

Bank of England PRA

The Prudential Regulation Authority's approach to policy

December 2023

Draft for consultation



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1: Introduction

1. We, the Prudential Regulation Authority (PRA), as part of the Bank of England (the Bank), are the UK's prudential regulator for deposit-takers, insurance companies, and designated investment firms.
2. This document sets out how we approach policy under the regulatory framework as amended by the Financial Services and Markets Act (FSMA) 2023 ('FSMA 2023' or 'the Act').¹ It is designed to help regulated firms and the public understand how we make policy, and to enhance transparency and aid our accountability to Parliament. The document acts as a standing reference that will be revised as appropriate in response to significant legislative and other developments that result in changes to our approach.
3. This document serves three purposes. First, it aids accountability by describing what we seek to achieve and how we intend to achieve it. Second, it communicates to regulated firms our approach to making policy that applies to them, and their role in that process. Third, it meets the statutory requirement for us to issue guidance on how we intend to advance our objectives. The final Approach Document will sit alongside requirements and expectations as published in the Rulebook and our policy publications, publications on our approach to evaluation and Cost Benefit Analysis (CBA), as well as our Approach to Supervision publications.

Document structure

4. Chapter 2 summarises our framework of objectives and regulatory principles.
5. Chapter 3 describes how we approach our primary and secondary objectives, and take into account our regulatory principles, along with the interactions between them.
6. Chapter 4 describes why and how we engage internationally to pursue our objectives, including through the development and implementation of international standards. It discusses how the integration of the global financial system benefits the UK financial system while also creating risks, and sets out how we respond to these risks. It also describes how we take an outcome-based approach to advising HMT on 'equivalence' determinations.
7. Chapter 5 describes our approach to creating and maintaining our prudential policy framework, which we refer to as the 'policy cycle'. We explain that the policy cycle

¹ Many of the provisions applying to us, as described in this document, are in the Financial Services and Markets Act 2000 (FSMA 2000) but were amended or inserted by FSMA 2023. However, for simplicity, we refer to FSMA 2023 when referencing these new provisions under which we are now operating.

consists of four phases: initiation, development, implementation, and evaluation; and we explain the approach we take to each phase.

8. Chapter 6 describes our approach to our Rulebook. It outlines the principles that guide our approach to the Rulebook, with a view making it as accessible, efficient, usable and clear as possible.

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2: Our objectives and regulatory principles

This chapter describes the framework of objectives and regulatory principles within which we operate.

The PRA's framework of objectives and regulatory principles

Objectives

2.1 We have two primary objectives when making policy:

- when discharging our general functions, we must, so far as is reasonably possible, act in a way which advances our general objective of promoting the safety and soundness of PRA-authorised persons; and
- in relation to insurance activity, we must also, so far as is reasonably possible, advance the insurance objective of contributing to the securing of an appropriate degree of protection for policyholders.

2.2 FSMA requires that we advance the general objective primarily in three ways: by seeking to ensure that the business of PRA-authorised persons is carried out in a way that avoids any adverse effect on the stability of the UK financial system; by seeking to minimise the adverse effect that the failure of a PRA-authorised person could be expected to have on the stability of the UK financial system, and by seeking continuity of provision of core banking services by ring-fenced bodies. The primary objectives do not, however, require us to ensure that no PRA-authorised firm fails.

2.3 These primary objectives rank above our other considerations when making policy. When pursuing the primary objectives, we must also, so far as is reasonably possible, act in a way which facilitates our secondary objectives. The secondary objectives are engaged only when we are proposing to perform our general functions in pursuit of the general objective and the insurance objective. They do not rank above these. We have two secondary objectives; a secondary competition objective, and a secondary competitiveness and growth objective. These are of equal legal standing.

- The secondary competition objective requires us to facilitate competition in the markets for services provided by the firms we supervise,
- The secondary competitiveness and growth objective requires us 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.

Regulatory principles

2.4 When making policy, we must ‘have regard’ to certain public policy considerations set by Parliament and Government. These are derived from a range of legal sources (e.g. those in section 3B of FSMA and others), and we interpret each as having equal legal standing. The legal sources are described below and outlined in Table 1. We define these ‘regulatory principles’ as those in section 3B of FSMA and other matters that we are required or should have regard to. For simplicity, we refer to all these matters as ‘regulatory principles’ throughout this document.

2.5 FSMA requires that we must ‘have regard’ to a number of regulatory principles when discharging our general functions. These principles relate to: the efficient use of our resources; the proportionality of our regulation; contributing towards the government achieving compliance with its net zero emissions targets and environmental targets;² consumer responsibility; responsibility of firms’ senior management for compliance; recognition of differences between businesses; publication of information; and the transparent exercise of the PRA’s functions.

2.6 HMT has the power to specify additional regulatory principles by statutory instruments, made by parliamentary affirmative procedure. We must have regard to any specified matters that are relevant to the making of the rules in question. The specification of a matter may apply generally to the making of rules or be limited in whatever way HMT consider appropriate. HMT also has a power to make policy statements on Sustainability Disclosure Requirements (SDR), where we must have regard to any policy statement on SDR made by HMT when making rules or issuing guidance in connection with disclosure concerning matters relating to sustainability.

2.7 Under provisions introduced into FSMA by the Financial Services Act (‘FS Act’) 2021, we must also ‘have regard’ to certain regulatory principles when making Capital Requirements Regulation (CRR) rules (as well as holding company rules that are not CRR rules). CRR rules are defined in section 144A of FSMA. Broadly, they are rules which replace certain CRR provisions or implement certain Basel standards. These include: the relevant Basel standards; the relative standing of the UK as a place for internationally active credit institutions and investment firms to be based or to carry on activities; the provision of finance to UK businesses and consumers on a sustainable basis in the medium and long term; and the 2050 net-zero target in the Climate Change Act 2008 (for rules made after 1 January 2022). The definition of CRR rules also includes ‘holding company rules’ made under section 192XA of FSMA. We must also consider, and consult HMT on, the likely effect of CRR rules on relevant equivalence decisions. FSMA 2023 includes a provision enabling HMT to delete the CRR specific regulatory principles.

2.8 In addition to the requirements in FSMA, the Bank of England Act 1998 provides that the Prudential Regulation Committee (PRC) should have regard to aspects of the government’s

² Compliance with the net-zero emissions targets and environmental targets was added by FSMA 2023. The net-zero element was commenced on 29 August 2023. The Environmental Act targets element is subject to commencement by HMT.

economic policy recommended by HMT when considering how to pursue its objectives and apply the regulatory principles. HMT makes these recommendations in a **letter** to the Prudential Regulation Committee (PRC) (which FSMA 2003 requires us to respond to).³

These regulatory principles may have multiple components that we need to take into account (see Table 1).

2.9 Other cross-cutting legal requirements also apply to regulatory policymaking, including:

- the public sector equality duty in the Equality Act 2010; and
- having regard to the principles of good regulation under the Legislative and Regulatory Reform Act (LRRRA) 2006 and the Regulators' Code 2014.

Summary table of PRA objectives and regulatory principles

2.10 Table 1 summarises our framework of objectives and regulatory principles. This includes considerations in legislation specific to us, and cross-cutting legal requirements that apply to regulatory policymaking in general (subject to specific nuances of application).

2.11 For practical purposes, we may group (or 'cluster') factors that are relevant to each other in order to support our analysis and presentation of the regulatory principles. At the same time, we recognise – and carefully consider – the nuances of individual regulatory principles. We also account for the fact that certain regulatory principles are relevant across thematic groupings. For example, the proportionality of our regulation has implications for both competition and competitiveness and growth.

2.12 Whether we cluster our regulatory principles is a case-by-case decision and depends on the circumstances. Clustering is designed to capture overlaps and thematic similarities between them. In Table 1, the dark shading shows those which relate to our secondary competition objective, and the light shading shows those which relate to the secondary competitiveness and growth objective. This reflects the approach that we take in practice (see Chapter 3).

Table 1 – The PRA's objectives and regulatory principles

Primary objectives	
Promote safety and soundness	FSMA 2000
Contribute to the securing of an appropriate degree of protection for policyholders	FSMA 2000
Secondary objectives	

³ We refer to this as the 'PRC letter'. Recommendations for the Prudential Regulation Committee (December 2022) letter, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1122895/CX_Letter_to_andrew_Bailey_0812_WITH_COVER.pdf.

Facilitate effective competition in the markets for services provided by PRA-authorized persons in carrying on regulated activities	FSMA 2000
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-authorized persons), and its growth in the medium to long-term (does not apply to rules and policy made in connection with CP16/22 (Basel 3.1)).	FSMA 2000 (as amended by FSMA 2023)
PRA-specific considerations	
Competition grouping	
Proportionality of our regulation	FSMA 2000
Recognition of differences between businesses	FSMA 2000
Consumer responsibility	FSMA 2000
Impact on mutuals	FSMA 2000
Competitiveness and growth grouping	
Encouraging economic growth in the interests of consumers and businesses, including:	HMT recommendations letter to PRC
• facilitating investment in productive assets	
• sustainable finance and the supply of long-term investment	
• better outcomes for consumers	
• smart regulatory reform	
The government's strategy to promote competitiveness and its priorities, including:	HMT recommendations letter to PRC
• the Future Regulatory Framework Review	
• trade and inward investment into the UK	
• UK attractiveness for international financial services	
• innovation	
The desirability of sustainable growth in the economy of the UK in the medium or long term (only applies to rules and policy made in connection with CP16/22 (Basel 3.1))	FSMA 2000
Relevant Basel standards*	FSMA 2000
Relative standing of the UK*	FSMA 2000

Provision of finance to UK businesses and consumers on a sustainable basis*	FSMA 2000
Climate grouping	
Net-zero emissions target in Climate Change Act 2008	FSMA 2000 (including as amended by FSMA 2023)
Environmental targets in Environmental Act 2021	FSMA 2000 (as amended by FSMA 2023)
HMT policy statements on Sustainability Disclosure Requirements (SDR) when making rules or issuing guidance in connection with disclosure concerning matters relating to sustainability	FSMA 2000 (as amended by FSMA 2023)
Regulatory Best Practice	
Transparent exercise of the PRA's functions	FSMA 2000
Publication of information	FSMA 2000
Efficient use of resources	FSMA 2000
Legislative and Regulatory Reform Act (LRRRA) principles of good regulation and the Regulators' Code 2014	LRRRA 2006
Others (not grouped)	
Responsibility of firms' senior management for compliance	FSMA 2000
Any matters specified in regulations made by HMT ⁴	FSMA 2000 (as amended by FSMA 2023)
Cross-cutting statutory legal requirements	
Public sector equality duty	Equality Act 2010
HMT Consultation and notification obligations	
HMT notification in certain circumstances in relation to relevant international trade obligations. ⁵	FSMA 2000 (as amended by FSMA 2023)

⁴ FSMA 2023 gives HMT the power to specify additional 'have regards' by affirmative SI. These 'specified matters' may apply generally to the making of rules or be limited in whatever way HMT considers appropriate. These are not yet specified.

⁵ None yet commenced.

HMT consultation in certain circumstances in relation to notified deference decisions	FSMA 2000 (as amended by FSMA 2023)
HMT consultation on relevant equivalence decisions (for CRR rules)	FSMA 2000

* (only applies to rules made in connection with PRA CP16/22 (Basel 3.1) which are either CRR rules or rules made under section 192XA of FSMA 2000 that are not CRR rules)

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3: Our approach to our objectives and regulatory principles

This chapter describes the approach that we take to pursuing our objectives when we make policy. It also describes our approach to considering our regulatory principles.

Approach to our primary objectives

3.1 The UK is a leading international financial centre and the world's largest net exporter of financial services as of 2021,⁶ with a surplus of financial services trade of **£44.7 billion**. The size and international importance of the UK financial system has led the International Monetary Fund (IMF) to refer to UK financial stability as a '**global public good**'.

3.2 The financial services sector is an important part of the UK economy. It **contributed** £173.6 billion to the UK economy in 2021, 8.3% of total economic output. The UK financial sector supports the wider economy through its provision of vital services. Companies and households rely on financial firms to save and invest, borrow, make payments, and distribute and pool risks. In fulfilling these critical functions, UK financial firms underpin core economic activities, as well as facilitate innovation. A well-functioning financial system supports a healthy and dynamic UK economy overall.

3.3 The UK financial sector also has the potential to be a source of economic distress, as evidenced by the global financial crisis (2007-08). That crisis led to severe economic contraction and taxpayer bailouts of financial institutions. At its peak, total UK government support for the financial system in cash and guarantees amounted to almost £1.2 trillion.⁷

3.4 Strong prudential standards are an essential component of mitigating the risks of financial crises and achieving wider financial stability. Resilient financial institutions - particularly those which are **ring-fenced** - are better able to withstand shocks while ensuring the sustained provision of vital services to the wider economy.

3.5 Research and experience demonstrates the importance of reducing the risk of financial crises in light of their high economic cost, and the value of regulatory independence in reducing that risk. The independence of supervisors from governments is one of the International Association of Insurance Supervisors' (IAIS) core principles for insurance supervision, and one of the Basel Committee's core principles for effective banking

⁶ See introduction to [IMF Working Paper](#).

⁷ See section 1, [House of Commons Briefing Paper](#) on bank rescues.

supervision (Basel Committee on Banking Supervision, 2012).⁸ Compliance with these principles is regularly assessed by the IMF and the World Bank.

Box 1: financial crises and the role of regulatory independence in financial stability

There is clear evidence that financial crises are costly, and that regulatory independence promotes financial stability.

a) The cost of financial crises

There is a substantial body of literature estimating the economic costs of banking crises, in terms of GDP forgone, to be very large on average. Differences between the results of these studies relate to – among other things – the persistence of such losses, the countries included in the sample, and the approach used to define a crisis.

The Basel Long-term Economic Impact (LEI) study (BCBS, 2010) reviewed academic studies that used various approaches to measure the cost of banking crises. The LEI study found that around half of the studies reviewed had allowed for GDP to be on a permanently lower path following a crisis. The remaining studies had measured the crisis cost by considering the period from peak GDP to the point output catches up with its pre-crisis peak, or by assuming that crises last a fixed number of years.

The LEI study reports a median drop in output of 9% (across studies which compare GDP levels at the beginning of the crisis to the trough or to the point when its growth recovers to its pre-crisis trend). Studies that found a permanent gap between the pre- and post-crisis implied growth path estimate this gap to be between 2 and 10%, with a median of 6%.

The LEI study also highlighted that the literature examining the cumulative costs of banking crises find large losses. The median cumulative output loss across comparable studies is 63% of pre-crisis output. The average loss is higher, exceeding 100%. For studies that assess cumulative costs of crises over a specified period (Hoggarth et al., 2002; Laeven and Valencia, 2008; Haugh et al., 2009; Cechetti et al., 2009), which implicitly assume that effects are only transitory, the median cumulative loss estimate is 19%. Studies that explicitly allow for permanent effects (Boyd et al., 2005; Haldane, 2010) have a much higher median estimate of cumulative loss, equal to 158%.

Romer and Romer (2015) estimate the costs of crises for advanced economies. Such economies generally experience lower costs of crises, as they tend to have greater capacity to use monetary and fiscal policy to offset the negative impact of a crisis. They

⁸ Similarly, the Financial Stability Board includes the need for sufficient independence for supervisors among its recommendations to improve the intensity and effectiveness of supervision (Financial Stability Board, 2010).

estimate peak-to-trough losses to be 4% of GDP (below the LEI's 9%), and long-run losses equal to 3% (below the LEI's 6%). The LEI study considered a mix of advanced and emerging market economies, where such capacity is less likely.

Brooke et al (2015) extended Romer and Romer (2015) to tailor estimates to the UK. They estimate average peak-to-trough losses to be 5% of GDP and long-run losses be 4% of GDP for a generic advanced economy with characteristics closer to the UK. Assuming crises have permanent costs and an effective resolution regime, Brooke et al. estimate the cumulative cost of crisis to be 43% of GDP - lower than the 63% estimated by the LEI, which assumed crisis cost to have a less permanent effect.

BCBS (2019) reviewed more recent studies on the cost of crises and concluded that the estimates reported in LEI (2010) stand up reasonably well to these later studies, some of which incorporate effects of other post-crisis reforms. Considering the beneficial effects of Total Loss Absorbing Capacity (TLAC) and enhanced resolution regimes, Cline (2017) estimates cumulative cost of crisis of 64% of GDP, while Fender and Lewrick (2016) and Firestone et al (2017) estimate such costs to range between 63% to 100% of GDP and between 41% to 99% of GDP, respectively.

b) The role of regulatory independence in financial stability

Since the global financial crisis (2007-08) financial regulators and supervisors have been given increased independence, and there is evidence that this operational independence contributes to long-term growth by promoting financial stability.

Quintyn and Taylor, (2002) and Herrera et al., (2019) find that delegating responsibility for regulation and supervision to independent agencies can have a beneficial effect by insulating regulation and supervision from electoral cycles. Das et al (2002) note that if banking executives know in advance that insolvent banks will be closed – and that lobbying efforts will fail – they will behave more prudently, thereby reducing the likelihood of bank failures and a financial crisis. Building on work by Klomp and de Haan (2009) and Dincer and Eichengreen (2014), Fraccaroli et al. (2020) explore the impact of regulatory independence on the stability of the banking system. They use a dataset of reforms to regulatory and supervisory independence for 43 countries from 1999-2019, combined with an index with bank-level data, to investigate the impact of reforms to independence on financial stability. From this, they find that reforms that bring greater regulatory and supervisory independence are associated with fewer non-performing loans in banks' balance sheets (an indicator for financial stability). In addition, they provide evidence that these improvements do not come at the cost of bank efficiency and profitability. Overall, their results show that operational independence of regulators and supervisors is beneficial for financial stability.

Finally, greater financial stability (ie smoother domestic or global financial cycles) is likely to lead to smoother business cycles since these two cycles are synchronised (Claessens et al. (2012); Gerba (2015); Aldasoro et al. (2020)). This is relevant to the effect of regulatory independence in reducing (macro)economic volatility.

This is consistent with the literature examining the link between regulatory/supervisory independence and long-term economic outcomes through the promotion of higher prudential standards. Barth et al. (2013) find that supervisory independence is positively associated with bank efficiency. Furthermore, they find that the effect of supervisory independence on bank efficiency is particularly strong in countries where the regulator has greater supervisory powers, underlining the importance of the link between regulatory and supervisory independence, higher prudential standards and bank efficiency.

Approach to secondary objectives

3.6 We have two secondary objectives: to facilitate effective competition in the markets for services provided by PRA-authorized firms carrying on regulated activities; and 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-authorized persons), and its growth in the medium to long-term.

3.7 There is a complementary relationship between our primary objectives, secondary competition objective, and the secondary competitiveness and growth objective. Our approach to pursuing our primary objectives is grounded in maintaining a strong and dynamic UK economy. Effective competition, by supporting the efficient delivery of vital services, is an important part of this. Additionally, a resilience and dynamic financial services sector can reinforce long-term growth and contribute towards a competitive UK economy.

3.8 The secondary objectives are generally engaged when we pursue our primary objectives. For example, we make rules setting capital and liquidity requirements, which are important tools in the pursuit of our primary objectives. When doing so, we consider whether different policy options would have a positive or negative effect on competition, or on competitiveness and growth. Where different options are available, and it is reasonably possible to do so, we choose an option that appropriately promotes our secondary objectives while also pursuing our primary objectives. We consider the interaction between the primary and secondary objectives, and the benefits of each policy option.

3.9 We take a proactive approach to pursuing both our secondary objectives. We identify opportunities to advance our secondary objectives through our practical supervisory experience, industry feedback, analysis, or research. We have specialists who focus specifically on the secondary objectives. It is also important to note that there are certain

cases where the secondary objectives do not apply; for example, when we take firm specific actions to advance our primary objectives.

Approach to our secondary competition objective

3.10 Our secondary competition objective requires that effective competition between firms is facilitated, so far as is reasonably possible, as we pursue the primary objectives. Effective competition can improve the supply of financial services to the real economy and encourage innovation and efficiency among firms.

3.11 In facilitating 'effective competition', we pursue stable competition, which encourages the long-term viability of firms and the products and services provided by customers. We do not aim to create an environment where firms can gain short-term competitive advantages through unsustainable business practices. Unstable competition, where firms adopt business models that are not viable, can undermine our objectives.

3.12 We have identified effective competition as being characterised by conditions where:

- Suppliers compete to offer a choice of products or services on the most attractive terms to customers, such as lower prices or better quality. At the same time, suppliers appropriately price in the risks associated with their businesses such that they have confidence in their ability to meet their service obligations.
- Customers have the confidence to shop around thanks to the fact that firms are subject to strong and proportionate prudential standards. Products and services can be obtained, and customers receive the products and services they expect, at a price that allows suppliers to earn a return on their investment commensurate with the level of risk taken.
- It is possible for suppliers, including those offering new products and services, to enter the market and to expand; and suppliers offering products or services on unattractive terms, or which are unable to meet their obligations, to exit the market in an orderly fashion.

3.13 Our proactive approach to the secondary competition objective is embedded in our internal policy-making and supervisory processes in several ways.⁹ Our Annual Competition

⁹ This includes: (i) Competition considerations are taken into account from an early stage of policy development, with all formal governance papers including analysis of the proposed policy on competition. (ii) Periodic review of firms' responses to regulation are undertaken to promote consistent interpretation of our rules and guidance, supporting a level playing field and thus advancing competition. (iii) Research is undertaken to better understand how PRA policies can affect competition. (iv) Bi-annual updates on competition issues are undertaken and provided to the PRC.

Reports set out the programme of work we have undertaken, and how this has materially influenced policy outcomes.

3.14 This proactive approach to the secondary competition objective has actively influenced policy outcomes. We have launched initiatives to facilitate effective competition in retail banking. We achieved this by making the calculation of regulatory capital requirements more proportionate, levelling the playing field across the sector, and reducing barriers to entry.¹⁰ This included narrowing the gap between capital requirements based on standardised approaches (SA) to credit risk and those based on internal ratings-based (IRB) models where they are unduly large. We also established the [New Bank Start-up Unit](#) (NBSU), and the [New Insurer Start-up Unit](#) (NISU), and we are developing the '[Strong and Simple](#)' initiative, which will simplify the prudential framework for small banks and building societies.

Approach to the competitiveness and growth objective

3.15 We are also proactive in our approach to the secondary competitiveness and growth objective. We look for ways in which we can facilitate the UK's competitiveness and growth when we discharge our general functions.

3.16 When determining how to advance the secondary competitiveness and growth objective, we consider academic literature and the views of market participants. With respect to growth, the findings from the literature (see Box 2) and survey evidence (see Box 3) are clear that robust prudential standards are positively associated with growth in the real economy over the medium to long term.

3.17 A wide range of factors influence the competitiveness of global financial centres. Some of the most important factors are outside the direct control of a prudential regulator, such as the overall stability of the macroeconomic environment, levels of human capital, and the tax regime. Our approach is to focus on factors where we can exercise some control. Below we set out the overall framework through which we advance the secondary competitiveness and growth objective.

3.18 We have identified three main channels through which we can facilitate the growth and international competitiveness of the UK financial sector and/or the real economy. These are:

1. **Capital allocation:** We can contribute to productivity in the UK economy by facilitating PRA regulated firms in allocating capital efficiently among financial firms and non-financial corporates. This capital allocation channel is fully aligned with the secondary competition objective given that facilitating competition helps efficient capital allocation.

¹⁰ For further information on these initiatives, please visit the Bank's webpage to find its Annual Report on the secondary competition objective: [Prudential Regulation Authority Annual Report 2022 | Bank of England](#).

2. **Ability to sell:** We can facilitate PRA regulated firms in competing in international markets, and thereby increase their ability to undertake cross-border activities.
3. **Ability to attract:** We can facilitate regulated international firms in locating their headquarters, subsidiaries and/or branches in the UK. This supports investment in the UK.

3.19 We consider that there is both a domestic and international dimension to competitiveness and growth, and our approach encompasses both. The domestic dimension relates to efficient capital allocation and the ability to attract investment to the UK. The international dimension relates to the UK's role as a hub for international trading activity, attracting firms and selling UK services overseas. Both dimensions bring value to the UK financial sector and the wider UK economy.

3.20 We focus on what direct action we can take to activate the three transmission channels. Our approach is informed by a pilot survey of financial services professionals, and focuses on¹¹ strengthening the following three regulatory foundations:

1. Maintaining trust among domestic and foreign firms in the PRA and UK prudential framework
2. Adopting effective regulatory processes and engagement
3. Taking a responsive and responsibly open approach to UK risks and opportunities

Maintaining trust among domestic and foreign firms in the PRA and UK prudential framework

3.21 The key way through which we maintain trust is by maintaining strong prudential standards. Strong prudential standards preserve the growth prospects of the real economy in the medium-to-long term by reducing harm from future financial instabilities, thereby creating trust in the prudential regime. Strong standards, together with healthy competition in the financial sector, and consideration of the UK's long-term output and growth, collectively underpin the success of the UK as an international financial centre, and the ability of the financial sector to support the real economy.

3.22 Trust is also maintained through the appropriate design and calibration of standards: excessively high standards can hamper economic growth by constraining the provision of financial services to the real economy, and also harm the trust and attractiveness of the UK regulatory framework.

¹¹ The survey collected 145 responses between 18 May and 30 June 2023. 63% of responses came from banks. 16% of responses came from insurance companies. The rest (21%) came from asset manager companies, trade unions, academics and civil society. Survey results are publicly available: [pilot-survey-secondary-competitiveness-and-growth-objective \(bankofengland.co.uk\)](https://www.bankofengland.co.uk/pilot-survey-secondary-competitiveness-and-growth-objective).

3.23 Because of the interconnected nature of the global financial system and the potential for financial distress to spread across borders, there are circumstances where our objectives are most effectively advanced through the implementation of international standards.

International standards support a globally resilient financial system, and reduce competitive inequalities between countries, enabling firms to compete on a level playing field.

3.24 As an operationally independent regulator, we are committed to the faithful implementation of international standards, and we support their implementation by our international partners. Our implementation of international standards builds trust in the UK as a financial centre and provides international regulators with assurances that their regulated firms can conduct business safely in the UK. Implementation of international standards by other jurisdictions also enables UK firms to operate and compete internationally.

3.25 When implementing international standards, we do so in a manner that advances our objectives, including the new secondary competitiveness and growth objective which references alignment to international standards. We are open to adjusting our implementation when guided by the evidence. Our approach to international engagement and implementation of international standards is described in more detail in Chapter 4.

Effective regulatory processes and engagement

3.26 The operational costs of doing business in a jurisdiction affect the competitiveness of an economy. Many of these costs are not within our control, but some are. By providing for the efficient handling of regulatory processes, including authorisations, we can increase the efficiency and reduce operating costs of firms. Another factor within our control is the data and information we request as a regulator, and we therefore seek to ensure we collect data efficiently and proportionately.

3.27 An important part of our approach is facilitating the accessibility of our Rulebook. Having an accessible and clear Rulebook reduces the resource costs associated with interpreting and operationalising PRA rules. Our approach to the Rulebook is set out in Chapter 6.

Responsive and responsibly open approach to UK risks and opportunities

3.28 We aim to be responsive and open to risks and opportunities when making policy to pursue our objectives. While the UK was a member state of the EU, we were constrained by the necessity of agreeing collective policy responses which were appropriate for the EU as a whole. We can now make rules that account more effectively for the needs of the UK, and we can respond faster to emerging risks and opportunities in the UK financial sector.

3.29 To achieve this, we consider which tool would address risks most effectively and proportionately. Rule-making is only one of the options available to us to pursue our

objectives, alongside other tools such as supervisory expectations and firm supervision (see Chapter 5).

3.30 Evidence from a [PRA survey](#) indicates that firms are particularly, though not exclusively, interested in the regulator's responsiveness and openness to innovation. The move to a more British system of regulation, with rules set out in the Rulebook rather than legislation, enables us to respond more quickly to emerging risks and technologies. We can introduce prudential standards to cover new practices quickly, increasing confidence and supporting growth in areas of innovation. Moreover, we can use regulatory tools to encourage safe innovation like sandboxes. These standards and tools can encourage innovation and new firms' entry into the market. Additionally, they can encourage exit and contribute to a dynamic business environment where it is more difficult for 'zombie' firms to survive.

3.31 We are also open to hosting cross-border business in the UK, provided it is resilient and appropriately controlled and governed and if we have sufficient visibility of and influence over the necessary supervisory outcomes. Adopting a responsibly open approach attracts foreign capital to UK and enhances the UK's status as a global financial centre. When international firms compete with domestic firms, effective competition is also enhanced, and the efficiency improvements can have a positive impact on growth.

3.32 Our interpretation of the secondary competitiveness and growth objective also rejects the idea of competitiveness as a zero-sum game between jurisdictions. Instead, we believe that we should exploit the complementarities that arise with other jurisdictions and maintain an open approach internationally, which could further support innovation.

3.33 To ensure our responsiveness is focussed and targeted, we engage our stakeholders and seek input on issues such as rule review and innovation.

Box 2: Literature on competitiveness and growth

The available economic literature relevant to the secondary competitiveness and growth objective¹² indicates the following: First, the financial sector can negatively affect economic activity through the frequency, scale and duration of financial crises. In contrast, stronger financial institutions can better support economic activity during stress. Second, better functioning financial systems can foster growth by improving resource allocation and technological change. Thirdly, the financial services sector can also directly increase economic activity by exporting financial services abroad and attracting foreign capital to be invested in the UK economy.

While there is sufficient evidence showing that robust prudential standards are positively associated with economic activity over the medium to long term, it is less clear that the competitiveness of a global financial centre can be enhanced by weakening prudential standards.

Box 3: Survey evidence on what makes a financial centre attractive

Along with the academic literature, there is some survey-based evidence on which factors finance professionals consider important for the attractiveness of a financial centre. This includes survey conducted by consultancies, as well as our own survey which we undertook to inform our approach to the secondary competitiveness and growth objective. Across external surveys and our own there is clear evidence that stakeholders care about a stable and predictable prudential regulatory framework that can withstand episodes of financial stress.

A [recent survey](#) undertaken by a major consultancy ranked the most important factors as follows:

1. the liquidity of markets and availability of capital (38%);
2. the level of tech adoption by citizens and administrations (35%);
3. the stability of political and regulatory regimes and safety of securing measures to prevent a major crisis (28%).

¹² See section 3 of PRA Background paper 2: [The links between prudential regulation, competitiveness and growth](#).

Similarly, our own survey results¹³ identify the following three most important factors:

1. Stability and predictability of macroeconomic environment
2. high level of human capital; closely followed by
3. The prudential framework.

Regarding the prudential framework, 91% of respondents agreed that we provide a stable and predictable regulatory environment, and 93% agreed that our regulatory framework fosters trust in the firms we regulate.

The other attributes under the control of the prudential regulator that are considered important are: operational efficiency (eg in assessing requests for regulatory approvals or authorisation); accessibility of the rulebook (eg, making rules less complex and thus less costly to comply with); and responsiveness to new developments in order to support industry innovation efforts. In addition, whilst stakeholders value the ability to tailor rules to UK circumstances, there is some apprehension regarding the risk of fragmentation across jurisdictions which would tend to increase compliance costs for internationally active firms. This potential trade-off indicates that tailoring rules to UK circumstances is more suitable to domestic activities.

3.34 Our approach is complementary to the other secondary objective to facilitate competition. Effective competition is the key driver of efficient financial intermediation, which in turn supports growth of the overall economy, especially when it unlocks innovation in the wider economy, and within the financial services sector. Therefore, effective competition is instrumental to a vibrant and innovative financial services sector that efficiently serves the rest of the UK economy. Effective competition can be facilitated by allowing international firms to compete in the UK via branches and subsidiaries. However, for this to be the case it is important to prevent foreign firms from taking advantage of comparatively lower requirements to outcompete UK firms.

¹³ In 2023, we ran a pilot survey to gather feedback on the extent to which our regulatory framework is advancing the new objective and how we can further facilitate its implementation in the future. The survey was sent to all invitees to a conference on competitiveness and growth, which we convened on 19 September 2023. Responses were collected between 18th May and 30th June 2023. The sample size was 145, across banks, insurers and others (building societies, academics, trade associations, think tanks, asset managers, industry professional services and advisers).

Approach to accountability on the secondary competitiveness and growth objective

3.35 We are committed to being accountable for our actions to advance the secondary competitiveness and growth objective. We therefore provide transparency on how policy judgements are reached, including through detailed explanations in our Consultation Papers (CPs) and CBAs. We also report annually on how we have advanced the secondary competitiveness and growth objective – including both qualitative descriptions and quantitative metrics.

3.36 This is similar to the approach we adopt to reporting on the secondary competition objective. We consider the descriptive element to be important given quantitative metrics alone cannot fully capture the range of activities we undertake to advance our secondary objectives.

3.37 The quantitative metrics we publish are directly linked to the regulatory foundations set out above and therefore within the PRA's control. They measure the extent to which we achieved the outcomes embedded in the foundations. Metrics under the first foundation (maintain trust from foreign and domestic firms in the PRA and the UK prudential framework) measure the appropriate calibration of, and alignment with, international standards. Metrics under the second foundation (adopt effective regulatory processes and engagement) measure our operational efficiency, the accessibility and efficiency of the Rulebook, the efficiency of our regulatory requests and the effectiveness of our stakeholder engagement. Finally, metrics under the third foundation (adopt a responsive and responsibly open approach to UK risks and opportunities) measure the extent to which we support industry innovation, our responsiveness and international openness.

Approach to our regulatory principles

3.38 In pursuing our objectives, we take into account regulatory principles which capture a wider set of public policy considerations that we must turn our minds to as we take decisions. The list of our regulatory principles is set out in Chapter 2 (Table 1).

3.39 We review all the regulatory principles, identify which are significant to the proposed policy and judge the extent to which they should influence the outcome. For each policy proposal, some regulatory principles are particularly significant, while others less so. We judge this on a case-by-case basis.

3.40 In deciding how significant a regulatory principle is to a particular decision, we consider several factors. These include the impact of the proposal at a market level, and on individual firms in scope of the policy proposal. We use the data and tools available to us to form these judgements. Where the regulatory principle is significant to the policy proposal, we seek to accommodate the consideration as we pursue our objectives.

3.41 Some regulatory principles are closely linked to our objectives. As noted in Chapter 2, 'innovation' and 'trade' are examples of regulatory principles which relate to our secondary competitiveness and growth objective. Some considerations are explicitly captured as both an objective and a regulatory principle, such as competition. In such instances, analysis undertaken in consideration of the objective can help us with consideration of the regulatory principle, though we consider differences of emphasis in the wording accordingly.

3.42 Further, we cluster similar regulatory principles for the purposes of undertaking and presenting analysis (see Table 1 in Chapter 2). By capturing areas of thematic overlap, this supports our internal efficiency and agility as a policy-maker. We recognise – and carefully consider – the nuances of the individual regulatory principles. We also recognise that certain principles will be relevant across more than one thematic cluster.

3.43 We use our judgment when deciding on the most significant regulatory principles and how to approach the analysis and presentation. This is a case-by-case decision, as different regulatory principles may support different policy proposals. This judgement is informed by our analysis of the available data and wider evidence. We also use our judgement when considering the appropriate level of detail for undertaking and presenting our analysis.

3.44 In order to support accountability, we provide transparent explanations of how regulatory principles have influenced our policy decisions. An example of our approach can be seen in our implementation of updated Basel standards in February 2021.¹⁴

Draft for Consultation

¹⁴ Available in Appendix 12, [PS17/21](#).

4: Our approach to international engagement and collaboration

This chapter describes how we engage internationally and implement international standards. It explains how the integration of the global financial system benefits the UK while also creating risks and sets out how we respond to these risks. It also describes the approach we take to advising HMT on ‘equivalence’ determinations.

4.1 The UK is a globally systemic and open financial centre. Many UK firms have operations overseas, and many firms domiciled abroad have operations in the UK. The UK is the fourth largest insurance market globally.¹⁵ About one fifth of global banking activity takes place in the UK, and the UK is the world’s largest host jurisdiction to foreign financial firms as subsidiaries or branches.¹⁶

4.2 The UK’s financial services sector and the wider economy benefit from openness. Openness provides UK firms with opportunities to grow and diversify by accessing opportunities in markets abroad. Similarly, international firms can promote dynamism and competition in the UK. Greater competition from international firms can also raise economic growth in the UK by improving efficiency.

4.3 However, there are risks associated with openness. In open financial systems, distress can emerge in one jurisdiction and spread across borders, affecting others. This process is known as contagion. The consequences of contagion were illustrated by the global financial crisis (2007-08), which began with problems in local financial markets and then developed into a crisis of global dimensions. As a large financial centre, the UK is exposed to shocks affecting the global financial system. Conversely, developments in the UK financial system can have a significant impact in other jurisdictions. For this reason, the IMF considers UK financial stability to be a global public good.

4.4 Risks can also arise when international firms gain a competitive advantage over their peers through regulatory arbitrage caused by different prudential requirements in their home market. This can result in pressure on domestic firms to compete in an unsustainable way.

4.5 Therefore, for openness to work well, it must be accompanied by strong regulatory and supervisory cooperation across jurisdictions. Consequently, we take a proactive approach to international engagement. This includes:

- Exchanging information and sharing best practice with international partners to inform research and policy development (as well as supervisory action). In doing so we can alert one another to risks emerging in the financial system and develop responses to

¹⁵ See Executive Summary, [IMF Staff Country Report: United Kingdom: Financial Sector Assessment Program](#).

¹⁶ See p. 386, [Bank of England Quarterly Bulletin](#).

shared challenges. We are committed to maintaining an effective level of international engagement and co-operation with our international partners.

- Engaging in the development of international standards. International standards set minimum regulatory standards to be implemented across jurisdictions with a view to establishing a globally resilient financial system, and a level playing field for international firms. A globally resilient financial system reduces the UK's vulnerability to international financial shocks. A level playing field supports the competitiveness of the UK by reducing competitive inequalities that can arise if regulatory standards vary across jurisdictions. Through the process of repeal and replacement of retained EU law in PRA rules, under FSMA 2023 we have assumed wider responsibilities for making rules in areas covered by international standards. As we discharge these responsibilities, we take into account the context and the impact on our objectives and regulatory principles.

4.6 We also engage internationally when advising HMT on equivalence determinations. This engagement involves assessing the regulatory and supervisory frameworks of third countries to inform decisions by HMT on whether the third country's regulatory outcomes can be considered equivalent.¹⁷ Where HMT determines other jurisdictions to be equivalent, this can facilitate cross-border transactions and may also be reflected in a reduced regulatory burden in particular areas of regulation.

Our international engagement

4.7 We engage across international institutions and networks, and also directly with other jurisdictions.¹⁸ We adopt a collaborative approach and attend all relevant international meetings to represent UK interests. We also look for further opportunities to deepen our international engagement where appropriate.

4.8 In banking, the leading international standard-setting authority we engage with is the Basel Committee on Banking Supervision (BCBS). The BCBS has a mandate to strengthen the regulation, supervision, and practices of banks worldwide to enhance financial stability. The most recent package of reforms, Basel III (supplemented through Basel 3.1), was developed in response to the global financial crisis (2007-08) and has made the global banking system **more resilient**.

¹⁷ Guidance document for the UK's approach to equivalence: [Guidance Document for the UK's Equivalence Framework for Financial Services - GOV.UK \(www.gov.uk\)](#). In certain cases, we also assess the equivalence of other jurisdictions for different purposes; for example, for the purposes of authorisation and supervision by the PRA of subsidiaries and branches of international groups. Our approach in this respect is explained in SS5/21 'International banks: The PRA's approach to branch and subsidiary supervision'.

¹⁸ We are not the only UK authority that engages internationally in the field of prudential regulation. The Bank of England acts internationally in pursuit of financial stability and participates in many of the same international networks as the PRA. HMT and the FCA are also represented at certain fora, and the Bank and PRA work with them to promote common objectives.

4.9 In insurance, we participate actively in the International Association of Insurance Supervisors (IAIS), which includes authorities from more than 200 jurisdictions. The IAIS develops and supports the implementation and assessment of international standards, with the aim of promoting effective and globally consistent supervision of the insurance industry. Our work with the IAIS has included the development of Insurance Core Principles (ICPs) for all insurers, and the Insurance Capital Standard for internationally active insurance groups.

4.10 We cooperate closely on a bilateral basis with supervisors in other jurisdictions (including UK overseas and dependent territories, and sub-national jurisdictions, eg US states). We attach great importance to these relationships, which play an important role in helping us identify risks that require a response. Our supervisory engagement involves participation in supervisory colleges and establishing co-operation agreements which facilitate day-to-day supervision. The Bank (including in its capacity as the PRA) currently has in place just under 80 supervisory cooperation and information sharing Memoranda of Understanding (MoUs) with authorities across 55 countries.¹⁹

4.11 International engagement can support our understanding of new emerging risks. This is particularly important where understanding of the risk is not fully developed, and the exchange of expertise can enable a more informed response. For example, we engage on climate related matters across multiple fora, including the Sustainable Insurance Forum (SIF) and the Network for Greening the Financial System (NGFS).

4.12 Engagement also occurs outside international bodies. Senior PRA officials are proactive and engage with their counterparts at other central banks and regulatory bodies. These relationships support cooperation and more coordinated international action, which is particularly important during periods of global distress.

4.13 We provide input into wider Bank engagement on prudential regulation and financial stability matters at international fora including the Financial Stability Board (FSB), BIS and the IMF. We also coordinate with the FCA on shared international priorities, and we have an MoU in place covering our respective responsibilities at international fora.

4.14 Recognising that UK financial stability has implications for countries around the world, the Bank and PRA work to provide international authorities with information and insight into how the UK financial system is functioning, and how we regulate and supervise firms. For example, both the Bank and PRA actively engage with the IMF to inform its Financial Sector Assessment Programme (FSAP) - a comprehensive and in-depth analysis of a country's financial system.

¹⁹ Supervisory Colleges are an important part of our supervisory approach. For information on our approach to these, please see our Supervisory Approach documents: [PRA's approach to supervision of the banking and insurance sectors | Bank of England](#).

Our approach to implementing international standards

4.15 As a systemically important financial centre with close linkages to other jurisdictions, there are circumstances where our statutory objectives are most effectively advanced by developing international standards and implementing these with our international partners.²⁰

4.16 International standards support stability by:

- Establishing strong baseline standards across jurisdictions. This reduces the likelihood that shocks will emerge abroad and spread to the UK.
- Creating a level playing field across jurisdictions. A level playing field is one where firms compete on an equal footing, gaining market share through innovation and efficiency improvements. A global financial system in which jurisdictions generated competitive advantages for firms through lower regulatory or supervisory standards would ultimately become unstable. This would undermine our objectives and those of other international regulatory authorities.

4.17 Our record of implementing international standards supports the UK's credibility as a financial centre, providing assurance that international firms can operate here under a robust prudential framework.

4.18 As communicated by the Bank in its [Financial Stability Strategy](#), UK financial stability requires levels of resilience at least as great as those put in place since the global financial crisis and required by international baseline standards, and in some cases greater. Recognising the importance of the UK as a global financial centre, we remain at the forefront of efforts to strengthen international standards where necessary.

4.19 We are committed to the faithful implementation of international standards. We interpret faithful implementation to mean being at least largely compliant with international standards, and we therefore target a 'largely compliant' rating under assessments of the UK regulatory framework carried out by international bodies.²¹ Under this approach, there is scope for us to adjust our implementation of international standards in certain circumstances.

4.20 FSMA 2023 establishes the basis for broader scope for adjustments when implementing international standards. When the UK was an EU member state, decisions regarding implementation were made with 27 other member states. The need to harmonise practice across jurisdictions meant standards were not always appropriately calibrated for the UK.

²⁰ Our engagement in the development of international standards is one of the ways in which we meet our cooperation duty in s354B FSMA.

²¹ International bodies such as the Basel Committee on Banking Supervision (BCBS), the International Association of Insurance Supervisors (IAIS) and the International Monetary Fund (IMF) conduct assessments which review the extent to which each member jurisdiction complies with international standards. Compliance is rated across a spectrum from 'Materially non-compliant' to 'Compliant', or from 'Not observed' to 'Observed'.

Reforms to the regulatory framework, enacted through FSMA 2023, enable us to implement standards in a manner that is more appropriate for the UK.

4.21 We consider adjustments to our implementation where market developments mean the standard is no longer proportionate to the risk; or where other jurisdictions have implemented standards in a manner that has implications for our secondary competitiveness and growth objective or regulatory principles; or where the evidence shows that the standard does not account for the UK's specific market circumstances.

4.22 We place great importance on alignment with international standards. Moreover, we recognise that adjusting implementation can create challenges for internationally active firms, as operationalising different requirements across jurisdictions can increase costs. Therefore, adjusting implementation is not a course of action we pursue lightly.

4.23 We take an evidence-based approach when adjusting implementation, and we consider the approach taken in other jurisdictions when we develop and update our own policy. We make decisions about which jurisdictions we compare our approach with on a case-by-case basis. We prioritise comparisons with jurisdictions that are comparable and that host global financial centres, as this ensures we maintain strong and consistently implemented international standards. This strengthens the UK's international standing, including with other regulators, and helps retain confidence in the UK as a safe and stable place to do business. However, we also consider the context of the issue and the relevant geographic market(s) expected to be affected. This means that smaller jurisdictions are particularly relevant in some circumstances.

4.24 We also have some discretion over which firms to apply international standards to as a result of our broader rule-making responsibilities. We consider that the application of international standards to non-systemic domestically focused firms can impose high costs without delivering sufficient benefits in respect of our objectives. There are therefore cases where a more proportionate and risk-sensitive approach is appropriate. These judgements are made on case-by-case basis, as they depend on the sector and nature of the regulated activity.

4.25 Our approach in this respect is illustrated by our work to develop a 'Strong and Simple' prudential regime for non-systemic banks and building societies.

4.26 We have a range of methods to implement international standards, spanning both policy and supervisory approaches. We consider which method is appropriate for each aspect of prudential regulation. In doing so, we endeavour to meet the level of resilience intended by the relevant international standard.

4.27 We recognise the need for other jurisdictions to adopt their own approach to implementation, subject to aligning with international minimum standards. We support efforts

to monitor and assess implementation of minimum standards, and we support engagement between jurisdictions to discuss implementation and address areas of shared concern.

Our approach to informing equivalence assessments

4.28 We also deliver benefits for our objectives in an international context when advising HMT on equivalence determinations and other deference determinations. Equivalence is a mechanism by which one jurisdiction recognises relevant standards in another jurisdiction as equivalent to its own. Equivalence determinations can reduce the regulatory burden on firms by calibrating the treatment of exposures to assets and counterparties in the relevant jurisdiction more appropriately. This can lead to deeper financial integration between mutually equivalent jurisdictions.

4.29 In certain areas, HMT is responsible for determining whether the outcomes of other jurisdictions' regulation can be considered equivalent to the UK. We participate in this **process** (working closely with the FCA where appropriate) by providing technical information and advice to support HMT's decisions.

4.30 Given that equivalence can result in different prudential treatment for certain exposures, as well as deeper financial integration, it is important that we assess the potential impact of the proposed determination on our objectives. FSMA 2023 also introduced new accountability mechanisms requiring the regulators to assess whether there would be material risk of incompatibility with relevant deference decisions or trade obligations when proposing to make rules or changes to certain general policies and practices.

4.31 We adopt an outcomes-based approach to equivalence assessments and advice. In general an outcomes-based approach means assessing a third country's prudential framework based on whether its laws and regulations provide an equivalent outcome to the corresponding UK regulatory framework. The implementation of relevant international standards by the other jurisdiction is an important consideration in our assessment.

4.32 Our outcomes-based approach is proportionate, and judgement based. We expect other jurisdictions to maintain a prudential and supervisory framework which achieves an outcome equivalent to the UK's. However, we recognise that other jurisdictions can use different methods to achieve equivalent outcomes.

5. The policy cycle

This chapter describes our approach to creating and maintaining our prudential policy framework, which we refer to as the ‘policy cycle’. We describe how our approach to policy-making consists of four phases: initiation, development, implementation and evaluation. We also describe our approach to stakeholder engagement through the cycle.

5.1 We make prudential policy to pursue our objectives. For example, we make policy to reduce the risk or impact of market failures,²² improve the effectiveness of regulation,²³ or respond to wider systemic crises.

5.2 Promoting safety and soundness at the level of the individual firm reduces the risk of firms failing and protects against wider systemic consequences. Our policies form a framework of robust prudential standards that promote the UK’s financial stability (in line with the Bank’s financial stability objective) and support the attractiveness of the UK as a global financial centre.

5.3 In this chapter, we set out how we make policy. Transparency and accountability, flexibility, and stakeholder engagement are important features of our approach.

5.4 **Transparency and accountability:** We recognise the importance of transparency and explaining our judgements. We explain how our interventions advance our objectives. In particular, we share this analysis during consultation, modifying and justifying our proposals in light of feedback received.

5.5 Transparency and clear lines of accountability assist Parliament in holding us to account and support our stakeholders in understanding our proposals and providing feedback. This approach document also supports transparency on our processes by providing stakeholders with clarity on how we make policy, and how we take feedback into account.

5.6 **Flexibility:** Having requirements in PRA Rules enables us to review all rules relevant to a policy area holistically, providing us with flexibility to tailor our response. We can respond quickly to changes in the external environment and reflect the characteristics of our regulated firms and the UK financial system. We have the ability to, where appropriate, deploy

²² Market failures might result from issues with externalities, information asymmetries, or market power.

²³ Policy-making is inherently uncertain, and we cannot always accurately predict the impact of its policy either before implementation or when market conditions change over time. Policy changes may be made where a policy is no longer be effectively addressing an issue relevant to the pursuit of the PRA’s objectives.

supervisory alternatives, instead of making rules. We also have the ability to waive or modify a rule for individual firms.

5.7 Stakeholder engagement: We value stakeholders' engagement in our policy development and rely on them to provide data to understand the practical implications of our proposals. We engage to understand the relative costs and benefits of our proposals and to gain different perspectives on our judgements. This provides us with a valuable input to the policy-making process. We then come to a decision which considers the full range of evidence available to us, and which is consistent with our obligations as an independent regulator. Our approach to stakeholder engagement is described in Box 4.

Overview of the policy cycle

5.8 Our approach to policy-making consists of four phases:

1. **Initiation:** identifying and monitoring risks and opportunities, assessing whether taking action would further our objectives, and if so, considering the appropriate type of response;
2. **Development:** developing policy proposals based on the available evidence;
3. **Implementation:** inaugurating and embedding the new policy; and
4. **Evaluation:** assessing whether the policy has achieved its objectives and, as a result, whether revisions or enhancements should be made.

Diagram 1: Overview of the Policy Cycle



5.9 We combine evidence and judgement to make policy that advances our objectives. We collaborate across our policy-making and supervisory functions, and work closely with the Bank's financial stability and resolution functions. We also engage with HMT and the FCA.

5.10 We consider whether it is appropriate for us to intervene on a given issue before acting. We consider evidence, insights from our experience, and we apply our judgement.

We also consider the accountability framework set by Parliament, including whether a response advances our objectives and supports the Bank's financial stability objective. These elements provide a holistic overview of the case for and against intervention. The balance between inputs will vary depending on the nature of the risk. In some cases, we may rely on our judgement more heavily where there are information gaps and we need to intervene to advance our objectives.

5.11 If we conclude that intervention is necessary, we have a range of possible responses, including policy and supervisory responses. Flexibility regarding the response type enables us to be timely and proportionate in how we act.

5.12 We aim to establish and maintain policy material that is consistent with our objectives, clear in intent, straightforward in presentation and as concise as possible. Our policy framework aims to set out what outcomes we expect, so that firms can meet these expectations.

5.13 The policy cycle provides an overarching methodology for how we make policy. In order to pursue our objectives, we take an agile and pragmatic approach to policy-making. Our approach varies on a case-by-case basis, reflecting the nature of the risk and its urgency. This ensures that we can respond rapidly and effectively to emerging risks. For example, the need to act quickly in times of crisis may require us to expedite some steps of our policy-making process. The remainder of this chapter explores the four phases of our approach in more detail.

Phase 1: initiation

Overview

5.14 Initiation is the first step in our policy-making approach. We identify potential reasons to act, consider possible responses, and conduct an initial assessment of the case for and against intervention. This phase does not always conclude with further policy development.

5.15 When we identify a potential cause for action, we undertake an initial assessment to understand the nature of the issue, and the likelihood and severity of any impact on our objectives. We also consider the international context and the existence of relevant international standards. We use these outputs to identify the ways we could respond and assess the case for intervening.

When might we act?

5.16 We aim to monitor a wide range of sources to identify where we might need to act (see Table 2 for examples). There is a high degree of interconnectedness between the sources.

Table 2 – examples of where we may need to act

Source (not ranked)	Why might we need to act?	Example
Supervisory input	Our supervisory function may identify an emerging risk through interactions with firms, or receive reports from firms of a developing issue.	Our Supervisory Statement on 'New and Growing Banks' (SS3/21). Our Supervisory Statement on cyber insurance underwriting risk (SS4/17).
Evaluation of existing policy	We may identify an issue with current regulation, which requires intervention or amendment to make the policy more effective or less burdensome.	Our refinements to the Pillar 2A capital framework (PS22/17).
Horizon scanning	We carry out horizon scanning to identify new and emerging risks. When these could impact firms and our objectives, we might intervene.	Our expectations on risk weight floors for residential mortgages.
Research	We conduct an ongoing program of research which may identify risks that needs addressing or aspects of policy which may not be effective.	Staff Working Paper No. 922 'Measure for Measure: evidence on the relative performance of regulatory requirements for small and large banks' influenced our publications on the future ' Strong and Simple ' framework.
Significant events	We may need to respond to rapid changes in market conditions caused by low-probability high-impact events to protect safety and soundness or avoid significant adverse effects.	Our response to the Covid-19 pandemic.

International standards	We implement international standards to pursue our objectives, as set out in Chapter 4.	Our implementation of <u>Basel III International Standards</u> .
UK legislation	We may take action in pursuit of the goals of legislation made by Parliament.	Our <u>implementation</u> of bank ‘Ring Fencing’ legislation (introduced via the <u>Financial Services (Banking Reform) Act 2013</u>).
Direction from HMT under the new rule review power	We may need to act under directions received from HMT to review specific rules.	N/A (not yet exercised).
Recommendation or direction given by the Financial Policy Committee (FPC)	The FPC may suggest or direct (where there is a macro-prudential tool) us to intervene to address a risk they have identified.	Our <u>implementation</u> of the FPC’s 2016 recommendation to exclude certain exposures from the leverage ratio.

Initial analysis

5.17 Where we identify a potential need to intervene, we undertake initial analysis, proportionate to the complexity and urgency of the issue. We also consider any possible implications for relevant deference arrangements and trade obligations.²⁴

5.18 Our analysis is supported by data. We collect different data for different purposes. We request data to support policy development, so that we can assess the costs and benefits of our policy proposals, and design policy in a manner that accounts appropriately for UK circumstances. We also collect supervisory data, which helps us understand how firms have implemented policies. These data enable us to review the practical impact of policies, including identifying unintended consequences.

5.19 Data can be qualitative – for example, information gained via interaction with external stakeholders; or data can be quantitative – for example, firms’ regulatory reporting. We have internal processes which support a consistent approach to the analysis of data and interpretation of results. These processes aim to make sure our data is as relevant and

²⁴ Once we have our policy proposal (at the ‘development’ stage) we will notify HMT of any material impacts or risks we had identified for relevant overseas deference arrangements and trade agreements.

reliable as possible, that our analysis is well-documented, and that our results are correctly interpreted and clearly communicated.

5.20 The data we request from firms to support policy development facilitates responsive and dynamic policy-making. It is also necessary for us to meet our accountability requirements. For example, we need data to consider the secondary competitiveness and growth objective. We also need data to carry out CBA effectively, and to ensure our policies account appropriately for UK circumstances. Ad-hoc data requests are sometimes necessary. However, before making such requests, we first consider whether the data we already have available to us is sufficient.

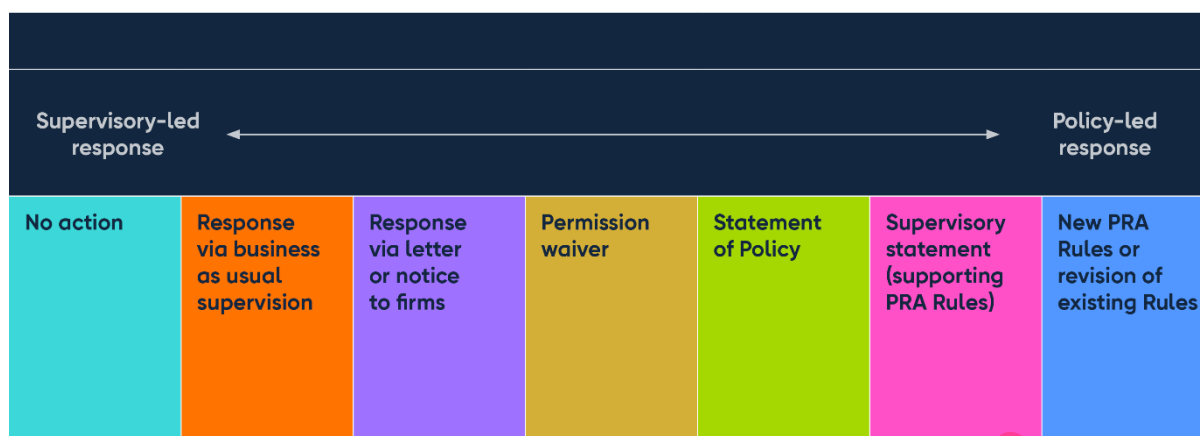
5.21 We recognise the importance of clearly communicating the purposes for which we are collecting data. Where circumstance allows, we provide the context to our request so that firms can understand what our request is intended to achieve. This can help firms address the request more efficiently. We also recognise the importance of proportionality and eliminating duplicative data requests. We are committed to streamlining regulatory reporting across insurance and banking, and to ensuring data requests are appropriately calibrated to firm size and complexity. Stakeholder planning for data requests is also facilitated by the Regulatory Initiatives Grid, which provides information on implementation timelines and forthcoming consultations, thereby enabling firms to manage expectations regarding potential data requests.

Identifying response options

5.22 Our next step is to identify one or more possible response options. As set out in Diagram 2, we have a variety of types of response at our disposal.

5.23 The nature of the issue (including the number of firms it affects) will determine which type(s) of response are suitable. In each case, we consider the most appropriate types of response in pursuit of our objectives. A supervisory response may be more appropriate where the issue affects a smaller number of firms. We may also consider whether to issue a letter to senior executives of firms, in order to set out our views on specific supervision or policy focused issues. A policy response may be more appropriate when the issue is more broadly applicable, and where enforceable requirements would deliver our aims most effectively.

5.24 We aim to conduct an initial assessment of the impact of each response option, proportionate to the scale of the potential intervention, and the relevant issue.

Diagram 2 – the spectrum of response types

5.25 Where there are different options, we consider the likely impacts of each option, and weigh up their ‘pros’ and ‘cons’ for our objectives and regulatory principles requirements.

Decision on next steps

5.26 We consider whether the evidence, and our confidence in our judgement, is sufficient to justify action. We also consider the potential for the market to ‘self-correct’. Through this, we determine whether we should intervene and, if so, which type of response we should use.

5.27 When deciding whether to address specific risks or opportunities, we must prioritise effectively. This means placing a higher priority on action that addresses the most material risks to our objectives. We welcome external input regarding the risks we prioritise. HMT can direct us to make rules in certain areas. Exercise of this power by HMT would require us to re-prioritise other risks accordingly.

Phase 2: development**Overview**

5.28 The Development Phase starts once we determine that we need to act, and that a policy response is appropriate.

5.29 We develop a policy proposal by analysing the options for new policy, and assessing their relative costs and benefits. Our policy and supervisory functions work together to understand the impact of different options on firms and their business models. Insights from the Bank’s financial stability function allow us to understand the potential broader, economic effects of a policy. Where appropriate, we consider approaches developed by other jurisdictions to address similar issues. Ultimately, we produce a refined policy proposal, which delivers what we judge to be the best mechanism for addressing the issue, while pursuing our objectives.

5.30 We consult on our policy proposals via a Consultation Paper (CP), and consider all responses before finalising our policy. Diagram 3 illustrates the stages within the Development Phase.

Diagram 3 - Stages within the Development Phase²⁵



Policy option design

5.31 We start the Development Phase by examining the policy options in detail. We set out one or more initial policy approaches, and articulate their aims, scope and mechanisms. In all cases, we prioritise how we can most appropriately pursue our objectives. We also consider the impact of the proposal on our regulatory principles.

5.32 Once we have described our initial policy approach(es), we analyse and refine these. The nature of the respective risk or opportunity will shape this process. Where we need to act urgently to meet our objectives, we might expedite some of these steps.

²⁵ This does not include the publication of a DP, which comes before this.

Stakeholder engagement

Box 4: Approach to stakeholder engagement

When we engage: key phases of the policy cycle

We engage our stakeholders throughout the policy cycle. We adopt a flexible approach and consider which form of engagement is appropriate, and when, in any given circumstance.²⁶

Engagement at the earlier stages of the policy cycle can be valuable to our stakeholders, particularly regulated firms. From our perspective it can provide insights that inform our assessments of emerging issues, and our thinking on potential policy options (including whether a policy response is needed at all). It also helps us evaluate the different ways to achieve a policy outcome and clarify the types of data we need from firms.

Early engagement is more feasible in some circumstances than others. For example, we can engage our stakeholders early when we are considering long-term risks and gathering input to inform our horizon scanning work, or where the broad parameters of the policy area are already clear. Our speeches and DPs also facilitate early engagement and provide stakeholders with insight into how we are considering an emerging risk or policy issue. Early engagement on specific policy proposals, pre-consultation, is not generally possible given we cannot confer an advantage or expose market sensitive information.

The consultation process is the primary mechanism through which stakeholders inform our approach. We welcome alternative viewpoints which challenge the proposals we put forward, particularly where evidence and data is provided in support of stakeholders' assertions. We typically invite interested parties to respond to our consultations within three months. In some cases, we extend these consultation periods; for example when the policy under consultation is particularly complex or operationally impactful. There are, however, circumstances where extending the consultation period is more challenging, such as when we have to meet international deadlines.

Stakeholder engagement is also an important component of the evaluation stage of policy-making. Stakeholders can inform our rule reviews by sharing views and evidence on policies that may not be working as intended. We draw on direct feedback from stakeholders, feedback from relevant panels such as our practitioner panels, supervisory intelligence, and a range of other factors (described in para 5.52)

²⁶ Although we have flexibility to tailor our engagement, there are statutory requirements, and in some cases public law obligations relating to consultation and the development of policy - which we abide by.

When considering when best to engage, we are mindful of resource availability and efficiency. Investing in engagement early in the policy process can make the later stages of the process more efficient. However, in some circumstances, particularly where there is a need to act urgently, we may judge that our efficiency would be negatively impacted. There may also be rare cases where we judge that no prior engagement is possible or needed; for example, where we need to act urgently or on a market sensitive issue, or where the issues under consideration are already well understood and have been subject to significant public debate.

Who we engage

It is important that we hear views from a wide range of stakeholders, and from a cross-section of society. This ensures we have a diversity of viewpoints to consider as we formulate policy.

We engage regulated firms, and we aim to gather input from firms of various sizes and scales. Alongside regulated firms, we are especially interested in contributions from voluntary, community or social enterprise (VCSE) organisations and other civil society groups. These groups can find it challenging to engage with our policy-making given resource constraints. We therefore have a responsibility to proactively engage these groups, and ensure they are represented appropriately at our engagements.

We also engage with sector specific specialists such as think-tanks, investor groups, law firms, consultancies, analysts, and credit ratings agencies. Such groups often have specialist expertise on specific topics and can provide valuable insights and data.

As we refine our policy proposals we also typically engage with HMT and the FCA to solicit their feedback. Senior PRA and Bank staff appear before parliamentary committees to give evidence. We notify the Treasury Select Committee (TSC), and any appropriate Lords or Joint committee, when we publish a consultation. We also respond in writing when parliamentary committees provide formal responses to our consultations.

We coordinate the PRA Practitioner Panel and Insurance Practitioner Panel (the 'Panels'), which are made up of industry representatives. We engage our Practitioner Panels at relevant points in the policy cycle (including pre-consultation) when we expect that the Panels' breadth of expertise is likely to provide significant added value. When it is feasible for us to share draft policy proposals, the Panels provide feedback on the likely impact of our proposals on regulated entities. We incorporate this feedback as appropriate within the policy proposal. On certain policy proposals, the Panel members can contribute more effectively by drawing on wider expertise within their firms. We facilitate this where appropriate and legally permitted to do so.

The PRA Practitioner Panel Annual Reports explain how we consult with the Panels, and gives examples of the policy issues on which the Panels were consulted and the nature of the views provided by the Panels. We also publish further information on our engagement with the Panels, covering engagement during the relevant reporting period and information on pre-consultation.

How we engage

We have a range of methods of engagement to choose from. These include roundtables, DPs, webinars, speeches, standing committees, and conferences. We consider which form of engagement is appropriate in the relevant circumstance. When deciding how to proceed, we consider factors such as resource constraints (within the PRA and firms), timelines, and the complexity and scope of the policy area. For example, when we initiated far-reaching and technical reforms through Strong and Simple, a DP was an effective method of gathering stakeholder input to inform our approach.

Many groups, particularly those who may face resource constraints, benefit when we provide information in an accessible way. We therefore consider the best channels and formats for engagement and identify the most suitable options on a case-by-case basis. In addition to DPs, we can use shorter papers, or convene roundtables to gather input more quickly and flexibly. We prioritise providing information in the simplest way possible, with a view to enhancing ease of understanding, particularly among non-subject matter experts.

Cost-benefit analysis approach

5.33 The economic case for policy intervention depends on there being a policy response where the benefits exceed the costs. We examine this via CBA, where we explore the costs arising from our policy approaches.²⁷ We compare these with how the increase in economic efficiency from our intervention translates into beneficial market impacts (such as the reduction in the likelihood of financial crises). CBA provides an insight into how effectively policies address their goals and highlights possible unintended consequences.

5.34 FSMA 2023 requires us to establish and maintain a CBA Panel. The role of the CBA Panel is to support increased transparency and scrutiny of our policy-making by providing regular, independent input into our CBAs. The Panel also keeps under review how we are performing more generally in carrying out our duties with regards to CBA.

5.35 CBA is an integral part of developing the optimum policy approach, and the results shape our policy-making. We use the findings to adjust and refine our initial policy approach.

²⁷ We also have a statutory obligation to conduct CBA when making or amending PRA Rules under section 138J of FSMA.

If the CBA suggests that policy intervention is too costly, in comparison with its benefits, we may return to the initiation phase to consider the most appropriate response.

Cooperation between policy and supervisory functions

5.36 Our policy and supervisory functions work closely together throughout the policy-making process. Supervisory input assists in scoping the CBA, applying specialist firm knowledge to identify areas that the CBA should explore, and sourcing key data.

5.37 Our supervisory function provides important input into policy development, which strengthens the analysis and identifies areas for further work. Supervisors can identify potential thematic issues across firms. Our supervisory and policy-making functions also work together when applying policies to subsidiaries and branches of international firms. Our supervisory function also provides insight into the feasibility, complexity and cost of implementation.

Internal governance

5.38 We then take our policy recommendations through our internal governance. We summarise the issue we have identified, describe our policy proposals, and explain how they assist us in pursuing our primary and secondary objectives – and the likely consequences of inaction. We present the results of the CBA, and regulatory principles analysis, and outline how we arrived at the proposed policy design. We highlight any trade-offs we have made, particularly in relation to regulatory principles requirements.

5.39 Various internal committees, culminating in the Prudential Regulation Committee (PRC) for the most material decisions, weigh up the arguments before taking a decision. This may be to proceed with the policy proposal as presented or to conduct further analysis, before returning with a new proposal. PRC is responsible for agreeing any rule changes and ensuring that the overall impact of any proposal sits within our risk appetite. Where appropriate, we also take proposals to the Financial Policy Committee (FPC).

Phase 3: implementation

Overview

5.40 The Implementation Phase starts when we publish our final policy documents, which explain the final policy and any changes from the initial proposal. We give feedback on responses within scope of the consultation and explain where and why we have, or have not, made changes.

Final policy

5.41 Once we have finalised our approach, we publish a policy statement. Where appropriate, this is accompanied by final rule(s), supervisory statement(s), or statements of policy.²⁸ These documents contain the final policy, explain our approach to addressing responses, including if the proposals have changed since consultation. Our supervisory function, supported by our policy function, works with firms to ensure the policy is implemented effectively.

5.42 As our supervisory function is closely involved in the Initiation and Development phases, we aim for the final policy to reflect any practical implementation challenges. However, we do not generally expect firms to comply instantly with new requirements, especially where there may be complex and / or costly implementation requirements. Where appropriate, we include a transitional period before a policy comes into force and / or an implementation timeline, with milestones for firms to meet ahead of the final implementation.²⁹ In other cases (for example, where requirements are being removed) we consider how to ensure the changes can apply to firms as quickly as possible.

5.43 Firms are responsible for effectively implementing policy by the 'policy effective from' date. Our supervisory function engages with firms throughout the implementation period to assess whether firms are on track. This may include, where appropriate and proportionate, requests for firms to provide updates at certain points ahead of the policy implementation date.

5.44 After the implementation date, our supervisory function may assess how firms have implemented the policy (as set out in our Supervisory Approach).³⁰ This may involve one or more of the following: regular meetings with the appropriate business areas and risk functions at supervised firms, deep dives on specific topics, review of regulatory data, and peer analysis across firms. Assessments of a firm's implementation of policy areas may be fed back to the firm, especially where the firm is judged to be at the weaker end of its peer group.

5.45 Every firm we supervise is subject to a regular internal review, and this is then the subject of formal communication to the firm's senior management. Where relevant, some of this feedback may concern policy implementation. Where similar policies have been implemented in other jurisdictions, our supervisory function may also engage with other

²⁸ New Policy or Supervisory Statements are published on the Bank of England website:

<https://www.bankofengland.co.uk/news/prudential-regulation>.

²⁹ For example, for firms in scope of PS11/15 (CRD IV: Liquidity):

<https://www.bankofengland.co.uk/prudential-regulation/publication/2014/crd-iv-liquidity>), Liquidity Coverage Ratio requirements were gradually increased in 10 p.p. increments between 2015 and 2018.

³⁰ Available on our approach to supervision of the banking and insurance sectors webpage:

<https://www.bankofengland.co.uk/prudential-regulation/publication/pras-approach-to-supervision-of-the-banking-and-insurance-sectors>.

regulators, to compare experiences and outcomes. This engagement can help understand how successfully the new policy has been embedded, and the impact on firms.

Phase 4: evaluation

Overview

5.46 In the evaluation (or ‘rule review’) phase, we assess the impact of the implemented policy. This includes considering whether the policy has been successful in meeting its intended outcomes, whether it is still relevant and required, and if it has produced any unintended consequences. We assess policies objectively and look actively for areas for improvements or clarifications. Our proposed approach to rule review is set out in CP11/23.

Evaluation process

5.47 We use evaluation to assess whether our policies are operating effectively and are delivering their intended impact. Evaluation can improve existing policies and inform future policy development in new areas.

5.48 Rules may be revised if: the rules have not adequately addressed the risk for which they were designed, or new information emerges to inform their calibration; the rules have given rise to unintended consequences; firms are arbitraging or avoiding the rules in unanticipated ways; the structure of the economy or financial system has evolved; international standards affecting the rule have changed; or the nature of the issue addressed by the rules has evolved.

5.49 Evaluation can result in major policy changes or minor adjustments that refine the policy, depending on the result of our evaluation. We monitor the implementation of policy on an ongoing basis and make clarification-focused updates when appropriate (for example, through publishing Occasional Consultation Papers).³¹

5.50 As described in Box 4, stakeholder engagement is an important input to the Evaluation Phase. We value the views and evidence which stakeholders provide on policies that may not be working as intended.³² Alongside direct feedback from external stakeholders, we also consider feedback from relevant panels such as our practitioner panels, supervisory intelligence, changes in market and economic conditions, material developments in international standards, insights and trends in applications for permissions, waivers or

³¹ See CP3/22 – Occasional Consultation Paper – March 2022:

<https://www.bankofengland.co.uk/prudential-regulation/publication/2022/march/occasional-consultation-paper-march-2022>.

³² CP11/23 set out proposals to facilitate stakeholder engagement during the evaluation phase.

modifications of PRA rules, and reports on specific firms and thematic reviews. We also consider other evidence such as external academic research.

5.51 We weigh up the benefits of reviewing current policies and those of identifying and addressing new policy issues. We aim to strike a balance that allows us to pursue our objectives most effectively. We are likely to prioritise a policy for evaluation if we become aware of any significant issues, or if there was a greater degree of uncertainty at the point of implementation.

5.52 HMT can direct us to review our rules when, for example, it considers that it is in the public interest. We therefore need to take into account any directions from the government alongside the approach to evaluation above.

5.53 Once we select a policy for evaluation, we compare the intended impact of the policy intervention with the result. We consider whether the policy is effectively advancing our objectives, and then whether it is having the expected impact on our regulatory principles.

5.54 If we identify an issue with existing policy, we may decide to return to the Initiation Phase. We engage closely with our supervisory function to understand the issues, and the impact and practicalities of implementing further policy changes in the relevant area.

5.55 In addition, the Bank and PRA engage in reviews of international standards, coordinated by international institutions. This supports our work to shape effective international standards, and build close relationships with our regulatory counterparts. For example, we contribute to rule reviews conducted by the BCBS, IAIS and FSB. We also participate in efforts by international bodies to consider what lessons to take from periods of financial distress.

6. Delivering a first-rate PRA Rulebook

This chapter outlines our approach to the PRA Rulebook³³. We explain that our guiding principles for the Rulebook are for it to be accessible, efficient, usable, and as clear as possible. The approach described will take time to embed and is subject to decisions taken by HMT regarding the repeal and replacement of relevant retained EU law.

Principles

6.1 Our approach to the Rulebook is guided by the following principles:

1. **Ease of access** – setting out our Rulebook in an intuitive way, and ensuring that relevant links are presented with the related material.
2. **Efficiency** – streamlining the policy document formats used.
3. **Usability and clarity** – using consistent, clear and inclusive terminology in our policies, and writing in plain English.

Context

6.2 Following the UK's exit from the EU, EU law moved on to the UK statute book.³⁴ Having these rules in statute rather than PRA rules means that regulatory material on prudential regulation is fragmented across a range of different sources, which can be difficult to follow (as illustrated in Table 3).

6.3 The mixture of UK and EU regulatory material can be confusing for PRA stakeholders. For example, EU-derived legislation uses different styles and structures to the UK regulatory framework, and different terminology is sometimes used to refer to the same concepts.

Table 3 - Current sources of regulatory material

Source	Location and status
i. UK legislation	Includes primary legislation, statutory instruments and retained EU law; available on the UK legislation website .
ii. PRA Rules	Available on the Rulebook website .

³³ By "Rulebook" we mean all relevant policy material that we expect firms to engage with, including rules in the Rulebook, Supervisory Statements and EU materials (see Table 3).

³⁴ The body of EU legislation that applied directly in the UK was transposed into on the UK statute book through the European Union (Withdrawal) Act 2018. This, together with UK legislation that has implemented EU law, is referred to as 'retained EU law' and covers a wide range of legislative areas.

iii. UK Technical Standards	Originally drafted by European Supervisory Authorities (ESAs). The onshored text is available on the UK legislation website ; PRA amending instruments on the Bank's website .
iv. PRA Supervisory Statements and Statements of Policy	Available on the Bank's website .
v. Guidelines, Recommendations and Q&As	Originally drafted by European Supervisory Agencies (ESAs). While no longer applicable in the UK, firms should 'make every effort to comply' with existing Guidelines and Recommendations that were applicable as at the end of the transition period, to the extent that these remain relevant. Q&As 'may continue to be relevant, and the Bank and PRA may have regard to these as appropriate.' A Bank and PRA Statement of Policy provides a non-exhaustive list of guidelines.

Our approach

6.4 The repeal of retained EU law and its replacement by relevant regulatory material in PRA rules:

- a. allows us to review and amend the style, structure and content of our rules;
- b. enables us to make policy in a more responsive way, in line with the principles outlined in paragraph 6.1.
- c. facilitates the evolution of the Rulebook,
- d. allows the Rulebook to be more responsive to emerging risks, and
- e. advances our objective of promoting the safety and soundness of the firms we regulate by making our materials easier to follow.

(a) Presenting our Rulebook on an easy-to-use website

6.5 Our approach is to host the Rulebook on the Bank's website, giving us flexibility to update our regulatory material. This supports implementation of policy changes, and brings all prudential policy material together in one place.

6.6 Better functionality makes our Rulebook easier for stakeholders to navigate. This includes digitising regulatory policy material such as Supervisory Statements and Statements of Policy, and bringing links to related policy material together to provide easy access to relevant source materials as is currently provided in the [Prudential and Resolution Policy Index](#) ('the Index'). Users can access those links in the Index until they are delivered through the Rulebook itself.

6.7 Our intention is for the Rulebook website to allow users to search both rules and guidance in one place, with a filter to choose results in either category. In addition, our approach is to implement enhanced time-travel functionality, so that users can see (i) past, present and future versions of rules; (ii) the legal instruments that changed each rule; and (iii) related regulatory material.³⁵

6.8 To support stakeholders' ability to identify and find relevant regulatory material, policies are to be reorganised into a more efficient and coherent structure by grouping relevant policy material into topic areas. We believe that the grouping used in the Index is an effective means of achieving this.

(b) Supporting efficient policy-making through streamlined policy document formats

6.9 To underpin the efficiency and clarity of our Rulebook, our approach is for all relevant policy material to be in PRA-developed formats, rather than in corresponding EU documents. To achieve this, our approach is to delete all material from EU-inherited documents (as linked in the Index) and to retain the relevant policy content in one of the three forms below:

1. PRA Rules, which are legally enforceable and give effect to PRA policies by setting out the requirements firms must comply with;
2. Supervisory Statements, which contain PRA expectations and provide additional guidance on how firms can comply with the requirements imposed by rules and meet the intended outcomes; and
3. Statements of Policy, which set out our approach to policy on a particular matter.

6.10 There are additional channels and vehicles through which we communicate with our stakeholders on policy matters. These include letters to firms' executives and speeches. This material can help clarify our expectations and provide background on the underlying intent of policy. Our approach is for these communications to stand alongside our policy materials, where we consider this may be helpful.

6.11 Our intention is to no longer issue technical standards.³⁶ Instead, our approach is to move relevant information in the current Technical Standards into our rules. Remaining Technical Standards are to be deleted.

³⁵ Further details on our approach to improving the rulebook, including the digitisation of other regulatory materials and improved accessibility for users of assistive technology, can be found in our 2021 DP 'PRA Rulebook website: planned updates. November 2021': <https://www.bankofengland.co.uk/prudential-regulation/publication/2021/november/pra-rulebook-website-updates>.

³⁶ Unless alternatives such as making rules would not be effective or appropriate.

(c) Adopting a clear and consistent approach to the structure and language used in our policies

6.12 Our approach is for rules to follow a clear structure, including moving in the course of time from EU article numbers to parts, chapters and rules (as in the current Rulebook). Policies are to be written in plain English, using PRA terminology (and phasing out EU terminology), and adopting inclusive language.³⁷

6.13 Our policy consultations include proposals on the use of language where we can consistently and appropriately use PRA terms rather than EU terms; for example, whether to use the PRA term 'Board member' rather than the EU term 'member of management body'. We have already clarified that references to 'own funds' in EU-derived legislation are equivalent to UK references to 'capital.'³⁸

6.14 For policy areas where some material remains in legislation, we may continue to use two different terms to facilitate easier cross-referencing. Where this is the case, we explain it clearly in our Rulebook.

Draft for consultation

³⁷ E.g. replace "chairman" with "chair".

³⁸ For example, in our recent Consultation Paper on Definition of capital (CP2/22: <https://www.bankofengland.co.uk/prudential-regulation/publication/2022/february/definition-of-capital-updates>), we clarified that the EU term 'own funds' was synonymous and used interchangeably with the term 'capital,' but that it was necessary to use the EU terminology in certain instances, to ensure coherence with retained EU law.

Appendix 1 – References for Box 1

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