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

The Baroness Noakes DBE
Chair, Financial Services Regulation Committee
House of Lords
London
SW1A 0PW

9 March 2026

Dear Lady Noakes,

Growth of private markets in the UK following reforms introduced after 2008

I am writing in response to the House of Lords Financial Services Regulation Committee's report of 9th January, examining the growth of private markets in the UK. The Government welcomes the report. It shines a light on important questions relating to the rapid growth of these global markets, the role of banking regulation in their evolution and the impact of this growth, including on SME lending.

This letter aims to respond to the report's key conclusions. Full responses to all of its recommendations to the Government are at appendix A.

Recent developments in the private credit sector illustrate some of the risks identified by the Committee. We have been monitoring these developments very closely and will draw on the insight they provide as we continue to work with the regulators to assess potential implications for the UK. This ongoing assessment will be informed by the Bank of England's SWES and work underway by the FPC and the Financial Stability Board, and focus on liquidity mismatch, the use of leverage, opacity in valuations, complexity and interconnectedness with other parts of the financial system. It will consider any implications for the UK from recent developments in the US.

Impacts of the growth in private markets

As the report's conclusions acknowledge, the growth of private markets has brought opportunities by supporting innovation and diversifying funding sources. It has enabled firms to access finance that suits their needs, supported returns for institutional investors, and helped ensure that risk sits in sectors best able to manage it.

However, the growth of private markets does bring new risks to financial stability – as the report's conclusions also highlight. These reflect the sector's growing complexity and opacity, as well as its links with the wider financial system. Recent events in private markets in the US and UK illustrate the importance of understanding and responding to these risks, particularly in the context of the increased volatility of global markets seen in recent days. The Government therefore fully agrees with the report on the need forl vigilance and welcomes its support for work that has been delivered or is underway across the authorities to understand and address these risks.

The Treasury's work to maintain financial stability, with respect to the private markets sector

I reject any notion that the Treasury is passive in the face of the risks identified in the report. We are committed to maintaining financial stability: by ensuring that our world-class financial stability framework evolves appropriately in response to market and other developments; and by playing our part within that framework to ensure it is operating effectively.

In that context, the Treasury is committed to maintaining a full understanding of the evolving risks in private markets, and to ensuring that those risks are effectively managed.

Within our regulatory framework, the authorities' work to identify and monitor risks to financial stability is led in the UK by the Financial Policy Committee (FPC). The Treasury participates actively in this work, including through its membership of the FPC and through the Chancellor setting remits for the FPC and the regulators.

Internationally, work on risks from private markets to global stability is led by the Financial Stability Board (FSB), of which the Treasury is an active member. This work is supported by the Treasury's bilateral engagement with other jurisdictions; the Treasury is actively using these channels to raise developments in private markets, given their global nature.

To support this work, and ensure a full and shared understanding of any risks, Treasury officials continually monitor and assess financial stability risks, including those arising from the private market sector. All relevant risks are fully considered through the Department's internal risk management processes. In parallel, the Treasury maintains a ongoing senior-level dialogue with both regulators and firms to understand sectoral developments, including in respect of private markets.

More detail on the Treasury's role in maintaining financial stability with respect to the private markets sector is annexed.

The Treasury's role in the regulatory framework

The Treasury is, crucially, also responsible for the legislative framework within which the regulators operate and which provides the regulators with appropriate powers to manage risks. Private market funds are regulated by the FCA under the Alternative Investment Fund Managers Regulations (AIFMR). This sets requirements on firms to manage their liquidity, as well as comply with rules on risk management, leverage limits and valuation.

The Treasury fully endorses the regulators' use of their powers to monitor developments in private markets and, where needed, to act to address risks. In particular, the Treasury strongly supports the System-Wide Exploratory Scenario (SWES) which the Bank of England (the Bank) is conducting to further explore risks in private markets.

Under our framework the Treasury uses several mechanisms to ensure that the regulators are accountable and transparent. These include the Treasury's role in defining the regulatory perimeter and designating activities to bring them into regulation, powers to ensure that specific public priorities can be reflected in regulator rule-making, and the ability to influence the strategic approach of the regulators. I set these out in more detail in the below annex and in the supplementary written evidence to your recent inquiry into the FCA and PRA's secondary competitiveness and growth objective.

We keep regulators' powers, including those set out in AIFMR, under ongoing review to ensure that the relevant regulations remain appropriate and meet the changes in the risk environment. As the report's conclusions acknowledge, authorities' access to appropriate information is essential and we are committed to ensuring regulators' powers allow this. Where necessary, we will take action to strengthen protections, while making sure that regulation remains proportionate and targeted.

<u>The Treasury's work to support SME lending, including through banking regulation reform</u>

As the Committee acknowledges, stronger regulation over the past decade has made banks more resilient, better capitalised and safer for depositors and the wider economy. Banks play a unique and systemic role in holding deposits and, through that, underpin the wider economy. The Chancellor and I are clear that we need to ensure policy balances the financial sector's resilience to shocks, alongside economic growth and competitiveness.

The Treasury is therefore working in lockstep with the PRA and the Bank of England to examine how the prudential framework is calibrated and how that calibration affects lending, including its impact on lending to SMEs.

I note the Committee's acknowledgement of the FPC's Financial Stability in Focus paper, published in December 2025, which provided an update on its bank capital review. Through its membership of the FPC, as set out above, the Treasury is closely involved with this work. The FPC will provide a further update on this work in the next Financial Stability Report on 7 July.

In parallel, the Treasury and the regulators are already taking significant steps to ensure UK banks' capital requirements support SME lending. Following its publication of the final Basel 3.1 rules in January 2026, the PRA have included a 'SME lending' adjustment to ensure that overall capital requirements for lending to SMEs will not increase as a result of its Basel 3.1 implementation, and in some cases capital requirements will be lower. At the same time, the PRA published its rules for the Small Domestic Deposit Takers (SDDT) regime, designed to free up capacity in smaller banks so they can undertake more core lending, including to SMEs, without weakening resilience.

The Chancellor has also backed the Bank of England's decision, announced at Mansion House in July 2025, to raise the MREL asset threshold to £25–40 billion – a change implemented on 1 January 2026 that industry has welcomed for giving firms greater flexibility to lend.

However, as the report's conclusions acknowledge, the regulatory environment is not solely responsible for shifts in SME lending patterns. Market structure, technological changes and banks' own commercial incentives have also driven decisions about where to deploy capital.

In particular, I recognise the Committee's concerns around the loss of relationship banking. You will be familiar with the Treasury's commitment to support industry to roll out 350 banking hubs by the end of this Parliament, in part to help mitigate these effects.

Your report also touches on the role of personal guarantees. This is an area the Treasury has looked at carefully, and I here refer the Committee to my recent letter to the Treasury Select Committee outlining this work.

Conclusion

I look forward to continuing to work with the Committee as the Government delivers on its commitment to having a globally competitive financial services sector that supports growth, while ensuring financial stability and maintaining a world-class macroprudential framework.

Yours sincerely,

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LUCY RIGBY KC MP

ECONOMIC SECRETARY TO THE TREASURY

Appendix A: Detailed responses to recommendations

Growth of Private Markets

The Bank of England and the Government must ensure they have a comprehensive understanding of lenders to the UK economy, specifically by identifying the proportion of (1) total corporate debt; (2) corporate debt classified by sector, provided by different funding sources, including private credit; and (3) developments in the UK's lending ecosystem as private credit grows.

The Government agrees that it is important to understand in-depth current trends in corporate debt and lending to the UK economy, including the growth of private credit. Together with the Office for National Statistics (ONS), the Bank of England maintains sight of corporate debt by source. The Treasury discusses developments in this space with the Bank and Financial Conduct Authority (FCA) on a regular basis.

Alongside other authorities, the Treasury recognises the need to strengthen the coverage and granularity of relevant data, and strongly supports the ONS and Bank's efforts to deepen available data and understanding in this space.

The Government also acknowledges the benefit of the large volume of public and private sector analysis in this area – from the work of the Bank of England and British Business Bank to the SME Finance Monitor, to name but a few – as well as conducting ongoing stakeholder engagement with the financial services sector.

As sources of finance become more diversified, we agree it is important for the authorities to be able to monitor closely how this is evolving, such that we understand the sources of financing for the different sectors of the economy.

To this end, through the Director General Financial Services' non-voting membership of the FPC, we engage closely with the FPC's ongoing work to improve visibility of lending to the real economy. This includes the FPC's recent work, in response to the Chancellor's request in her annual remit letter, to assess and identify where there is potential for the financial sector to contribute more towards sustainable growth.

The Treasury collaborated closely with the Bank throughout this work, which has helped identify impediments and potential solutions to improve the flows of finance to the real economy across the banking sector, public and private markets. This focused in particular on high growth SMEs seeking to scale-up, firms which use a wider range of specialised funding than bank debt, including from private market providers. The Chancellor has asked the FPC to continue to build on this work and the Treasury will continue to collaborate closely with the Bank, the FCA, and other authorities as it progresses, to help deepen our understanding of a complex and evolving corporate funding ecosystem.

Financial stability

The Committee recognises that the Bank of England is conducting its System Wide Exploratory Scenario on a voluntary basis. The Government should keep the powers available to the Bank of England under review, contingent on the outcome of the System Wide Exploratory Scenario.

The Government welcomes the Bank of England's System Wide Exploratory Scenario, and the Treasury remains closely engaged with the work including through its membership of the FPC. In line with its responsibility to identify, monitor and address systemic risks to the financial sector, the FPC will consider the results of the exercise. As the Bank has set out, this exercise is exploratory aimed at understanding which risks may have the potential to threaten UK financial stability and at what point such risks may crystallise. Should the SWES indicate risks that may warrant a policy action, the Treasury will work with the Bank to consider what actions it may be necessary and proportionate for the Government to take to respond to the risks identified, working in consultation with other regulators and the industry.

In doing this the Treasury will play a particular role in exercising its responsibility for ensuring that the regulatory perimeter and standards are appropriately set, and that the authorities' toolkit keeps pace with changes in financial markets.

The Government is responsible for setting the strategic agenda of financial regulation. Delegation to independent regulators can never equate to an abdication of responsibility. The Government retains this responsibility notwithstanding the delegation of tasks to independent regulators.

Recognising the importance of this responsibility, we ask that HM Treasury's response to this report includes: HM Treasury's plan to support the Bank of England in conducting its System Wide Exploratory Scenario; and details on what the Department is doing proactively to meet its responsibility to maintain financial stability, with respect to assessing and responding to potential risks emerging from the private market sector.

<u>The Treasury's work to set the strategic agenda for financial regulation</u>

The Government continues to lead on setting the strategic approach for financial services regulation, with an ambitious programme of reform to improve the policy framework within which the regulators operate, while continuing to protect stability. The Leeds Reforms announced by the Chancellor in July 2025 are designed to make the UK the number one destination for financial services businesses by 2035, to attract inward investment and to create jobs across the UK.

The UK's model of financial services regulation was established through the Financial Services and Markets Act 2000 ('FSMA 2000'). Regulatory standards are set by expert, independent regulators, within an overall policy framework set by Government and Parliament.

The Treasury and the regulators, including the Bank, are ultimately accountable to Parliament. Parliamentary committees such as the FSRC are a key channel for this accountability, allowing parliament the opportunity to scrutinise their work appropriately.

In support of this a number of mechanisms are in place designed to ensure that the regulators are accountable and transparent to Parliament and the Government. These are set out in more detail in the supplementary written evidence provided for the House of Lords Financial Services Regulation Committee's inquiry into the FCA and Prudential Regulation Authority (PRA)'s secondary competitiveness and growth objective. These mechanisms include, but are not limited to, the Government's commitment to holding regular performance reviews with relevant regulators, which will hold regulators to account for their performance against their statutory duties, their work to reduce administrative costs, and their alignment with Government priorities. These meetings will also be used to monitor regulators' performance through metrics and industry feedback. The first public minutes of these meetings were published last year.

The Treasury's work to maintain financial stability, with respect to the private market sector

Within the model set out above, the Treasury has a central and ongoing role in respect of financial stability.

The Treasury is responsible for the legislation underpinning the regulatory framework, ensuring that the authorities have clear responsibilities and objectives, with effective powers to understand risks and address them where needed. This includes setting the prudential regime from a macroprudential standpoint – which, for example, includes ensuring that the Bank of England's Financial Policy Committee has appropriate directional powers – and from a microprudential angle – which includes ensuring that the FCA and PRA have appropriate powers to address risk. This work ensures that financial stability risks are understood and action is taken where needed to mitigate risks to the economy and the public finances.

The Chancellor's remit letters are used to issue strategic steers and recommendations for the regulators, and for the Bank of England's FPC. In the most recent remit letter sent in November 2025, the Chancellor asks that the FPC continues to prioritise building resilience in non-bank financial institutions and is clear that the FPC should continue to consider risks in private markets.

The Treasury has non-voting membership of the FPC, through the Director General Financial Services, and the Chancellor and the Governor of the Bank of England regularly discuss financial stability matters, including following publication of Financial Stability Reports. This, in combination with regular official-level dialogue with the regulators, ensures that the Treasury maintains a thorough understanding of the Bank of England and FPC's assessment of potential financial stability risks, and ensures the FPC's insights are reflected in the development of Government policy. It also ensures that the FPC is aware of the Government's economic priorities relevant to its work and enables the Treasury to monitor the FPC's effectiveness in the discharge of its functions.

As part of its central role, Treasury maintains oversight of crisis preparedness through regular senior level engagement with the Bank of England and regulators, including structured arrangements to share information, assess emerging risks, and agree coordinated contingency actions. It makes contingency plans for a broad range of potential crises affecting the finance sector, improving ability to respond to incidents, and developing the UK's crisis management framework.

In this cross-authority crisis preparedness, the Treasury leads on the fiscal, legislative and wider public interest aspects, and has ultimate responsibility for decisions that involve the use of public money or fiscal support. The Bank of England leads on financial stability operations and resolution actions within its statutory remit, and the FCA and PRA take regulatory actions as appropriate. This is all coordinated via agreed crisis governance and escalation routes.

Internationally, the Treasury drives work to understand and mitigate financial stability risks, including in respect of private markets. As the Committee's report recognises, private markets are global in nature, and cannot be fully addressed through the UK's domestic framework alone.

This includes the Treasury's work at the Financial Stability Board (FSB), which has a long running programme of work examining the risks from non-bank financial intermediation, including important work on addressing data gaps. Treasury officials are active in the FSB, including through membership of technical working groups on non-bank financial intermediation. Private credit will be an important aspect of the FSB's surveillance work this year and, in May, the FSB expects to publish a report on vulnerabilities in this sector.

The Treasury is also active in the G7 Finance Track where non-banks, including private credit, are a focus of discussion, and the engages in regular formal bilateral dialogues such as the UK-US Financial Regulatory Working Group and UK-EU Financial Regulatory Forum.

To support this role in international and domestic policy making, Treasury officials continually monitor and assess financial stability risks, including those arising from the private market sector, and the Treasury invests continually in its internal capability to do so. All relevant risks are fully considered through the Department's internal risk management processes. More widely, the Treasury engages regularly with financial sector firms, including private market participants, to understand sectoral developments.

This assessment and engagement underpins the advice that the Department provides to ministers on financial stability risks, on relevant policy developments and on contingency planning. It is used to support senior officials in their roles on the FPC and FSB, and when engaging with the financial sector, as well as in bilateral international engagement

The Treasury's work to support the SWES

The Government welcomes the Bank of England's System Wide Exploratory Scenario (SWES). The Bank has the remit to conduct the SWES independently, recognising its deep expertise and experience, and the value to industry of the Bank of England as a convening body independent of government. The Treasury is closely engaged with this work.

The Treasury's membership of the FPC will ensure that the Treasury is fully sighted on the FPC's consideration of the emerging findings of the exercise. This membership allows full participation in the FPC's discussions on the SWES, including discussions which review progress and outputs, and set the direction for this work. It will also allow for early engagement on emerging thinking on actions that might need to be taken. This will be supported by technical-level engagement on the SWES, with the Treasury and Bank of England staff meeting on a regular basis to review and discuss outputs, progress, and future plans in depth.

Treasury ministers meet regularly with Bank of England Governors to discuss financial stability topics, providing opportunities to discuss work on private markets including the SWES. This engagement includes that between the Chancellor and the Governor, who in addition to meeting regularly, are required under the Bank of England Act 1998 to discuss financial stability issues following publication of each biannual Financial Stability Report.