



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Andrew Bailey  
Chief Executive Officer  
Prudential Regulation Authority  
20 Moorgate  
London EC2R 6DA

11 November 2015

Dear Andrew,

Thank you for your letter of 11 November setting out the PRA's views on the approach to regulation for smaller banking institutions.

As you know, the Government is committed to promoting competition in UK banking, and has already taken important steps in this area. A key step was to give the PRA a secondary objective to facilitate effective competition. I am therefore pleased to see the PRA actively pursuing this objective.

I read with interest the Bank's response to the European Commission's consultation on the Capital Requirements Regulation and Directive. I am fully supportive of the proposals for a more proportionate, differentiated regime for smaller institutions which can support the removal of barriers to competition while maintaining appropriate prudential standards. I have asked Treasury officials to work with their counterparts at the Bank to support this agenda, including through the relevant international fora.

Of course, making changes to drive greater proportionality at the EU and Global level will take considerable time and effort. It is therefore good news that you will review whether any changes can be made to the application process for institutions wanting to move onto the Internal Ratings Based approach to risk-weighting.

I look forward to receiving an update on your findings prior to Budget 2016 and the full report in the PRA's first annual Competition Report

Thank you again for your work on this important agenda.

A handwritten signature in black ink that reads 'H Harriett Baldwin'.

HARRIETT BALDWIN