Prudential Regulation Authority (PRA) – Written evidence (SCG0078)

Thank you for the recent opportunity to discuss the PRA's work to advance our secondary competitiveness and growth objective at the Financial Services Regulatory Committee. I am writing to follow up on two related questions raised by members of the Committee during the session.

Has the PRA/Bank undertaken any research on the way in which the capital requirements regime has influenced lending?

The PRA and Bank have undertaken significant amounts of research into the way the capital requirements regime influences lending.

I have set out the most relevant publications by the PRA and Bank in an annex to this letter. In addition, the Committee may find it beneficial to review a **study conducted by ESRB** in 2017 (Chapter 3.1), which highlights the academic literature on the impact of capital requirements on lending and economic growth. The study synthesises the estimated impact across a range of methods, countries, time periods and whether higher-order effects are also included.

We have applied this research across our published policies. For example, we have considered:

- How to measure the costs of higher capital requirements in the PRA's published Aggregated CBA for Basel 3.1, including analysis to understand potential impacts of the B3.1 package for the SME lending market.

  The outcomes of this work are described in the **Near Final Policy Statement 2 for Basel 3.1** in paragraphs 2.174 and 2.175;
- How to determine appropriate capital requirements for the UK banking system in **Brooke et al (2015)**;
- The sectoral impacts of capital buffers for Other Systemically Important Institutions (O-SIIs); and **The Financial Policy Committee's framework for the systemic risk buffer - updated May 2022**, Section 5 – Impact analysis.

- The costs and benefits of our policies through Cost Benefit Analysis as described in the PRA's recently published **Statement of Policy on Cost Benefit Analysis**.

Has the PRA/Bank done any work to understand how much investment from the UK's financial services sector goes into primary markets vs secondary markets?

Unfortunately, having looked into it since the hearing I can confirm the verbal answer I gave to Lord Eatwell – that the Bank does not have data sources that directly answer this question. However, I would draw the Committee's attention to the work of the **Productive Finance Working Group**, co-chaired by the Bank, FCA and HM Treasury, which considered in 2021 how to facilitate investment into what the Group called "productive assets" and may have some insights relevant to the Committee's considerations.

I hope this letter is helpful to the Committee in its deliberations.

Annex: Key BoE/PRA publications on the impact of capital requirements on lending

Steady-state effects	Transition effects	Supporting lending during stress
Bank funding costs and capital structure | Bank of England The impact of changes in bank capital requirements | Bank of England Measuring the macroeconomic costs and benefits of higher UK bank capital requirements | Bank of England The costs and benefits of bank capital - a review of the literature Bank capital requirements and balance sheet management practices: has the relationship changed… | Bank of England Bank-specific	The impact of capital requirements on bank lending | Bank of England Evaluation of the impact and efficacy of the Basel III reforms The economic cost of capital: a VECM approach for estimating and testing the banking sector's response to changes in capital ratios | Bank of England.	Creditable capital: macroprudential regulation and bank lending in stress Bank of England Staff Working Paper No. 1,011

capital requirements and capital management from 1989-2013: Further evidence from the UK - ScienceDirect		

3 March 2025