Recommendations for the Prudential Regulation Committee

December 2022

Presented to Parliament pursuant to section 30B(3) of the Bank of England Act 1998
HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Andrew Bailey  
Governor  
Bank of England  
Threadneedle Street  
London  
EC2R 8AH

8 December 2022

Dear Andrew,

RECOMMENDATIONS FOR THE PRUDENTIAL REGULATION COMMITTEE

In accordance with section 30B of the Bank of England Act 1998 (the Act), this letter makes recommendations to the Prudential Regulation Committee (PRC) about aspects of the government’s economic policy to which the PRC should have regard when considering how to advance the objectives of the Prudential Regulation Authority (PRA) and when considering the application of the regulatory principles set out in the Financial Services and Markets Act 2000. This letter replaces the previous letters sent to you under section 30B of the Act and will be presented to Parliament pursuant to section 30B(3) of the Act.

The specification of the government’s economic policy and its recommendations to the PRC can be found in the annex to this letter. These recommendations represent a clear and targeted approach to how the regulators can have regard to the government’s economic policy, while building on the important themes of competition, growth, competitiveness, innovation, trade and better outcomes for consumers from previous letters.

The government is determined to unlock the full potential of the UK financial services sector. In order to achieve this the government is committed to the operational independence of the Bank of England and the financial regulators, balanced with clear accountability, appropriate democratic input and transparent oversight.

I am grateful to all at the PRA for your work and I look forward to working with you in the period ahead.

I am copying this letter to Harriett Baldwin MP, Chair of the Treasury Committee.

Best wishes,

RT HON JEREMY HUNT MP  
Chancellor of the Exchequer
RECOMMENDATIONS FOR THE PRUDENTIAL REGULATION COMMITTEE

The Financial Services and Markets Act 2000 ("the Act") sets out the objectives of the Prudential Regulation Authority ("the PRA"). The PRA has a general objective, set out in section 2B of the Act, of promoting the safety and soundness of the firms it regulates, through ensuring that firms' business is carried on in a way which avoids any adverse effect on the stability of the UK financial system and minimising the risk they pose to financial stability.

The PRA has an additional insurance objective, in section 2C of the Act, of contributing to the securing of an appropriate degree of protection for those who are or may become policyholders.

The PRA has a secondary competition objective, set out in section 2H of the Act, which requires it, when discharging its general functions in a way that advances its objectives, so far as is reasonably possible, to act in a way which facilitates effective competition in the markets for services provided by the firms it regulates.

Section 2H of the Act will also be amended by the Financial Services and Markets Bill which introduces a secondary objective for the PRA to facilitate, subject to aligning with relevant international standards, the international competitiveness of the UK economy (including in particular the financial services sector) and its growth in the medium to long term.

In discharging its general functions, the PRA must also have regard to the regulatory principles set out in Section 3B of the Act.

Section 30B of the Bank of England Act 1998 allows the Treasury to make recommendations to the Prudential Regulation Committee (PRC) about aspects of the economic policy of His Majesty's government to which the Committee should have regard when considering:

- how to advance the objectives of the PRA, and
- the application of the regulatory principles.

A. The government’s economic policy

The government’s economic policy objective is to achieve strong, sustainable and balanced economic growth. Price and financial stability are essential pre-requisites to achieve this objective in all parts of the UK and sectors of the economy.

To achieve this objective, the government’s economic strategy consists of:

- operationally independent monetary policy, responsible for maintaining price stability and supporting the economy;

- responsible fiscal policy where debt as a proportion of GDP falls over the medium term, supported by strong and independent institutions, and a credible macroeconomic framework maintaining sustainable public finances, while providing the flexibility to support the economy;

- supply side reforms to promote investment, skilled employment, infrastructure, and enterprise to create a more pro-growth environment in all parts of the UK, increasing long-term energy security and delivering Net Zero;

- maintaining a resilient, effectively regulated, and internationally competitive financial system that supports the economy, while protecting consumers and safeguarding taxpayer interests.

B. Matters about aspects of the government’s economic policy to which the Prudential Regulation Committee should have regard.

When the PRC considers how to advance the objectives of the PRA, have regard to the regulatory principles and discharge its other relevant duties, it should, where relevant and practical, take these considerations into account, in its assessment of the costs, burdens and benefits of potential rules or policies.

i. Supporting the government’s objective of medium to long-term economic growth in the interests of consumers and businesses

The government is committed to boosting economic growth rates to ensure the enduring health and prosperity of the UK economy with an active supply side reform agenda to encourage investment, innovation, and entrepreneurship. The government considers that the financial services sector has a key part to play in delivering sustainable economic growth which benefits consumers and businesses across the country.

The PRC should therefore have regard to supporting the government’s ambition to encourage economic growth in the interests of consumers and businesses including:

- the government’s desire to facilitate investment in productive assets, particularly venture and growth capital to support UK scale-up companies that face a particular finance gap.
• the government’s ambitions for the provision of sustainable finance and the supply of long-term investment to support UK economic growth, including the supply of finance for infrastructure projects.

• the government’s commitment to securing better outcomes for all consumers, including through improved competition in the interests of consumers and having regard to the needs of different consumers who use or may use financial services.

• the government’s aim to deliver smart regulatory reform.

ii. Supporting the government’s objective to promote the international competitiveness of the UK

The government, through the Financial Services and Markets Bill, will ensure financial services regulation will be tailored to UK markets in order to bolster the competitiveness of the UK as a global financial centre and deliver better outcomes for consumers and businesses.

The PRC should have regard to the government’s strategy to promote competitiveness including through, once enacted, the PRA’s new secondary objective to facilitate, subject to aligning with relevant international standards, the international competitiveness of the UK economy (including in particular the financial services sector) and its growth in the medium to long term. As part of this, the PRC should have regard to the government’s priorities including:

• the government’s desire to swiftly implement the outcomes of the Future Regulatory Framework Review, in a planned and sequenced way, through enacting the repeal of retained EU law with rules designed for the UK.

• the importance of the government’s agenda to encourage trade, including through the development and maintenance of deference arrangements, and to promote inward investment into the UK.

• the government’s commitment to ensuring that the UK is attractive to internationally active financial services firms and activity.

• the government’s support of innovation and new developments in financial markets and active embracing of the use of new technology in financial services, such as crypto technologies, artificial intelligence and machine learning.