Bank of England PRA

Please note: This letter has been prepared for the website. Square brackets show where this letter may differ slightly, along with formatting from those versions sent directly to firms.

Rebecca Jackson
Executive Director, Authorisations, Regulatory Technology, and International Supervision

Alison Scott
Director, Authorisations, Regulatory Technology, and International Supervision

21 January 2025

Dear [Chief Executive Officer]

International banks Supervision: 2025 priorities

We are writing to outline the Prudential Regulation Authority's (PRA) 2025 priorities for international banks and designated investment firms (together 'firms') active in the UK. We supervise a large and diverse population of firms and this letter is not exhaustive. These thematic priorities complement our core assurance work and the firm-specific feedback you will have received following your most recent Periodic Summary Meeting (PSM).

Our priorities are set to ensure we can deliver our primary objective to promote the safety and soundness of the banking sector and ensure continuing resilience, as efficiently as possible. We will also work with firms to further embed our secondary competition, growth and competitiveness objectives through our priorities. Our supervisors will continue to engage with firms in an open and constructive manner and reflect the feedback they receive from firms into the policy process.

The common theme across our key priorities over the past few years and for 2025 remains the need for robust governance, risk management and controls at firms, supported by accurate information, to enable firms to proactively identify and analyse and mitigate risks in a dynamic, competitive and challenging environment.

Risk management, governance and controls

We observe firms' risk management, governance and controls being tested by the global interest rate environment, geo-political events and technological changes, including the increasing use of Artificial Intelligence. Our supervisory assessments find that firms vary in their ability to proactively identify, monitor and risk manage emerging or novel risks, especially the increasingly complex interactions between risks. In response to these demands, firms' senior management and Boards need to ensure that their organisations have robust governance, risk management and controls frameworks in place that are adaptive and resilient, leveraging stress and scenario analyses to inform risk management, strategy and business planning. We expect firms to have these frameworks in place across businesses, risk and internal audit functions, commensurate with the firm's business model. Boards should also consider where risk culture may be the root cause of material weaknesses in their firm's control environment.

Counterparty credit risk (CCR) management remains an area of focus, with many firms falling short of the standards needed for their businesses. Where firms identify control gaps, we expect to see holistic remediation to address shortcomings, taking account of the issues highlighted through our thematic reviews[1] and, in particular, the risks posed by non-bank financial institutions. We expect all firms with established remediation plans to quickly execute them. We will continue to monitor progress, including how firms apply learnings to other business lines.

Firms should continue to invest in robust credit risk management and measurement practices that are adaptable to changing conditions. New lending, growth areas and existing portfolios should be risk assessed in the context of the evolving outlook. We will continue to closely monitor credit risk management, focused on commercial real estate exposures, through thematic reviews and our ongoing asset quality reviews.

Data risk

We have observed that poor data are a root cause in a number of risks requiring remediation within firms. Firms need to continue to improve their ability to aggregate data to ensure that they have the information necessary to support holistic risk management, robust board decision making, and accurate regulatory calculations. Moreover, continued technological developments including increased use of artificial

---

1 Letter from Rebecca Jackson and Charlotte Gerken: Thematic review of private equity related financing activities: **www.bankofengland.co.uk/prudential-regulation/letter/2024/private-equity-related-financing-activities**.

intelligence places heightened importance on the quality and accuracy of the data underpinning these tools.

We expect to place increasing reliance on data tools and analytics as part of our drive for efficient supervision and we will work collaboratively with firms to deliver this goal. As part of this, firms need to ensure they are submitting complete, timely and accurate regulatory returns. We will continue to assess data accuracy through 2025 utilising a full range of supervisory tools.

Financial resilience

We will continue to focus on broader financial resilience issues in 2025, through ongoing assessment of individual firms' capital and liquidity. In assessing these risks, we will expect to see firms consider and risk manage to a broad range of forward-looking liquidity and capital indicators. We expect firms to use stress testing to assess their financial resilience and to have realistic and effective contingency plans that are supported by accurate and relevant information.

Liquidity events in recent years have highlighted the importance of liquidity resilience and firms' preparedness for unexpected shocks. Additionally, the funding and liquidity landscape for UK banks will see significant changes in the next few years both in terms of normalisation of the Bank of England's balance sheet and changing market dynamics. Firms' Boards should seek assurance from their treasury and risk management functions about the effectiveness of balance sheet management; and how these changes will affect profitability, resilience, contingency funding options, and underlying business models.

The Bank has published a discussion paper setting out its intention to transition to a demand-driven framework for supplying reserves through repo operations.[2] As quantitative tightening and the Term Funding Scheme with additional incentives for SMEs (TFSME) repayments continue to reduce the level of central bank reserves available in the system, firms will increasingly need to source their stock of sterling reserves directly from the Bank through its Sterling Monetary Framework facilities, in particular the Short-Term Repo (STR) facility and re-calibrated Indexed Long-Term Repo (ILTR) facility. The PRA's statement confirms its view that usage of the ILTR is seen as routine participation in sterling markets.[3] Firms need to ensure that they are prepared for this change, consider how they source and manage liquidity, and ensure

2 Transitioning to a repo-led operating framework discussion paper. Available at: **www.bankofengland.co.uk/paper/2024/dp/transitioning-to-a-repo-led-operating-framework**.

3 PRA statement on Indexed Long-Term Repo (ILTR) facility. Available at: **www.bankofengland.co.uk/prudential-regulation/publication/2024/december/pra-statement-on-iltr-facility**.

they are operationally ready to access reserves through SMF facilities regularly and at scale. Firms are encouraged to engage with the Bank's discussion paper published on 9 December 2024 by 31 January 2025.

Operational resilience

By March 2025, firms must be able to show they can remain within impact tolerances for all their important business services (IBS) throughout severe but plausible disruptions. We expect firms to have made significant progress already to strengthen their response and recovery capabilities to address cyber threats, remediate vulnerabilities exposed by legacy infrastructure and develop contingency procedures when material third party services are disrupted.

Operational resilience should be a key point of consideration for boards and executives when planning major change programmes, making strategic business decisions, or engaging in new third, or in some case fourth-party relationships. New investments in IT infrastructure, software applications and third-party arrangements should be resilient by design. As we have stated previously, we expect branches to have approaches that deliver similar outcomes, and we will continue to work with home state supervisors for both subsidiaries and branches.

Throughout the last year, we have continued to observe incidents within firms' third-party arrangements that have resulted in disruptions to the delivery of firms' IBSs. Learning from the operational incidents faced by firms and their third parties, we expect firms to maintain robust oversight of their major outsourcing and third-party risk management providers, including intra-group providers where relevant. Firms should also be mindful of the financial health of their suppliers and their data security.

The cyber threat landscape facing the UK's financial system continues to evolve rapidly, and we view the ability of firms to detect, respond to, and in particular recover from cyber-attacks to be a cornerstone of the financial system's resilience. We encourage all firms to use our CBEST thematic reports to enhance their cyber resilience capabilities and to be mindful of the thematic findings from the latest Cyber Stress Test that will be published later this year. To further enhance the sector's cyber resilience capabilities, the PRA and FCA intend to start consulting in the second half of 2025 on policy relating to the management of Information and Communication Technology (ICT) and cyber risks. This includes risks arising from transformations of ICT infrastructure and the sector's ability to detect, withstand, and recover from disruptions in the event of ICT and cyber incidents.

Basel 3.1 delay

On 17 January, the PRA, in consultation with HMT, announced[4] a delay to the implementation of Basel 3.1 in the UK by 12 months from 1 January 2026 to 1 January 2027. This allows more time for greater clarity to emerge about plans for its implementation in the United States. While we are delaying implementation of Basel 3.1, the transitional periods in the rules will be reduced to ensure the date of full implementation remains unchanged at 1 January 2030, as set out in the original proposals.[5]

Any immediate deadlines associated with the implementation of Basel 3.1 (such as data submissions) have been paused while we work through the implications of the delay. The PRA will communicate further on these in due course. However, firms should ensure that they continue to work through the potential impact and implications of the Basel 3.1 policy package with their Board.

Please consider this letter alongside your PSM letter and where relevant discuss our supervisory priorities with your Board.

We look forward to working with you over the coming year.

Yours sincerely,

Rebecca Jackson
Executive Director, Authorisations, Regulatory Technology, and International Supervision

Alison Scott
Director, Authorisations, Regulatory Technology, and International Supervision

4 Available at: **www.bankofengland.co.uk/news/2025/january/the-pra-announces-a-delay-to-the-implementation-of-basel-3-1**.

5 PS17/23 – Implementation of the Basel 3.1 standards near-final part 1 (available at: **www.bankofengland.co.uk/prudential-regulation/publication/2023/december/implementation-of-the-basel-3-1-standards-near-final-policy-statement-part-1**) and PS9/24 – Implementation of the Basel 3.1 standards near-final part 2 (available at: **www.bankofengland.co.uk/prudential-regulation/publication/2024/september/implementation-of-the-basel-3-1-standards-near-final-policy-statement-part-2**).

ANNEX: Summary of 2025 PRA-led cross-firm priority work

Risk management, governance and controls	Impacted sector
The PRA will be looking to consult on changes to the senior manager regime, as well as finalising updates to the PRA's approach to branch and subsidiary supervision (SS5/21[6]).	All firms
The PRA will continue to focus on counterparty credit risk across investment banking activities, especially exposures to non-bank financial institutions. Focus on outcomes from a 2024 cross-firm review of the disclosure standards applied by banks to non-bank financial institution clients. Conduct a cross-firm review of illiquid/structured significant risk transfer financing.	In scope firms
Data risk	**Impacted sector**
The PRA will continue its assessments of data accuracy utilising a full range of supervisory tools eg skilled person reviews.	All firms
Financial resilience	**Impacted Sector**
The PRA welcomes feedback on the Bank's DP 'Transitioning to a repo-led operating framework'	All firms
Operational resilience	**Impacted Sector**
Feedback to be published from 2024 Cyber Stress Test. The PRA and FCA intend to start consulting in the second half of 2025 on policy relating to the management of Information and Communication Technology (ICT) and cyber risks.	All firms
Star FS (Simulated Targeted Attack & Response assessments for Financial Services) threat led penetration testing assessment roll-out for some of the largest non-systemic firms, on a risk-based basis.	In scope firms

[6] Available at: https://www.bankofengland.co.uk/prudential-regulation/publication/2021/july/pra-approach-to-branch-and-subsidiary-supervision-ss.