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Dear Lucy

Thank you for your valuable contribution during the Parliamentary debate on 8th December, on the Financial Services and Markets Act 2023 (Prudential Regulation of Credit Institutions) (Consequential Amendments) Regulations 2025; and the Financial Services and Markets Act 2000 (Regulated Activities) (ESG Ratings) Order 2025.

I stated that I would provide a written response with further detail on a selection of the questions raised. Please find those responses and further details set out below.

Financial Services and Markets Act 2000 (Regulated Activities) (ESG Ratings) Order 2025

Firstly, as I noted in the debate, bringing environmental, social and governance (ESG) rating providers into regulation has received strong support from a wide range of stakeholders. The objective is to enhance the integrity of the market by fostering robust governance, effective management of conflicts of interest, and sound systems and controls, while also improving transparency. The consultation on this topic, launched in March 2023, received 94 responses, with 95% of respondents in favour of regulation. Respondents included users and providers of ESG ratings, trade bodies, consultancies, law firms, financial services firms, charities and wider civil society groups.

The regime will seek to improve the quality and reliability of ratings that are used in the market, but it will not mandate the use of ESG ratings or prescribe particular methodologies. This is intended to protect innovation and competition in the sector. It will not dictate the underlying methodologies used by different providers and will allow space for continued innovation in the market.

On your questions about small businesses, I can confirm that twelve of the thirty ESG ratings providers who responded to the consultation were categorised as small ESG ratings providers, using the Companies Act 2006 definition of a small company. The government considered whether fewer requirements for smaller providers would prove successful in promoting a diverse and innovative ESG ratings ecosystem or risk incentivising users of ESG ratings to engage only with fully regulated providers.

Ultimately, as set out in the consultation response, the government concluded that requiring all in-scope ESG ratings providers to be authorised by the Financial Conduct Authority (FCA) was the best option to achieve a fair and proportionate regulatory regime. There is therefore no size threshold for firms being brought into regulation, but the FCA's approach to regulating ESG ratings providers will be proportionate and evidence-based, focusing on firms that pose a higher risk to the FCA's statutory objectives.

You also asked why the government chose to bring ESG ratings provision into the FCA's remit using the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (the RAO), rather than the Designated Activities Regime (DAR), which was introduced into the 2000 Act by the Financial Services and Markets Act 2023. The decision to regulate an activity under the RAO or the DAR depends on the activity being regulated. The DAR enables the FCA to make rules about designated activities without the requirement for firms to become authorised.

In the 2023 consultation, which proposed regulating the provision of ESG ratings, 82% of respondents to the relevant question supported linking ESG ratings regulation to RAO specified investments, providing evidence of risks that warranted this comprehensive approach. Given the consultation feedback and the importance of robust oversight of ESG ratings, the government considered that making the provision of ESG ratings a regulated activity, rather than using the DAR, would provide stronger and more appropriate regulatory protections. This will enable the FCA to utilise the authorisation process as a means of ensuring that authorised firms have systems and controls in place, rather than having to check, individually, that each firm is following the DAR rules.

Approach to post-Brexit financial services regulation

You asked about HM Treasury's approach to post-Brexit regulation, and for an update on the government's progress repealing EU law. As you observed, as of the most recent update in July 2025, HM Treasury had repealed, amended, or replaced 51% of assimilated law it is responsible for, as set out in the Retained EU law and Assimilated Law Dashboard. The great majority of this is financial services legislation. The government is continuing to prioritise this work, particularly focusing on areas where there are potential benefits to growth and competitiveness.

You asked how the government is taking advantage of the opportunities that arise due to being outside of the EU. Since EU exit, the government has taken significant steps to reform financial services regulation to tailor it to the UK and support wider policy objectives. The Financial Services Growth and Competitiveness Strategy, published on 15th July, 2025 sets out the government's approach to delivering a regulatory environment for financial services that is proportionate, predictable, and internationally competitive. The repeal and replacement of EU law play an important part in this work.

You also asked particularly about the opportunities outside the EU for small business financing. The UK has long had a domestic policy agenda to support SME finance, both before leaving the EU and since. This is reflected most recently in an unprecedented funding package for the British Business Bank in this year's Spending Review, and various policy initiatives aimed at increasing competition in the provision of financial services to small and medium sized businesses, for example looking at issues including Commercial Credit Data Sharing and Open Banking and, in due course, Open Finance.

Finally, you asked about the government plans to for a post-implementation review of the Financial Services and Markets Act 2023, and if this would be used as an opportunity to consider how effectively the regulators are replacing EU law. It is usual for the government to review legislation between three and five years of Royal Assent, and the government will determine its approach to the Financial Services and Markets Act 2023 in due course. However, the government did ask for evidence on the UK's regulatory environment when developing the Financial Services Growth and Competitiveness Strategy and continues to engage with the regulators and wider stakeholders to ensure that our approach to financial services regulation supports growth while maintaining high standards.

Financial Services and Markets Act 2023 (Prudential Regulation of Credit Institutions) (Consequential Amendments) Regulations 2025

You also asked a number of questions concerning the transfer of the Capital Requirements Regulation (CRR) onto the PRA's rulebook.

Firstly, you sought assurance on co-ordination between HM Treasury and the regulators concerning how the CRR would be mapped onto the PRA's rulebook. Whilst the PRA is operationally independent and has broad powers to make rules which further its statutory objectives, HM Treasury has established a very close working relationship with it, and we are able to work together effectively. This includes on the transfer of the CRR to the PRA rulebook, where both authorities have coordinated closely together to achieve a smooth implementation of the relevant changes.

The government provided a policy update on progress to date in July 2025 in ‘Applying the Financial Services and Markets Act 2000 model of regulation to the UK Capital Requirements Regulation: Policy Update 2025¹.

Secondly, you also asked how the government was assuring itself that the cumulative changes would enhance the safety, soundness and competitiveness of the UK financial sector. The revocation and restatement of the CRR will provide greater flexibility within the financial services framework by allowing regulatory standards to be set and updated by expert, independent regulators that work within an overall policy framework set by government and Parliament. The government believes this will have benefits for both safety and soundness, as well as the UK’s competitiveness. The Financial Services and Markets Act 2023 also introduced a number of mechanisms to ensure appropriate accountability for how the regulators undertake their rulemaking functions, including a new secondary objective for the UK’s international competitiveness and growth. HM Treasury will continue to work closely together with the PRA to ensure the restated rules remain effective and has consulted carefully with industry throughout the process of transferring the CRR to the PRA rulebook.

Thirdly, you asked if HM Treasury will undertake a structured evaluation of whether the restated capital requirements rules will deliver on the outcomes envisaged by Parliament. I note that you also asked if there would be a post-implementation review of FSMA 2023.

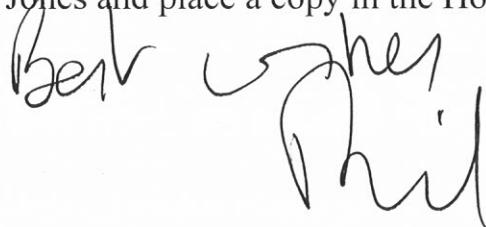
In response, I note HM Treasury will continue to work closely together with the PRA to ensure the relevant rules remain effective. The PRA are required to keep their rules under review, and to publish a statement of policy for how they conduct rule reviews, providing clarity and transparency on how and when rules are reviewed. The PRA remains fully accountable to the Parliament and senior representatives regularly give evidence to parliamentary committees where its performance and operational effectiveness is scrutinised; that includes the Lords Financial Services Regulation Committee.

There will therefore be opportunities to seek views from the regulators on how the certain policy goals have been met via this process. Alongside this significant programme of reform, the government is also focussed on the broader question of ensuring that the UK’s post-financial crisis reforms and the level of capital in the banking system support sustainable economic growth. To promote this, the Chancellor issued growth-focused remit letters to the financial authorities, including the Financial Policy Committee (FPC), at Mansion House 2024.

¹ <https://www.gov.uk/government/publications/applying-the-fsma-2000-model-of-regulation-to-the-capital-requirements-regulation/applying-the-financial-services-and-markets-act-2000-model-of-regulation-to-the-uk-capital-requirements-regulation-policy-update-2025-accessible>

The government also welcomed the FPC's review of its assessment² of the levels of capital needed to support UK financial stability and the FPC has invited comments on its assessment. The FPC's review will inform the government's and the Bank of England's ongoing work to ensure the different parts of the prudential framework, and their interactions, strike the optimal balance to deliver resilience, growth and competitiveness.

I hope you find this letter helpful. I will also send a copy to Baroness Kramer and Lord Jones and place a copy in the House library.

A handwritten signature in black ink, appearing to read "Baron Wilson of Sedgefield".

LORD WILSON OF SEDGEFIELD

Baroness Neville-Rolfe
House of Lords

² <https://www.bankofengland.co.uk/financial-stability-in-focus/2025/fsif-the-fpcs-assessment-of-bank-capital-requirements>