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

The Rt Hon the Lord Forsyth of Drumlean PC KT
Chair, Financial Services Regulation Committee
House of Lords
London
SW1A 0PW

15 December 2025

Dear Lord Forsyth,

Growing Pains: Clarity and Culture Change Required

I write in response to your letter from the Lords Financial Services Regulation Committee (the "Committee") of 31 October regarding the Government's response (the "Response") to your report, *Growing Pains: Clarity and Culture Change Required* (the "Report").

In the Response, my predecessor recognised the importance of your Report and noted the strong alignment between the conclusions the Committee reached and the Government's own perspective and actions – and I'd like to stress that I, too, am committed to ensuring that the secondary growth and competitiveness objectives are comprehensively embedded in the Prudential Regulation Authority (the "PRA") and Financial Conduct Authority (the "FCA)".

In the period since the Response, the Government has been focused on delivering the Financial Services Growth and Competitiveness Strategy. Key milestones to date include:

- The launch of the Office for Investment: Financial Services, a dedicated concierge service for international financial services firms seeking to establish or grow their presence within the UK.
- The FCA has written to the Chancellor with the results of its review into the application of the Consumer Duty and plans to update its approach.
- The FCA and PRA have launched a joint Scale-Up Unit, which will make it simpler for scaling firms to get timely responses and expert support.
- I have officially commissioned the Financial Services Skills Commission to produce a report on disruptive technologies and skills needs.
- The Bank of England's (the "Bank") Financial Policy Committee (the "FPC") has published an update on its review of bank capital requirements, which judged that the appropriate benchmark for the system-wide level of Tier 1 capital requirements is now 1 percentage point lower than

previously (at around 13% of risk-weighted assets) and identifies several areas of potential further reform to explore .

- The Government has published a policy update on the introduction of a 'provisional licence' FCA authorisation regime, which will allow innovative new firms to obtain temporary permissions whilst working towards full authorisation.

Further to these developments, I am pleased to provide below some further information on the Government's position in relation to the important issues highlighted by the Committee and the questions posed in your letter.

I look forward to continuing to work with the Committee to strengthen our collective understanding of how the financial services sector and financial regulation can facilitate growth in both the financial services sector and in the wider economy. As previously noted, I will provide further updates in summer 2026 on the Government's progress one year on from the publication of your Report.

Facilitating economic growth

Your letter set out that the Committee is concerned that the Government has not set out the evidence base to link growth of the financial services sector to growth in the wider economy and asked a series of questions related to this.

Building an evidence base and shared understanding

The Government agrees that building a substantial evidence base on the link between growth in the financial services sector and growth in the real economy is important. In developing the Financial Services Growth and Competitiveness Strategy (the "Strategy"), the Government consulted with a wide range of stakeholders in the UK's financial services sector. In addition, the Treasury set out its Areas of Research Interest[1] in November 2024, in which the "role of the financial sector in driving economic growth both directly and through the real economy" is identified as a priority long-term research question. The Areas of Research Interest publication is intended to inform the external research community about areas of particular interest to inform policymaking.

The Government continues to work in deep partnership with industry, academics and other public authorities to draw on economic evidence to deliver the growth and competitiveness of the UK's world-leading financial services sector over the next decade. This includes making real economy growth a key policy focus right across the public sector.

The Government also agrees that building an evidence base on the link between regulation and growth is important and that more needs to be done here. We are actively engaging with the regulators to work towards this.

We are taking steps to build this evidence base, focusing on where it can have the greatest policy impact. Within the Strategy's technical annex we have:

[1] https://www.gov.uk/government/publications/hm-treasury-areas-of-research-interest

- Included a frank and comprehensive assessment of the sector's past performance;
- Placed this within the context of expanding international markets and rising international competition, noting the potential for further growth opportunities for UK exports, a key component of the Strategy; and
- Developed a bespoke methodology to produce analytically-robust Financial Services clusters, helping to focus future policy towards growing regional and technical specialisms to support the wider economy.

We are also engaging with the regulators, who are focused on this question in order to effectively advance their competitiveness and growth objectives.

The FCA has already undertaken several projects to improve the evidence base on how financial services regulation can support growth, for example:

- Launching a research competition in November 2024 and holding a conference showcasing winners' work in June 2025;[2]
- Initiating research projects which examine how to increase suitable retail investment, in order to improve the availability of capital to the economy. The FCA plans to publish a paper by the end of the year examining the barriers to retail investment participation, with broader work also being undertaken internally examining the impacts on growth of increasing retail participation in UK capital markets and growth; and
- Working with leading academics to consider how financial services hubs across the UK support regional and national economic growth, either directly through their impact as relatively high productivity industries, or indirectly, through their support for growth and investment regionally. Findings of this work are expected to be published in 2026.

The PRA is similarly focusing heavily on expanding its evidence base: growth and competitiveness are now priority topics in the Bank of England Agenda for Research 2025-2028[3] and the Bank has ringfenced resources for projects related to the intersection between regulation and competitiveness and growth. This is currently looking into research questions such as how cross-border lending can affect lending to domestic corporate borrowers, how banks incorporate innovative features in their lending products, and how prudential requirements affect banks incentives to invest in process innovation.

Both regulators are engaging with the wider parliamentary and academic community on these issues, for example the PRA hosted an event with Warwick Business School in September 2025 on financial regulation in support of growth,[4] and the PRA's research incubator event in October 2025 in collaboration with the London School of Economics' Growth Lab. The event aimed to generate ideas and proposals for collaborative academic research aligned with the PRA's secondary competitiveness and growth objective.[5]

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[2] https://www.fca.org.uk/firms/economic-research-competition
[3] https://www.bankofengland.co.uk/research/bank-of-england-agenda-for-research
[4] https://www.wbs.ac.uk/events/view/9062/
[5] https://www.bankofengland.co.uk/events/2025/october/pra-research-incubator-event-2025

Following a request from the Chancellor in its annual remit letter, the FPC published the conclusions of its work to assess and identify areas where there is potential to increase the ability of the financial system to contribute to sustainable economic growth without undermining financial stability.[6] To support this work, Bank staff, working with Treasury officials, conducted a literature review, data analysis, and a wide-ranging programme of external engagement – meeting with more than 50 financial sector participants, public authorities, business groups, think-tanks and academics.

The FPC is also welcoming feedback from lenders, think-tanks, industry groups, investors, and academics as part of its ongoing review of the appropriate capital requirements for the banking system. This month, the FPC judged that the appropriate benchmark for the system-wide level of Tier 1 capital requirements is now 1 percentage point lower than previously, at around 13% of Risk-Weighted Assets (RWAs). This judgement reflects the FPC's consideration of how the macroeconomic costs (increasing the cost of bank funding which passes through to real economy interest rates) and benefits (reducing the probability of financial crises) of bank capital holdings have developed since their original cost benefit analysis in 2015. This assessment included how actual capital requirements held by banks have evolved since previous assessments and feedback the FPC had received from the industry and other stakeholders. It noted that average risk weights had fallen, systemic buffers were lower than envisaged in 2015 as some banks had decreased in systemic importance, and the implementation of Basel 3.1 would improve risk measurement. Furthermore, in coming to this judgement, Bank staff carried out a substantial literature review of over 70 relevant studies analysing the optimal level of bank capital published since the FPC's original assessment in 2015, across academic journals, refereed working paper series, and central bank websites.

With respect to businesses' concerns about the UK's competitiveness with internationally equivalent regimes, the FPC contextualised its judgement by publishing a bottom-up comparison of capital requirements across the UK, EU and US, differentiated by firms' systemic importance and degree of domestic focus. This is an analytically complex undertaking and the Bank are open to feedback through the external engagement phase. Facilitating a transparent discussion of the international state of play will be another invaluable product of the FPC's review.

Simultaneously, the FPC published an extensive summary of industry feedback on the operation of the capital framework and how the Bank is responding. Among its priority areas for review in the next phase, the FPC committed to support initiatives by the Bank to respond to firms' feedback on interactions, proportionality and complexity in the capital framework. The Bank intends to organise structured evidence gathering sessions in early 2026 on the topics listed, and is open to written feedback on its publication until 2 April 2026. The Government welcomes this progress and will work closely with the Bank as it develops.

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[6] Financial Stability Report - December 2025 | Bank of England Set out in box A

More broadly, the Government seeks feedback from industry using tools like the Department for Business and Trade ("DBT") Business Perception Survey ("BPS").[7] The BPS is a survey commissioned by DBT to gather evidence on UK businesses' views and experiences of regulation. It provides valuable insights into how regulation affects businesses and helps guide Government policy to reduce regulatory burdens. To supplement this, the Government also launched the *Unlocking Business: Reform Driven by You* business questionnaire[8] in October 2025 to help further inform and direct our work to deliver the Government's ambition to overhaul the regulatory system so that it better supports growth and innovation.

SME financing

You asked what steps the Government is taking to support specialist lenders, given their importance in providing lending to SMEs. As the FPC noted in the December Financial Stability Report, in aggregate, bank lending accounts for the vast majority of SME borrowing.[9] By this, we mean the stock of loans outstanding to SMEs, rather than new applications for credit made today. Specialist lenders are playing an increasingly important role, with the British Business Bank estimating that 60% of new bank lending to SMEs comes from challenger and specialist banks,[10] while UK Finance estimates roughly 30% of new SME lending comes from non-bank lenders.[11]

The Government shares your ambition regarding the role of the finance sector in funding the real economy and recognises the importance of specialist lenders alongside more traditional providers, supporting competition, resilience and choice. As the Bank noted, actions by the Government, PRA and other public authorities should support the supply of credit to SMEs.[12]

Earlier this year, the Government introduced the smarter ring-fencing reforms, which included measures to allow ring-fenced banks to take equity warrants, which the Bank noted should make lending to high growth, innovative SMEs more commercially viable. The Government is working closely with the Bank to explore how the ring-fencing regime could be further reformed to allow major ring-fenced banks to provide more products and services to UK SMEs.[13]

With respect to supporting specialist banks, we have worked closely with the PRA through the Basel 3.1 reforms to ensure that overall capital requirements for SME lending do not increase across the banking system, so that SME lending continues to be supported by the regulatory framework. The Bank has ensured that

[7] https://www.gov.uk/government/publications/business-regulation-business-perceptions-survey-2024
[8] https://www.gov.uk/government/calls-for-evidence/unlocking-business-reform-driven-by-you
[9] See Box B on the Evolution of Lending in the UK Economy – https://www.bankofengland.co.uk/financial-stability-report/2025/december-2025
[10] https://www.british-business-bank.co.uk/sites/g/files/sovrnj166/files/2025-02/small-business-finance-market-report-2025.pdf
[11] https://www.ukfinance.org.uk/news-and-insight/blogs/crucial-role-non-bank-specialist-lender-sector-and-impact-covid-19#:~:text=The%20NBSLS%20is%20diverse%20and,and%20those%20with%20complex%20incomes
[12] Idem
[13] Box A, Financial Stability Report December 2025 https://www.bankofengland.co.uk/financial-stability-report/2025/december-2025

minimum requirements for own funds and eligible liabilities ("MREL") are proportionate, to remove barriers to expansion for mid-tier banks. We have also worked closely with the Bank to ensure that MREL are proportionate, to remove barriers to expansion for mid-tier banks.

The PRA is also developing a more responsive and agile approach to banks using their own risk models (known as 'internal ratings based' models) for their lending. The PRA is enhancing its engagement with firms applying to use IRB for the first time, providing dedicated support and named account managers, and has published a discussion paper on ways to address the barriers to medium-sized firms using their own risk models without compromising safety and soundness.

The Government is also working closely with the regulators to build on the UK's long-held tradition of supporting new market entry from challenger banks as well as FinTechs to increase credit provision and support access to finance. The FCA and PRA have launched a new Scale-Up Unit that offers tailored support to firms on how to navigate regulation while scaling up. This builds on the success of existing regulatory support for innovative early stage firms, including the PRA and FCA New Bank Start-Up Unit and FCA regulatory sandbox, encouraging the development of a dynamic, competitive financial services landscape.

Much of our work to support SME finance extends beyond supporting the banking sector and newer entrants, to also include wider credit provision, such as the fintech and broader non-bank sector. For example, technical interventions by the Government can play an important role in supporting broader credit provision. This includes supporting commercial credit data sharing across the market to allow new competitors to better price and offer loans to SMEs, with a consultation on the Commercial Credit Data Sharing scheme having recently closed. We are also consulting on the Bank Referral Scheme, under which designated (major) banks are required to refer rejected credit applications to external platforms to facilitate alternative credit provision. These types of measures are both supportive of SMEs and thereby wider economic growth and competition within financial services. SMEs will also benefit from the Government's work on Smart Data: the Government is preparing secondary legislation to establish a Long-Term Regulatory Framework for Open Banking, while the FCA is running two tech sprints on Open Finance (including one focussing on SME Finance) to consider how enhanced data sharing in financial services can further support growth and competition.

In addition, the Government has supported the British Business Bank (BBB) through an unprecedented investment at Spending Review. This will increase the BBB's financial capacity to £25.6bn, to actively develop finance ecosystems, aligned to Industrial Strategy sectors and regions, and strengthen clusters and regional pipelines. The BBB's work sees it partner not only with well-known banks but specialist providers too. The FPC highlighted the importance of enhanced focus on public-private partnership funding initiatives to channel financing to high growth firms and the broader population of SMEs to support productivity enhancing investment and noted the important role the BBB could play in this context.[14]

Taken together, we have and will continue to take steps that support competition and the provision of finance to the real economy. We are working to encourage greater private investment here too, for example by increasing pension investment into private markets through the Mansion House Accord. We also welcome the work the FPC has done in its efforts to assess and identify ways in which the financial system can better support economic growth without undermining financial stability. In the 2025 FPC remit letter,[15] the Chancellor has asked the Committee to build on this work by identifying actions that could support the supply of long-term finance for productive investment.

Relationship between the Government and regulators

The Government is confident its relationship with the financial services regulators is working well and will deliver improvements in our ability to facilitate growth in line with the Government's economic policy. As we set out in our previous response, the Government sees the remit letters as a key mechanism to issue strategic steers to the regulators to support the Government's economic policy, in particular in relation to our shared ambition to promote competitiveness and growth. However, the remit letters cannot be considered in isolation: they must be combined with ongoing engagement at all levels, to ensure that the regulators are appropriately considering to the Government's economic policy – and particularly the growth mission.

Our previous response also highlighted the 2024 remit letter sent to the FPC. This has supported significant developments over the last year, including amending implementation of the FPC's loan-to-income flow limit, a review of bank capital requirements, and work to assess and identify ways in which the financial system can better support growth without undermining financial stability, including barriers to accessing finance for high growth potential firms and the broader population of SMEs.

The Treasury will continue providing appropriate steers to the regulators to support alignment with the Government's economic policy, including through the new proposal to require the FCA and PRA to produce long-term strategies for how they will advance their objectives, including their secondary objectives to facilitate growth and international competitiveness. The Government is committed to taking forward proposals that will require the regulators to consider the Government's remit letter when setting these long-term strategies and will be required to review their strategies in light of any new Treasury recommendations. The Treasury is considering responses to the consultation on this topic to refine the details of these requirements and will bring forward legislation when parliamentary time allows.

[14] Box A, Financial Stability Report December 2025 https://www.bankofengland.co.uk/financial-stability-report/2025/december-2025

[15] https://www.gov.uk/government/publications/remit-and-recommendations-for-the-financial-policy-committee-budget-2025

In conclusion, it is the Government's view that the FCA and PRA are working sufficiently closely with HMT to build their understanding of how regulation which facilitates the growth of the financial services sector can support growth across the economy, and how the regulators can support economic growth. We recognise it is a significant undertaking and will be an evolving process; we do not expect to have all the answers and are focused on bringing in a wide range of experts to ensure the Government's policy is influenced by high-quality analysis.

Growth metrics

Your letter set out that the Committee is concerned that a gap remains in the ability of the Government and Parliament to measure the FCA and PRA's performance in facilitating the medium to long-term growth of the UK economy and asked a series of questions related to this.

The Government agrees it is important to have metrics which allow us to monitor the impact of regulatory and Government actions on growth. The Government committed to report annually on progress on delivering the Strategy, including drawing on the economic indicators it has set out. These include economic output measured by Gross Value Add (GVA), exports, productivity, benefits to the real economy, and regional growth. As noted within the Strategy, these metrics focus on delivering sustainable, inclusive medium-term growth, capturing both the performance of the sector and the impact of policy. As above, while the Treasury is undertaking engagement through the Areas of Research Interest, the steps set out there are just the beginning and we expect this to develop as we continue to engage with academics and experts.

As noted in our response to your Report, TheCityUK and Freshfields[16] concluded that the current metrics published by the FCA and PRA "provide world-leading transparency and accountability" and "the metrics adopted in 2023 mean that the FCA/PRA reporting framework is now one of the most comprehensive across the world". As we set out in our previous response, now that the regulators have published data against these metrics for two years, the Government, industry and Parliament can begin to meaningfully scrutinise the regulators' performance and how it is changing over time, as well as assessing the appropriateness of the metrics themselves.

As part of its 2025-30 Strategy, the FCA has revised its published metrics, partially on the recommendation of the National Audit Office, which recommended that the FCA establish focused, quality metrics in its report in December 2023.[17] These metrics will evolve to match initiatives the FCA is taking forward year-on-year, with more granular metrics if appropriate. The PRA noted in its 2025 Secondary Competitiveness and Growth Objective Report[18] that it would keep metrics up to date and ensure that they remain world-leading.

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[16] https://www.thecityuk.com/media/jlxk0uct/advancing-international-competitiveness-and-economic-growth-how-do-financial-regulators-compare.pdf
[17] https://www.nao.org.uk/wp-content/uploads/2023/12/Financial-services-regulation-Adapting-to-change.pdf
[18] https://www.gov.uk/government/publications/competitiveness-and-growth-the-prudential-regulation-authoritys-second-report-202425

Given all of the above and the important work the Government and regulators are undertaking to improve our understanding and the evidence base linking regulation and growth, it remains our view that now is not the time for the Government to undertake a further review of the FCA's and PRA's growth metrics. The Government will continue to monitor the regulators' performance against these metrics and will hold them to account, and we remain open to the possibility of introducing additional metrics in future, if this is considered appropriate.

Performance metrics

Your letter set out that the Committee is concerned that the performance metrics currently published by the FCA and PRA are not sufficiently rigorous, and asked some questions related to this.

The Government agrees that it is important that the FCA and PRA have appropriate metrics to measure their performance, and uses the operational efficiency and management information metrics to judge the regulators' performance. It is vital that these metrics, particularly around authorisation timelines, are sufficiently challenging but reflective of the need to have a robust process for assessing whether firms are fit to provide regulated financial services in the UK.

We believe that we have struck the right balance in the new timelines that we have proposed: they will require the regulators to change how they approach authorisations and to speed up their work, but are achievable. The Government agrees that it is important that they remain ambitious and is considering ways that would allow us to make further changes in future, to reflect progress made in the coming years. The Government will take forward legislation to change the statutory deadlines when parliamentary time allows.

The regulators are also making significant improvements to their broader processes around authorising firms. For example, the FCA is digitising authorisations forms and has increased the proportion of forms submitted via digital platform from 8% in January to almost 40% by September. 80% of regulated firms are using My FCA, a new single sign-in portal that makes compliance easier. The project is expected to complete in January 2027. The PRA is working to improve firms' experience of data collections for certain authorisations processes. As part of the Future Banking Data programme, it will develop a firm-facing portal to facilitate interactions with the PRA, focusing on improving firms' experience with data collections, initially focused on certain authorisations purposes, before extending the portal to wider authorisations data sets and other data collection use cases.

As part of the Government's Regulatory Action Plan, DBT is developing a Regulator Dashboard which displays performance against KPIs and authorisation processing times across the initial 16 key regulators which committed to review their KPIs in March 2025. This will make it easier for businesses and stakeholders to monitor regulator performance and access relevant information. The Government will enhance dashboard functionality to improve user experience, expanding coverage to include a broader range of regulators and leveraging stakeholder feedback directly through the dashboard to scrutinise performance metrics.

I will continue to hold the FCA and PRA to account for delivering against these metrics through the biannual performance reviews. The Treasury published the minutes of the first performance reviews in September 2025[19] and will continue to keep these updated to promote transparency around how the Government is assessing the regulators' performance.

International comparisons

Your letter set out that the Committee maintains its recommendation that the Government commission an independent study to facilitate an international comparison on the cost of regulation, and asked some questions related to this.

The Government agrees that there are benefits to making international comparisons where possible, and our aim is to ensure that the UK is a competitive jurisdiction for international financial services business, with the regulatory environment playing an important part in that. We welcome analysis carried out by industry and academic experts, such as the recent report from TheCityUK and PWC, *Reducing the cost of compliance: unlocking efficiency*, *competitiveness and growth for the UK financial services sector*.[20] This suggests that more than half of firms in the study that operate outside the UK stated that the cost of regulatory compliance in the UK is higher compared to other jurisdictions, and 84% of the firms in the study reported increased compliance costs over the last five years. This clearly indicates that there is more to do, and we welcome the FCA's and PRA's commitments to reducing complexity and burden, for example through scaling back a range of regulatory reporting requirements.

The Government is also continuing to gather data on compliance costs across the economy through its *Unlocking Business: Reform Driven by You* business questionnaire. This is a chance for businesses, investors, representative organisations and charities to tell us which regulations and regulators are imposing the most burden so we can deliver a pro-business programme of regulatory reforms. The questionnaire closes on 16 December and will directly inform work to deliver the Government's ambition to significantly reduce unnecessary burdens stemming from regulation.

However, as we set out in our previous response, it remains challenging to make direct international comparisons. In order to set out a baseline assessment across the key outcomes and metrics used to assess our Strategy's success, the Technical Annex provides an assessment of the sector's recent performance, and places this within an international context. Due to inherent complexities within the recording of financial services data it is often the case that the output from the sector can be recorded differently across countries due to statistical methodological differences. In order to ensure that this nuance was reflected within the strategy, we avoided making international comparisons where comprehensive, reliable and up-to-date datasets were not available. The analysis in the Technical Annex of the

[19] https://www.gov.uk/government/publications/hm-treasury-and-financial-conduct-authority-performance-review ; https://www.gov.uk/government/publications/hm-treasury-and-prudential-regulation-authority-performance-review
[20] reducing-the-cost-of-compliance-unlocking-efficiency-competitiveness-and-growth-for-the-uk-financial-services-sector.pdf

Strategy uses publicly available, official statistics taken either directly from national statistics bodies or international organisations such as the OECD and the United Nations Trade and Development. Where international comparisons are presented, these are based on internationally standardised classifications (e.g. the UN's International Standard Industrial Classification system), meaning the Government is sufficiently confident in the comparability of the statistics across jurisdictions.

In contrast, there is no currently collected data on the costs of regulation across jurisdictions or accepted definition or metric that measures regulatory performance. This acts as a significant constraint on the ability to make international comparisons that are robust and comprehensive.

Of course, regulatory costs and the regulatory environment are just one element that influences UK competitiveness – albeit an extremely important one. To meet the ambition set out in the Strategy, we must also deepen trade, investment and partnerships between nations with shared interests; create the necessary environment for Fintech firms to invest and innovate; boost the competitiveness of the UK's capital markets; and ensure that financial services firms in the UK have access to the talent they need.

Conclusion

I would like to conclude by expressing my appreciation for the Committee's ongoing engagement and the challenges raised in your letter. I look forward to continuing to engage with the Committee, as the Government seeks to strengthen the sector for the benefit of businesses, consumers, and the wider economy. I will provide a further update on our progress in Summer 2026.

Yours sincerely,

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LUCY RIGBY KC MP

ECONOMIC SECRETARY TO THE TREASURY