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Lord Tunncliffe  
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By email: [tunncliffed@parliament.uk](mailto:tunncliffed@parliament.uk)

24 September 2021

Dear Lord Tunncliffe,

### **CAPITAL REQUIREMENTS REGULATION (AMENDMENT) REGULATIONS 2021**

I write in response to your questions raised in the debate in Grand Committee on 14 September.

You asked when and how the rules proposed by the Prudential Regulation Authority (PRA) must have regard to the net zero carbon target, and I committed to update you on the timetable.

As you know, the Financial Services Act 2021 was amended during its passage to include a requirement for the PRA and FCA to have regard to the net zero carbon target when making the prudential rules covered by the Act, but its application was delayed to 1 January 2022. This means that the PRA does not need to have regard to net zero in making the rules related to the areas of the Capital Requirements Regulation (CRR) which this Statutory Instrument deletes.

As discussed during the Bill debates, and agreed in the Chamber as evidenced by the votes, this delay ensures that there is no unnecessary and impractical delay in implementing the first set of Basel reforms (the “Basel 3” reforms) by 1 January 2022, as the UK has committed to do in line with other jurisdictions which would have damaged the UK’s international standing.

I can assure you that the PRA’s upcoming rules to implement the next set of substantive reforms recommended by the Basel committee (the Basel 3.1 reforms) will need to have regard to the net zero carbon target. The Basel 3.1 reforms are those published by the Committee between 2017 and 2019 (as opposed to the Basel 3 reforms, which include those from 2010 to 2017). Furthermore, I expect the regulators to use the powers again in future to update their rules – for example, to take account of new international standards, or developments in the market – where these relate to deleted areas of the CRR. The PRA will also need to have regard to the net zero carbon target in updating those rules too.

You also asked for my further reflections on how Parliament might be involved in scrutinising Prudential Regulation Authority (PRA) rule-making on prudential regulations. It is Parliament that ultimately sets the regulators’ objectives, and it is of course right that Parliament has the appropriate opportunity to scrutinise the work of the regulators, and their effectiveness in delivering the objectives that Parliament has set them.

You will remember that the existing tools available to Parliament to scrutinise the work of the regulators were covered extensively in the debates in both Houses on the Financial Services Act 2021.

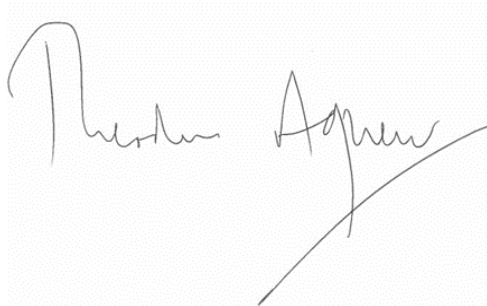
In particular, a relevant select committee can already call witnesses, gather evidence, and make recommendations at any time and on any relevant subject, including draft rules under consultation by the regulators. The senior staff of the PRA, and PRC members, appear frequently in front of parliamentary committees – most often in front of the Commons Treasury Committee. There are benefits to the flexibility of the current arrangements, which recognise the authority of Parliament to direct its interest in the areas that it considers appropriate.

In designing these Basel rules, the PRA has provided sufficient time for input by publishing its consultation in February, and provided its near final rules well in advance of these Parliamentary debates. Parliament therefore had the opportunity to scrutinise and comment on these rules, as is right and proper.

As for future accountability, scrutiny, and transparency of PRA rules, these are being considered through the Future Regulatory Framework (FRF) Review. The government will bring forward proposals through a second consultation on the FRF Review later in the autumn. I should however note that, as the Economic Secretary set out in his response to the Treasury Committee's report into the Future Framework for Regulation of Financial Services, it is rightly a matter for Parliament to consider the appropriate structure for its scrutiny.

Implementing the outcome of the FRF Review will require primary legislation, and so there will be a further opportunity for Parliament to consider the issue of its role in scrutinising the work of the financial services regulators.

A copy of this letter will be placed in the Library.

A handwritten signature in black ink, appearing to read 'Richard Agnew', with a long, sweeping flourish extending from the end of the signature.

**Lord Agnew Kt**