



HM Treasury

Applying the Financial
Services and Markets Act
2000 model of regulation to
the UK Capital
Requirements Regulation-
Policy Update 2025
Response

February 2026

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Chapter 1

Introduction

Background

1.1 HM Treasury ran an 11-week consultation as part of the Policy Update¹ published at Mansion House 2025 on its intention to apply the regulatory approach under the Financial Services and Markets Act 2000 (FSMA 2000) to the UK Capital Requirements Regulation (UK CRR).

1.2 The FSMA model of regulation was established through the introduction of FSMA 2000. Central to the FSMA model approach is the setting of regulatory standards by expert, independent regulators that work within an overall policy framework set by government and Parliament.

1.3 The Financial Services and Markets Act 2023 (FSMA 2023) revoked assimilated law on financial services so that areas of regulation covered by assimilated law can be made consistent with the UK's FSMA model approach.

1.4 The Policy Update provided an update on HM Treasury's plans to commence the revocation of certain provisions of the UK CRR and make the necessary restatements in UK legislation to facilitate the FSMA model of regulation. It also set out how the PRA intend to replace UK CRR provisions with regulator rules, supervisory statements, and statements of policy. The Policy Update covered HM Treasury's proposed approach in three areas:

- Basel 3.1 (Chapter 2)
- Overseas Recognition Regimes (Chapter 3)
- Definitions in the UK CRR which will be restated in legislation (Chapter 4)

1.5 HM Treasury also published two pieces of draft legislation alongside the Policy Update:

- Draft transitional regulations that will require institutions not to apply specified PRA rules for the calculation of their market risk capital requirements until after the end of the transitional period on 31 December 2027

¹ [Applying the FSMA 2000 model of regulation to the UK Capital Requirements Regulation - Policy Update 2025 .pdf](#)

- Draft regulations that will restate relevant definitions in UK legislation

Summary of responses

1.6 In response to our Policy Update, HM Treasury received nine written responses. The responses came from a variety of financial services firms, banks, consumer bodies and trade bodies.

1.7 This document summarises the responses received to the consultation and sets out the government's final approach to the application of the FSMA model to the UK CRR.

1.8 Alongside this document, HM Treasury has published the draft legislation for the Overseas Prudential Requirements Regime based on the approach consulted on in July 2025. We welcome technical comments on the draft legislation by Thursday 2 April 2026.

1.9 Responses can be sent by email to Prudential.Consultation@hmtreasury.gov.uk.

1.10 Alternatively, they can be posted to:

Prudential Banking Team
HM Treasury
Horse Guards Road
London SW1A 2HQ

Chapter 2

Basel 3.1

2.1 Chapter two of the Policy Update outlined HM Treasury's intention to facilitate the PRA's proposals to delay the market risk modelling elements of the Basel 3.1 package.

2.2 HM Treasury proposed to legislate for a transitional approach to firms' calculation of capital requirements for market risk under the internal models approach. The proposed legislation worked alongside the PRA's Consultation Paper 'CP17/25 – Basel 3.1: Adjustments to the market risk framework'² which set out the PRA's detailed, firm-facing requirements.

2.3 This chapter summarises the responses received and how HM Treasury has taken those responses on board.

2.4 Respondents recognised the benefit of HM Treasury legislating to facilitate the PRA's proposed delay of the internal models approach to market risk.

2.5 Some respondents outlined concerns that HM Treasury's legislation could introduce unintended operational challenges, such as firms being required to run two systems in parallel.

2.6 Some respondents also sought clarity on the coordination of the making of this legislation with the wider timeline for the application of the regulatory approach under FSMA 2000 to the UK CRR.

HM Treasury's response on Basel 3.1

2.7 HM Treasury's legislative approach is intended to facilitate the PRA's implementation of the detailed firm-facing requirements. The PRA's Policy Statement 1/26 has explained how it has sought to address any unintended operational challenges as a result of its proposed delay to the internal modelled approach for market risk.

2.8 HM Treasury recognises the need to ensure that the work to apply the FSMA model to the UK CRR is coordinated across all workstreams, and that the timing of key milestones in this process is clearly communicated to firms. HM Treasury has taken steps to provide as much clarity to industry as possible on the work programme including through its regular Policy Updates, the Regulatory Initiatives

² [CP17/25 – Basel 3.1: Adjustments to the market risk framework | Bank of England](#)

Grid³, and the Plan Through to 2035⁴ provided as part of the Financial Services Competitiveness and Growth Strategy.

³ [Regulatory Initiatives Grid | FCA](#)

⁴ [Financial Services Growth and Competitiveness Strategy](#)

Chapter 3

Overseas Recognition Regimes

3.1 Chapter three set out HM Treasury's approach to replacing the existing equivalence regimes inherited from the EU and in the UK CRR with legislation which is tailored to the UK's needs, and which fully reflects the government's outcomes-focused approach to the unilateral regulatory recognition of overseas jurisdictions. These are called 'Overseas Recognition Regimes'.

3.2 HM Treasury explained its intention to restate existing equivalence decisions made under the UK CRR equivalence regimes so that jurisdictions currently deemed equivalent are treated as designated under the Overseas Prudential Requirements Regime (OPRR) and generally to preserve the effects of the current decisions, except regarding exposures to exchanges.

3.3 This chapter summarises the responses received and how HM Treasury has taken those responses on board.

3.4 HM Treasury has today published the draft regulations for the OPRR and is seeking industry views by 2 April 2026. These regulations are intended to legislate for the approach set out below. Responses can be sent by email to Prudential.Consultation@hmtreasury.gov.uk.

3.5 To facilitate the introduction of the OPRR, HM Treasury intends to make commencement regulations alongside the OPRR regulations. The commencement regulations will commence the revocation of Articles: 81(1), 82, 107(3), 107(4), 114(7), 115(4), 116(5), and parts of Article 391. The revocations will come into effect alongside the new OPRR and the PRA's consequential rule changes.

Covered Bonds

3.6 HM Treasury sought views on the potential to introduce a new recognition regime as part of the OPRR to allow HM Treasury to designate appropriate overseas jurisdictions in relation to the prudential treatment of UK firms' exposure to overseas covered bonds, potentially incorporating both capital and liquidity requirements.

3.7 Of the total responses received, 33% focused solely on covered bonds, and 66% of all responses discussed covered bonds, making it the topic most frequently raised.

3.8 Respondents were supportive of the potential to introduce a new recognition regime in the OPRR to allow HM Treasury to designate

appropriate overseas jurisdictions in relation to the prudential treatment of UK firms' exposure to overseas covered bonds, for both capital and liquidity purposes.

Covered Bonds

1. Which jurisdictions do respondents consider to have the most material and liquid covered bond markets?

3.9 When answering question one, respondents suggested that the European Union, European Economic Area states, Canada, Australia, Switzerland, Singapore, and South Korea had the most material and liquid covered bond markets. Within this, there was particular focus on the benefits of recognising covered bonds from the EU. Respondents also suggested that recognising these major jurisdictions could act as an impetus for reciprocal equivalence arrangements, therefore promoting greater integration of the global financial markets and furthering the UK's position as a financial services hub.

Covered Bonds

2. What are the activities in which UK banks engage that would be facilitated by recognition of covered bonds from appropriate overseas jurisdictions?

3.10 When responding to question two, respondents focused on the potential increase in investor choice and diversification of risk that would result from bringing covered bonds in scope of the OPRR. This was highlighted as especially beneficial for liquidity purposes, where recognising covered bonds from appropriate overseas jurisdictions was perceived to help enhance UK firms' ability to raise funds in a time of stress and reduce firms' reliance on UK covered bonds to meet firms' High Quality Liquid Asset (HQLA) requirements.

3.11 Respondents also suggested that adopting this approach would lower capital requirements for overseas covered bonds, therefore freeing up capital to go towards lending to the wider economy.

3.12 It was suggested that allowing firms to use non-UK covered bonds to meet their liquidity requirements is important for UK subsidiaries of US-headquartered Global Systemically Important Banks (GSIBs) due to US regulatory restrictions on UK subsidiaries' and branches' portfolio exposures to any single type of exposure. It was argued that allowing firms to use non-UK covered bonds to meet their

liquidity requirements would expand UK subsidiaries of US headquartered GSIBs' options for meeting their HQLA requirements without breaching their concentration risk management requirements. It was suggested that not adopting this approach may inadvertently cause US-headquartered banks to move corporate treasury and reserve management activity out of the UK.

3.13 As well as this, respondents highlighted certain technical changes that HM Treasury could look to make that they argued would maximise the impact of bringing covered bonds into scope of the OPRR. These included:

- Aligning the risk weights for overseas covered bonds issued from recognised jurisdictions with the risk weights for 'CRR covered bonds' issued in the UK.
- Changing technical criteria, including minimum issue size of covered bonds which might qualify for preferential treatment.
- Changing the level of over-collateralisation required for overseas covered bonds to be considered a Level 2A asset for the purposes of firms meeting their Liquidity Coverage Ratio (LCR) requirements.
- Allowing overseas covered bonds to qualify as a Level 1 asset for the purposes of firms meeting their LCR requirements.

HM Treasury's response on Covered Bonds

3.14 HM Treasury agrees that ensuring an appropriate prudential treatment of overseas covered bonds is important for the safety and soundness and growth and competitiveness of the UK financial services sector and the UK as a whole.

3.15 HM Treasury considers that the most timely, prudent and proportionate way to achieve these objectives in respect of the categorisation of covered bonds for liquidity purposes is to maintain the approach whereby firms are able to use certain non-UK covered bonds to meet their LCR requirements, within the criteria specified in PRA rules. The PRA statement on 15 July 2025, clarified that the PRA does not expect firms to alter their approach to the inclusion of non-UK covered bonds in Level 2A HQLA under the Liquidity Coverage Ratio (CRR) Part of the PRA Rulebook. That statement remains applicable. Since then, PRA has completed a review of the current liquidity treatment of non-UK covered bonds, and intends to consult on changes to PRA rules to confirm firms' role in assessing the equivalence of non-UK covered bonds included in Level 2A HQLA.

3.16 HM Treasury and the PRA will work together to explore the most appropriate prudential treatment of overseas covered bonds for capital purposes. To facilitate options to address this, HM Treasury intends to introduce a power to designate jurisdictions through the OPRR for overseas covered bonds. This would allow HM Treasury, including through advice provided by the FCA and PRA, to consider whether the designation of a particular jurisdiction would advance HM Treasury's

policy objectives and introduce the most appropriate capital treatment for overseas covered bonds. The draft OPRR legislation, published today, will introduce this power in regulation 5.

Exchanges

3.17 HM Treasury sought views on the proposal to amend the effect of the regime so that UK banks and designated investment firms will be able to treat exposures to overseas exchanges as exposures to credit institutions, where this is permitted by the banking regulator in the designated overseas jurisdiction in which the exchange is located.

Exchanges

3. Do respondents have any comments on HM Treasury's proposed treatment of overseas exchanges in recognised jurisdictions?
4. Do respondents have any comments on how this approach would compare to the prudential treatment of exposures to exchanges in other jurisdictions?

3.18 Respondents agreed that the proposed treatment of exchanges more closely aligns with the intended policy outcomes of the regime.

3.19 To ease implementation, firms asked for further clarity on how the risk-weight set out in the PRA's rules for unrated institutions will apply to overseas exchanges that do not have an external rating, given differing structures between exchanges and institutions.

3.20 Respondents also requested that HM Treasury publish a list noting the jurisdictions where this amended treatment may result in a change in the risk-weight applied to exposures to exchanges.

HM Treasury's response on Exchanges

3.21 HM Treasury welcomes industry's agreement that the proposal closely aligns with the intended policy outcome of the regime and intends to proceed with its proposed approach.

3.22 HM Treasury considers that the risk-weights for unrated institutions will depend on the nature of the underlying exposures and that the relevant requirements will be set in the PRA Rulebook.

3.23 HM Treasury does not consider it appropriate to publish a list of the exchanges where the overseas banking regulator permits exposures to be treated as exposures to institutions. HM Treasury considers it more flexible and proportionate to allow firms to complete their own assessment for the relevant exposures.

Investment Firms

3.24 HM Treasury sought views on the plan to replace the definition of 'third-country investment firm' with a new definition of 'overseas investment firm'.

Investment Firms

5. Do respondents have any comments on HM Treasury's proposed definition of an overseas investment firm?

3.25 Overall, respondents agreed with the suggested approach to restating the definition of overseas investment firm.

3.26 Following further consideration, HM Treasury has decided to remove limb (iv) from the proposed definition of 'overseas investment firm' to streamline the definition. The updated draft definition will clarify that 'overseas investment firm' means an investment firm (as defined in section 424A of FSMA 2000 but excluding credit institutions) which:

- (i) has its registered office, or, if it has no registered office, its head office in an overseas jurisdiction designated under regulation 3(1) in relation to regulation 4 of the OPRR Regulations, and
- (ii) is authorised in that overseas jurisdiction.

Additional comments

3.27 As well as the comments received on questions 1-5, respondents raised additional points for HM Treasury to consider.

3.28 In relation to the wider overseas regimes process:

- Respondents asked for increased and formalised industry engagement.
- Respondents suggested HM Treasury take a flexible approach to which requirements are considered when assessing the suitability of a jurisdiction for inclusion within each overseas regime, only considering requirements when appropriate to specific types of exposures.
- Firms requested that withdrawal of designations should be preceded by an industry consultation unless in exceptional circumstances, and that any potential withdrawal is clearly communicated ahead of time alongside a clear rationale for the withdrawal.
- Respondents suggested that, in the case where a designation is withdrawn, firms are permitted to maintain the risk-weighting

assigned to their holdings prior to the withdrawal for the lifetime of positions entered into prior to the withdrawal.

- 3.29** HM Treasury recognises and is taking steps to address these concerns.
- 3.30** HM Treasury considers that its consultation and its publication of the draft Statutory Instrument demonstrate its commitment to industry engagement on Overseas Recognition Regimes.
- 3.31** HM Treasury's Guidance Document for Overseas Recognition Regimes, published in July 2025⁵, sets out that assessments will be proportionate and evidence based. And HM Treasury's Memorandum of Understanding⁶ sets out how HM Treasury and the relevant authorities will co-ordinate the discharge of their respective functions.
- 3.32** HM Treasury's Guidance Document also sets out that engagement with UK industry is an important part of the Overseas Recognition Regimes process, and HM Treasury will discuss the impact of designations with UK stakeholders.
- 3.33** HM Treasury's Guidance Document also sets out that withdrawal will be a last resort and that HM Treasury, working with the relevant regulator(s), will seek, where possible, to mitigate any adverse effects of withdrawal on financial stability and market disruption.
- 3.34** Some respondents also suggested amendments to the treatment of overseas public sector entities (PSEs), and suggested that the capital treatment of government sponsored entities (GSEs) should be aligned with the capital treatment of PSEs.⁷ This would allow both overseas PSEs and GSEs to be treated as exposures to the overseas government where such an approach is permitted by the regulator in that overseas jurisdiction.
- 3.35** HM Treasury considers that there may be differences between the risk profiles of exposures to overseas PSEs and GSEs and exposures to the central government, such as revenue raising capability and capacity. HM Treasury also notes UK banks cannot treat exposures to UK PSEs and UK GSEs as exposures to the UK government.
- 3.36** As such, HM Treasury plans to maintain the current approach to overseas PSEs and GSEs. Nevertheless, HM Treasury remains open to evidence that demonstrates that the approach could be adjusted while supporting safe openness.
- 3.37** Finally, respondents also asked if HM Treasury intends to expand the OPRR to include STS securitisations on a permanent basis, and for clarity on future plans.
- 3.38** HM Treasury notes that the Securitisation Regulations 2024 updated the UK's regime for overseas securitisations and introduced an

⁵ [Overseas Recognition Regimes Guidance Document - GOV.UK](#)

⁶ [Memorandum of Understanding: Overseas Recognition Regimes](#)

⁷ Government sponsored entities are commercial entities that receive government support.

Overseas Recognition Regime for Securitisations. HM Treasury notes the expiry of the temporary regime for EU Simple, Transparent and Standardised securitisations on 30 June 2026 and intends to provide clarity on the UK's approach in due course.

Chapter 4

Key UK CRR Definitions

4.1 Chapter four outlined HM Treasury's plans to revoke all definitions contained in the UK CRR. Alongside this, HM Treasury published the draft Credit Institutions and Investment Firms (Miscellaneous Definitions) (Amendment) Regulations 2026 Statutory Instrument, also referred to here as the UK CRR Definitions Regulations, that would give effect to key restatements of relevant definitions by amending FSMA 2000 and other relevant legislation.

4.2 HM Treasury also intends to make commencement regulations to commence the revocation of Articles 4-5 CRR as appropriate.

4.3 This chapter summarises the responses received and how those responses have been taken on board.

Overall Approach

UK CRR Definitions

6. Do respondents have any comments on the proposed restatement of the definitions in the UK CRR?

4.4 Respondents supported clarifying and simplifying definitions where possible whilst maintaining their effect. It was requested that HM Treasury and the PRA minimise cross-references to other legislative texts within the definitions where possible. Given the focus on improving the clarity of definitions, HM Treasury intends to only use cross-references where needed.

Specific Definitions

UK CRR Definitions

7. Do respondents agree that the proposed restatement of 'investment firm', 'financial institution', 'participation', 'common management relationship', 'financial holding company', 'mixed financial holding company', 'UK parent institution', 'UK parent financial holding company' and 'UK parent mixed financial holding company' enhance the clarity of the definitions while maintaining their effect?

8. Do respondents agree that the proposed restatements enhance the clarity of the UK's regulatory framework?

4.5 Respondents came back with technical comments on the specific definitions we sought views on in question seven, these included suggestions outlined below.

4.6 It was suggested that clarity could be further improved by introducing a single, foundational definition of 'investment firm' to create a simpler taxonomy that is applied consistently. Other legislative measures could then refer to this foundational definition.

4.7 Regarding the proposed definition of 'financial holding company', it was requested that the specification of the term 'mainly' be re-inserted in this definition rather than a related provision to avoid the risk of misinterpretation by firms.

4.8 Regarding the proposed definition of 'financial institution' respondents suggested the following:

- Clarification of how firms should determine what constitutes an undertaking's 'principal activity'.
- Clarification that an undertaking's activity of acquiring holdings in other undertakings does not need to be ongoing, but that it is sufficient that the undertaking has acquired holdings at some point.
- Defining the term 'pure industrial holding company'.
- Clarification of the intention behind the proposed restatement of the definition of 'asset management company', and of the treatment of funds managed by asset management companies and fund managers.

4.9 Respondents also suggested that the activities specified in Schedule 19D were not clearly defined.

4.10 Feedback noted that the proposed definition of 'ancillary services undertaking' refers to an undertaking the principal activity of which consists of an activity which is ancillary to the principal activity of a credit institution or a designated investment firm. Further clarification was sought on what services the definition might cover.

4.11 Regarding the proposed definition of 'participation', respondents have suggested that a simpler approach would be to cross-refer to section 421A FSMA instead of setting out its own definition.

4.12 Feedback also sought clarity as to how entities that carry on activities related to cryptoassets should be treated.

HM Treasury's response to Key UK CRR definitions

4.13 HM Treasury appreciates firms' suggestions on the content of the Policy Update in chapter four.

4.14 HM Treasury intends to provide additional clarity to respondents, industry and other stakeholders but does not intend to amend the UK CRR Definitions Regulations as published in July.

4.15 Overall, HM Treasury is conscious that introducing detailed definitions or making material amendments to definitions that have a clear common usage or are widely used by industry without consultation could have adverse unintended consequences.

4.16 HM Treasury is, however, mindful of industry's desire for certainty that holding companies do not need to continually acquire holdings. HM Treasury intends to confirm that this is not the intended effect of the definition of 'financial institution' in the Explanatory Memorandum accompanying the UK CRR Definitions Regulations.

4.17 HM Treasury notes that the relevant competent authority is responsible for supervising requirements relating to group consolidation.

4.18 HM Treasury has also amended the UK CRR Definitions Regulations to update the definition of 'securitisation' in the Securitisation Regulations 2024 for consistency with the PRA's Basel 3.1 rules.

4.19 The draft UK CRR Definitions Regulations that were published in July also amended the definition of "IFPR financial institution" in the Financial Services and Markets Act 2000 (Prudential Regulation of FCA Investment Firms) (Definitions for the purposes of Part 9C) Regulations 2021. HM Treasury now intends to make this amendment in a separate statutory instrument providing for consequential amendments later in 2026 due to interdependencies with wider legislation.

Chapter 5

Next Steps

5.1 The government welcomes the full range of responses provided, and the suggestions to make the application of the FSMA model of regulation to the UK CRR more effective.

5.2 Alongside this Policy Update response, HM Treasury has published a draft of the UK's Overseas Prudential Requirements Regime Regulations for technical comments. This consultation closes on 2 April 2026, and HM Treasury will take onboard that feedback, alongside the feedback provided to this update, when finalising the legislation.

5.3 HM Treasury will lay the Basel 3.1 Market Risk Transitional Provision Statutory Instrument and the UK CRR Definitions Regulations in early 2026.

5.4 HM Treasury will update the relevant legislation in light of comments received through this Policy Update. HM Treasury will then commence the appropriate revocations of the UK CRR in 2026 in sufficient time for the PRA to ensure implementation of Basel 3.1 on 1 January 2027.

HM Treasury contacts

This document can be downloaded from www.gov.uk

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