



THE DEPUTY LEADER OF THE HOUSE OF LORDS

The Baroness Neville-Rolfe
House of Lords
London
SW1A 0PW

3 March 2021

Dear Lady Neville-Rolfe,

I am writing in response to the question you raised in the debate in Grand Committee on 24 February on the Financial Services Bill. You asked about the impacts of Clause 3 of the Bill on EU banks which operate in the UK.

While the UK was a member of the EU, and during the Transition Period, EU firms could operate in the UK under EU passporting rules. These rules no longer have effect in the UK, and therefore UK branches of EU firms must either have received authorisation from the appropriate UK regulator, or be in the process of being authorised and be operating under the relevant Temporary Permissions Regime.

The Prudential Regulation Authority (PRA) makes rules for UK branches of credit institutions and systemic investment firms headquartered outside the UK, in addition to rules for UK-based firms. This includes the Capital Requirement Regulation rules ("CRR rules") for the list of matters set out in Clause 3 of this Bill, which implements the latest Basel standards.

Through this Bill, the Financial Conduct Authority (FCA) will take on responsibility for setting prudential rules for non-systemic investment firms, including UK branches of firms headquartered outside the UK, in implementing the new Investment Firms Prudential Regime.

For EU and other foreign banks operating in the UK, the degree to which they will be subject to the regulators' new rules, and therefore the degree to which they will be impacted by the provisions in Clause 3, will be determined by their regulatory status in the UK as, for example, subsidiaries will be subject to greater capital and liquidity requirements than authorised branches.

In setting its rules, the regulators are subject to their statutory objectives and the accountability framework contained in Schedule 2 (in relation to the FCA) and Schedule 3 (in relation to the PRA). This accountability framework will ensure that how the rules are applied in the EU will be considered by both regulators, because they will be obliged to 'have regard' to the likely effect of the rules on the relative standing of the UK as a place for internationally

active credit institutions and investment firms to be based or to carry on activities. The regulators also need to consider, and consult the Treasury about, the likely effect of the rules on equivalence.

The UK's implementation of the latest Basel standards reflects our commitment to the highest global standards, as agreed by the G20. As such, similar rules to those set by the PRA will be applied in other G20 jurisdictions – including the EU – as they too update their regulatory regimes to reflect the latest Basel standards. The EU is also in the process of implementing their own equivalent to the Investment Firms Prudential Regime, and so similar rules those set by the FCA will also apply in the EU.

I hope that you will find this information helpful. I am copying this letter to all those who spoke in the Committee debate on Wednesday, and I am placing a copy in the House Library.

Yours sincerely,



EARL HOWE

House of Lords, London, SW1A 0PW
E: psdeputyleaderofthelords@cabinetoffice.gov.uk | Tel: 020 7219 8075