

# Bank of England

The Rt Hon Jeremy Hunt MP  
Chancellor of the Exchequer  
HM Treasury  
1 Horse Guards Road  
London  
SW1A 2HQ

**Andrew Bailey**  
Governor

17 January 2023

Dear Jeremy,

As Chair of the Prudential Regulation Committee (PRC), I am responding to your letter dated 8 December setting out your recommendations to the Committee.

The PRA's primary objectives are to promote the safety and soundness of the firms it regulates, and to contribute to the securing of an appropriate degree of protection for insurance policyholders. It also has a secondary objective to facilitate effective competition by taking into consideration how proposed policies affect competition in relevant markets.

The Financial Services and Markets Bill will amend the Financial Services and Markets Act 2000 to introduce a new secondary objective for the PRA. This objective is to facilitate, subject to aligning with relevant international standards, the international competitiveness of the UK economy (including, in particular, the financial services sector through the contribution of PRA-authorised persons), and its growth in the medium to long term.

As you note in your letter, financial stability is one of the essential pre-requisites for achieving the government's economic policy objective for strong, sustainable and balanced economic growth.

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*Advancing our objectives*

Since the government's last remit letter, the PRA has continued to ensure that the UK banking and insurance sectors have adequate financial and non-financial resources for the risks they are running or planning to take. This has allowed the financial system to act as a source of strength for the economy.

The PRA has taken action to implement necessary prudential reforms in a range of areas. For example, it recently published its consultation on the implementation of outstanding Basel III standards ('Basel 3.1') for PRA-authorized banks, building societies and firms.<sup>1</sup> These proposals maintain appropriately high standards and align with the international standards that the UK helped to shape, in line with our status as a global financial centre. Within this broad approach, we are proposing to make some evidence-based adjustments to tailor the package to the UK market. As always, we are open to making further changes based on responses and evidence that respondents to the consultation provide. This approach will promote confidence, stability and predictability, making the UK an attractive place to carry out financial services business while supporting sustainable growth in the UK economy.

The PRA, together with the FCA, has also taken action to adjust policies that were inherited from the EU, where there is evidence that they do not meet our objectives. For example, the PRA has published consultation papers proposing to reduce reporting burdens on insurers and adjust rules on the structure of bankers' remuneration.<sup>2</sup>

The PRA has continued to pursue its existing secondary competition objective, notably by:

- implementing Basel 3.1 standards to level the playing field in mortgage lending between large and small firms by reducing the differences in risk-weighted assets (RWA) between firms;
- developing the 'strong and simple' framework for non-systemic banks and building societies to simplify the prudential regime for smaller firms;
- finalising supervisory expectations on the minimum level of internal ratings based (IRB) UK mortgage risk weights;
- reviewing the leverage ratio by setting expectations for smaller firms which mitigate any negative impact on them and on competition in their markets;
- changing the regulatory regime for credit unions (extending the range of permitted investments while strengthening expectations for larger and more complex credit unions);
- publishing the Prudential and Resolution Policy Index to help firms identify relevant policies for their areas of business (the index received more than 30,000 views since it was launched and garnered positive feedback).<sup>3</sup>

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<sup>1</sup> [CP16/22 – Implementation of the Basel 3.1 standards | Bank of England](#)

<sup>2</sup> [CP15/22 - Remuneration: Ratio between fixed and variable components of total remuneration \('bonus cap'\)](#)

<sup>3</sup> [Prudential and Resolution Policy Index | Bank of England](#)

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Further information on the PRA's approach to competition is set out in the Annual Competition Report which forms part of the PRA's annual report.<sup>4</sup>

*Having regard to the government's recommendations*

Consistent with our statutory duties, the Prudential Regulation Committee will have regard to the government's economic programme and the recommendations set out in the Annex to your letter when considering how to exercise the PRA's general functions.

Therefore, when the PRC considers how to advance the objectives of the PRA, has regard to the regulatory principles, and discharges its other relevant duties, it should – where relevant and practical – have regard to supporting the government's ambition to encourage economic growth in the interests of consumers and businesses. The annex below discusses relevant PRA work; it also mentions other work in train relating to the second area the PRC should have regard to, discussed below.

Your letter also asks that the PRC should, where relevant and practical, have regard to the government's strategy to promote the international competitiveness of the UK, including – once it is enacted – through the PRA's new secondary objective.

We have taken steps to facilitate competitiveness and growth under the current framework. For example, we have implemented international standards in a way that accounts for UK competitiveness and growth, notably by tailoring our proposals on the Net Stable Funding Ratio (NSFR) in response to firms' feedback. We have also removed EU restrictions which prevented firms from making distributions – such as dividends – in certain situations that went beyond internationally agreed standards. The PRA had not seen evidence that these EU restrictions were justified, and believes the changes facilitate growth by reducing the capital firms seek to hold in addition to regulatory requirements, and by helping banks maintain and extend lending during times of stress.

As noted in the recent discussion paper on the PRA's future approach to policy, we will fully integrate the new secondary objective into our internal processes and our policy cycle once it is enacted.<sup>5</sup>

We will embed competitiveness considerations from an early stage as we develop policy, and include analysis of the impact of the proposed policy on competitiveness in formal internal committee papers.

We will explain in our Consultation Papers and Policy Statements how the judgements we have made are expected to impact on our new secondary objective. We will also research the impact of our actions on our new secondary objective, and evaluate policies to explore how we might further facilitate competitiveness. We will look more broadly at the ways in which the PRA can facilitate competitiveness and growth, taking

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<sup>4</sup> [Prudential Regulation Authority Annual Report 2022 | Bank of England](#)

<sup>5</sup> [DP4/22 – The Prudential Regulation Authority's future approach to policy | Bank of England](#)

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advantage of the additional opportunities available under the FSM Bill to review areas of policy previously fixed in UK legislation. This will enable the PRA to tailor better our regime for the needs of the UK and respond faster to emerging risks and opportunities in the UK financial sector. We will report yearly as part of our annual report on how we have advanced this new objective.

Yours sincerely,

A handwritten signature in black ink that reads "Andrew Bailey". The signature is written in a cursive style with a prominent loop at the end of the name.

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**Annex: PRA work which has regard for HM Government's economic policy objectives**

*Supporting the government's objective of medium to long-term economic growth in the interests of consumers and businesses*

The PRA is already conducting relevant work in this area, and will continue to do so. In particular:

- we have worked closely on potential reforms to Solvency II. As part of the transfer of much of the regime from legislation to the PRA, we are committed to implementing a number of simplifications to tailor the regime more appropriately for the UK market, including changes to reduce regulatory reporting, streamlining internal model requirements, and removing capital requirements for branches of foreign insurers. We set out our views last year on the prudential case to reform aspects of the matching adjustment regime, which the government has decided not to take forward. The government has also announced its decisions on the risk margin and on extending asset eligibility within the matching adjustment framework to include assets with highly predictable cashflows. Government and then Parliament will now define the regime in these areas and the Bank (and PRA) will support Parliament in whatever determination it makes. The PRA will also take forward work to implement the additional prudential measures set out in HM Treasury's November 2022 consultation response document.
- on streamlining Solvency II reporting, we have also begun to take forward reforms. In November 2022, the PRA published a Consultation Paper setting out proposals to streamline significantly several current Solvency II reporting and disclosure requirements for insurers. The proposals also aim to improve data collection in a number of areas where reporting is currently not tailored appropriately to the features of the UK insurance sector, or to the PRA's supervisory needs.<sup>6</sup> These changes build on initial reforms at the end of 2021 which delivered a 15% reduction in reporting burden across the sector and significantly more for smaller firms.
- the PRA is working with the FCA to deliver the overarching aims of the 2021 Treasury review of Securitisation Regulation which include increasing contributions to the real economy. To do so, the review seeks to bolster securitisation standards in the UK to enhance investor protection, promote market transparency, and to support and develop securitisation markets in the UK (including through the increased issuance of Simple, Transparent, and Standardised (STS) securitisation).

*Supporting the government's objective to promote the international competitiveness of the UK*

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<sup>6</sup> [CP14/22 - Review of Solvency II: Reporting phase 2 | Bank of England](#)

The PRA is already taking steps to facilitate the international competitiveness of the UK economy and its growth in the medium to long-term (including through the actions set out below) and will continue to do so.

- *Implementing the outcomes of the Future Regulatory Framework*: the PRA has already made significant progress on replacing EU banking legislation under the Financial Services Act 2021 framework by making final rules to implement Basel III and consulting on draft rules to implement the Basel 3.1 package. The speed of implementation of the rest of the Rulebook will depend on the approach the Government chooses to take to the repeal and replacement of relevant retained EU law to allow the PRA to make rules as needed. The PRA is already working with Treasury and the other regulatory authorities on the repeal and replacement of retained EU law.
- *Trade and deference*: the PRA is providing technical assistance to the Treasury on the financial services elements of the Free Trade Agreements (FTAs) the UK is pursuing. Following our input into the successful FTAs with Australia and New Zealand, we continue to support Treasury in a range of negotiations, including with India, Mexico and Canada. We also actively participate in negotiations with Switzerland to develop and establish new deference arrangements under a Mutual Recognition Agreement (MRA) for financial services. We have fed in views to Treasury on the scope of market access under consideration and are responsible for conducting 'recognition assessments' and advising Treasury in this area.
- *Attractiveness of the UK to internationally active financial services firms and activity*: the PRA has signed more than 70 memorandums of understanding (MOUs) with foreign jurisdictions including all EU member states. In 2022, we signed MOUs with China and Hong Kong. In addition, the PRA, Bank and FCA's discussion paper on diversity and inclusion in the financial sector sets out evidence about the ways in which diversity and inclusion can reduce groupthink, encourage innovation and improve outcomes. This enables firms to access the widest talent pool possible, making the UK market an attractive place to do business.<sup>7</sup>
- *Innovation and new technologies*: the PRA and FCA published a joint Discussion Paper on artificial intelligence (AI) and machine learning in financial services<sup>8</sup>. We have also been supporting the Cryptoassets Taskforce's work to develop the regulatory approach to cryptoassets and their associated markets and activities. We also support international work on cryptoassets, such as the Basel Committee on Banking Supervision's consultation on the prudential treatment of banks' cryptoasset exposures. Finally, PRA colleagues have also supported colleagues in the Bank and in Treasury working on innovations in money (e.g. stablecoins).

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<sup>7</sup> [DP 21/2: Diversity and inclusion in the financial sector – working together to drive change](#)

<sup>8</sup> [DP5/22 - Artificial Intelligence and Machine Learning | Bank of England](#)