Bank of England

The Rt Hon Rachel Reeves
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Andrew Bailey
Governor

19 December 2025

Dear Rachel,

In my role as Chair of the Financial Policy Committee (FPC), I attach the FPC's response to the recommendations set out in your letter of 26 November 2025 for the coming year. The FPC welcomes the recommendations made, and its response can be found in this letter and the Annex.

As you note, financial stability is a pre-requisite for sustainable growth. Importantly, it gives confidence to households and businesses that the financial system can reliably provide vital financial services such as funding, saving, insurance and payment services. Conversely, financial instability can lead to severe disruptions in the ability of households and businesses to make transactions, manage risks, and access credit, amplifying economic shocks and hindering growth.

To support financial stability, the FPC seeks to ensure the UK financial system is prepared for, and resilient to, the wide range of risks it could face – so that the system is able to absorb rather than amplify shocks, and serve UK households and businesses in both good times and bad, thus supporting stability and growth in the UK economy.

The latest Financial Stability Report (FSR)[1], published on 2 December, sets out the FPC's assessment of the resilience of the UK financial system, the main risks to UK financial stability, and the action it is taking to remove or reduce those risks.

Global risks remain elevated and material uncertainty in the global macroeconomic outlook persists. Key sources of risk include geopolitical tensions, fragmentation of trade and financial markets, and pressures on sovereign debt markets. As an open economy with a large financial centre, the UK is exposed to global shocks, which could transmit through multiple, interconnected channels. Domestically, UK household and corporate aggregate indebtedness remains low.

The UK banking system is well capitalised, maintains robust liquidity and funding positions, and asset quality remains strong. Furthermore, the results of the 2025 Bank Capital Stress Test, set out in the latest FSR, demonstrate that the UK banking system is able to continue to support the economy even if economic and financial conditions turn out to be materially worse than expected. This underscores the role of financial stability as a pre-condition for sustainable growth.

The FPC has continued to make progress over the past year across all four of its medium-term priorities[2]. As part of this, the Committee has included in its latest FSR an update of the FPC's assessment of structural changes in the UK financial system, with a focus on operational resilience, climate change, and cryptoassets. The risk environment is evolving rapidly, and the FPC remains alert to new and emerging risks, as well as the opportunities they may present. These issues—and the interconnections between them—will be firmly in focus over the coming years.

As noted in the latest FSR and previous publications such as the July 2025 FSR[3], private markets have grown significantly in the UK over the past two decades and are an important source of funding for corporates. We have therefore welcomed plans for a System-Wide Exploratory Scenario (SWES) exercise focused on the resilience of the private markets ecosystem. This will enhance the understanding of the broader risks and dynamics of these markets. The scenario phase and firms' active involvement in the exercise is expected to be completed in 2026.

An outline of the work of the Committee to help identify, monitor and address systemic risks to the resilience of the UK financial system is set out in Section B of the Annex to this letter.

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[1] **Financial Stability Report - December 2025 | Bank of England**
[2] **The Financial Policy Committee's medium-term priorities (2023–2026) | Bank of England**
[3] **Financial Stability Report - July 2025 | Bank of England**

The FPC is committed to supporting the Government's economic policy in line with the Committee's secondary objective.

The FPC primarily contributes to sustainable economic growth by furthering the Bank's financial stability objective through identifying, monitoring and addressing systemic risks to the UK financial system. The Committee has also taken steps to ensure that its resilience-building measures are implemented efficiently and in a way that supports sustainable growth as the financial system evolves. For example, the Committee recommended an amendment to the implementation of its loan-to-income (LTI) flow limit to allow individual lenders to increase their share of lending at high LTIs. As noted in your letter, this should help support the Government's priority to make home ownership more accessible.

The FPC has also refreshed its periodic assessment of the appropriate level of bank capital requirements, considering the costs and benefits to long-term growth of bank capital. The Committee judges that the benchmark for Tier 1 capital requirements for the banking system, previously judged to be around 14%, is now around 13% of risk-weighted assets. That judgement is consistent with the evolution in the financial system since the FPC's first assessment in 2015, including a reduction in the systemic importance of some banks and improvements in risk measurement. Analysis shows that materially lower capital requirements could lead to significant reductions in long-run expected GDP. We have published a Financial Stability in Focus (FSIF) report on this topic alongside the FSR. Additional details can be found in section C of the Annex to this letter.

As requested in your letter, the FPC has also provided an update regarding its assessment of areas where there is potential to increase the ability of the financial sector to contribute to sustainable economic growth. This work has focused on: facilitating long-term investment in productive assets; fostering technological innovation; and the supply of debt or equity finance to high-growth firms, which make an outsized contribution to economic growth and employment growth. The Committee's conclusions are set out in Box A of the FSR[4]. Section C of the Annex to this letter summarises the findings and sets out additional examples of how we have supported the FPC's secondary objective in recent years.

Strong macroprudential and regulatory standards are vital in underpinning the FPC's objectives. This is particularly pertinent in the current heightened global risk environment, which can affect stability and growth in the UK.

[4] Financial Stability Report - December 2025 | Bank of England

This year, the FPC welcomed the Prudential Regulation Authority (PRA)'s near-final policy statement on the implementation of the Strong and Simple Framework, the commencement of the Bank Resolution (Recapitalisation) Act 2025, findings from the 2024 Cyber Stress Test (CST24) and the opening of the Contingent Non-Bank Financial Institution Repo Facility (CNRF) for applications. We also welcomed the publication by the Bank of a discussion paper[5] evaluating the effectiveness and impact of a range of potential reforms to enhance the resilience of the gilt repo market. These initiatives will help to support the resilience of the financial system and its ability to support economic growth in a range of environments.

Yours sincerely,

Andrew Bailey

[5] Enhancing the resilience of the gilt repo market | Bank of England

FINANCIAL POLICY COMMITTEE RESPONSE TO HM TREASURY'S "REMIT AND RECOMMENDATIONS FOR THE FINANCIAL POLICY COMMITTEE"

On 26 November 2025, the Chancellor set out a series of recommendations to the Financial Policy Committee (FPC) under sections 9E(1) and 9E(2) of the Bank of England Act 1998 (the Act). This document and the accompanying cover letter, provide the Committee's response, in accordance with section 9E(3) of the Act. The response is organised around the subheadings of the HM Treasury document.

A. The Government's economic policy

The FPC notes the Government's economic policy objective to restore broad-based and resilient growth built on strong and secure foundations, with price and financial stability being essential pre-requisites to achieve this.

The Committee notes the Government's economic strategy.

B. Matters that the FPC should regard as relevant to the Bank's financial stability objective, and the responsibility of the Committee in relation to the achievement of that objective

The Committee acknowledges the matters that HM Treasury recommends the Committee to regard as relevant to the Bank's financial stability objective. The Committee agrees that the purpose of preserving stability is to contribute to avoiding serious interruptions in the vital functions which the financial system performs in our economy: notably, the provision of payment and settlement services, intermediating between savers and borrowers, and insuring against risk (for individuals, businesses and financial market participants).

In line with the Act, the Committee seeks to further the Bank's financial stability objective primarily by identifying, monitoring and taking action to remove or reduce systemic risk with a view to protecting and enhancing the resilience of the UK financial system. Those systemic risks include in particular those associated with: structural features of financial markets; the distribution of risk within the financial sector; and unsustainable levels of leverage, debt or credit growth.

The FPC will therefore consider:

i. Prudential risks associated with the banking system;

ii. Prudential risks associated with the non-bank financial system, including markets and infrastructure;

iii. Non-financial risks, such as operational resilience, cyber security and climate change; and

iv. Risks from growth of private sector debt that could make the system less resilient and economic growth more fragile.

The Committee will continue to work closely with the PRA and Financial Conduct Authority (FCA) to ensure coordination between microprudential and macroprudential policy, so far as it is possible while complying with its objectives. For example, the Committee regularly coordinates with the PRA on stress testing, private markets, reviews of the leverage ratio, and the Committee's review of the capital framework for banks. The Committee continues to work closely with the FCA, for example as part of the UK regulators’ approach to the oversight of critical third parties.

The FPC will continue to work closely with the Financial Market Infrastructure Committee (FMIC). In May 2025 the FPC and FMIC met to discuss the significant developments in the stablecoin industry in the context of recent growth in the sector. The Committees also discussed Bank and FCA policy proposals for the regulatory regime for systemic and non-systemic stablecoins. In November 2025, the FPC met jointly with the PRC, the FMIC and the FCA to discuss the UK's approach to enhancing the operational resilience of the UK financial system given the heightened threat landscape, and increasing pace of technological change.

The Bank will also continue to work in an open and collaborative way with other relevant bodies, including The Pensions Regulator (TPR) and the Payments System Regulator, for the purpose of pursuing its financial stability objective.

i. <u>Risks from the non-bank financial sector</u>

Market-based finance (MBF) provides vital financial services to support the wider economy. These services include providing credit, intermediating between those seeking to invest their savings and borrowers, insuring against and transferring risk, and offering payment and settlement services. This part of the financial sector has grown materially and plays an increasingly important role in the UK economy.

As part of its responsibilities, the FPC identifies, monitors and takes action to remove or reduce systemic risks in the system of MBF, including non-bank financial institutions (NBFIs).

Episodes of volatility in financial markets, such as the ‘dash for cash’ in March 2020, and the disruption to the functioning of UK government bond markets in late September 2022, have underlined the importance of continuing to improve the overall resilience of MBF.

The FPC's approach to identifying, assessing, monitoring and mitigating vulnerabilities in MBF, was published in October 2023.[6] The Committee continues to attach a high priority to supporting the work undertaken by the Bank and Financial Stability Board (FSB) to address vulnerabilities in MBF that could affect financial stability and encourages authorities globally to take action to reduce the vulnerabilities through internationally co-ordinated policy reforms. Alongside international work, the Bank will continue to work to reduce vulnerabilities domestically where it is effective and practical[7].

Past episodes of market turbulence have shown that vulnerabilities in NBFIs can propagate liquidity stresses in the gilt market. In September 2025, the Bank published a discussion paper[8] evaluating the effectiveness and impact of a range of potential reforms to enhance the resilience of the gilt repo market. Any structural reforms identified through this work would be subject to full consultation and implemented over the long-term.

The Bank has also made further progress in developing a new lending facility, the Contingent NBFI Repo Facility (CNRF), to facilitate lending to eligible NBFIs (insurance companies, pension scheme and liability driven investment funds) in the event of a severe gilt market disruption that threatened UK financial stability. The CNRF opened for applications in January 2025.

The Bank published the results of its first system-wide-exploratory scenario exercise (SWES) in November 2024. The SWES is an important tool for surveillance and thus helping to improve understanding of the behaviours of banks and NBFIs in stressed financial market conditions, building insights on how shocks in UK financial markets might be amplified including through the functioning of core markets. The Bank will continue to embed the experience of the SWES into how we conduct market-wide surveillance. To this end, we are investing in our in-house capacity to model system-wide dynamics, supported by continuing our engagement with market participants to ensure our understanding of key dynamics remains current.

As outlined in the July 2025 FSR, private markets have grown significantly in the UK over the past two decades and are an important source of funding for corporates. UK insurers' exposures to private markets including through funded reinsurance contracts have been growing. While resilient to date, the private market ecosystem has not been

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[6] **Financial Stability in Focus: The FPC's approach to assessing risks in market-based finance | Bank of England**

[7] **Financial Stability Report - December 2025 | Bank of England**

[8] **Enhancing the resilience of the gilt repo market | Bank of England**

tested through a broad-based macroeconomic stress at its current size. The FPC has announced it will undertake a second SWES focused on risks from private markets.

The exercise will run in collaboration with a group of banks and NBFIs active in these markets. It will explore risks associated with private markets and related risky public credit markets through understanding the actions taken by banks and NBFIs active in private markets in response to a shock and how these actions might interact at a system level. It will also look to understand better whether these interactions could amplify stress across the financial system and pose risks to UK financial stability and the provision of finance to the UK real economy.

The FPC anticipates that the scenario phase and firms' active involvement in the exercise will be completed in 2026, with the Bank finalising the findings and publishing a final report to conclude the SWES exercise in H1 2027.

ii. Global risks

Risks to UK financial stability have increased during 2025. Global risks remain high and material uncertainty in the global macroeconomic outlook persists. Geopolitical tensions, fragmentation of trade and financial markets, and pressures on sovereign debt markets represent key sources of risk. Elevated geopolitical tensions increase the likelihood of cyber-attacks and other operational disruptions. The December 2025 FSR sets out the FPC's latest assessment of the global risk environment.

As an open economy with a large financial centre, the UK is exposed to global shocks, which could transmit through multiple, interconnected channels. Stress in one market, such as a sharp asset price correction or correlation shift, could spillover into credit markets.

Significant shocks to the global economic or fiscal outlook, should they materialise, could be amplified by vulnerabilities in market-based finance, such as leveraged positions in sovereign debt markets.

iii. Non-financial risks (including cyber and operational risks, and emerging technologies)

As part of its responsibilities, the FPC has taken a number of actions to build resilience to potential systemic risks from cyber attacks, including establishing a cyber-vulnerability testing framework (CBEST), setting 'impact tolerances' for how quickly the financial system must be able to make critical payments following a severe but plausible cyber or operational incident and continuing its programme of cyber stress testing.

The FPC welcomed the findings of the 2024 Cyber Stress Test (CST24) in the Record of its June 2025 meeting. Cyber and operational resilience stress testing remains a core part of the Committee's toolkit for understanding firms' ability to respond and recover from severe but plausible operational disruption. The Committee is continuing to consider the potential financial stability implications of continued adoption of artificial intelligence (AI) and machine learning (ML) in financial services. The Committee discussed the adoption of AI across the financial system as part of its meeting in April 2025 and published a Financial Stability in Focus report[9]. Working alongside other relevant authorities, the Committee will seek to ensure that the UK financial system is responsible in its adoption of AI and ML and resilient to risks that may arise from its widespread use.

The FPC also continues to monitor risks to UK financial stability that could arise from cryptoassets, their associated markets and the adoption of the underlying technology.

The FPC met jointly with the FMIC, the PRC and the FCA in November 2025 to discuss the UK's approach to enhancing the operational resilience of the UK financial system given the heightened threat landscape and increasing pace of technological change. They agreed on the importance of continued co-ordination on these issues. Boards of firms and FMIs should also work with authorities to use the findings of sector-wide exercises and stress tests such as SIMEX and the Cyber and Operational Resilience Stress Test to improve their understanding of actions they can take to mitigate impacts on financial stability.

As part of its broader framework on operational resilience, the Committee will also continue to monitor the implementation and outcomes of the critical third parties (CTPs) regime and looks forward to further progress in this area.

iv. Climate change

The Committee continues to have regard to the risks from climate change, including physical risks and risks from the transition to net zero, as relevant to its primary objective. The findings from the climate change focused Biennial Exploratory Scenario exercise (CBES), published in May 2022, were an important step in helping to assess better these risks. The exercise showed how financial services firms needed to do much more to develop understanding and management of exposures to climate risk. The Bank and the FPC have continued to build their understanding of how these risks might arise. This will be supported by the PRA's updated expectations in relation to

[9] **Financial Stability in Focus: Artificial intelligence in the financial system | Bank of England**

banks' and insurers' approaches to managing climate-related risks, published in December 2025.

The December 2025 FSR includes an update on the FPC's assessments of the impact of climate change on insurance availability and affordability, credit risks to banks from physical and transition risks, as well as market risks from a sudden repricing of climate risk.

The Committee will continue to consider how risks from climate change could impact financial stability, including through its stress testing frameworks where appropriate, ensuring that risks stemming from possible and severe global climate scenarios are reflected in its analysis on climate risks and that sufficient time horizons are considered. The Committee will also consider the materiality of nature-related risks for its primary objective.

C. The responsibility of the FPC in relation to support for the Government's economic policy

i. Recommendations as to the interaction between the FPC's objectives

In practice, actions that seek to protect and enhance the resilience of the UK financial system would be expected to contribute positively to growth over the medium and long term, and therefore the FPC's primary and secondary objectives will often be complementary. Financial stability is a precondition for sustainable economic growth; a resilient financial system should help to facilitate a sustainable and efficient flow of funds within the economy and an effective allocation of savings to investment.

The Committee will design its policies in pursuit of its primary objective in ways that, as far as possible, are effective in achieving also its secondary objective. The Committee recognises that action to increase resilience may in some circumstances have a short-term effect on growth, even when that action will make a positive contribution to growth in the medium and longer term. In such circumstances, where the Committee faces potential conflicts, it will consider these in light of the recommendations made to it in its remit, and it will manage and communicate its approach transparently and consistently, having regard to proportionality and, where appropriate and practicable, the costs and benefits of its actions in the context of its primary and secondary objectives. More broadly, the Committee will set out how its actions contribute to its objectives, including its judgement as to the balance of risks to those objectives and how those risks have evolved and are expected to evolve.

Further, the Committee will routinely assess, as an important element of its work, where it can support the Government's economic objectives. Where it judges that it can do so in a way that is consistent with its primary objective, the Committee will act accordingly, in a way that is consistent with the recommendations set out in the remit letter.

As part of its work to support the secondary objective, the Committee has taken steps to ensure that its resilience-building measures are implemented efficiently and in a way that supports sustainable growth as the financial system evolves. For example, the FPC has:

- **reviewed its assessment of benchmark capital requirements for the banking system** from the perspective of the costs and benefits to growth of bank capital: weighing the impact on growth of higher borrowing costs in normal times versus greater insurance against the significant negative growth consequences of financial crises. The Committee judges that the updated appropriate benchmark for Tier 1 capital requirements is now around 13% of RWAs (equivalent to a CET1 ratio of just over 11%), lower than its previous benchmark of around 14%. That judgment is consistent with the evolution in the financial system since the FPC's first assessment in 2015, including a reduction in the systemic importance of some banks and improvements in risk measurement such as through the forthcoming implementation of Basel 3.1. Additional details of the FPC's assessment of bank capital requirements were published in a Financial Stability in Focus (FSIF) report, published alongside the December FSR.

- **regularly reviewed its mortgage market recommendations, with regard to its primary and secondary objectives**. In 2022, the FPC withdrew its affordability test after concluding it was simpler, more predictable and more proportionate to deliver an appropriate level of resilience to the UK financial system from its loan-to-income (LTI) flow limit sitting alongside the wider assessment of affordability required by the FCA’s Mortgage Conduct of Business (MCOB). In 2024 Q4 the Committee recommended the de minimis threshold of the flow limit be updated consistent with nominal GDP growth since its introduction in 2014. This change means that lenders which extend residential mortgages of less than £150 million per annum are exempt from the LTI flow limit. In June 2025 the FPC discussed whether there were any impediments to using the LTI flow limit more fully for those lenders that wished to, consistent with lenders' own risk limits and business models. The FPC recommended[10] the PRA and the FCA amend implementation of its LTI flow limit to allow individual lenders to increase their share of lending at high LTIs while aiming to ensure the aggregate flow remained consistent with the limit of 15%. Since then 9 lenders, representing about 40% of mortgage lending, have had a modification put in place, exempting them from the rule to stay below 15% individually.

[10] Financial Policy Committee Record – July 2025 | Bank of England

- **updated its approach to stress-testing the UK banking system**, which has now moved from an annual to a biennial frequency for its main bank capital stress test. This will yield considerable efficiency gains for firms as well as the Bank. Results from the 2025 Bank Capital Stress Test were published in the FPC's December FSR. The next Bank Capital Stress Test will take place in 2027.

As part of its work pursuing its primary objective, the FPC has also supported the secondary objective by:

- **setting out how it will use the UK countercyclical capital buffer (CCyB) to support the FPC to achieve its primary and secondary objectives in its CCyB Policy Statement.**[11] The CCyB is designed to reduce the impact of the financial cycle on the real economy and to ensure that the financial system acts to absorb rather than amplify shocks. As a result, active use of the CCyB should increase the long-term level of growth for the UK economy as well as support higher employment. The CCyB is a releasable tool and evidence of the buffer being used accordingly has been published in the Policy Statement on the FPC's approach to setting the CCyB. A strategy of using the CCyB actively in response to the financial cycle rather than having a higher baseline level of capital requirements, means that the FPC expects to be able to build resilience for the banking system efficiently - which should lead to a higher overall level of economic growth. And by taking into account the economic cost of raising capital when increasing the CCyB, the FPC lowers the cost of building resilience on economic growth.

- **amending the Other Systemically Important Institutions (O-SII) buffer framework to ensure it continues to operate as intended, without undue tightening.** In 2025 Q1, the FPC noted that if the nominal thresholds within the O-SII buffer framework remain unchanged, more firms would be captured under the framework over time, and those already captured would move into higher buffer rate buckets, with those changes not necessarily reflecting an increase in firms' potential to disrupt the credit supply. Following consultation, and reflecting firm feedback, in 2025 Q2 the FPC increased the thresholds by 27%[12], reflecting cumulative growth in nominal GDP 2019-2024. In 2025 Q2 the FPC also aligned the O-SII buffer framework with the restated Capital Buffers Regulation (CBR) Statutory Instrument[13] as approved by Parliament in June 2025. This update will ensure that the scope of FPC's O-SII buffer framework continues to include firms that are currently systemically important, or would become so in future, for example, through mergers and acquisitions, or expansion in their balance sheets.

[11] The Financial Policy Committee's approach to setting the countercyclical capital buffer - Policy Statement

[12] An FPC Response - 2024 O-SII buffer framework review | Bank of England

[13] The Capital Buffers and Macro-prudential Measures Regulations 2025

Separately, in response to the Chancellor's request in the FPC's November 2024 remit letter[14], the FPC has undertaken work to assess and identify areas where there is potential to increase the ability of the financial system to contribute to sustainable economic growth, and potential solutions to the impediments the sector might face in doing so. These include barriers faced by pension funds and insurers in supporting long-term capital investment in the UK economy; challenges high-growth firms face in accessing domestic finance as funding rounds scale up; and issues in the financial sector's responsible adoption of innovative technology. Additional details can be found in Box A of the December 2025 FSR.

This work has identified impediments that the public authorities and industry could work together to address. The FPC will support:

- the changes made by the PRA to Solvency II to encourage investment in productive assets by UK insurers, particularly through its reforms to the Matching Adjustment (MA) regime and its introduction of a Matching Adjustment Investment Accelerator (MAIA). This should support delivery of the UK insurance industry's commitment to invest £100bn in UK productive assets over 10 years.
- work to ease impediments to high-growth firms accessing funding, including use of public-private partnership funding initiatives to channel financing to high-growth firms and the broader population of SMEs to support productivity improvements, and supporting the IP-backed lending working group established as part of HMG's Industrial Strategy.
- efforts by authorities and industry to support the UK financial system's adoption of innovative technology, including through the National Payments Vision, the Bank's AI consortium and the FCA's AI Lab's Live Testing service.

Given the importance of sustainable economic growth to the FPC's objectives, the Bank will continue to build on this work, including by the FPC monitoring progress against issues identified and identifying any further actions that could support the supply of long-term productive finance

More broadly, under the recommendation regarding support for the Government's economic policy towards the financial services industry, the FPC has supported work on productive finance (see Section C(ii) below), which also contributes to the secondary objective.

ii. Recommendations regarding support for the Government's economic policy towards the financial services sector

[14] **Remit and recommendations for the Financial Policy Committee: November 2024 - GOV.UK**

Through discharging its secondary objective - and subject to achieving its primary objective - the FPC will support the Government's overall policy towards the financial services sector as set out in the Government's Financial Services Growth and Competitiveness Strategy. This will also include the other priorities, as set out in the remit letter, in relation to sustainable finance, home ownership, and reinvigorating capital markets.

The FPC will, where practicable in the context of its financial stability objective, consider how its policy actions or decisions might affect these areas.

The Committee will use its regular communications to outline how it is able to support these areas in a way which is consistent with its objectives.

For example, the Committee recognises the importance of innovation and emerging technologies in financial services, including in areas such as AI, ML, digital money and digital assets/tokenised finance. Realising those benefits sustainably will require innovation to be undertaken responsibly and be accompanied by effective public policy frameworks that mitigate risks and maintain broader trust and integrity in the financial system.

The Committee has considered the impact of its policy actions on the ability of the financial sector to provide finance for productive investment.

The industry-led Productive Finance Working Group - convened by the Bank, HM Treasury and FCA – has made important progress in a number of areas to develop practical solutions to the barriers to investment in long term less liquid assets.

The FPC has welcomed the progress made by this Working Group, including the first comprehensive set of guides for the UK Defined Contribution (DC) pension schemes' decision makers, focusing on the key considerations around investment in long-term, less liquid assets, as well as a call to action to investment platforms. These materials make a significant contribution to raising awareness of these considerations in an increasingly important retirement savings sector that invests relatively little in these asset classes.

This work helped to support the successful delivery of the Long-Term Asset Fund (LTAF) structure. Thirteen LTAFs schemes, containing 25 sub funds, have since been authorised by the FCA.

In 2024 the Committee has also welcomed the publication of results of the survey on SME's access to finance and investment decisions, including the insights it provided on challenges facing SMEs. The survey was commissioned by the Bank in collaboration with the Department for Business and Trade.[15] As part of its December 2025 FSR, the Committee set out its findings regarding how improvements to high-growth firms' financing can contribute to sustainable economic growth.

Over the coming year, the Committee will act with a view to supporting the Government's priorities as part of its secondary objective, including supporting HMT and the other regulators to work on sustainable finance.

D. Matters to which the Committee should have regard in exercising its functions

i. Recommendations as to the interaction between monetary policy and macroprudential policy

Monetary policy and macroprudential policy objectives are, in general, complementary. A resilient financial system is a vital precondition for price stability and helps to ensure changes in monetary policy are transmitted to the economy effectively and predictably; price stability contributes to fostering a resilient financial system, by anchoring expectations and reducing uncertainty, preventing disruptive swings in asset prices and credit conditions.

The actions of the FPC can have implications for the objectives of the Monetary Policy Committee (MPC) and vice versa. That makes close liaison between the FPC and MPC especially important.

In reaching its decisions, the Committee considers the policy settings and forecasts of the MPC, as first explained in its June 2013 FSR.[16] The FPC takes into consideration the MPC's forecasts in its discussions of the macro-economic back-drop, including in the most recent November 2025 MPR. The Committee will continue to explain how it has regard to the stance of monetary policy and the MPC's forecasts.

More generally, overlapping membership of the Committees should foster coordination. This is enhanced by the sharing of relevant information, briefing and analysis to all members of both Committees. For example, FPC and MPC members are able to attend the other Committee's briefing meetings. The Committees are able to jointly discuss areas of mutual interest, and have done so this year on the impact of changes in trade policy.

ii. Recommendation that the FPC have regard to risks to public funds

As recommended, the Committee considers material risks to public funds arising from its actions to support resilience, or failure to take such actions, in both the short and

[15] **Identifying barriers to productive investment and external finance: a survey of UK SMEs | Bank of England**

[16] Box 3 of the June 2013 FSR discusses how the FPC has regard to the policy actions of the MPC: See **Financial Stability Report Issue 33, June 2013**.

long run. It seeks to minimise overall risks to public funds in this context where consistent with its statutory objectives, and takes account of any such risks in formulating its actions.

iii. Recommendations to the Treasury on legislative changes

The Act provides for the Committee to make recommendations to HM Treasury relating to the boundaries between and within regulated activities and products. The FPC will generally make such recommendations only where it identifies systemic risks that cannot otherwise be addressed.

The Committee has an established process to assess such systemic risks. It receives regular briefings from the Bank, the PRA and the FCA on potential risks to financial stability presented by different sectors and activities. It also holds dedicated discussions on these risks. And it undertakes a regular deep analysis of certain market-based finance activities that merit further investigation. The FPC draws on this analysis to inform its judgement on the appropriate boundaries around, and within, the regulatory perimeter. Recent examples include HMT's actions to bring CTPs and stablecoins into the regulatory perimeter.

Were the Committee to make a recommendation to HM Treasury in any such areas, it would, as recommended, provide evidence to explain why a change to the perimeter was a necessary and proportionate response to the risks it had identified, and an explanation of why existing provisions were insufficient.

iv. Recommendations regarding enhancing the accountability of the FPC

The Committee is accountable to Parliament and the public. FPC members are subject to a clear code of conduct and a separate statutory conflict of interest code of practice designed to preserve the Committee's reputation for integrity and independence of judgement. Members need to be, and be seen to be, independent of Government and other influences. To promote accountability, all FPC members stand ready to give evidence to the Treasury Committee, including by giving evidence following each FSR. As required by the Act, the Governor also meets with the Chancellor after each FSR to discuss matters relating to the stability of the UK financial system, with a public record of the meeting published within six weeks.

Consistent with its statutory objectives and functions, the Committee recognises the importance of reducing uncertainty and boosting confidence in the financial system through its actions. To that end, it has continued to develop its published indicators, which appear in its policy statements on how it uses its tools (updated in July 2023)[17], and which it publishes regularly.[18] These indicators are considered alongside a wider set of information, varying over time depending on emerging risks, including market and supervisory intelligence. The Committee will explain its decisions and judgements in the context of the analysis of this information.

Concurrent stress tests of banking sector resilience are also a key element of the Committee's approach to increasing confidence in the UK financial system. The Bank has regularly published the results of concurrent stress testing exercises since they began in 2014. In November 2024, the Bank updated its framework for concurrent bank stress testing, drawing on lessons learned since 2014.[19] The results of the latest Bank Capital Stress Test were published in December 2025.

As part of wider work, following the findings from the 2022 cyber stress test (published in March 2023), the latest cyber stress thematic findings were published in July 2025. The Bank has also published the results of its first system-wide exploratory scenario in November 2024.[20]

On the mortgage market, the Committee has committed to continue to periodically review its Recommendations.

The Committee agrees on the importance of clear and consistent communication, to support both public confidence in the financial system and build public trust in the Committee’s actions. The FPC Record gives a full summary of Committee deliberations, including differences of views amongst members, and plays an important role in public accountability. The Committee will continue to use its communications to explain how its actions have contributed to the achievement of both the Bank of England’s Financial Stability Objective and have supported the economic policy of the Government.

The Act (paragraph 11 (4) of Schedule 2A) requires the Chair of a meeting of the Committee to seek to ensure that decisions are reached by consensus where possible.

The Record of the FPC's policy meeting will continue to reflect the deliberations of the Committee in reaching a consensus to ensure that its decision making is transparent and accountable. As set out in the Record of the Committee's March 2015 meeting, this will include the range of views expressed in the FPC's regular briefing and issues

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[17] See **The Financial Policy Committee's approach to setting the countercyclical capital buffer - Policy Statement**

[18] See **The countercyclical capital buffer (CCyB) | Bank of England**

[19] **The Bank of England’s approach to stress testing the UK banking system**

[20] **The Bank of England’s system-wide exploratory scenario final report**

meetings ahead of its policy meetings, in the event that these played a role in the forming of a consensus. Where a consensus cannot be reached, the results of any vote, including individual members' votes and the balance of arguments, will be set out in the Record of the meeting; and members will be free to explain their vote subsequently. In such circumstances, the Committee will seek to ensure that its communications avoid uncertainty.

As set out in the Record of the Committee's November 2015 meeting, while the legislation requires the Chair of a meeting of the Committee to seek decisions of the Committee to be reached by consensus wherever possible, the discrete nature of the decision on the countercyclical capital buffer (CCyB) may not always lend itself to a consensus-based process. The legislation allows the Committee to vote on the setting of the CCyB when the Chair forms the opinion that consensus cannot be reached. As agreed at that meeting, the Committee will be flexible in its approach to deciding how to set the buffer.

v. Recommendations as to engagement with financial sector participants and other external experts

The FPC will continue to fulfil its statutory responsibilities in an open and collaborative fashion, seeking the views of industry participants, academics, other regulators and the public, as appropriate, to supplement its own expertise, and will further develop structures to do so.

When it consults publicly, the FPC will generally endeavour to continue to align the length of the consultation to the context, complexity and impact of its proposals.

There may be cases where urgent action is required in order to protect and enhance the stability of the UK financial system - either directly or because implementation of the policy with a lag could bring about precisely the action that the Committee was seeking to avoid. In such cases, it may be appropriate for the Committee to act without, or with abbreviated, consultation.