

Bank of England PRA

The Prudential Regulation Authority's approach to policy

February 2025



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1: Introduction

1.1 We, the Prudential Regulation Authority (PRA), as part of the Bank of England (the Bank), are the UK's prudential regulator for banks, building societies, credit unions, insurance companies, and designated investment firms (referred to collectively in this document as 'firms').

1.2 This document explains how we approach policy under the regulatory framework set out in the Financial Services Act 2000 (FSMA or 'the Act'). We also refer to the Financial Services and Markets Act 2023 (FSMA 2023) and the amendments it made to FSMA.¹ The document acts as a standing reference that will be revised as appropriate, including in response to significant legislative and other developments that result in changes to our approach.

1.3 This document serves three purposes. First, it enhances transparency and aids accountability (including to Parliament) by describing what we seek to achieve and how we intend to achieve it. Second, it helps firms and the public understand how we make policy. It communicates to 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 Prudential Regulation Authority's approach to policy document (approach document) sits alongside requirements and expectations as published in the PRA Rulebook (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.²

Document structure

1.4 **Chapter 2** summarises our framework of objectives and regulatory principles.

1.5 **Chapter 3** describes how we approach our primary and secondary objectives, our regulatory principles and the interactions between them.

1.6 **Chapter 4** describes why and how we engage internationally to pursue our objectives, including the development and implementation of international standards. It outlines 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-

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. See: <https://www.legislation.gov.uk/ukpga/2023/29/contents>.

² See: <https://www.bankofengland.co.uk/prudential-regulation/publication/pras-approach-to-supervision-of-the-banking-and-insurance-sectors>.

based approach to advising HM Treasury (HMT) on assessments of other jurisdictions' regulatory frameworks.

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

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

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,³ 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 those who are or may become 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 to avoid adverse effects on 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 Our primary objectives rank above our other considerations when making policy. When discharging our general functions in a way that advances the primary objectives, we must, 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 the primary objectives. We have two secondary objectives; a secondary competition objective; and a secondary competitiveness and growth objective. These are of equal standing.

- The secondary competition objective requires us to facilitate effective competition in the markets for services provided by the firms we supervise;

³ This includes making rules and technical standards, preparing and issuing codes, and determining the general policy and principles by reference to which the PRA performs its functions under FSMA.

- 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 (eg those in section 3B of FSMA and others), and we interpret each as having equal 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 where helpful to do so.

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;⁴ 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). 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 2021 (‘FS Act’), we must ‘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 FSMA⁵. 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

⁴ 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 2021 targets element has commenced on 1 January 2025.

⁵ As amended by The Prudential Regulation of Credit Institutions (Meaning of CRR Rules and Recognised Exchange) (Amendment) Regulations 2024.

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)⁶. The definition of CRR rules 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 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 PRC, and updates the letter at least once per parliament. Under a change introduced by FSMA 2023, the PRC is required to respond to the recommendations.⁷ These recommendations 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 2010⁸; and
- having regard to the principles of good regulation under the Legislative and Regulatory Reform Act (LRA) 2006⁹ and the Regulators’ Code 2014¹⁰.

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 (as broadly defined in the previous section). 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

⁶ See: <https://www.legislation.gov.uk/ukpga/2008/27/contents>.

⁷ We refer to this as the ‘PRC letter’. Recommendations for the Prudential Regulation Committee letter (November 2024): <https://www.bankofengland.co.uk/-/media/boe/files/letter/2024/prc-remit-letter-2024.pdf>.

⁸ See: <https://www.legislation.gov.uk/ukpga/2010/15/contents>.

⁹ See: <https://www.legislation.gov.uk/ukpga/2006/51>.

¹⁰ See: <https://www.gov.uk/government/publications/regulators-code>.

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 of this document).

Table 1 – The PRA’s objectives and regulatory principles¹¹

Primary objectives	
Promote safety and soundness	FSMA 2000
Contribute to the securing of an appropriate degree of protection for policyholders	FSMA 2000
Secondary objectives	
Facilitate effective competition in the markets for services provided by PRA-authorised 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-authorised persons), and its growth in the medium to long-term (does not apply to rules and policy made in connection with our implementation of Basel 3.1)	FSMA 2000
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	
Government’s financial service sector policy, and its priority to promote growth and competitiveness, including:	HMT recommendations letter to PRC ¹²
• Contribution of the financial services sector to overall economic growth	
• Creating a regulatory environment which facilitates growth through supporting competition and innovation	
• Maintaining and enhancing the UK’s position as world-leading global finance hub	

¹¹ Table accurate as at 20 February 2025.

¹² Recommendations for the Prudential Regulation Committee letter (November 2024): <https://www.bankofengland.co.uk/-/media/boe/files/letter/2024/prc-remit-letter-2024.pdf>.

• Leading the world in sustainable finance	
• Ensuring the UK’s capital markets are competitive and support UK growth	
• Reinforcing financial inclusion and supporting home ownership	
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 our implementation of 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 and Environmental targets in Environmental Act 2021	FSMA 2000
HMT policy statements on Sustainability Disclosure Requirements (SDR) when making rules or issuing guidance in connection with disclosure concerning matters relating to sustainability ¹³	FSMA 2000
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 ¹⁴	FSMA 2000
Cross-cutting statutory legal requirements	
Public sector equality duty	Equality Act 2010

¹³ As at 20 February 2025, HMT has not yet issued any policy statements on SDR.

¹⁴ 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. Since January 2024, when making rules relating to securitisation, the PRA must ‘have regard’ to the coherence of the overall framework for the regulation of securitisation as set out in 138EA of FSMA 2000 and Regulation 8 of the Securitisation Regulations 2024.

* Only applies to rules made in connection with our implementation of Basel 3.1 which are either CRR rules or rules made under section 192XA of FSMA 2000 that are not CRR rules.

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 with a surplus of financial services trade of £73.2 billion in 2023¹⁵. 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’.¹⁶

3.2 The financial services sector is an important part of the UK economy. It contributed £208.2 billion to the UK economy in 2023, 8.8% of total economic output.¹⁷ 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.¹⁸

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,¹⁹ 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

¹⁵ See: <https://commonslibrary.parliament.uk/research-briefings/sn06193/>.

¹⁶ See the Staff Concluding Statement of the 2023 Article IV Mission: <https://www.imf.org/en/News/Articles/2023/05/22/mcs052323-uk-staff-concluding-statement-2023-article-iv-mission>.

¹⁷ See: <https://commonslibrary.parliament.uk/research-briefings/sn06193/>.

¹⁸ See section 1: <https://commonslibrary.parliament.uk/research-briefings/sn05748/>.

¹⁹ For more information on ring-fencing, see: <https://www.bankofengland.co.uk/prudential-regulation/key-initiatives/ring-fencing>.

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 supervision (Basel Committee on Banking Supervision, 2012).²⁰ 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)²¹ 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%.

²⁰ 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).

²¹ See: <http://www.bis.org/publ/bcbs173.pdf>.

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 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 (2020) 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 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, 2011; 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, rather than a trade-off, between our primary and secondary objectives. Our approach to pursuing our primary objectives is grounded in maintaining a strong and dynamic UK economy and financial stability is key to underpin and facilitate competitiveness and growth. Effective competition, by supporting the efficient delivery of vital services and a strong and dynamic financial sector, can reinforce the medium-term growth of the economy.

3.8 The secondary objectives are engaged when the PRA exercises its general functions. This includes making rules and technical standards, preparing and issuing codes, and determining the general policy and principles by reference to which the PRA performs its functions under FSMA. Therefore, the secondary objectives are engaged when we discharge our general functions in a way that pursues 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, and/or on competitiveness and growth. Where different options are available, and it is reasonably possible to do so, we choose an option that appropriately advances our secondary objectives while also advancing our primary objectives.

3.9 Our secondary objectives are relevant not only when we make new policy but also when reviewing existing policy, as updating policy is also considered a discharge of our general functions. That means we can choose to review a policy based on our secondary objectives. When doing so, we can consider an amendment that reduces or raises prudential standards or has a neutral impact, provided that the updated policy advances our primary objectives by maintaining an appropriate level of safety and soundness, and an appropriate degree of insurance policyholder protection.

3.10 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 a centre of expertise and specialists who focus specifically on the secondary objectives. There are certain cases where the secondary objectives do not apply; for example, when we take firm specific actions which are not an exercise of general functions.

Approach to our secondary competition objective

3.11 Our secondary competition objective requires that effective competition between firms is facilitated, so far as is reasonably possible, as we discharge our general functions in a way that advances the primary objectives. Effective competition can improve the supply of financial services to the real economy and encourage innovation and efficiency among firms.

3.12 In facilitating effective competition, we pursue competition that 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. Such competition where firms adopt business models that are not viable can undermine our objectives.

3.13 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.

3.14 Our proactive approach to the secondary competition objective is embedded in our internal policymaking and supervisory processes in several ways.²² Our Annual Reports set out the programme of work we have undertaken, and how this has materially influenced policy outcomes.

3.15 This proactive approach to the secondary competition objective has actively influenced policy outcomes. For example, 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.²³ 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)²⁴ and we have developed the ‘Strong and Simple’²⁵ initiative to significantly simplify the prudential framework for small banks and building societies. We also launched initiatives to facilitate effective competition in the insurance sector, such as the and the New Insurer Start-up Unit (NISU)²⁶ and an optional mobilisation stage for new insurers with the aim of facilitating entry into UK insurance markets.

Approach to our secondary competitiveness and growth objective

3.16 We are also proactive in our approach to the secondary competitiveness and growth objective (SCGO). This means that we actively look for opportunities to facilitate the UK’s competitiveness and growth in our regulatory framework and how we operate it. Where there is opportunity to do so, we:

- prioritise new and additional work to pursue the SCGO;
- maintain thought leadership on competitiveness and growth issues, including by investing in research, industry engagement and internal analysis; and
- engage in international fora, to influence international policymaking and the setting of international standards (see Chapter 4 for information about the PRA’s approach to international engagement).

22 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 effective competition. (iii) Research is undertaken to better understand how PRA policies can affect competition.

23 For further information on these initiatives, see: <https://www.bankofengland.co.uk/prudential-regulation/publication/2024/july/pra-annual-report-2023-24>.

24 See: <https://www.bankofengland.co.uk/prudential-regulation/new-bank-start-up-unit>.

25 See: <https://www.bankofengland.co.uk/prudential-regulation/strong-and-simple>.

26 See: <https://www.bankofengland.co.uk/prudential-regulation/new-insurer-start-up-unit>.

3.17 When determining how to pursue 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.

3.18 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 pursue the secondary competitiveness and growth objective.

SCGO transmission channels

3.19 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:

- **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 aligned with the secondary competition objective given that facilitating effective competition helps efficient capital allocation in both the insurance and banking sector.
- **Ability to sell:** We can facilitate PRA regulated firms in competing in international markets, and thereby increase their ability to undertake cross-border activities.
- **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.

3.20 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.

Regulatory foundations

3.21 We focus on what direct action we can take to activate the three transmission channels. Our approach is informed by a pilot survey²⁷ of financial services professionals, and focuses on strengthening the following three regulatory foundations:

- Maintaining trust among domestic and foreign firms in the PRA and UK prudential framework;
- Adopting effective regulatory processes and engagement; and
- 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

3.22 The key way that 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, its competitiveness and the ability of the financial sector to support the real economy.

3.23 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.

3.24 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.

3.25 As an operationally independent regulator, we are committed to alignment with 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, contributes to its competitiveness 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.

²⁷ 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 managers, companies, trade unions, academics and civil society. Survey results are publicly available: <https://www.bankofengland.co.uk/-/media/boe/files/events/2023/september/pilot-survey-secondary-competitiveness-and-growth-objective>.

3.26 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

3.27 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, alongside an effectively calibrated regulatory framework, we can increase the efficiency and reduce the operating costs of firms. This involves streamlining procedures and leveraging technology to enhance effectiveness – noting that efficient regulatory processes benefit both regulated entities and the broader economy by reducing unnecessary burdens and facilitating efficient interactions between financial institutions and the regulator. 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.

3.28 As outlined earlier, secondary objectives only apply when we discharge our general functions. This does not include firm-specific decisions or actions. While the secondary objectives do not directly affect day-to-day decisions of supervisors, supervision teams do engage with firms in an open and constructive manner and pass insights and views from firms related to our secondary objectives on to policy teams.

3.29 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 of this document.

Responsive and responsibly open approach to UK risks and opportunities

3.30 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, using UK data, and we can respond more quickly to emerging risks and opportunities in the UK financial sector.

3.31 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 determining our approach to firm supervision (see section on 'identifying response options' in Chapter 5 of this document).

3.32 Evidence from a PRA survey²⁸ indicates that firms are particularly, though not exclusively, interested in the regulator’s responsiveness and openness to innovation. The move to a 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 – such as sandbox-like arrangements – to encourage innovation in a safe and sustainable way. Such standards and tools can encourage new firms’ entry into the market and contribute to a dynamic and innovative business environment.

3.33 We are also open to hosting cross-border business in the UK, provided it is resilient, appropriately controlled and governed, and we have sufficient visibility of and influence over the necessary supervisory outcomes. Adopting a responsibly open approach attracts foreign capital 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.

3.34 Our application 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.

3.35 To ensure our responsiveness is focused 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 objective²⁹ 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.

²⁸ See: <https://www.bankofengland.co.uk/-/media/boe/files/events/2023/september/pilot-survey-secondary-competitiveness-and-growth-objective>.

²⁹ See section 3 of PRA Background paper 2: <https://www.bankofengland.co.uk/events/2023/september/conference-on-the-role-of-financial-regulation-in-international-competitiveness-and-economic-growth>.

- Third, 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 surveys 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 survey undertaken by a major consultancy³⁰ ranked the most important factors as follows:

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

Similarly, our own survey results³¹ identified the following three most important factors:

- stability and predictability of macroeconomic environment;
- high level of human capital; and
- 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 to support industry innovation efforts. In addition, while stakeholders value the ability to tailor rules to UK circumstances, there is some caution given the risk of fragmentation across jurisdictions – which would tend to increase compliance

³⁰ See EY press release (05 June 2023): https://www.ey.com/en_uk/newsroom/2023/06/uk-remains-europes-most-attractive-destination-for-financial-services-investment.

³¹ 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).

costs for internationally active firms. This potential trade-off indicates that tailoring rules to UK circumstances is more suitable to domestic activities.

3.36 Our approach is complementary to the other secondary objective to facilitate effective 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.

Approach to accountability on the secondary competitiveness and growth objective

3.37 We are committed to being accountable for our actions to pursue 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 pursued the secondary competitiveness and growth objective – including both qualitative descriptions and quantitative metrics.

3.38 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 pursue our secondary objectives.

3.39 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

3.40 In pursuing our objectives, we take into account regulatory principles (as broadly defined in Chapter 2 of this document) 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 Table 1 (Chapter 2 of this document).

3.41 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 and in the context of the overall governance framework.

3.42 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.

3.43 Some matters set out in the regulatory principles in Chapter 2 are closely linked to our objectives. For example, 'innovation' and 'trade' also relate to our secondary competitiveness and growth objective. Some considerations are explicitly captured as both an objective and a regulatory principle (eg 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.

3.44 We cluster similar regulatory principles for the purposes of undertaking and presenting analysis (see Table 1 in Chapter 2 of this document). Capturing areas of thematic overlap 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.

3.45 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.

3.46 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 the implementation of our remuneration reform in CP16/24.³²

³² CP16/24 – Remuneration reform: <https://www.bankofengland.co.uk/prudential-regulation/publication/2024/november/remuneration-reform-consultation-paper>.

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 assessments of other jurisdictions' regulatory frameworks.

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.³³ About one fifth of global banking activity takes place in the UK,³⁴ and the UK is a host supervisor for a large number of foreign financial firms as subsidiaries or branches.

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'.³⁵

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 firms subject to different regulation to compete in an unsustainable way.

³³ See Executive Summary of the IMF Country Report No. 22/109 (April 2022): <https://www.imf.org/-/media/Files/Publications/CR/2022/English/1GBREA2022010.ashx>.

³⁴ See locational banking statistics on the BIS Data Portal: <https://data.bis.org/topics/LBS>.

³⁵ See the Staff Concluding Statement of the IMF's 2023 Article IV Mission: <https://www.imf.org/en/News/Articles/2023/05/22/mcs052323-united-kingdom-staff-concluding-statement-2023-article-iv-mission>.

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 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 assimilated 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 consider the context, and the impact on our objectives and regulatory principles (defined in Chapter 2 of this document).

4.6 We also engage internationally when undertaking assessments of other jurisdictions' regulatory frameworks. This engagement involves assessing the regulatory and supervisory frameworks of other jurisdictions to inform decisions by HMT on whether the regulatory outcomes can be considered equivalent.³⁶ Where HMT decides to rely on another jurisdiction's regulatory framework, this can facilitate cross-border activity and may also be reflected in a reduced burden in particular areas of regulation.

Our international engagement

4.7 We engage across international institutions and networks and directly with other jurisdictions.³⁷ We adopt a collaborative approach and attend relevant international meetings

³⁶ For more information, see HMT's Guidance Document: <https://www.gov.uk/government/publications/guidance-document-for-the-uks-equivalence-framework-for-financial-services>. In certain cases, we also assess another jurisdiction's regulatory framework 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'.

³⁷ We are not the only UK authority that engages internationally in the field of prudential regulation. The Bank 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.

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.³⁸ 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.³⁹

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.⁴⁰ 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 national and supranational agencies such as the European Supervisory Authorities, UK overseas and dependent territories, and sub-national jurisdictions such as 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.⁴¹ 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.

4.11 International engagement can support our understanding of 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 coordinated international action, which is particularly important during periods of global distress.

³⁸ See: <https://www.bis.org/bcbs/charter.htm>.

³⁹ See: <https://www.bis.org/bcbs/publ/d544.htm>.

⁴⁰ See: <https://www.iaisweb.org/about-the-iais/what-we-do/>.

⁴¹ Supervisory Colleges are an important part of our supervisory approach. For information on our approach to these, please see our Supervisory Approach documents: <https://www.bankofengland.co.uk/prudential-regulation/publication/pras-approach-to-supervision-of-the-banking-and-insurance-sectors>.

4.13 We provide input into wider Bank engagement on prudential regulation and financial stability matters at international fora including at 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.⁴²

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 periodic analysis of a country’s financial system. We also engage actively with international standard setters to facilitate assessments of the implementation and evaluation of internationally agreed standards (eg through BCBS regulatory consistency assessment programmes and IAIS implementation assessment reviews). All these organisations have published methodologies on how such assessments are conducted. While the PRA cannot influence the outcome of these assessments, it has the opportunity to respond to the reports (eg to correct factual errors and ensure that all relevant factors have been identified).

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.⁴³

4.16 International standards support financial stability, and further our statutory objectives, 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 statutory objectives and those of other international regulatory authorities.

⁴² Memorandum of Understanding between The Financial Conduct Authority and The Bank of England: <https://www.bankofengland.co.uk/-/media/boe/files/memoranda-of-understanding/mou-fca-and-boe.pdf>.

⁴³ Our engagement in the development of international standards is one of the ways in which we meet our cooperation duty in s354B FSMA.

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,⁴⁴ 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 alignment with international standards. We view alignment to mean being at least largely compliant with international standards, and we therefore target a minimum 'largely compliant' or 'largely observed' rating under assessments of the UK regulatory framework carried out by international bodies.⁴⁵ Under this approach, there is scope for us to adjust our implementation of international standards in line with our statutory objectives, where the evidence supports it.

4.20 FSMA 2023 establishes the basis for more precise adjustments when implementing international standards in the UK. 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. 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 in our implementation relative to the international standard where market developments mean the standard is not 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, in line with our secondary competitiveness and growth objective. 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 can sometimes be a balancing act between tailoring to domestic conditions and facilitating international business models based in the UK.

⁴⁴ See: <https://www.bankofengland.co.uk/financial-stability/financial-stability-strategy>.

⁴⁵ 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'.

4.23 We take an evidence-based approach when making adjustments, 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 jurisdictions with smaller financial centres are 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, in some instances, 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'⁴⁶ 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 assessments of other jurisdictions' regulatory frameworks

4.28 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 assessments of other jurisdictions' regulatory frameworks (ie its legislative, regulatory, supervisory and enforcement regime) and other deference-related

⁴⁶ See: <https://www.bankofengland.co.uk/prudential-regulation/strong-and-simple>.

determinations.⁴⁷ Deference decisions are the G20 endorsed process by which HMT defers to other jurisdiction's standards when it is justified by the quality of their respective regulatory, supervisory and enforcement regime.

4.29 Recognition of other jurisdictions' regulatory frameworks can reduce the 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.

4.30 Given that recognition of other jurisdictions' regulatory frameworks 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 any proposed designation 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 assessments of another jurisdiction's regulatory framework to inform our advice. In general, an outcomes-based approach means assessing a third country's regulatory framework based on whether it provides 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.

⁴⁷ See: <https://www.gov.uk/government/publications/memorandum-of-understanding-equivalence-and-exemptions>.

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 policymaking 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,⁴⁸ improve the effectiveness of regulation,⁴⁹ 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.

Transparency and accountability

5.4 We recognise the importance of transparency and explaining our judgements. We share analysis on policy proposals during consultation to show how they advance our objectives. We pay close attention to the engagement and challenge we receive via the consultation process and recognise that providing thoughtful and comprehensive feedback to consultations requires time and effort on the part of respondents. We read and carefully consider all consultation responses. We then assess whether it is appropriate to take forward or adjust our policy proposals as a result, before explaining the decisions we have made. Feedback via consultation can also shape our internal approach and processes, even where no external policy change is made.

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.

⁴⁸ Market failures might result from issues with externalities, information asymmetries, or market power.

⁴⁹ Policymaking 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 effectively addressing an issue relevant to the pursuit of the PRA’s objectives.

Flexibility

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

Stakeholder engagement

5.7 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 policymaking 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.

When we engage

5.8 We engage our stakeholders throughout the policy cycle. We adopt a flexible approach and consider when and in which form engagement is appropriate, in any given circumstance.⁵⁰

5.9 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 to evaluate the different ways to achieve a policy outcome and clarify the types of data we need from firms.

5.10 Early engagement is more appropriate and feasible in some circumstances than others. For example, we regularly engage external 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 discussion papers (DP) also facilitate early engagement and provide stakeholders with insight into how we are considering an emerging risk or policy issue.

5.11 A key mechanism through which we gather external stakeholder feedback at an early stage in the policy cycle is via the PRA Practitioner Panel and the Insurance Practitioner Panel⁵¹ ('the Practitioner Panels'; see further information under 'Who we engage, see pages 35-36). As Practitioner Panel members have signed declarations of secrecy, we are able to share confidential details with them prior to consultation. We recognise that Practitioner

⁵⁰ 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.

⁵¹ See: <https://www.bankofengland.co.uk/prudential-regulation/practitioner-panel>.

Panel members may be able to contribute more effectively on certain policy proposals by drawing on wider expertise within their organisations. We therefore facilitate information-sharing between Practitioner Panel members and their organisations where appropriate and legally permitted.

5.12 Broader early engagement on specific policy proposals, pre-consultation, is not generally possible as we cannot confer an advantage to any market participants or expose market sensitive information. Therefore, 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, circumstances where extending the consultation period is more challenging, such as when we have to meet international deadlines.

5.13 Stakeholder engagement is also an important component of the evaluation phase of policymaking. 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 the evaluation phase section below)

5.14 When considering the timing of our engagement, 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 by engaging early in the process. There may also be 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

5.15 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.

5.16 We engage regulated firms, and we aim to gather input from firms of various sizes. Alongside regulated firms, we are especially interested in contributions from voluntary, community or social enterprise organisations and other civil society groups. These groups can find it challenging to engage with our policymaking given resource constraints. We therefore intend to proactively engage these groups where appropriate, including by inviting them to relevant events.

5.17 We also engage with sector specific specialists such as trade bodies, 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.

5.18 As we refine our policy proposals we also typically engage with HMT and the FCA to solicit their feedback. To assist Parliament in holding us to account, senior PRA and Bank staff appear before parliamentary committees to give evidence. We notify the Treasury Select Committee, the Financial Services Regulation Committee, 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.

5.19 We coordinate the Practitioner Panels,⁵² which are made up of industry representatives.⁵³ We view the Practitioner Panels as a helpful source of intelligence and seek their feedback to help us make policy that advances our statutory objectives. We are required to declare in our CPs if we have consulted the Practitioner Panels during the policy development process. The Practitioner Panels publish Annual Reports covering the items they have considered over the year. These reports include a summary of key examples of the policy issues on which the Practitioner Panels were consulted and the nature of the views provided by the Practitioner Panels.

How we engage

5.20 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 its stakeholders), timelines, and the complexity and scope of the policy area. For example, when we initiated far-reaching and technical reforms through our 'Strong and Simple'⁵⁴ initiative, a DP was an effective method of gathering stakeholder input to inform our approach. In other cases, for example when implementing the Solvency UK reforms on matching adjustments, we have decided to engage with industry via subject expert groups.

5.21 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

⁵² As required by section 2L of FSMA 2000.

⁵³ We have published a Statement of Policy on the process for appointing members to the Practitioner Panels and the matters we consider during the appointment process (October 2023): <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/approach/panel-appointments-sop.pdf>.

⁵⁴ See: <https://www.bankofengland.co.uk/prudential-regulation/strong-and-simple>.

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.

Overview of the policy cycle

5.22 Our approach to policymaking consists of four phases:

- **Initiation:** identifying and monitoring risks and opportunities, assessing whether taking action would further our objectives, and if so, considering the appropriate type of response;
- **Development:** developing policy proposals based on the available evidence;
- **Implementation:** inaugurating and embedding the new policy; and
- **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



5.23 We combine evidence and judgement to make policy that advances our objectives. We collaborate across our policymaking and supervisory functions and work closely with the Bank's financial stability and resolution functions.

5.24 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.

5.25 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.

5.26 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.

5.27 The policy cycle provides an overarching methodology for how we make policy. To pursue our objectives, we take an agile, pragmatic and proportionate approach to policymaking. 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 policymaking process. The remainder of this chapter explores the four phases of our approach in more detail.

Phase 1: initiation

Overview

5.28 Initiation is the first step in our policymaking 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.

5.29 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?

5.30 We aim to monitor a wide range of sources to identify where we might need to act (see Table 2 below 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). ⁵⁵ Our Supervisory Statement on cyber insurance underwriting risk (SS4/17). ⁵⁶
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). ⁵⁷
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. ⁵⁸
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 ⁵⁹ ‘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’ ⁶⁰ framework.

55 <https://www.bankofengland.co.uk/prudential-regulation/publication/2021/april/new-and-growing-banks-ss>.

56 <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2017/ss417>.

57 <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2017/ps2217.pdf>.

58 <https://www.bankofengland.co.uk/prudential-regulation/publication/2020/internal-ratings-based-uk-mortgage-risk-weights-managing-deficiencies-in-model-risk-capture>.

59 <https://www.bankofengland.co.uk/working-paper/2021/measure-for-measure-evidence-on-the-relative-performance-of-regulatory-requirements>.

60 <https://www.bankofengland.co.uk/prudential-regulation/publication/2021/april/strong-and-simple-framework-banks>.

Source (not ranked)	Why might we need to act?	Example
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 Basel III International Standards (PS22/21) . ⁶¹
UK legislation	We may take action in pursuit of the goals of legislation made by parliament.	Our implementation of bank 'Ring Fencing' legislation ⁶² (introduced via the Financial Services (Banking Reform) Act 2013) ⁶³ .
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 implementation of the FPC's 2016 recommendation to exclude certain exposures from the leverage ratio. ⁶⁴

Initial analysis

5.31 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.⁶⁵

⁶¹ <https://www.bankofengland.co.uk/prudential-regulation/publication/2021/october/implementation-of-basel-standards>.

⁶² <https://www.bankofengland.co.uk/prudential-regulation/publication/2015/the-implementation-of-ring-fencing-prudential-requirements-intragroup-arrangements>.

⁶³ <https://www.legislation.gov.uk/ukpga/2013/33/contents/enacted>.

⁶⁴ <https://www.bankofengland.co.uk/prudential-regulation/publication/2016/pr-a-statement-on-the-leverage-ratio>.

⁶⁵ 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.

5.32 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 evidence that changes will advance our objectives; assess costs and benefits; 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.

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

5.34 The data we request from firms to support policy development facilitates responsive and dynamic policymaking. It is also necessary for us to meet our accountability requirements. For example, we need data to consider the implications for our 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.

5.35 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.

5.36 Stakeholder planning is also facilitated by the Regulatory Initiatives Grid, which provides information on implementation timelines and forthcoming consultations, thereby enabling firms to understand, and plan for, the timing of the initiatives that may have a significant operational impact on them.

Identifying response options

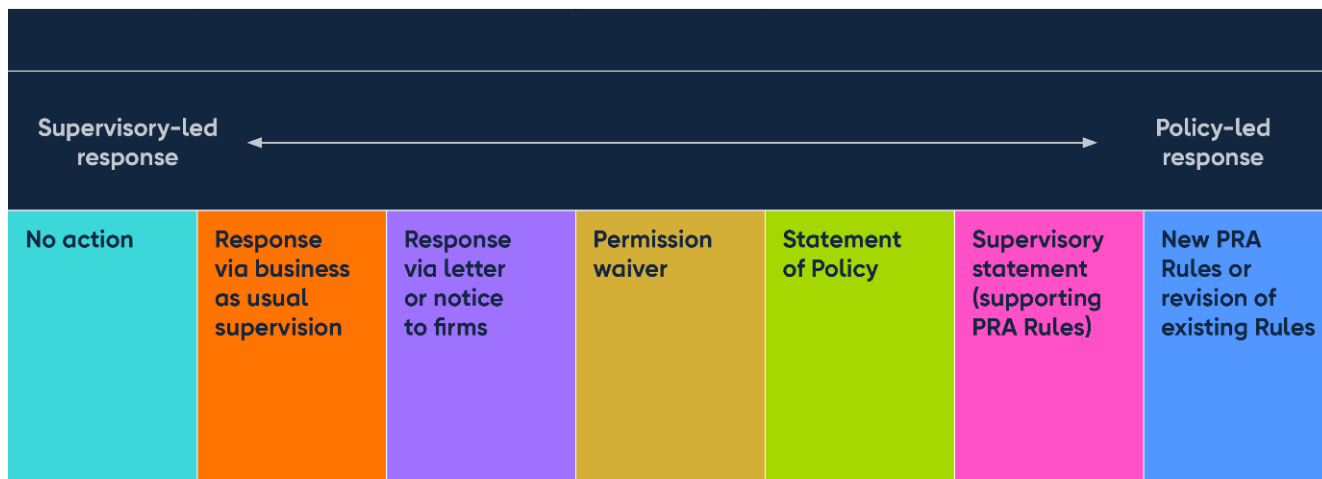
5.37 Our next step is to identify one or more possible response options. As set out in Diagram 2, we have a variety of types of response at our disposal.

5.38 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, 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.⁶⁶

5.39 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



5.40 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 (defined in Chapter 2 of this document).

Decision on next steps

5.41 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.

5.42 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.

⁶⁶ For proposals that are rules that would apply to both mutual societies (including friendly societies and building societies), and other types of authorised firms, we must also prepare and publish a statement for the relevant CP on whether we consider that the impact on mutuals is significantly different to the impact on other authorised firms, and if so, give details. If the final rules differ from the proposed rules, we must also prepare and publish a statement in the PS on whether we consider the impact of the final rules is significantly different from that of the proposed rules on mutuals and on mutuals compared with other firms. If so, we must give details.

Phase 2: development

Overview

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

5.44 We develop a policy proposal by analysing options for new policy. We assess how different options advance our statutory objectives and we have regard to the regulatory principles described in Chapter 2. 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 advancing our objectives.

5.45 We consult on our policy proposals via a CP and consider all responses before finalising our policy. Diagram 3 illustrates the stages within the development phase.

Diagram 3 - Stages within the Development Phase⁶⁷



Policy option design

5.46 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.

5.47 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.

⁶⁷ This does not include the publication of a possible discussion paper, which would come before the stages outlined here.

Cost benefit analysis approach

5.48 FSMA requires us to undertake CBA when proposing to make PRA rules. We consider that undertaking CBA can also be beneficial in other cases, for example when proposing guidance in supervisory statements. We have published a statement of policy setting out in detail how we approach CBA.⁶⁸

5.49 FSMA also requires that we establish and maintain a CBA Panel, comprised of external members, to provide advice to the PRA in relation to CBA. The CBA Panel brings considerable experience and knowledge of CBA, prudential regulation, and the financial services sector. The CBA Panel's terms of reference and membership can be found on the Bank of England website.⁶⁹

5.50 CBA is an integral part of good policymaking and fulfils three important functions in our policymaking.

- CBAs represent our best judgement, drawing on the available evidence, of the net impacts that we expect our policies to have.
- As part of policy development, consideration of economic costs and benefits shapes the design and calibration of the policies we make.
- CBA enhances transparency and scrutiny of our policymaking by providing a structured way for us to communicate the type and scale of the costs and the benefits that our policies are expected to generate.

5.51 We prepare CBA in an iterative manner as part of our policymaking process. We consider evidence and undertake partial analysis of costs and benefits throughout the policy cycle. We consider the merits and drawbacks of different policy approaches throughout the initiation and development phases of the policy cycle. Ultimately, we produce a refined policy proposal, which delivers what we judge to be the best mechanism for addressing the issue identified, while pursuing our objectives. We prepare a full CBA on our refined policy proposal,⁷⁰ drawing together the evidence gathered, and the analysis undertaken throughout the policymaking process.

5.52 The PRA takes a proportionate approach to the use of CBA in its policymaking process and makes judgements about whether a CBA is required and, if so, whether it is reasonable to estimate the expected costs and benefits of a policy proposal. FSMA requires us to have regard to the efficient and economic use of our resources, and this informs our approach to

⁶⁸ See: <https://www.bankofengland.co.uk/prudential-regulation/publication/2024/december/pru-approach-to-cost-benefit-analysis-statement-of-policy>.

⁶⁹ See: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/cost-benefit-analysis-panel-tor>.

⁷⁰ Policy proposal in this context refers to PRA rule making for public consultation under section 138J(1)(b) of FSMA <https://www.legislation.gov.uk/ukpga/2000/8/section/138J>.

CBAs. There is a cost to undertaking CBA both to the PRA and to the firms we regulate, whom we may rely on to provide certain data and evidence to help us understand the potential economic costs and benefits of our policies.

Cooperation between policy and supervisory functions

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

5.54 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 policymaking 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

5.55 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.

5.56 The relevant internal committee(s), culminating in the 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 finally agreeing any PRA rules 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

5.57 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

5.58 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.⁷¹ These documents contain the final policy and 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.

5.59 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.⁷² 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.

5.60 Firms are responsible for effectively implementing policy by the 'coming into force' 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.

5.61 After the implementation date, our supervisory function may assess how firms have implemented the policy (as set out in our supervisory approach).⁷³ 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.

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

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

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

72 For example, for firms in scope of April 2016: CRD IV: Liquidity | Bank of England PS Liquidity Coverage Ratio requirements were gradually increased in 10 p.p. increments between 2015 and 2018:

<https://www.bankofengland.co.uk/prudential-regulation/publication/2014/crd-iv-liquidity>.

73 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>.

Phase 4: evaluation

Overview

5.63 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. We have set out our approach in more detail in our statement on the review of rules.⁷⁴

Evaluation process

5.64 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.

5.65 Rules may be revised if they have not adequately addressed the risk for which they were designed, or new information emerges to inform their calibration; they 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.

5.66 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 minor adjustments and updates when appropriate.

5.67 As described earlier, 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.⁷⁵ Alongside direct feedback from external stakeholders, we also consider feedback from the PRA’s statutory panels; supervisory intelligence; changes in market and economic conditions; material developments in international standards; insights and trends in applications for permissions; waivers or modifications of PRA rules; and reports on specific firms and thematic reviews. We also consider other evidence such as external academic research.

5.68 We decide to conduct an evaluation for various reasons, including that: it appears that policies have not adequately addressed the risk for which they were designed or new information emerges to inform the calibration of the policies compared to the risk they address; the policies have given rise to unintended consequences; firms are implementing the policies in unanticipated ways, leading to a failure to achieve the intended policy

⁷⁴ PRA Policy Statement 4/24: <https://www.bankofengland.co.uk/prudential-regulation/publication/2024/february/pru-statement-on-the-review-of-rules-policy-statement>.

⁷⁵ CP11/23 set out proposals to facilitate stakeholder engagement during the evaluation phase.

outcome; the structure of the economy or financial system has evolved; relevant international standards affecting the policy have changed; or the nature of the issue addressed by the policies has evolved. We prioritise reviews based on several criteria including legal requirements; scale of impact; timing; contribution to meeting the PRA's objectives; implications for the effectiveness of PRA rule-making; the evidence base; and other considerations. We aim to strike a balance that allows us to pursue our objectives most effectively by weighing up the benefits of reviewing current policies and those of identifying and addressing new policy issues.

5.69 HMT can direct us to review specific rules where the government considers that it is in public interest. We therefore consider any directions from HMT alongside the approach to evaluation above.

5.70 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.

5.71 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.

5.72 In addition, the Bank and PRA contributes to and supports reviews of international standards, coordinated by international bodies, such as the BCBS, IAIS and FSB. This supports our work to shape effective international standards and builds close relationships with our regulatory counterparts.

6. Delivering a first-rate PRA Rulebook

This chapter outlines our approach to the PRA Rulebook.⁷⁶ We explain that our guiding principles for the Rulebook are for it to be easy to access, 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 assimilated law.

Principles

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

- **Ease of access** – setting out our Rulebook in an intuitive way and ensuring that relevant links are presented with the related material.
- **Efficiency** – streamlining the policy document formats used.
- **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.⁷⁷ 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.

⁷⁶ 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).

⁷⁷ The body of EU legislation that applied directly in the UK was transposed into 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 'assimilated law' and covers a wide range of legislative areas.

Table 3 - Current sources of regulatory material

Source	Location and status
UK legislation	Includes primary legislation, statutory instruments and assimilated law; available on the UK legislation website. ⁷⁸
PRA rules	Available on the PRA Rulebook website. ⁷⁹
UK Technical Standards	Originally drafted by European Supervisory Authorities (ESAs). The onshored text is available on the UK legislation website; ⁸⁰ PRA amending instruments on the Bank's website. ⁸¹
PRA supervisory statements and statements of policy	Available on the Bank's website. ⁸²
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 ⁸³ that were applicable as at the end of the transition period, to the extent that these remain relevant. A Bank and PRA Statement of Policy provides a non-exhaustive list of guidelines. Q&As 'may continue to be relevant, and the Bank and PRA may have regard to these as appropriate.'

Our approach

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

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

78 <https://www.legislation.gov.uk>

79 <https://www.prarulebook.co.uk>

80 <https://www.legislation.gov.uk>

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

82 *ibid*

83 <https://www.bankofengland.co.uk/paper/2019/interpretation-of-eu-guidelines-and-recommendations-boe-and-pra-approach-sop>

Presenting our Rulebook on an easy-to-use website 6.5 We have refreshed the PRA Rulebook website⁸⁴ to give us more flexibility to update our regulatory material.

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 Index⁸⁵ ('index'). Users can access those links in the Index until they are delivered through the Rulebook itself.

6.7 The refreshed PRA Rulebook website allows users to search both rules and guidance in one place, with a filter to choose results in either category. In addition, we have implemented enhanced time-travel functionality at the top of each page where users can see past, present and future versions of rules; the legal instruments that changed each rule; and related regulatory material.⁸⁶

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.

Supporting efficient policymaking 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:

- PRA rules, which are legally enforceable and give effect to PRA policies by setting out the requirements firms must comply with;
- 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
- 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

⁸⁴ <https://www.prarulebook.co.uk>.

⁸⁵ <https://www.bankofengland.co.uk/prudential-regulation/prudential-and-resolution-policy-index>

⁸⁶ Further details on our approach to improving the PRA Rulebook, including the digitisation of other regulatory materials and improved accessibility for users of assistive technology, can be found here:

<https://www.bankofengland.co.uk/prudential-regulation/publication/2021/november/prarulebook-website-updates>.

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.⁸⁷ Instead, our approach is to move relevant information in the current technical standards into our rules. Remaining technical standards will be deleted.

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. This includes moving to a coherent structure that is in line with the Index, over time. Policies will be written in plain english, using PRA terminology (and phasing out EU terminology), and adopting inclusive language.⁸⁸

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'.⁸⁹

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 or related policy documents.

⁸⁷ Unless alternatives such as making rules would not be effective or appropriate.

⁸⁸ For example, replace 'chairman' with 'chair'.

⁸⁹ For example, in our recent CP on Definition of capital – PRA September 2022, 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 assimilated law.

Appendix 1 – References for Box 1

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