transfer of money or securities is irrevocable and final, including in the event of bankruptcy) that we expect for regulated infrastructure using traditional technology, while still maintaining scalability for high transaction volumes.

Nonetheless, by seeking to get ahead of how these new technologies will impact our objectives for monetary and financial stability, we can ensure that we have the hard infrastructure (technology systems) and soft infrastructure (rules and standards), and that we convene and coordinate the financial services industry, to enable their responsible adoption.

Wholesale payments and settlement

As the central bank of an international financial centre, it is vital that we support responsible innovation in wholesale financial markets.

We have already put in place the soft infrastructure – the **Digital Securities Sandbox** launched by the Bank and Financial Conduct Authority (FCA) last year – to

[1] **Project Rosalind: developing prototypes for an application programming interface to distribute retail CBDC**
[2] **Project Meridian Securities | Bank of England**
[3] **Project Meridian FX: exploring synchronised settlement in FX**

enable the private sector to set up real-world trading venues and settlement systems in the UK for tokenised securities, both in sterling and foreign currencies. 16 firms are preparing with us to launch trading and settlement venues potentially as early as next year – ranging from established financial firms (eg Euroclear, HSBC, JP Morgan and the London Stock Exchange Group) to new players, and across the full range of asset classes (eg equities, corporate and government bonds, and investment funds). This is a genuine innovation by UK regulators to enable real-world trading and settlement of tokenised securities on regulated infrastructure, and we've seen interest from US authorities in emulating our approach.[4]

As you would expect, a key priority for the Bank and for financial market participants in enabling the responsible adoption of tokenisation in finance is to ensure the availability of settlement assets with the requisite safety and functionality to play the role of money in tokenised transactions.

In wholesale financial markets, it has long been recognised by market participants and international standards that there are benefits for market liquidity and financial stability from transactions settling across the accounts which banks and other financial institutions hold with central banks.[5]

In support of this aim, the Bank launched our modernised wholesale payments infrastructure in April this year - the Real Time Gross Settlement (RTGS) Service through which all interbank payments in the UK ultimately settle. RTGS already has functionality to support settlement of the cash leg of tokenised asset transactions using a tokenised representation of central bank money. Indeed, a payment system of this kind is already live in the UK and in its initial stages of operations.[6] Furthermore, synchronisation functionality, which will allow central bank money to be fully integrated with wholesale tokenised transactions, will initially launch next year in our **Synchronisation Lab**, to enable firms to test real-world use cases, before it is delivered into production. Finally, we are also experimenting with going further, and tokenising central bank money itself on a separate, distributed ledger – so-called wholesale central bank digital currency (CBDC) – including in a global project with six other major central banks and over 40 private sector financial firms.[7]

That said, central bank money is not needed for all wholesale settlement today, and there will remain a role for privately issued settlement assets in wholesale financial markets in the future. We are therefore working to expand the range of settlement

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4 **SEC.gov | Old Flames – Remarks by Commissioner Hester M. Peirce to the City of London Corporation, July 16, 2025**

5 **Principles for Financial Market Infrastructures (PFMI)**

6 **Bank of England publishes policy for omnibus accounts in RTGS | Bank of England**

7 **Project Agora: exploring tokenisation of cross-border payments**

assets in the Digital Securities Sandbox to include not just tokenised deposits but also regulated stablecoins.

As tokenised asset markets emerge in different jurisdictions, we want to avoid them operating in a such a way that they are incompatible with each other - or indeed with those parts of domestic financial systems using traditional technology. That would impede cross-border and cross-asset trading and so fragment market liquidity. Interoperability and regulatory cooperation including across borders will therefore be essential. We are therefore closely engaged in the work of the Transatlantic Taskforce for Markets of the Future, announced by the Chancellor and the US Treasury Secretary in September following the US President's state visit to the UK, which will enable the UK and US to enhance collaboration on capital markets, digital assets and other innovative financial activities. In addition, the Bank and other authorities internationally are participating in work led by the Monetary Authority of Singapore – its so-called Global Layer 1 initiative – which is exploring common standards for DLT platforms.

Retail payments innovation, including systemic stablecoins

We are also supporting innovation in retail payments, where our aim is for a 'multi-money' system. Today, as you know, we make digital payments in the UK using our bank deposits. As we look ahead, the UK authorities are keen to promote a future where users have greater choice: traditional bank deposits, tokenised versions of those bank deposits, and tokenised money issued by non-banks (that is, stablecoins).[8]

For commercial bank money, we clarified to banks two years ago how deposit-taking entities seeking to issue digital money can do so in the form of tokenised deposits, and we continue to engage closely with banks to ensure that regulation is not a barrier.[9] The Bank is also taking on a new role, announced by the Government at Mansion House in July, leading with industry the design of the UK's next-generation retail payments infrastructure. This is with the aim of modernising the infrastructure currently used, for example, by the Faster Payment System for online banking, and by the Bacs Payment System for salary and bill payments. A priority for our work on the retail infrastructure is to enable the seamless exchange of traditional bank deposits, e-money, tokenised bank deposits and systemic stablecoins - as well as delivering an account-to-account payment option at point-of-sale which, as I flagged above, is available in other countries as an alternative to cards. Our work on modernising the UK retail payments infrastructure will also be informed by our **Digital Pound Lab**, launched

[8] **Strategy for future retail payments infrastructure - GOV.UK**
[9] **Letter from David Bailey, Nathanaël Benjamin and Vicky Saporta on 'Innovations in the use by deposit-takers of deposits, e-money and regulated stablecoins' | Bank of England**

in August, which enables private sector firms to experiment with retail payment use cases for tokenised money.

An important part of our work is enabling a future where stablecoins can be used widely for real-world retail payments and play a role in wholesale payments. The UK passed legislation in 2023, which established the legislative framework for stablecoins, akin to the GENIUS Act passed in the US earlier this year. The Bank of England will regulate 'systemic' stablecoins alongside the FCA, while the FCA will solely regulate non-systemic stablecoins.

The Bank and FCA are well advanced in designing our regulatory regimes, and we have both consulted on these this year.[10] We will both then finalise our rules next year, as US regulators also aim to do following passage of the GENIUS Act. We are therefore engaging closely with our US counterparts, both bilaterally and through the Transatlantic Taskforce for Markets of the Future.

We are also engaging our international counterparts more widely. The global Financial Stability Board plays an important role here – it coordinates national authorities and international standard-setters at a G20 level and is now chaired by our Governor, Andrew Bailey. It already has high-level recommendations in place for how national authorities should take consistent regulatory approaches to stablecoins, which the Bank's regime is implementing.

At present, the vast majority of stablecoin activity globally is as the settlement asset for trading of unbacked crypto-assets. While unbacked crypto-assets are growing in popularity, the Bank's Financial Policy Committee continues to judge that their systemic risks to UK financial stability are limited. Therefore, there is no need for stablecoins used in the crypto-asset market to be subject to the Bank's stablecoin regime; rather, the FCA's regime is appropriate.

The guiding principle of the Bank's systemic stablecoin regime is that, should a stablecoin come to be used not for crypto trading but as money in the real economy, they should be as robust as the money issued by banks that we use today. That isn't to say they should meet the exact rules we apply to banks. In our regime, systemic stablecoins wouldn't seek in their business models to make money from lending or maturity transformation, so lots of banking regulation would need not apply.

The Bank is proposing to offer systemic stablecoins the means to achieve this robustness, going further than any other major jurisdiction so far.

[10] **Bank of England launches consultation on regulating systemic stablecoins | Bank of England**

In particular, we would provide systemic stablecoin issuers accounts at the Bank of England to hold at least 40% of the backing assets for their coins and so ensure their value and timely redemptions. Therefore - and in contrast to other jurisdictions where stablecoins must rely on their competitors (commercial banks) for a bank account - the Bank of England would play the role of banker to systemic issuers. Issuers could then hold the remaining up to 60% of backing assets in short-term UK government debt, allowing them to earn a return on the majority of their backing assets.

Furthermore, again going further than any other major jurisdiction so far, we are considering a Bank of England liquidity facility to backstop solvent systemic stablecoin issuers' ability to monetise their government debt holdings if needed to meet redemption requests. By using our balance sheet, we would be giving stablecoins the means to achieve equivalent robustness to commercial bank money.

Of course, it is plausible that a stablecoin doesn't start off at systemic scale but comes to be used as such. We've said that such a coin would initially be able to hold up to 95% of backing assets in short-term UK government debt, and the Bank and FCA would work with those issuers to ensure the transition to the Bank's regime is orderly and over an appropriate time horizon. In this way, we have set out a proportionate regime that allows stablecoins to grow and transition between use cases.

I hope this letter is helpful in setting out how much the Bank is doing to support innovation in retail and wholesale payments, including stablecoins, as well as in tokenised securities; and that we are seeking to lead international debate, both through bilateral discussions (particularly in the Transatlantic Taskforce) and in multilateral fora (especially the Financial Stability Board).

Yours sincerely,

Sarah Breeden

Richard Tice MP

House of Commons
London SW1A 0AA

Sam Woods Esq
Chief Executive Officer of the Prudential Regulation Authority
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17th December 2025

Dear Mr Woods,

Many thanks for your letter dated 11 December and for your detailed explanation outlining the implementation of the secondary competitiveness and growth objective.

I appreciate your acknowledgement of the concerns raised around supervisory speed, IRB model accessibility, and proportionality for new entrants. The establishment of the scale-up unit and the proposed changes to model approvals are welcome steps in the right direction.

It remains vital, however, that the PRA continues to strengthen its commitment to light touch, efficient regulation that supports innovation and enhances the UK's global competitiveness while maintaining financial stability. The pace and culture of supervision must be aligned with the needs of a modern, dynamic financial sector, particularly if we are to remain competitive with peer jurisdictions that are moving more decisively.

Please keep me informed as further reforms are developed and implemented. I am grateful for your engagement and look forward to continued dialogue on this important work.

Yours sincerely,

Richard Tice MP

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RICHARD TICE MP

HOUSE OF COMMONS
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17th December 2025

Dear Ms Breeden

Many thanks for your letter dated 11 December and for your detailed explanation outlining the regulation of systemic stablecoins.

Your response sets out clearly the Bank's current approach, and I welcome the work being undertaken to support innovation in payments and the evolving role of stablecoins in both retail and wholesale settings. The proposals to provide systemic stablecoin issuers with access to Bank of England accounts, and the consideration of a liquidity facility, represent important steps in offering stability and confidence to this emerging sector.

It is vital, however, that regulation in this space remains proportionate and carefully balanced. We must ensure that the UK's approach does not create unnecessary barriers to innovation or deter growth at a time when international competitors are moving quickly. A light touch regulatory framework that upholds financial stability while actively encouraging competitiveness is essential if the UK is to retain leadership in this field.

Please keep me informed of further developments as the consultation progresses and the framework moves towards implementation. This remains an area of significant strategic importance, and I appreciate your continued engagement.

Yours sincerely,

Richard Tice MP

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