



HM Treasury

Treatment of Overseas Investment Exchanges for the purposes of the Capital Requirements Regulation

Policy Statement

October 2024

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Treatment of overseas investment exchanges

Introduction

1.1 In 2022, HM Treasury asked for views on changes that could be delivered, alongside the Basel 3.1 process, which would support the competitiveness of the prudential regime in the UK.¹

1.2 In particular, HM Treasury asked for views on the prudential treatment of overseas exchanges and the process by which they meet the definition of “recognised exchanges” under the Capital Requirements Regulation (CRR).

Background

1.3 UK firms are allowed to treat certain financial instruments (such as certain stocks and shares) as collateral or financial resources for their regulatory requirements. If those instruments are listed on a “recognised exchange”, the instruments are more widely accepted in the capital framework.

1.4 When the UK left the EU, HM Treasury amended the definition of “recognised exchanges” in the CRR, linking it to equivalence provided under paragraph 8 of Schedule 3 to Regulation (EU) No 600/2014 (Markets in Financial Instruments Directive (MiFIR)).

1.5 Given an equivalence decision under MiFIR has not been made with respect to any jurisdiction, the effect of the amendment was to reduce the list of “recognised exchanges” to those in the UK.

Proposal

1.6 HM Treasury consulted on a proposal to address this issue, by linking the definition of “recognised exchanges” in the CRR to the Recognised Overseas Investment Exchange (ROIE) regime.

1.7 The ROIE regime, which is operated by the Financial Conduct Authority (FCA), has ensured that UK firms can continue to trade on key exchanges absent a jurisdictional equivalence decision.

1.8 HM Treasury’s proposal also suggested setting out that exchanges covered in the CRR definition of recognised exchanges are either those detailed in the PRA’s technical standards (TS) which

¹ See Chapter 6 Miscellaneous, Implementation of the Basel 3.1 standards Consultation:

https://assets.publishing.service.gov.uk/media/63862dda8fa8f54d5f1adde6/HMT_Basel_3.1_consultation_document.pdf

accompany the definition of recognised exchanges or are ROIEs per the FCA's regime.

1.9 Exchanges from UK equivalent regimes are meant to be captured in the PRA's technical standards list, while individual exchanges that choose to apply, and are granted access under the ROIEs regime are approved and confirmed by the FCA.

Feedback on our proposal

1.1 Three responses were received on this question. They all suggested that our proposal, whilst still an expansion of the definition, would be insufficient in restoring competitiveness with other jurisdictions.

1.2 More specifically, all responses welcomed the link to the ROIEs regimes. They all also noted that the ROIEs regime alone would not provide a sufficient expansion, with one respondent noting that it only includes 30 exchanges compared to the EU's list of 108 exchanges.

1.3 All three responses suggested HM Treasury should aim to recognise all the exchanges it did before the end of the temporary transition period. They suggested this would support a level playing field with EU banks.

1.4 One response suggested that equivalence lists should be maintained and published by HM Treasury and should be directly referenced in the CRR.

1.5 One respondent said they would welcome an impact study on the subject of widening the definition of ROIE to enable a more coherent definition to be established around recognised exchanges.

1.6 One response noted that the list of exchanges contained in the PRA's TS were significantly reduced after Brexit.

Our final position

1.7 HM Treasury has taken on board the feedback received through its consultation and we have amended the proposal we initially consulted on. HM Treasury will:

- add the link to the ROIEs regime as initially proposed in our consultation, which all respondents welcomed;
- rather than refer to the PRA's TS, the CRR definition will refer to a set of conditions that will come to be specified in the PRA rulebook for the purpose of identifying recognised exchanges or assets traded on such exchanges;

1.8 The second part of our amendment means the PRA will formulate new rules for the purposes of identifying recognised exchanges. The PRA intends to consult on these as soon as is practicable.

1.9 Until the PRA has made rules relevant for the definition of “recognised exchange”, exchanges that fall within the definition will include those that are domestic UK investment exchanges and those on the ROIEs regime.

1.10 By adding the link to the ROIE regime, firms will be able to recognise as eligible collateral, instruments traded on exchanges listed on the ROIEs register automatically. This will provide some immediate benefits once the legislation is in place and while the PRA develops its rules. We encourage firms to engage proactively with the PRA as it consults on its proposals.

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