Dear Andrew,

RECOMMENDATIONS FOR THE PRUDENTIAL REGULATION COMMITTEE

The Bank of England Act 1998 requires the Treasury, at least once in each Parliament, to make recommendations to the Prudential Regulation Committee (PRC) about aspects of the economic policy of the government to which the PRC should have regard when considering how to advance the objectives of the Prudential Regulation Authority and when considering the application of the regulatory principles set out in the Financial Services and Markets Act 2000. This letter will also be presented to Parliament pursuant to section 30B(3) of the Bank of England Act 1998.

I confirm that the government’s economic policy objective remains to achieve strong, sustainable and balanced growth. Price and financial stability are essential pre-requisites for free enterprise and strong, sustainable and balanced growth in all parts of the UK and sectors of the economy. The specification of the government’s economic strategy to deliver this objective can be found in section A of the annex to this letter. The government is also committed to UK financial services being effectively regulated; securing the right balance between a financial sector that is globally competitive, works for consumers, and is secure over the long-term.

The PRC’s main contribution to this economic policy is by promoting the safety and soundness of firms, thereby maintaining and enhancing financial stability in the UK. The PRC should, as appropriate, work with the Financial Policy Committee, Monetary Policy Committee and the Financial Conduct Authority. A strong, stable and competitive financial system supports economic growth, facilitates productive investment and underpins the UK’s position as an important global financial centre. In the last year, the PRC has also played an important role in the UK response to Covid-19, and the
government and the PRC will need to continue to work collaboratively as our response to the virus evolves.

I am grateful to you and all the members of the PRC for your continuing good work and dedication.

I am copying this letter to Mel Stride, Chair of the Treasury Select Committee.

RISHI SUNAK
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 single general objective 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 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 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.

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

- the need to use the resources of each regulator in the most efficient and economic way;
- the principle that a burden or restriction which is imposed on a person, or on the carrying on of an activity, should be proportionate to the benefits, considered in general terms, which are expected to result from the imposition of that burden or restriction;
- the desirability of sustainable growth in the economy of the United Kingdom in the medium or long term;
- the general principle that consumers should take responsibility for their decisions;
- the responsibilities of the senior management of persons subject to requirements imposed by or under this Act, including those affecting consumers, in relation to compliance with those requirements;
- the desirability where appropriate of each regulator exercising its functions in a way that recognises differences in the nature of, and objectives of, businesses carried on by different persons (including different kinds of person such as mutual societies and other kinds of business organisation) subject to requirements imposed by or under this Act;
- the desirability in appropriate cases of each regulator publishing information relating to persons on whom requirements are imposed by or under this Act, or requiring such persons to publish information, as a means of contributing to the advancement by each regulator of its objectives;
• the principle that the regulators should exercise their functions as transparently as possible.

Section 30B of the Bank of England Act 1998 ("the 1998 Act") allows the Treasury to make recommendations to the Prudential Regulation Committee (PRC) about aspects of the economic policy of Her 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 in section 3B of the Financial Services and Markets Act 2000.

This document discharges the Treasury’s duties under section 30B of the 1998 Act.

A. The government’s economic policy

The government’s economic policy objective is to achieve strong, sustainable and balanced 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;
  • a credible fiscal policy, maintaining sustainable public finances, while providing the flexibility to support the economy;
  • structural reform to level up opportunity in all parts of the UK and to transition to an environmentally sustainable and resilient net zero economy, including through regulation, and an ambitious programme of investment in skills, infrastructure and innovation, in order to sustain high employment, raise productivity and improve living standards;
  • maintaining a resilient, effectively regulated and competitive financial system that supports the real economy through the provision of productive finance and critical financial services, while protecting consumers, safeguarding taxpayer interests and supporting the transition to a net zero economy.
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 and apply the regulatory principles it should, where relevant and practical, take the following considerations into account, in their assessment of the costs, burdens and benefits of potential rules or policies.

i. Competition

The government is keen to see more competition in all sectors of the industry, particularly retail banking. This includes minimising barriers to entry and growth, as well as ensuring a diversity of business models within the industry.

ii. Growth

The government wishes to ensure financial services markets make a positive contribution to levelling up the country and supporting sustainable economic growth in the medium and long term. This includes supporting high-skilled jobs across the country, facilitating finance for productive and clean investments across the economy – including investment in SMEs and infrastructure – and ensuring the sector delivers for consumers and businesses across the UK.

iii. Competitiveness

The government wishes to ensure that the UK remains an attractive domicile for internationally active financial institutions, and that London retains its position as the leading international financial centre and hub for green finance. The government considers that achieving these goals in a manner that is consistent with robust institutions and a resilient system will support its aims for sustainable economic growth. The PRC should also continue working with its partners through the Regulatory Initiatives Grid and Forum to support co-ordination. This should have benefits for proportionality, transparency, and competitiveness.

iv. Innovation

The government is keen to see innovation in the financial services sector and how this can support the wider economy. We should encourage new methods of engaging with consumers of financial services and new ways of raising capital, maintaining the UK as a leader in the use of technology. This includes recognising differences in the nature and objectives of business models, promoting effective competition and ensuring burdens are proportionate.
v. Trade

The government aims to encourage trade and inward investment to the UK that can help boost productivity and growth across our economy. This can be supported by improved competition opening the UK to new ways of doing things and being seen as an attractive place to do business.

vi. Better outcome for consumers

The government wants to see financial services work in the best interests of the consumers and businesses they serve. This includes securing better outcomes for all consumers through improved competition in the interests of consumers and having regard to the needs of different consumers who use or may use financial services.

vii. Climate Change

The government wishes to deliver a financial system which supports and enables a net-zero economy by mobilising private finance towards sustainable and resilient growth and is resilient to the physical and transition risks that climate change presents. The PRC should have regard to the government’s commitment to achieve a net-zero economy by 2050 under the Climate Change Act 2008 (Order 2019) when considering how to advance its objectives and discharge its functions.