

Bank of England

The Baroness Noakes DBE
Chair, Financial Services Regulation Committee
House of Lords
London
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Andrew Bailey
Governor

6 March 2026

Dear Chair,

I am writing in response to the Financial Services Regulation Committee's report published on 9 January 2026 – 'Private markets: Unknown unknowns'. I welcome the report and the opportunity my colleagues and I had to discuss the Bank of England's work on private markets with the Committee. And I thank the Committee for its support of the Financial Policy Committee's (FPC) continuing work to enhance the understanding of these important and growing markets.

The FPC's primary task is to identify, monitor, and take action to remove or reduce systemic risk to the efficient provision of vital financial services, so that the UK's financial sector can support businesses and households in both good and bad times. Financial stability is not an end in itself, but a pillar of economic welfare in the UK, and an enabler of resilient and sustainable growth. In working to advance its primary objective, the FPC continues to take steps to ensure that its resilience-building measures are implemented efficiently and in a way that supports sustainable growth as the financial system evolves. Similarly, the Prudential Regulation Authority's (PRA) primary task is to promote safety and soundness as well as insurance policyholder protection, and in doing so must, as far as reasonably possible, act in a way that advances its secondary objectives to facilitate competition, competitiveness, and growth.

The FPC judges that private finance can play an essential role in supporting growth, by channelling funding towards productive investment in the real economy, and by contributing to a diverse lending landscape that meets the varied needs of UK businesses. Private markets can be part of the solution to the UK's long-term productivity and underinvestment problem. However, private markets have grown significantly in the UK over the past two decades and have not been tested by a macroeconomic stress at their current size.



Whilst the FPC has monitored developments in private markets for some time, there is now a need to examine this system in the round, to understand how it might respond in a stress.

I am therefore grateful for the Committee's support for the FPC's private markets system-wide exploratory scenario (PM SWES), which seeks to test these questions directly. The exercise will complement the Bank's existing work on private markets and provide a unique opportunity to collaborate with major participants in these markets, fill data gaps, evaluate the behavioural responses of this whole ecosystem, and assess the extent to which it may contribute or pose risks to the UK's financial stability and economic growth.

We are using the PM SWES to explore the complex interconnections within the private markets ecosystem, including those highlighted by the Committee's report, working collaboratively with multiple firms across alternative asset managers, asset managers with public markets focus, private equity and private credit funds, banks, and institutional investors such as insurers, pension funds, endowments, and foundations. The major participants in the private markets that finance UK businesses have joined the exercise. They cover a variety of business models and investment strategies, and many of them are headquartered outside of the UK, reflecting the diversity and global nature of the sector, as well as the openness of the UK economy. We are running the exercise in two rounds, to provide feedback to firms and assess the potential amplification effects resulting from behavioural responses. Given the set-up needed for the exercise to be effective and meaningful, we will carry it out as swiftly as practicable, but have to be mindful of the constraints of participating firms, to minimise the cost and burden for them. Given this balance, we anticipate having largely completed firm engagement and analysis for the exercise in 2026, with a final report to be published in early 2027. We expect to publish relevant findings from the exercise throughout 2026, in line with the completion of key milestones, such as the results from Round 1.

The PM SWES is not the only work the Bank has undertaken to fill data gaps in relation to private markets. For example, most recently, and since giving evidence to the Committee last year, we have published in our Financial Stability Report additional analysis on major UK banks' lending exposures to private market funds which we received through the 2025 Bank Capital Stress Test.¹ This included private equity and private credit, covering infrastructure, real assets, real estate, and venture capital. This has enhanced the understanding of major UK banks' banking book exposures to these funds, including the breakdown of these exposures between different types of facilities. Together, UK banks are estimated to have £173bn of banking book exposures to private market funds and to highly-leveraged corporates backed by finance sponsors. This is equivalent to 8% of UK banks' total committed limits across their wholesale portfolios. This builds on our previous analysis in successive Financial Stability Reports to improve our understanding of private equity and private credit.²

¹ See Box F: [Financial Stability Report - December 2025 | Bank of England](#)

² See, for example, Box E in [Financial Stability Report - July 2025 | Bank of England](#); Chapter 8 in [Financial Stability Report - November 2024 | Bank of England](#); Chapter 6 in [Financial Stability Report - June 2024 | Bank of England](#); and Box B in [Financial Stability Report - December 2023 | Bank of England](#).

Private markets will remain a key focus for the Bank of England and the FPC as risks from the sector evolve, such as funded reinsurance or the role of private markets in the rapid growth of the AI sector.³

I agree with the Committee's conclusion that receiving appropriate data, proportionate to the risks, is essential for us to deliver our mandate. It is also important that our data collection evolves where needed to reflect changes in the risk environment. As the PRA's recent discussion paper on future banking data notes, risk in the non-bank financial institution sector will continue to be an area of focus for the PRA and the Bank as we consider future reporting requirements.⁴ It is, of course, even more important that banks themselves adequately understand their own exposures to private markets. Following our 2024 thematic review of private-equity-related financing activities, the PRA has received responses from banks detailing their risk management of private equity exposures.⁵ In considering our approach to these matters, we are always mindful of the important balance between addressing key gaps in data coverage and streamlining the cost of regulation to the financial sector, including the Government's target to reduce the administrative costs of regulation on business by 25% by the end of this Parliament.

As the Committee's report notes, the FPC recently revisited its assessment of the appropriate level of capital requirements for the UK banking system.⁶ The FPC judged that the appropriate benchmark for system-wide Tier 1 capital requirements was now one percentage point lower at around 13% of risk-weighted assets, consistent with the evolution of the financial system since the FPC's first assessment, reflecting some banks becoming less systemic and improvements in risk measurement. I welcome the Committee's support for this change. The FPC also judged that lowering requirements materially below this revised benchmark could lead to significant reductions in long-run expected growth. Capital requirements and buffers are calibrated to reflect the material risks to which banks are exposed, and banks' capital resources provide important protection against shocks, including from emerging or evolving risks such as those from private markets, to ensure banks can continue to lend to households and businesses even if shocks crystallised in those markets.

Major UK banks' current price to tangible book (PtTB) ratios indicate that the regulatory architecture is not expected to prevent banks from delivering returns in line with the compensation shareholders require for the perceived riskiness of those returns.

³ Prudential Policy Director Vicky White's recent speech on Funded Reinsurance sets out some of the PRA's latest thinking on the matter: [Funded realignment: balancing innovation and risk – speech by Vicky White | Bank of England](#)

⁴ [DP1/26 – Future banking data | Bank of England](#)

⁵ [Thematic review of private equity related financing activities](#)

⁶ [Financial Stability in Focus: The FPC's assessment of bank capital requirements | Bank of England](#)

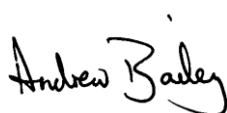
Major UK banks' PtTB ratios have materially increased since Covid-era lows of around 0.5x in aggregate to around or above 1x in aggregate since late 2024, and have increased further in recent months, to around 1.6x in aggregate at present. This should make it easier for them to raise additional capital if they choose to do so, which in turn helps them to support further lending.

I share the Committee's view of the importance of SMEs' access to finance. Concerns about structural frictions in SMEs' access to finance are longstanding, and we know that distinguishing between supply-side constraints and weak demand for finance is challenging. The Committee's report highlights SMEs experiencing a lack of support when making financial decisions, an issue exacerbated by the decline of relationship banking, and suggests a need for innovation by banks to alleviate information constraints and develop new products such as lending secured on intellectual property. These conclusions accord with the findings of the FPC's work to identify impediments to the supply of debt or equity finance particularly to high-growth firms, which we set out in our last Financial Stability Report. We noted that the funding ecosystem can be complex for funders and founders to navigate and they often struggle to secure lending against intangible collateral.⁷ Significant analysis and policy work across the Bank was undertaken last year and continues this year to assess such frictions. Greater investment by lenders in big data and FinTech could provide the support that SMEs need and reduce frictions in their access to finance, including those introduced by the decline in traditional relationship banking. Indeed, some new lenders are already undertaking initiatives of this kind.

In all this work, the Bank maintains close collaboration with other UK authorities and benefits from HM Treasury's active contribution, including through its role on the FPC. Similarly, the Bank works closely with international regulators, engaging both bilaterally and through the Financial Stability Board (FSB), which I chair. The Bank is ultimately accountable to Parliament, and parliamentary committees such as the FSRC are a key channel for this accountability, allowing Parliament the opportunity to appropriately scrutinise the Bank's work. Through these relationships the Bank has promoted an evidence-based, informed approach to understanding private markets.

I thank the Committee once again for its report and recommendations, which will support our continuing work in collaboration with the private markets industry to build understanding of this vital sector as well as of potential financial stability risks. I enclose in the annex a detailed response to each of the recommendations made to the Bank and the PRA in the report.

Yours sincerely,



⁷ See Box A: [Financial Stability Report - December 2025 | Bank of England](#)

Annex: The Bank of England and PRA's response to the FSRC's recommendations**Theme 1: Monitoring developments in private markets****Recommendations:**

- Paragraph 20 – *'The rapid growth of global private credit and equity markets, particularly in the US, presents opportunities and risks for the UK. The Committee welcomes the Bank of England's work to shine a light on these developments; the Government, the Bank of England, the Prudential Regulation Authority, and the Financial Conduct Authority must continue proactively to monitor developments in private markets.'*
- Paragraph 56 – *'The growth in collateralised loan obligations and significant risk transfers in the UK may pose a potential risk to the UK's financial stability. The Bank of England and the Prudential Regulation Authority should pay close attention to the development of these markets.'*

Bank of England/PRA Response:

We agree that the rapid expansion of global private markets presents both opportunities and risks for the UK, given the important role that they play in funding UK companies and supporting growth. Private markets remain a key focus for the Bank of England and the FPC, which continues to monitor this sector as part of its ongoing surveillance of the financial system, as highlighted in the July 2025 Financial Stability Report.⁸

To support this surveillance, the Bank gathers market intelligence, engages with private market participants, and analyses vulnerabilities such as leverage, opacity, complexity, and weak underwriting standards—areas repeatedly flagged in successive Financial Stability Reports. The December 2025 Financial Stability Report further explored risks brought into focus by the high-profile defaults of First Brands and Tricolor in the US, including First Brands' use of collateralised loan obligations (CLOs) and reliance on credit rating agencies (CRAs).⁹ It examined the increased use of confidential rating assessments, with growth especially among CLO managers, and the increasing number of small CRAs. The Bank is also monitoring evolving risks, including Funded Reinsurance structures—covered in detail in the November 2024 Financial Stability Report¹⁰—and the rapid growth of the AI sector—described in the December 2025 Financial Stability Report¹¹—which is increasingly relying on private markets for finance.

Internationally, the Bank of England contributes to the monitoring of private credit through its participation in the FSB, which the Governor of the Bank of England, Andrew Bailey, currently chairs. The FSB has publicly highlighted the growing role of private credit markets—now estimated at around US\$2tn globally—and has committed to strengthening its monitoring and analytical work of this sector as part of its wider efforts to assess risks from non-bank financial

⁸ See Box E: [Financial Stability Report - July 2025 | Bank of England](#)

⁹ See Chapter 6.2: [Financial Stability Report - December 2025 | Bank of England](#)

¹⁰ See Chapter 8: [Financial Stability Report - November 2024 | Bank of England](#)

¹¹ See Box C: [Financial Stability Report - December 2025 | Bank of England](#)

intermediation. This was set out in Andrew Bailey's letter, as FSB Chair, to G20 Leaders, which emphasised the need for closer scrutiny of private credit markets and their implications for global financial stability.¹²

As part of broader work monitoring interconnections between the banking system and private markets, including private credit, the PRA pays close attention to banks' use of securitisations, including Significant Risk Transfers (SRTs) and CLOs. While we consider that securitisation can support greater funding diversification and efficient transfer of credit risk, we will continue to monitor these markets carefully as they evolve. We monitor banks' activity in these areas through their regulatory reporting and Pillar 3 public disclosures. Banks' SRT transactions are subject to PRA notification and permission requirements. We discuss securitisation practices, and their implications, with other regulators internationally.

We have conducted a range of active work in this area to ensure that firms meet appropriate prudential standards. The PRA issued a Dear CFO letter in April 2025 to highlight practices we have observed in relation to illiquid and structured financing portfolios across regulated firms, including financing of SRTs.¹³ The PRA also issued an update to its supervisory statement on SRTs which took effect on 1 January 2026.¹⁴ In particular we clarified our expectations on the use of unfunded credit protection for synthetic SRTs, oversight responsibilities for SRT securitisations by firms' senior management, and the information to be provided to enable the PRA's assessment of transactions. The PRA's 2026 letter to UK deposit takers on its supervisory priorities reinforced that we expect firms' senior management to be appropriately engaged in approving and maintaining transactions that lead to a reduction in capital requirements.¹⁵ And the PRA's recent letter on 2026 priorities for insurance supervision made clear that, while open to a diverse range of capital and ownership structures for UK life insurers, the PRA expects firms to run their business in a way which supports their long-term safety and soundness and reflects the long-term nature of their commitments to policyholders.¹⁶

¹² [FSB Chair's letter to G20 Leaders: November 2025 - Financial Stability Board](#)

¹³ [Significant risk transfer financing: Prudential expectations | Bank of England](#)

¹⁴ [SS9/13 - Securitisation: Significant Risk Transfer | Bank of England](#)

¹⁵ [Letter from Charlotte Gerken and Laura Wallis – UK Deposit Takers Supervision: 2026 priorities | Bank of England](#)

¹⁶ [Insurance Supervision: 2026 priorities](#)

Theme 2: Data gathering and the PM SWES**Recommendations:**

- Paragraph 69 – *‘The Bank of England and the Government must ensure they have a comprehensive understanding of lenders to the UK economy, specifically by identifying the proportion of (1) total corporate debt; (2) corporate debt classified by sector, provided by different funding sources, including private credit; and (3) developments in the UK’s lending ecosystem as private credit grows.’*
- Paragraph 160 – *‘We did not receive conclusive evidence to determine that private markets either do or do not represent a systemic risk. However, the growth of private credit meets several of the tests of significance for the assessment of systemic risk and therefore is systemically relevant, chiefly through the extent of the sector’s interconnections with systemic parts of the financial system—banking and life insurance. Further work is required to assess and address (if necessary) the broader structural and system-wide vulnerabilities presented by private markets. We welcome the Bank of England’s System Wide Exploratory Scenario to develop this understanding (as detailed below).’*
- Paragraph 161 – *‘The Bank of England must ensure that it has the appropriate information it needs to fully understand the scale of, and the implications that arise from, the interconnections between the banking system and private credit. The Bank of England must ensure its requests for information are proportionate and avoid duplication, and that it seeks data from the banking system and private credit market as necessary. The Government must ensure that the Bank of England has the appropriate power to collect this information if needed.’*
- Paragraph 162 – *‘Any response by the Government and the Bank of England to these concerns, including the outcome of the System Wide Exploratory Scenario, must ensure that such action does not inhibit the banking sector’s or private credit’s ability to lend to the real economy.’*
- Paragraph 167 – *‘We welcome the Bank of England’s System Wide Exploratory Scenario. We encourage the Bank to complete this exercise as a matter of urgency and to determine whether private credit and private equity in the UK are systemic. We also encourage the Bank to publish timely updates as appropriate; and to share such updates with the Committee.’*
- Paragraph 168 – *‘The Committee recognises that the Bank of England is conducting its System Wide Exploratory Scenario on a voluntary basis. The Government should keep the powers available to the Bank of England under review, contingent on the outcome of the System Wide Exploratory Scenario.’*
- Paragraph 169: *As the Bank of England takes forward its work on the System Wide Exploratory Scenario it should consider the following issues highlighted in this report:*
 - *(a) The different types of private credit funds and the lending practices of private credit funds focussing on sub-investment grade lending;*
 - *(b) The interconnections between private credit, private equity, and the banking sector (including fund finance, private credit collateralised loan obligations, significant risk transfers, and the secondary trading of private debt);*

- (c) *The interconnections between private credit and private equity and the insurance sector—particularly the life insurance sector;*
- (d) *The interconnections between banks and private credit and equity through the securitised lending market, including collateralised loan obligations, significant risk transfers, and liquid credit;*
- (e) *The accuracy and reliability of private market valuations; and*
- (f) *The reliance by private market firms on third party credit ratings agencies, and the accuracy of the ratings provided by said firms.*

Bank of England/PRA Response:

We note the Committee's conclusion that the current evidence base is insufficient to determine whether private markets constitute a systemic risk. We agree that the rapid growth of private markets, evolving interconnections with banks, insurers, and public markets, as well as significant data gaps, make it difficult to fully assess the potential for systemic risks. Other international authorities also face this challenge. As the PRA's recent discussion paper on future banking data sets out, the risk environment will always continue to evolve, meaning that new data items will always be needed, alongside regular reviews considering whether existing data collected has become less relevant and can be retired.¹⁷ We are always mindful of doing so in a way that is as efficient and proportionate as possible for firms, while thoroughly addressing key data gaps, especially in light of the Government's target to cut the administrative burden of regulation by 25% by the end of this Parliament.

The Bank and other authorities already undertake significant work to gather data on private markets from a range of sources. This includes:

- The FPC's routine assessment of vulnerabilities in market-based finance;¹⁸
- The PRA's thematic review of banks' private equity financing activity;¹⁹
- The Bank collecting additional information on banks' exposures to private market funds in the 2025 Bank Capital Stress Test (BCST);²⁰
- The PRA's 2025 Life Insurance Stress Test (LIST), which included a FundedRe (asset backed finance) recapture scenario, and which demonstrated that the UK life insurance sector is resilient to a severe financial market stress;²¹ and
- The FCA's multi-firm review of valuation processes for private market assets.²²

¹⁷ [DP1/26 – Future banking data | Bank of England](#)

¹⁸ For example: [Financial Stability Report - July 2025 | Bank of England](#)

¹⁹ [Letter from Rebecca Jackson and Charlotte Gerken: Thematic review of private equity related financing activities | Bank of England](#)

²⁰ See Box F: [Financial Stability Report - December 2025 | Bank of England](#)

²¹ [Life Insurance Stress Test: 2025 Results | Bank of England](#) As part of the exercise, firms making use of FundedRe were required, in addition to the core market stress, to assess the impact of a full recapture of all FundedRe arrangements with their most material counterparty. The results indicated that recapture under stress could significantly affect solvency, although firms were able to absorb the impact based on positions as at 31 December 2024.

²² [Private market valuation practices | FCA](#)

The Bank has recently launched a first-of-its-kind private markets system-wide exploratory scenario (PM SWES). This will complement the work listed above and will provide a unique opportunity to collaborate with participating firms, fill data gaps, evaluate the private markets ecosystem as a whole, and develop a more conclusive assessment regarding the extent to which it may contribute or pose risks to UK financial stability and the UK real economy.²³

We aim to explore the complex interconnections within the private markets ecosystem, including those highlighted by the Committee's report, working collaboratively with multiple firms across alternative asset managers, asset managers with public markets focus, private equity and private credit funds, banks, and institutional investors such as insurers, pension funds, endowments, and foundations. The major participants in the private markets that finance UK businesses have agreed to join the exercise. They cover a variety of business models and investment strategies, and many of them are headquartered outside of the UK, reflecting the diversity and global nature of the sector, as well as the openness of the UK economy. We intend to capture the most material risks identified by the Committee, including examining the behaviour of private credit and private equity funds, and their investors, in a stress; mapping their interconnections (including via significant risk transfers) with banks, insurers, and public corporate financing markets; and evaluating the extent of potential vulnerabilities associated with valuation challenges and the reliance on credit rating agencies.

Building on the lessons learnt from the previous SWES exercise, we are conducting two rounds to fully account for amplification effects, including via giving firms feedback on the actions of other participants. This increases the robustness of the system-wide analysis and helps future-proof the exercise, not least given the rapid growth and evolution of private markets. Given the exercise is exploratory, it also allows us to incorporate learnings into the design of the exercise as it progresses.

We are running the exercise in a way that reduces the costs for firms, working collaboratively with them and seeking feedback on data and other requests to ensure proportionality and avoid duplication. We will run the exercise as swiftly as possible, whilst being mindful of the constraints of participating firms, including in relation to timelines. Given this balance, we anticipate having largely completed firm engagement and analysis for the exercise in 2026, with a final report to be published in early 2027. We expect to publish key findings from the exercise over 2026, in line with the completion of key milestones, such as the results from Round 1.

We recognise the important role that both private markets and banks play in providing lending to the UK real economy and promoting long-term growth. We expect that deeper understanding of risks will benefit risk management at firms participating in the PM SWES and others in the sector. That is a major objective of the exercise. Should findings indicate that any further actions are warranted, we will work with the industry to assess potential implications to ensure it strikes an appropriate balance between safeguarding financial stability and maintaining credit provision to the real economy.

²³ [The Bank of England's private markets system-wide exploratory scenario exercise | Bank of England](#)

Further, we agree with the Committee about the importance of developing a comprehensive understanding of lenders to the UK economy, particularly within the corporate sector. Together with the ONS, we already maintain a view of total corporate debt by source and have sight of debt by sector provided by different funding sources, though we recognise that coverage and granularity can be further strengthened. Reflecting this, we are continuously improving our understanding of corporate financing patterns and our quantification of financing types that have expanded over the past decade, particularly the diverse forms of private credit. These efforts link with wider Bank work aimed at deepening understanding of the evolution, interconnectedness, and incentives across the financial system as private finance continues to grow, and feed into some of the FPC's core indicators used to inform their decision on the countercyclical capital buffer. Over the medium term, there is a strong case for the UK to invest in and develop a more comprehensive Flow of Funds framework, akin to the US system, to give policymakers clearer visibility over the sources and structure of corporate lending.

Theme 3: Banking regulation

Recommendations:

- Paragraph 113 – *‘Although smaller and specialist lenders have become increasingly important to the UK SME lending market, regulation continues to constrain their capacity to lend to SMEs. We encourage the Government and the Bank of England to explore what lessons might be learnt from the regulation of community banking sectors in the US and Germany.’*
- Paragraph 114 – *‘Whilst the Committee welcomes the Financial Policy Committee’s reduction in the appropriate benchmark for the system-wide level for capital requirement, this does not substantively address long-standing concerns with the disproportionate application of the UK’s capital and liquidity regulatory regime. Modifying the regulatory constraints on smaller and specialist lenders could help these lenders to grow and they in turn would be better positioned to increase their SME lending.’*
- Paragraph 115 – *‘We welcome the Financial Policy Committee’s announcement that it will review several aspects of the capital regime and hope that this can be completed rapidly. The PRA should implement any changes in a way which maximises the amount of bank capital which can be made available to support lending, including to SMEs. The Prudential Regulation Authority should move quickly to implement its proposed changes to the IRB approval process and risk weightings of assets.’*

Bank of England/PRA Response:

SMEs play an important role in the UK economy, accounting for around 60% of employment and 40% of business investment. Typically, SMEs account for over half of private sector output growth per year, and larger SMEs contribute significantly to productivity growth. These considerations are reflected in both FPC and PRA policymaking, including with respect to smaller and specialist lenders that provide an important source of access to financial services for SMEs.

For example, recently the PRA introduced a simplified prudential regime for small, domestic-focused banks and building societies in the UK: the Small Domestic Deposit Taker (SDDT) regime. Simplifications to liquidity and disclosure requirements were introduced in 2024 and a significantly simplified capital regime comes into effect on 1 January 2027.²⁴ As of 5 February 2026, out of the around 80 firms we estimate are eligible, 65 had registered as SDDTs enabling them to take advantage of these measures which will reduce their costs of understanding, interpreting, and operationalising prudential regulation. SDDTs could pass on these lower costs to their borrowers, supporting lending to the real economy in the UK.

²⁴ [PS4/26 – The Strong and Simple Framework: The simplified capital regime for Small Domestic Deposit Takers \(SDDTs\) – final | Bank of England](#)

The PRA considered the small-bank regimes in other jurisdictions as it developed the SDDT regime.²⁵ It considered approaches which had taken the prudential requirements applying to larger banks and simplified those which are overly complex for small banks (such as in Australia and Canada) and approaches that apply a narrow set of conservatively calibrated requirements on small banks (such as in the US and Switzerland).²⁶ Stakeholders indicated much stronger support for the former approach to simplification.²⁷ The high take-up rate for the SDDT regime suggests the PRA has designed the regime appropriately, taking into account the strong feedback it received from the UK banking sector.

The PRA is enhancing its internal ratings based (IRB) approach model review process to be more responsive and agile for banks using credit risk models. For firms already using IRB and seeking approval for a model change, the PRA will enhance its pre-application engagement to help ensure firms' readiness and identify difficult issues before formal submission of model applications, give firms dedicated submission slots, complete documentation quality checks in four weeks, and review complete applications within six months (where no further information is required). For firms applying to use IRB for the first time, the PRA will provide dedicated support including named account managers and commits to a target of taking final decisions in eighteen months. The enhanced IRB process is effective for model applications received from 1 January 2026.

The PRA has recently updated the thresholds that apply to its Other Systemically Important Institutions (O-SII) capital buffers and the application of leverage ratio requirements, to adjust for nominal growth in the economy since they were implemented and thereby keep requirements proportionate.²⁸ Likewise, the Bank is updating its thresholds for its resolution regime. For example, recent changes to its minimum requirement for own funds and eligible liabilities (MREL) policy allows smaller firms additional room to grow while maintaining a 'modified insolvency' strategy and affords more mid-sized firms to be set a 'transfer' strategy which removes the need to hold costly loss-absorbing resources. This will reduce unnecessary complexity and cost for these firms, and free up capital that can then be used to support lending.²⁹

The PRA aims to adopt risk weights that are not higher than required to be commensurate with that risk but are also not too low to adequately capture the riskiness of a given class or sub-class of exposures. On the basis of the available evidence, the PRA considers that its final

²⁵ See Box A: [Discussion Paper 1/21 - A strong and simple prudential framework for non-systemic banks and building societies](#)

²⁶ German regulators' ideas about a small-bank regime in the EU are similar to the Swiss regime.

²⁷ See Chart 4: [FS1/21 'Responses to DP1/21 'A strong and simple prudential framework for non-systemic banks and building societies'](#).

²⁸ See: [PS22/25 – Leverage Ratio: Changes to the retail deposits threshold for application of the requirement | Bank of England](#); and [An FPC Response - 2024 O-SII buffer framework review | Bank of England](#).

²⁹ [Statement of policy: The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities \(MREL\) | Bank of England](#)

rules will capitalise SME exposures under Pillar 1 at an appropriate level.³⁰ Under Basel 3.1, risk weights for loans to SMEs are lower than for loans to medium-sized and large corporates of equivalent risk, and risk weights for smaller SMEs are lower than for loans to larger SMEs.

Nevertheless, being mindful of competitiveness and growth considerations and recognising concerns on the potential impact of changes in capital requirements in this area, the PRA has also introduced the SME lending adjustment so that the removal of the support factor for SME lending under the pre-Basel 3.1 risk-based capital requirements does not result in an increase in overall capital requirements for SME exposures.³¹ All banks and building societies are in scope of the SME lending adjustment, including those which are SDDTs. This policy applies to both current SME lending and new SME lending arising after the removal of the previous support factor.

The PRA is also currently working with HM Treasury to explore how the ring-fencing regime could be further reformed to allow ring-fenced banks to support SMEs and their ability to scale-up.

As the Committee's report notes, the FPC recently revisited its assessment of the appropriate level of capital requirements for the UK banking system.³² The FPC judged that the appropriate benchmark for system-wide Tier 1 capital requirements was now one percentage point lower at around 13% of risk-weighted assets, consistent with the evolution of the financial system since the FPC's first assessment, reflecting some banks becoming less systemic and improvements in risk measurement. In addition, the FPC and PRA are investigating how capital requirements related to domestic lending (for example, the UK portion of the countercyclical capital buffers for domestic systemically important banks, and the portion of Pillar 2a capital attributable to credit concentration) interact, and whether they are appropriately calibrated.

Over a number of years, the FPC has undertaken significant analysis to understand the structural frictions in SMEs' access to finance.³³ Lending to SMEs has been weak since the Global Financial Crisis, reflecting both the small share of SMEs seeking credit (around 70% of SMEs report preferring slower growth to having debt) and historical barriers these firms face in accessing finance.³⁴ These barriers are not unique to the UK, with SMEs across many economies facing similar challenges. As part of identifying areas where there is potential for the financial sector to contribute more to sustainable growth, the FPC has undertaken work to identify impediments and potential solutions to the flow of finance to high-growth-firms, a subset

³⁰ The PRA has published analysis of the calibration of SME risk weights, see paragraphs 2.164 to 2.180 in: [PS9/24 – Implementation of the Basel 3.1 standards near-final part 2 | Bank of England](#)

³¹ [PS7/25 – Update to PS9/24 on the SME and infrastructure lending adjustments | Bank of England](#)

³² [Financial Stability in Focus: The FPC's assessment of bank capital requirements | Bank of England](#)

³³ See Box A and Box B: [Financial Stability Report - December 2025 | Bank of England](#); Box B: [Financial Stability Report - July 2025 | Bank of England](#); and [Identifying barriers to productive investment and external finance: a survey of UK SMEs | Bank of England](#)

³⁴ [Identifying barriers to productive investment and external finance: a survey of UK SMEs | Bank of England](#)

of SMEs that make an outsized contribution to economic and employment growth in the UK. These ‘scale-up’ SMEs are likely to demand forms of finance such as seed funding, venture capital, and private equity, which are more specialised than bank debt. The findings of this work so far chime with those in the Committee’s report, that high-growth firms experience a funding ecosystem that can be complex for funders and founders to navigate and struggle to secure lending against intangible collateral.³⁵ Greater investment by lenders in big data and FinTech could provide the support that SMEs need and reduce frictions in their access to finance, including those introduced by the decline in traditional relationship banking.

³⁵ See Box A: [Financial Stability Report - December 2025 | Bank of England](#)