



BANK OF ENGLAND

The Rt Hon Rishi Sunak
Chancellor of the Exchequer
11 Downing Street
London
SW1A 2AA

Andrew Bailey
Governor

27 August 2021

Dear Rishi,

As Chair of the Prudential Regulation Committee (PRC), I am responding to your letter of 23 March that sets out your recommendations to the Committee.

The PRA's objectives are to promote the safety and soundness of the firms it regulates, contribute to the securing of an appropriate degree of protection for insurance policyholders, and – secondary to both – facilitate effective competition by taking into consideration how proposed policies affect competition in relevant markets. As you note in your letter, the pursuit of these objectives contributes to financial stability in the UK, which is an essential pre-requisite for strong, sustainable and balanced economic growth.

Over the period since the Government's last remit letter, the PRA has continued to ensure that the UK banking and insurance sectors have adequate 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, helping to absorb rather than amplify economic shocks, such as the shock caused by Covid. The transition period between the UK and European Union (EU) ended without any material disruption to the provision of financial services, reflecting the extensive preparations made by authorities and the private sector over a number of years. The PRA has also taken action to implement necessary prudential reforms in a range of areas, including by publishing (jointly with the FCA) our policy on operational resilience, and by consulting on the implementation of outstanding Basel III standards for banks.¹

The PRA has also taken a number of actions in pursuit of our secondary competition objective. This has included a review of the capital regime for credit unions, and implementing a tailored approach to the supervision of new and fast-growing non-systemic banks and building societies. We have also launched a discussion paper exploring options for developing a simpler prudential framework for non-systemic banks and building societies.

Consistent with our statutory duties, the PRC will take into account 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.

We welcome the new recommendation that the PRC should, where relevant and practical, have regard to the Government's commitment to achieve a net-zero economy by 2050 under the Climate Change Act 2008 (Order 2019) when considering how to advance its objectives and discharge its functions. For some time, the PRA has recognised the risks posed by climate change and the transition to a net-zero economy to the safety and soundness of the firms it regulates.

¹ For more information on the PRA's strategy and workplan, see the 2020/21 PRA Business Plan ([link](#)).

In response, we have instigated a number of initiatives that help ensure PRA-regulated firms develop capabilities to effectively identify, measure, manage, and where needed mitigate the financial risks they face from climate change.² As well as improving prudential resilience, these initiatives will help support the financial system and real economy through the transition to net-zero emissions. Further information on the PRA's approach to climate change is set out as part of the Bank's climate strategy in the Bank's recent climate-related financial disclosure.

Yours sincerely,



² In April 2019, the PRA became the first prudential regulator to set out [supervisory expectations](#) for banks and insurers on their approaches to managing the financial risks from climate change. Firms must embed those expectations as far as possible by the end of 2021. We also launched in June 2021 our [Climate Biennial Exploratory Scenario](#) (CBES) exercise to assess the resilience of the UK's largest banks, insurers, and the broader financial system to different climate scenarios.