Treasury Select Committee Questionnaire: Professor Niamh Moloney, 3 March 2025.

Personal

1. Do you have any business or financial connections, or other commitments, that potentially give rise to a conflict of interest or a perceived conflict of interest in carrying out your duties as a member of the Prudential Regulation Committee.

I do not have any business or financial connections or other commitments which might give rise to a conflict of interest or perceived conflict of interest in carrying out my duties as an External Member of the PRC.

- My husband and I jointly owned a small shareholding in Lloyds Bank (circa £3,000) which we have sold since my appointment to the PRC.
- My husband and I currently have a deposit in a UK clearing bank in excess of the Financial Services Compensation Scheme deposit protection level. This will be disclosed as appropriate, and I will comply with all related Bank of England rules in relation to actions in this regard.
- Since my appointment, I have resigned from my role as a non-executive director of the Central Bank of Ireland board, and from my role as a member of the Board of Appeal of the European Supervisory Authorities. I have also resigned from my roles as a member of the Advisory Academic Committee of the European Capital Market Institute (a Brussels-based think tank) and of the Scientific Council of Better Finance (the European Federation of Investors and Financial Services Users).
- My remaining roles as a professor at the London School of Economics and Political Science and as a non-executive member of the board of 'Research Ireland', Ireland's research and innovation agency, are not related to the financial sector and do not give rise to a conflict of interest.

My husband is chief credit officer in Bank of Ireland Group, a bank authorized in Ireland and supervised through the EU's Single Supervisory Mechanism by the ECB and the Central Bank of Ireland. Bank of Ireland has a subsidiary in the UK which is authorized and supervised by the PRA. My husband is not employed by this subsidiary, and I do not foresee any conflict of interest. In the event of any issue arising at the PRC in relation to this subsidiary, however, I will recuse myself from the discussions. I will also be sure to take advice from the Bank Secretary as regards any potential conflict of interest or perception of conflict of interest in this regard.

I am fully familiar with the PRC's Code of Practice on conflicts of interests and with the Bank of England's 'Our Code' requirements and I will comply with them in full. I take my public interest responsibilities as a member of the PRC with the utmost seriousness, and I will discharge my duties in full compliance with PRC and Bank requirements, and in line with the Nolan Seven Principles of Public Life

2. Do you intend the serve out the full term for which you have been appointed?

Yes, I intend to serve out the full term for which I have been appointed.

3. Do you have, or do you intend to take on, any other work commitments in addition to your membership of the PRC? If so, how will you fit them alongside your commitment at the PRC?

I am adjusting my work commitments to make sure I have the necessary time to give to this important role. As the expectation is that PRC External Members commit two days a week to the role, I am changing my work commitments to ensure I can fully meet this obligation.

- As previously noted in Q.1, since my appointment, I have resigned from the board of the Central Bank of Ireland, the Board of Appeal of the European Supervisory Authorities, the Advisory Academic Committee of the European Capital Market Institute, and the Scientific Council of Better Finance.

- I am changing my currently full-time employment at the London School of Economics to a part-time contract of 0.6 (or three days a week). In this capacity, I will continue in my role as Professor of Financial Markets Law in the LSE Law School, carrying out teaching, research, and related administration. I will also continue to serve as a member of the LSE Council (LSE's governing body).

- I will continue as a board member of Research Ireland. This involves six board meetings a year and five meetings of the board's Audit and Risk Committee of which I am a member.

I do not intend to take on other work commitments over the term of my appointment. It is a great privilege to be appointed to the PRC, and particularly so at this moment in its evolution with its new rule-making powers and its new secondary objective on competitiveness and growth. I take this responsibility with great seriousness. I am entirely committed to ensuring I give it my full and sustained attention and I have re-ordered my work commitments accordingly.

4. Please explain how your experience to date has equipped you to fulfil your responsibilities as a member of the PRC.

Over the last 25 years or so as an academic in the UK, I have specialized in financial regulation, and I have also undertaken a series of university senior management roles. I have alongside had the privilege of serving in external governance roles with regulators, and of providing advice to regulators (including as a member of the Bank of England's Withdrawal from the EU Legal Advisory Panel; and as a member of Financial Services Consumer Panel of the Financial Services Authority) and to Parliament (including as Special Adviser to the House of Lords EU Select Committee in relation to its 2014-2015 inquiry on the EU's regulatory response to the financial crisis). Throughout this period I have been attentive to developments in the financial services sector, including through participation in advisory committees, industry workshops, and stakeholder groups.

I outline below how I believe this varied experience has equipped me to fulfil my responsibilities as a PRC External Member and to bring a distinct perspective. One of the lessons of the global financial crisis (while it is now over 15 years since its outbreak, I believe that the global financial crisis remains of signal importance in how to think about risk and regulation) has been that effective regulation and supervision requires a diversity of perspectives, an attentiveness to cross-sectoral linkages, and a constant querying of underlying root causes and incentives. I hope to be able to support the PRC in this regard given my range of experience.

- Over 25 years as an academic specializing in financial regulation, I have acquired extensive knowledge of financial system risk and regulation, producing ten books and over 100 articles/chapters which examine and critique financial regulation. These include my co-editorship of the 2015 *Oxford Handbook of Financial Regulation* which was designed as a state-of-the-art examination of financial regulation following the crisis-era re-design. The constant underlying theme of my work - before, during, and since the financial crisis - is that effective financial regulation is essential to economic growth and to household prosperity. My work frequently addresses, however, how proportionate and responsive regulation, in support of the mandates given to regulators, can be secured, and how the legitimacy and accountability of regulators can be delivered. I am particularly concerned with the 'how and why' of financial regulation, including as regards institutional/regulator design and operation (e.g. my book on the European Securities and Markets Authority and its effectiveness: *The Age of ESMA. Governing EU Financial Markets* (2018)). Relatedly, my work highlights the implications of the political, market, and economic context of financial regulation. I note below two themes from my work, through which I hope to contribute to the PRC.

First, a recurring theme of my research is understanding the extent to which and how regulation can shape and support markets and competitiveness, and is a transformative agent, particularly in the EU. I have, for example, recently examined the EU's current agenda to support financial market strength and competitiveness, including as regards household finance - the 'Savings and Investment Union' project (European Law Review, 2025). Second, my work has spanned repeated cycles of crisis, change, and reform; and addressed sectoral and cross-sectoral financial risks and regulation. My early articles, for example, examined regulation in the context of the 'dotcom' bubble of the late 1990s and the subsequent equity market crash. I wrote extensively on the financial-crisis-era reforms, including on risk regulation, bank capital reform, and executive compensation. I produced a series of writings on the financial regulatory issues raised by the withdrawal of the UK from the EU, including a book which I coordinated (Alexander et al, *Brexit and Financial Services* (2018)). Most recently I have considered the effectiveness of the EU's regulatory response to the Covid pandemic.

These two strands of my work have given me the ability to critique regulation and regulatory processes and to understand the complexities in balancing risk and regulation. They have also equipped me to reflect on and diagnose risks arising in dynamic contexts, and to take and apply lessons from history and from the recurring cycles of crisis, change, and reform that tend to characterize financial regulation. I can also reflect on experience in different jurisdictions (including the EU and its Banking Union arrangements) and think across silos, drawing lessons from, for example, financial market regulation, investor protection regulation, as well as from banking/prudential regulation.

I would bring this capacity to critique and challenge regulation to my work with the PRC, as it applies its new rule-making powers; addresses challenges that are old and well understood (such as credit risk), and those that are emerging and less well-understood (such as operational and climate risk); and as it secures its secondary objective on competitiveness and growth.

• I have acquired wide and practical knowledge of the financial sector and of financial sector risk through my role as a non-executive director of the Central Bank of Ireland board (including as a member of the board's Risk Committee). Through this role I have also engaged directly with the rule-making and policy development process. I have further developed a deep understanding - beyond my academic work - of the European System of Financial Supervision and of Banking Union. Finally, I have honed my capacity to make balanced risk assessments of financial system and organizational risks.

I also have experience of regulation and supervision 'in action' from my governance roles in EU bodies. My role as a member of the Board of Appeal of the European Supervisory

Authorities (the Board hears appeals from the financial sector from decisions by the three European Supervisory Authorities), for example, has given me experience in assessing complex and contested questions of regulatory compliance and in coming to defensible judgments.

I would seek to bring these different experiences of decision-making contexts and of risk assessments to the work of the PRC.

• I have considerable experience in complex policy-making contexts and of balancing related risks and benefits - outside of the financial regulation context - which I would bring to the PRC. I served as the independent Chair of Ireland's Commission on Taxation and Welfare which was established by government in April 2020 and reported in summer 2021. The 11-member Commission was mandated to consider how the tax and social welfare systems could best support economic activity and promote increased employment and prosperity, while ensuring sufficient resources were available to meet the costs of public services and supports in the medium and longer term. Our 113 recommendations and extensive report followed an in-depth exercise in weighing stakeholder views, economic evidence, and policy choices. From this I have gained deep insight into policy design and its interaction with economic success, which I would seek to bring to the PRC.

• As an academic researcher I have sought to understand - through, for example, workshops and participation in advisory and stakeholder groups - the financial sector, how its risks and incentives operate so that regulation can be best designed, and where regulation may have unintended costs and consequences. Financial regulation is a profoundly important public good as the catastrophic crystallization of financial stability risk over the global financial crisis showed, and as the resilience of the UK banking sector and the increased lending over the pandemic also exemplified. The 'sweet spot' of effective regulation can be difficult to hit, however, given the costs of regulation and the dynamism of markets, and this is reflected in my writings. It is also reflected in my wider engagements. I served, for example as a co-Rapporteur for the European Capital Market Institute's Roundtable on Capital Markets Union (CMU) (2022). The Roundtable examined, with senior industry stakeholders, how the EU's CMU project could be advanced, complexity addressed, and real progress made on EU market integration and development.

• Finally, I have extensive experience of leadership and of managing change in expertise-driven, public institutions with often complex governance arrangements, distinct cultural traditions, and significant public interest obligations. This has ranged from my experience as Head of the LSE Law School over the Covid pandemic; my current role on the LSE Council (LSE's governing body) and as Vice Chair of Appointments Committee (in this role I am responsible for the maintenance of academic standards in LSE's recruitment, career development, and promotion processes); and my role as a non-executive director on the Central Bank of Ireland board.

To which areas of the PRC's work do you expect to make particular contributions and where might you want to undertake further research?

As a new External Member of the PRC I am committed to engaging fully across its mandates and activities and to devoting sufficient time to ensure I can contribute effectively across its full range of responsibilities.

At this point, I expect to contribute in particular in the following areas:

• I expect to contribute in relation to the PRC's rule-making and policy development activities and how they support the PRA's primary and secondary objectives, in particular as the PRA now has the power to make rules and policy more adapted to the UK context. I have a particular interest, for example, in proportionality. It can be a powerful lever for ensuring that regulation secures its objectives in an effective manner and is calibrated to the nature, scale, and complexity of regulated firms. Its potential is well-exemplified, I think, by the PRA's new and still-developing 'Strong and Simple' regime for smaller, domestically-focused banks and building societies.

• I also expect to bring to bear my experience in critiquing specific technical rules and policies, and in different jurisdictional settings (primarily but not only the EU). I will also seek to bring my knowledge of where rules have worked - and have been less successful - in different market and reform contexts over the last 25 years.

• I have a particular interest in the legitimacy of regulation. I would expect therefore to contribute in relation to the PRA's strategies and policies in relation to transparency, impact assessment, and public engagement.

As regards further research, as a new External Member of the PRC I intend to immerse myself fully in its strategy, policies, operational/institutional design, and systems. I am sure that in doing this I will come across areas in which I will need and want to learn more, so that I can bring a full understanding to bear on my work with the PRC. For now, I expect to undertake further research into its work in the insurance sector and in understanding its institutional and operational design.

The Prudential Regulation Committee and the Prudential Regulation Authority

5. What is your overall assessment of the track records of the PRA and the PRC to date?

My sense is that the PRA, as led by the PRC, has been successful in delivering on its objectives through a period of significant change. This period has encompassed the financial-crisis-era regulatory reset and rebuild of financial resilience, the operational agenda related to the withdrawal from the EU, and the disruption caused by Covid. Most recently this period has covered the reforms associated with the Future Regulatory Framework Review and the conferral on the PRA of its new rule-making powers and the secondary objective on competitiveness and growth, and its enhanced accountability arrangements. Alongside, financial markets have continued to evolve through a period of changing monetary policy. Sources of credit risk have also changed (e.g. the attention currently focusing on exposure to private credit markets and leveraged lending, and on ensuring 'model risk' is managed). Operational risks (including cyber-attack and IT risks) have intensified. And newer ('novel') risks which lack long historical data, but which can generate shocks, and so can raise challenges for risk modelling, and so for financial risk management, have emerged (e.g. supply chain, energy supply, inflation, and geopolitical risks).

Through this period, the primary and foundational objective of the PRA has been to promote the safety and soundness of the firms it regulates and to protect insurance policy holders. The evidence suggests that the safety and soundness of regulated firms has been secured. The November 2024 Bank of England Financial Stability Report reported that 'the UK banking system is well capitalised, maintains high levels of liquidity, and asset quality remains strong'. The capacity of the UK banking sector to lend and offer 'payment breaks' - a lifeline for small businesses and households - through the pandemic stands as a testament to the resilience of the sector. More recently, the resilience of the banking sector in 2023 against the potential financial stability risks posed by the sudden crystallization of business model/operational and liquidity risks associated with the Credit Suisse and Silicon Valley Bank failures underlines the health of the UK banking sector.

It also appears that the PRA has retained the trust of the financial sector in its approach through this period. The flaws of the pre-financial-crisis 'new governance' notions of 'regulatory dividends' and the 'outsourcing' of regulation to the regulated sector are well known. Nonetheless, sound regulation does not mean there cannot be a productive and straightforward relationship between the regulated sector and the regulator. PRA consultations regularly refer to industry support for prudential safeguards and, more recently, to its approach to policy-making under its new powers (e.g. PS3/25, The Prudential Regulation Authority's Approach to Policy (2025)).

In your opinion, what are the areas of most success, and in which is there still most work to be done?

A number of areas of success can be identified. These include:

- Since the financial crisis, the PRA has been engaged in extensive and large-scale rule and policy design exercises which, to an external observer, have been successful. These have included the development and embedding of the massive crisis-era prudential rulebook (including the Basel III capital, liquidity, and leverage rules; the new recovery and resolution regime; the Capital Requirements Directive requirements relating to risk management processes, bank corporate governance, and executive remuneration; and the important IFRS 9 financial reporting rules which have changed how banks address loans which are, or are about to become, non-performing, and so better equip banks to lend 'through the cycle'). This period has also included the honing and application of PRA policies relating to the withdrawal from the EU, in particular as regards the authorization and supervision of EU branches and subsidiaries. The new Senior Managers and Certification Regime has been adopted, is now well-established, and is being refined. It provides an essential backstop to regulation by requiring a clear allocation of responsibility within firms and thereby driving a related strengthening of internal governance and culture. More recently, the near-finalization of the 'Basel 3.1' reforms to bank capital (September 2024) represents a significant exercise in complex (but essential) rule design, and also in engaging with the regulated sector, weighing evidence of industry and consumer costs, and calibrating rules.

• The PRA has showed large-scale innovation in policy design, notably through the developing 'Strong and Simple' regime for smaller domestically-focused banks and building societies. Effective regulation should be proportionate and calibrated, in that it reflects the nature, scale, and complexity of regulated institutions. This does not imply a 'light touch' approach, but rather that regulation is risk sensitive and appropriately tailored to the nature of the institution or class of institution in question. In this regard, the 'Strong and Simple' regime represents a material development, and not simply a technical refinement.

• The PRA has been attentive to mitigating the costs associated with regulatory complexity and the related operational demands, notably as regards regulatory reporting. The explosion in data and reporting requirements since the financial crisis is one of the defining features of the financial regulation rulebook (globally). One of the current key questions for financial regulation is whether the voluminous reporting now required is efficiently designed and can be effectively interrogated by regulators. The proposed Banking Data Review represents an important development in this regard in that the Review should streamline data collection.

• The PRA's application of a risk-based, forward-looking, and judgment-based approach to supervision (e.g. The PRA's Approach to Banking Supervision (2023)) captures, it seems to me and as external observer, the need for vigilance, inquiry, horizon-scanning, and qualitative judgement (and not only quantitative metrics) in supervision. Supervision is the process through which rules become 'live'. But it must be responsive to the multiplicity of firm business models, organizational designs, risks, incentive structures, and other specificities; one-size-fits-all approaches, and overly-rigid benchmarking, should be avoided. It must also reflect the reality of resource constraints and so be risk-based and prioritized, while also ensuring that that the 'rules of the game' are complied with, and that this compliance is appropriately evidenced by regulated institutions. The record of failures in the UK system (albeit I acknowledge that a successful regulatory scheme is not one based on 'zero failures') suggests that the PRA's approach has been effective and capable of responding to a highly dynamic risk landscape.

• The evolution of the stress testing regime can also be counted as a success. One of the lessons of the financial crisis was the importance of robust stress testing exercises in informing financial institutions and their regulators of where potential risks lay. While stress testing is now well-embedded in the PRA toolkit, I find it notable that the PRA has extended and developed this tool as it has learned from experience, including with smaller scale desk-based stress testing exercises, and as risk settings have changed and become more complex, including as regards non-financial risks. The Annual Cyclical Stress test approach to bank stress testing, for example, has recently been revised (2024), with bank stress testing now to take place every other year, with less extensive stress assessments in the intervening years.

Specific stress tests have also been developed and used, for example, to address climate change (2021) and cyber risks (2022).

• The PRA appears to be straightforward and forthcoming in communicating with the regulated sector (and the wider public). This is essential for accountability and so legitimacy. It is also essential for ensuring the regulated sector is clear as to the PRA's expectations. Policy documents, including feedback from consultations, appear to me to be direct and evidenced. My sense is that a wealth of information is also available on the PRA website as to how it goes about the business of supervision.

As regards where there is still most work to be done, for the moment, as a new appointee, I draw lessons from the challenges facing regulators globally.

• Regulation and supervision is a 'work in progress'. It must be adaptive and responsive as markets evolve, incentives change, and risk profiles alter, and as regulatory and supervisory tools develop, and data analytics are enhanced. It requires regulators (and the sector) to think about risk, the costs of managing it, and the distribution of those costs (and any reduction in them), in particular for society. Notwithstanding this dynamic setting, regulators, including the PRA, must remain closely focused on the securing of their objectives, and on policing their regulatory perimeters. For the PRA, maintaining the balance between ensuring newer and emerging risks (such as climate, AI, cyber, inflation, energy, and supply chain risks) are identified and managed, and longstanding risks (such as credit and liquidity financial risks) are contained, is not easy, particularly as the PRA must also refine its supervisory and regulatory toolkit, and be attentive to institutional culture and risk tolerance. But this balance must be achieved to ensure the safety and soundness of regulated financial institutions. The risk management and business model risks associated with the Credit Suisse, Silicon Valley Bank and Archegos failures, for example, were not new risks, but long-understood risks arising in new settings.

• As I note ahead (Q. 7), the delivery of the PRA's secondary objective on competitiveness and growth is, while secondary although related to the PRA's primary objective, of foundational importance as a change to the PRA's Parliament-conferred mandate. Much has been done already. But the embedding of the new secondary objective within the institution can be expected to require an attentiveness to related PRA institutional culture, risk tolerance and capacity to manage trade-offs, and to organizational/operational design, as the institutional mechanisms through which the new objective is to be secured develop and mature.

• Regulators globally are grappling with the challenges and benefits posed by AI, not only in the regulated sector, but also as a tool for supporting their supervisory strategies, risk identification processes, and data analytics (e.g. Financial Stability Board, The Financial Stability Implications of Artificial Intelligence (2024)). Effective engagement with AI places significant demands on regulators, however, including as regards resource decisions, personnel capacity, cultural change, risk tolerance frameworks, and ensuring that core mandate obligations are met.

• In my academic work, I have written on the risks posed by the increasing complexity, dynamism, instability, and intricacy of regulation, which can lead to unexpected effects, as shown by the impact on energy derivatives markets as margin (collateral) requirements (a feature of the crisis-era reforms) increased following the invasion of Ukraine. The PRA's commitment to systematically reviewing regulation in accordance with its new Financial

Services and Markets Act 2023 obligation, and its policy for doing so (PS4/24, PRA Statement on the Review of Rules (2024)), is an important development and one which could be a benchmark for other regulators. As this policy tool is in its early stages of development, it will need to be securely embedded.

• The core lessons of the financial crisis remain relevant, including as to the dangers of groupthink. All institutions are vulnerable to this risk, and particularly in a context where the consequences of failure can have damaging societal effects and on the most financially vulnerable. How best to achieve a balance between risk and regulation remains a key challenge for regulators globally, given the acute dangers of any disruption to financial stability. A strong institutional culture of debate, query, and evidence-based challenge remains critical.

6. The PRC has a lower public profile and is less transparent than the Bank's two other policy-making committees (for example, it does not publish meeting records or minutes). How appropriate do you think this is, and do you think there is a need for the PRC and PRC members to promote greater transparency and public engagement?

I am deeply committed to the transparency and accountability of regulators and to the related importance of communication and of public engagement as key accountability mechanisms. Much of my academic writing addresses the legitimacy of EU financial regulation and the need for multiple and robust channels of accountability as regulatory power and influence increases.

Regulators, including the PRA, operate using powers delegated from Parliament and within legislative mandates which direct and confine their work. They accordingly derive their legitimacy or their 'social license' to operate from Parliament. In the case of the PRA, its primary and secondary objectives, 'have regards' and remit letters are all guard-rails that support its legitimacy. Part of its legitimation framework, as with all regulators, also relates to the transparency of its operations so that its work can be assessed, discussed, and critiqued, by Parliament and also the wider public (given the distributional consequences of regulatory/supervisory failures). Similarly, the positive case for financial regulation, and how it secures financial stability and so supports growth and prosperity, must be clearly made. The PRA, as with all regulators, must also, to secure its legitimacy, be alert to, and comfortable with, challenge and with evidenced arguments for refinements and improvements.

Specifically as regards transparency, the PRA's policy-making process is, it seems to me, iterative while, appropriately, not being a negotiation with the regulated sector. It includes discussion and consultation papers and related feedback statements in which its reasoning is explained, such as the series of reports relating to the 'Basel 3.1' reforms. It reports on its range of activities through its annual reports and business plans, and it publishes a series of documents on its approach and expectations (e.g. its Approach to Banking Supervision (2023) and its 'Dear CEO' letters). The Bank of England's Financial Stability Reviews also support review of the PRA's management of risk and of related sector conditions. Speeches by the PRA's leadership give clear insights into PRA current thinking, its future agenda, and its supervisory expectations. Direct feedback channels are supported by the PRA's annual Firm Feedback Survey and its Practitioner Panels. More specifically, the new metrics adopted by the PRA to measure its securing of the secondary objective on competitiveness and growth, and which include industry feedback, will provide a further and targeted mechanism for reviewing the PRA (albeit that metrics have limitations).

The PRA's communications also support the predictability and stability associated with effective regulation and with an accountable regulator. Relatedly, the PRA's new powers offer the promise of a more accessible rulebook – an outcome which would further enhance accountability. Enhancements can, however, always be made, and I look forward to working with the PRC in this regard.

Finally, the related New Approach to Policy (PS3/25) signals a commitment to proactive engagement with civil society. This is not easy to achieve: a significant body of research charts the challenges faced by consumers and wider civil society in accessing and effectively engaging with financial regulatory consultations. Not least among these are the inevitable technicalities associated with prudential regulation and the coordination challenges. The legitimacy of the PRA can be associated with there being a systemic intuition across UK households that financial institutions in the UK are safe and sound, even if the role of the PRA is not broadly understood. Nonetheless, direct and targeted engagement with civil society signals a purposeful commitment to accountability and is, I think, worth the resource investment.

The PRC does not, however, publish minutes, as this Question notes. My sense is that this is appropriate (and reflects regulatory practice more generally) given the confidentiality constraints which apply as regards supervisory decisions and engagements. The rules governing the publication of market sensitive information also apply. A further consideration relates to the need to ensure that discussions between the PRA and the regulated sector are open, frank, and unconstrained, in that the regulated sector does not have potentially distorting incentives to disclose issues to the PRA late or incompletely. This risk is intensified where an issue may be unclear or contested, or where a risk is new and evolving. It is all the more important, however, that there are a series of accountability channels which offer transparency on the PRC, notably regular hearings before this Committee.

I am at the Committee's disposal as a member of the PRC, and I would welcome engagement with the Committee in any way that is helpful to the Committee, its Chair, and its members.

7. How well has the PRC implemented the secondary competitiveness and growth objective?

The new secondary objective on competitiveness and growth (SCGO), which is to be advanced in ways that support the PRA's primary objective and subject to alignment with international standards, conferred by the Financial Services and Markets Act 2023, is of foundational importance as a new mandate conferred by Parliament. It is not long in force, but my sense is that the PRC has made considerable progress in embedding it and, by using a multi-channel and evolutionary approach, is acting in an appropriate and sustainable way, given the scale and importance of this exercise. I am also struck by the extent of the public disclosures available on the development of the SCGO, from speeches and discussion papers, to metrics, to regular reporting (I note the PRA has committed to reporting annually on the SCGO in its annual reports, following the initial specific SCGO reports at the one year and two year implementation marks).

It is worth noting first that the current resilience of the sector regulated by the PRA supports the SCGO. There is no conflict, in my view, between the application of high prudential standards to secure the soundness and stability of the financial system, and the achievement of competitiveness and growth. Financial system stability, and, for example, the related soundness and so capacity of banks to lend, is a precondition for competitiveness and growth, as the financial crisis underlines (and as is also supported by the extensive 'law and finance' scholarship which tracks the relationship between financial regulation and economic growth and financial market depth). Strong prudential standards, coupled with proportionate and risk-based supervision, are also valuable public assets for strengthening the UK as a leading global financial centre. The inclusion of prudential-regulation-related capital and liquidity metrics among the metrics for assessing progress under the SCGO is, therefore, sensible. Effective regulation must, however, be appropriately focused on the delivery of its objectives, proportionate, and agile to evolving industry and risk settings. Relatedly, and while financial regulation is not and should not be cost-free, the 'touchpoints' between the regulator and the regulated sector, including key regulatory processes such as approvals under the Senior Managers and Certification Regime and regulatory reporting systems, should be as seamless, understandable, and cost-effective as possible, and avoid duplication and complexity.

The PRC has adopted a tri-pronged approach for the PRA's implementation of the SCGO, relating it to: securing trust in the UK's prudential system and its capacity to secure safety and soundness, and that rules are appropriately calibrated; the effectiveness of regulatory processes; and a 'responsive and responsibly open' approach to opportunities and innovation. These intersecting vectors seem appropriate and comprehensive, capturing the different domains in which regulation can support competitiveness and growth.

A proactive, systematic, and institutionally sustainable approach is called for to embed the new objective and the PRA's tri-pronged approach, although it is, I think, important to note that the PRA/the UK regulatory system has, over time, been attentive to ensuring that regulation is applied in a calibrated and proportionate manner (e.g. the 2013 review by the Bank of England and then Financial Services Authority of requirements for firms entering into or expanding in the banking sector).

In practice, the PRC appears to have led a substantial and purposeful commitment to putting in place the institutional and governance structures to support the SCGO so that it becomes part of the culture, values, and mission of the PRA. Key structural initiatives include its new Approach to Policy (2025), which directly engages with the SCGO, and the ongoing project to enhance the cost benefit assessment process and the related establishment of the CBA Panel. The new Approach to Policy, for example, which signals a proactive and highly articulated and formalized approach to the SCGO, can be seen, it seems to me as an external observer, as something of an operational 'spine' running down the PRA, shaping how decision-making operates. More specifically, it has the potential, for example, to support the simplification of the rulebook and the reduction of complexity (producing a 'first class rulebook' is a worthy objective), to strengthen stakeholder engagement (and thereby trust in the PRA as well as informed PRA action), and to secure enhanced agility in rule and policy development.

More institutionally, given the importance of embedding the SCGO internally the new 'centre for expertise' augurs well. The PRC is also, it has signalled, committed to enhancing institutional culture as regards the SCGO (reflecting also the 2024 report of the Bank's Internal Evaluation Office). This is a welcome commitment. Institutional culture, and a coordinated and strategic approach to its support, is key to ensuring effective outcomes (as examined in the financial regulation literature, and has also been recognised more generally in the European System of Financial Supervision: European Insurance and Occupational Pensions Authority, A Common Supervisory Culture (2023)). Also as regards institutional culture, the adoption of a 'responsive and responsibly open' approach to opportunities and innovation, as a PRA institutional commitment and mission, signals a measured PRA appetite for engaging with new business models, operational designs, and products.

More specifically, the internal plumbing of regulation - while of a more humdrum quality than are large-scale changes to core regulatory requirements - matters to its effectiveness. A welcome attentiveness to plumbing can be traced in the PRA's recent activities. Specific operational projects which can be expected to support the SCGO over time include the initiatives proposed under the Banking Data Review, and the enhancements to approval processes and related service levels and timelines (including under the ongoing review of the Senior Managers & Certification Regime). These reforms can be expected to reduce regulated institutions' transaction costs, and thereby strengthen their capacity to support the economy, including through investment in innovation.

Substantive regulatory reforms which can be expected to support the SCGO include the ongoing development of the innovative 'Strong and Simple' regime. The near-final implementation of the final suite of Basel 3.1 reforms (released in September 2024) is a major intervention in banking regulation and can also be associated with the SCGO. In particular, by calibrating how the capital rules will apply to smaller banks, and in relation to SME and infrastructure lending, they have the potential to support lending, a diversity of credit supply, and so competitiveness and growth.

The PRA's attentiveness to enhancing and refining its core operations – such as the refinement of the Annual Cyclical Scenario stress-testing regime to move it to a biennial review – can also be associated with a purposeful commitment to reviewing and refreshing which can be associated with ensuring that prudential standards remain high, but also calibrated and proportionate.

In light of the mandate to align with international standards, and given that such alignment supports the competitiveness and global reputation of the UK financial centre, the PRA has been actively engaged in the international standards setters, chiefly the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors. This engagement reflects the long and distinguished history of UK participation in the international standard-setters which is well charted by the international financial governance literature. Relatedly, the recent close-to-finalization of the Basel 3.1 reforms (September 2024) evidences the PRA's alignment of the rulebook to the Basel standards, while making measured and evidenced adjustments to reflect the UK context. I am in full agreement with the view frequently expressed over the development of the PRA's approach to the SCGO that consistent implementation of international standards across jurisdictions (and in the UK), particularly for internationally-oriented regulated firms, supports UK growth and competitiveness, including by protecting international financial stability. Similarly, UK alignment signals a commitment to international standards which can enhance the attractiveness of the UK as a global financial centre.

Looking to the future, securing the related institutional culture will likely require continual focus and support from the PRC. Sustained focus will also, it is likely, be needed to ensure the PRA is well-equipped to engage in any necessary and appropriate trade-offs, in accordance with the PRA's risk tolerance and the securing of its primary objective. Attention will also be needed to ensuring the PRA is institutionally attentive to the international standards to which action must be aligned.

Finally, institutional debate and contestation as to how the SCGO is to be implemented, and as to the nature of its interaction with the 'first tier' primary objective on safety and soundness, is healthy: particularly as sometimes the trade-offs will be clear, and sometimes they will not. The PRA's recent report on the SCGO (Competitiveness and growth: embedding the PRA's new secondary objective (2024)), which notes the importance of debate and commits the PRA to learning from experience, is a welcome indication of openness to frank discussion, including as regards the experience in earlier cycles of financial system disruption.

8. What is your assessment of the PRA's approach to implementing the secondary competition objective?

The PRA has undertaken a series of initiatives in furtherance of its secondary competition objective, which it frames in terms of it supporting competitive and dynamic markets (e.g. Annual Business Plan (2024)). These initiatives, it seems to me, indicate a PRA attentiveness to competition, and its use of effective regulatory mechanisms, grounded in the primary objective as regards safety and soundness, to do so.

A central tenet of good regulatory design is the calibration of rules to the nature, scale and complexity of financial institutions, to ensure rules' sensitivity to risk. Calibration in this way also supports competition, in that it mitigates the risk of regulation applying in a disproportionate manner which imposes costs and frictions unequally and thereby distorts competition. The 'Strong and Simple' regime – still under development - is a key intervention in this regard in that it simplifies the regulatory system for in-scope lenders and reduces their costs (and so increases their capacity to be innovative), while ensuring a baseline of resilience. It also evidences a PRA appetite for taking significant regulatory design decisions that recast pillar regulatory regimes. The recent near-finalization of a key suite of Basel 3.1 reforms (in September 2024) also has the potential to support competition by calibrating the related capital rules for smaller lenders and so facilitating their ability to compete with larger lenders who can better absorb regulatory costs.

The PRA's approach to access by international firms (through branches and subsidiaries), while grounded in ensuring that the PRA has sufficient oversight over such firms, likewise supports competition. It shows that the PRA is open to hosting firms that are sound in their essentials and that can be effectively supervised, and that the PRA provides clear direction on its expectations (SS5/21 International banks: the PRA's approach to branch and subsidiary supervision (2021)). Similarly, the PRA's concern to ensure alignment with international standards, recently exemplified by the near-final implementation of the Basel 3.1 standards (save where specific adjustments for the UK market were made, it seems to me, on a reasoned basis), can be regarded as a tool for ensuring the UK financial centre is attractive to international firms.

More operationally, the New Bank Start-up Unit (operated in conjunction with the FCA) points to a continued and practical attention to new entrants – who may use innovative technology or new business models - and also to clear and targeted communication. A practical attentiveness to the operational realities of building a new business is also apparent in the optional 'mobilization' stage of bank authorization, during which a new bank can operate under a limited authorization (and capacity to take deposits). More generally, the PRA's ongoing efforts to address frictions in regulatory processes (such as reporting requirements and approvals) also have the potential to allow smaller firms in particular to manage regulatory costs more effectively, and thereby to support innovation and so competition.

A series of evolving structures, calibrations, and processes can therefore be identified which support the secondary competition objective and which have the merit of an interlocking approach. These tools also seem to be appropriately risk sensitive to the incentive distortions that can be generated by competitive pressures and drivers, and that can lead to stability risks (as was observed in relation to the securitization market in the run-up to the global financial crisis). Finally, core policies are kept under review as lessons are learned, as exemplified by the review currently underway of SS5/21 International banks: the PRA's approach to branch and subsidiary supervision (2021), including in light of the implications of the 2023 Silicon Valley Bank failure.

In practice, the data suggests a steady and sustainable pipeline of new lenders: since 2013, 39 new start-up banks have authorized by the PRA and 28 new banks have been authorized either as a branch or subsidiary of an overseas branch (PRA website, as at 3 February 2025).

Regulatory and Policy Issues

9. How well can the PRA measure and regulate operational risk?

Much of prudential regulation has long been concerned with the identification, measurement, and management of financial risk, and it uses long-established tools such as capital and liquidity ratios to do so, and to support financial resilience. The effective measurement and regulation of operational risk, a non-financial risk related to inadequate or failed internal processes, people or systems, or from external events, however, is of acute importance. The securing of institutions' operational resilience has become a more central feature of regulation and supervision since the financial crisis, with the recent Basel 3.1 reforms significant in this regard by addressing the specific capital required against operational risk.

Operational risk management poses, it seems to me, a series of challenges. A crystallization of non-financial operational risk can cause sudden and severe damage to a financial institution. By contrast, a financial credit risk event can emerge more slowly over an economic cycle. Operational risk management is a relatively new risk discipline, although it is maturing. Regulated firms have accordingly less experience with the development of risk indicators (by contrast, early warning indicators have been developing for the assessment of credit risk). It is also the case that operational risk is multi-faceted and can evolve rapidly, as the recent emergence of cyber risks shows. It can also, however, emerge from longstanding legacy weaknesses, typically in relation to core IT systems and in the transition from old to new systems under transformation programmes. The now immense data management systems used by financial institutions to identify, monitor, and manage risk, and to aggregate risk data, are another site of potentially significant operational risk if they are fail or are compromised. Soundness and safety risks aside, the crystallization of operational risk can lead to significant disruption to bank customers, including more vulnerable customers who are at greater risk where even short-term access to accounts and cash is disrupted. Further, as financial institutions must have the capacity to manage unexpected external shocks of a non-financial nature, core 'operational resilience' (the ability of a regulated institution to prevent, respond to, recover from, and learn from an operational disruption, as characterized by the PRA in its related Supervisory Statement) is critical.

Given the multi-faceted nature of operational risk and the challenges, the PRA's approach draws, it seems to me, on an appropriately extensive toolkit, with its tools ranging from those directed to governance and culture (a key bulwark against the crystallization of risks) to those targeted to specific risks. The PRA can also draw on principles-based tools, relating to system management and the conduct of business, which can accommodate new and evolving risks, and which can also support enforcement, where appropriate.

As regards the ex-ante management of operational risk, this risk is potentially pervasive, dynamic, and not as easily identifiable as is financial risk (which can be tracked through asset quality, capital, and liquidity indicators). Accordingly, a strong firm governance culture, supported by a robust risk control environment, is critical to the effective management of specific operational risks. 'First line of defence' (business units) and 'second line of defence' (control functions) must operate effectively. Culture and governance supervisory tools, including the PRA's Senior Managers & Certification Regime, are therefore key in this area. Similarly, the PRA's Fundamental Rules support the appropriate management of operational risk, and the embedding of a related risk-sensitive culture. These include the requirement that a firm must conduct its business with due skill, care and diligence (Rule 2), that a firm must have effective risk strategies and risk management systems (Rule 5) and that a firm deal with its regulators in an open and cooperative way and disclose to the PRA appropriately on anything relating to the firm of which the PRA would reasonably expect notice (Rule 7). As regards implementation, and as an external observer so far, the PRA's supervisory approach, being 'judgment-based, forward-looking, and proportionate', in principle allows the PRA to build into its supervision a qualitative assessment of how risks might crystallize, which dovetails well with the nature of operational risk. Implementation is also being supported by innovative use of the stress test tool (the 2022 cyber stress test) which provides the PRA and also the sector with an evidence base for risk mitigation.

Operational risk can also be mitigated through capital requirements. The PRA's specific supervisory expectations as regards capital for operational risk are currently set out in Supervisory Statement 14/14 Operational Risk, which implements the Capital Requirements Directive risk management regime. It will be replaced by the Basel 3.1 operational risk capital framework, when it comes into force.

Finally, the new regime introduced by the Financial Services and Markets Act 2023 governing critical third parties represents a significant and welcome development as regards operational risk management, given the risk transmission channel from such third parties into regulated financial institutions. It also reflects the direction of travel in regulation internationally (e.g. Basel Committee, Principles for the Sound Management of Third Party Risk (2024)).

Alongside this, the PRA's Supervisory Statement SS1/21 on Operational Resilience: Impact tolerances for important business services (2022), and its Statement of Policy on Operational Resilience (updated 2024), impose additional requirements on firms to ensure they can limit the impact of disruptions once they arise. This regime focuses in particular on the ex-post capacity of firms to recover from disruption, and on firms taking a forward-looking approach which ensures they can maintain important services in the event of a disruption, including through appropriate resource allocation and investment.

My sense is that the PRA has, accordingly, a range of supervisory (and potentially enforcement) tools at its disposal, with preventive and reactive elements, with which to address the diffuse and dynamic nature of operational risk. It also seems that these tools are evolving and being finessed which suggests a responsive and proactive approach. The PRA's strengthening capacity to interrogate regulated firms' reporting also augurs well for its measurement and management of operational risk, including through its increasing use of AI and with the capacity in its RegTech (Regulatory Technology) Division.

10. How well does the PRA reinforce financial inclusion and support home ownership, as per the Government's recent remit letter?

The PRA's primary objective is of a prudential nature: to secure the safety and soundness of the financial institutions it supervises. It can be the case, in the policy and academic debate on prudential regulation, that household or consumer interests are less fore-grounded than they are, for example, in relation to conduct/client-facing regulation (they were overlooked, for example in much of the financial-crisis-era financial stability debate). I am personally strongly committed to ensuring the prominence of household and consumer interests in policy, rule, and institutional design. This is a recurring theme of my academic work, and I have also served on the Consumer Advisory Group of the Central Bank of Ireland and, earlier, on the then-Financial Services Authority (FSA)'s Financial Services Consumer Panel. I hope to continue to contribute in this way to the PRC.

The main contribution of prudential regulation to financial inclusion as regards home ownership, in my view, is to secure the safety and soundness of lenders, so that the mortgage market operates efficiently and credit supply is not disrupted, and that households and consumers can have confidence in the availability of credit, and can plan accordingly. In this regard, the metrics indicating the current safety and soundness of the UK banking market suggest that the PRA is contributing to a sound basis for supporting home ownership. More specifically, the recent revisions to the capital regime relating to residential real estate lending (in the September 2024 Basel 3.1 close-to-final rules), which will lead to the application of a more risk sensitive approach, means that lenders will benefit from lower risk weight for less-risky lending to owner-occupied residential real estate; higher risk weights will apply to riskier segments, such as buy-to-let mortgages.

More generally, the appropriate calibration of prudential regulation is relevant to financial inclusion as it can reduce costs for smaller banks and building societies, and potentially lead to lower prices and the enhanced delivery of banking services. The 'Strong and Simple' regime accordingly has the potential to reduce the costs for smaller banks and building societies, and so to drive lower prices, stronger innovation, and better service delivery to the benefit of financial inclusion. More specifically, the September 2024 close-to-final Basel 3.1 rules apply a more proportionate treatment to smaller and less complex institutions which, by addressing the potential advantage larger institutions can have where they use sophisticated risk-modelling techniques to assess their capital requirements, may level the lending playing field and support competition, to the benefit of consumer and financial inclusion. Similarly, the New Bank Start Up Unit, by supporting new entrants and business models, can help support financial inclusion by facilitating the entry and scaling-up of firms that focus on underserved consumers.

Sound operational systems also support financial inclusion. Financial inclusion is of acute sensitivity for more vulnerable consumers and households who can require ready access to cash to meet basic needs. While the intricacies of operational risk management and supervision, and the determinants of operational resilience, can be somewhat arcane, how they apply and are supervised is a vital safeguard against disruptions which obstruct access to cash and lead to detriment to vulnerable consumers, particularly as the digitalization of services increases (as has been highlighted by this Committee: Treasury Committee. IT Failures in the Financial Services Sector. Second Report of Session 2019-20).

I look forward to working with the PRC as integrates this recommendation from the remit letter of 14 November 2024 into its policy-making.

11. How well does the PRA encourage innovation?

Financial system innovation has over time caused destructive ruptures, as is well exemplified by the catastrophic risk transmission through credit derivatives and complex securitizations in the run up to the financial crisis (as was highlighted by FSA Chairman Lord Turner in the City Lecture, 21 January 2009). Responsible innovation by and in regulated institutions is, however, an appropriate concern for prudential regulators. Financial institutions' financial resilience is in part a function of their competitive position and value, which depends in part on their capacity to evolve and innovate in how they develop business models and products, and manage risk/return. Further, new entrants, with innovative operating models support competition. And firms' operational capacity to manage financial and non-financial risks, and strengthen related data analytics, can be strengthened through innovation (including AI). Soundness and stability requires, however, the safe adoption of innovations such as new technologies.

The evidence suggests that the PRA has an open and measured approach to innovative new entrants and business models, grounded in its primary objective to support safety and soundness. Regulatory initiatives such as the 'Strong and Simple' regime and the calibration of the Basel 3.1 capital regime for smaller banks, and operational initiatives such as the New Bank Start-up Unit, suggest an attentiveness to support innovation through new entrants, and a related diversity of actors, in the banking market.

More generally, my sense is the PRA takes an appropriately measured, open, and responsive approach to innovation, in particular as regards technology. It adopts a 'technology-agnostic' approach - not requiring or mandating specific approaches - but is not 'technology-blind' to the potentially adverse effect of technological innovation on the securing of its objectives (e.g. Letter to the Secretary of State for Science, Innovation, and Technology and to the Economic Secretary to the Treasury and City Minister, 22 April 2024). A similar orientation can be seen in the PRA's expectation, regularly signalled, that firms engaged in 'conscious and controlled risk taking'. Its approach also appears to be proactive, evidence-based and iterative, drawing on extensive industry engagement (e.g. FS2/23, Artificial Intelligence and Machine Learning (2023)), and including direct outreach efforts (e.g. the pilot roundtable on innovation held in July 2024 which considered the interaction between prudential regulation and innovation).

The safe adoption by regulated firms of more complex technologies in order to innovate requires, however, sufficient firm capacity to ensure that risks are managed: risk management cannot be outsourced to models, but judgement and oversight must be retained (a similar approach obtains in relation to credit rating agency regulation, for example, and as regards rating models; and in relation to the regulation of high frequency trading and its algorithms). The recent focus by the PRA on ensuring effective risk management in relation to, for example, data management, model risk management, governance, and operational resilience suggests a wide-angled and integrated perspective on the appropriate management of the risks of technological innovation.

12. What is your assessment of the risks to financial services arising from climate change and what the PRA is doing to ameliorate those risks?

The risks to financial services arising from climate change are significant, far-reaching across the financial system given their sectoral and geographic reach, dynamic, intermeshed, and uncertain. Risk modelling and management techniques are still developing, reflecting the lack of reliable longitudinal data on which risk models can be based (exacerbating the 'model risks' already associated with risk models and which the PRA has recently highlighted as requiring a specific risk management focus). Climate-related disclosures from business counterparties to financial institutions and to the market are still developing, including as regulatory requirements evolve. The uncertain time-horizon over which risks may crystallize increases the difficulties. Technical capacity is therefore a distinct risk in this area. Assessments often point to the financial sector being in a capacity-building phase, with efforts being made, but with more to be done (e.g. the European Central Bank (ECB), Walking the Talk. Results of the 2022 Thematic Review on Climate-related and Environmental Risks (2022)). These risks accordingly represent a distinct and pressing challenge for financial institutions and for regulators.

As has been well-charted by the PRA, and as is reflected in the international debate, there are two main channels for risk transmission relating to climate risk: physical risks; and transition risks (e.g. Financial Stability Board, Assessment of Climate-related Vulnerabilities: Analytical Framework and Toolkit (2025); and The Bank of England's Climate-Related Financial Disclosure (2024)). Physical shocks, such as those relating to the increasing incidence of sudden and severe floods, droughts, windstorms, and fire, as well as those from climate shifts, can lead to damage to and destruction of property and businesses. Related pressure on borrowers, and the impairment of security held by banks (e.g. for mortgages and Commercial Real Estate loan assets), can generate, for example, increased credit risk, a rise in non-performing loans, higher provisioning, and reduced capacity to lend. Transition risks relate to the adjustment to a low carbon economy and are associated with changes in, for example, business models and competition dynamics, technological capacity, consumer preferences, supply chains, and legal and policy settings (and related costs). These risks, which can arise gradually but also quickly, can likewise lead to pressure on businesses' balance sheets and relatedly to a deterioration in loan asset quality. Banks with concentrated exposures in particular business sectors or geographical sectors may face intensified risks, while the extent to which risk may transmit across interconnected chains of financial institution counterparties may accelerate risk transmission.

Risk management in this complex setting requires a multi-pronged approach and clear supervisory communication in order to ensure firms' resilience and their capacity to support the real economy. Both can be identified in the PRA's approach.

The PRA's approach as regards banks draws on three supervisory strategies, directed to ensuring firms can identify, measure, and manage climate financial risks (including through capital allocation): Supervisory Statement 3/19, Enhancing Banks' and Insurers' Approaches to Managing the Financial Risks from Climate Change (2019)). First, its approach cascades from supervisory expectations relating to evidenced board- and senior executive- level oversight of the impact of climate risk on strategy and operations, and the embedding of appropriately calibrated risk management systems; and the clear allocation of responsibilities to identified Senior Management Functions. Second, it focuses on the downstream effectiveness and evidencing of these internal systems, including in relation to risk exposure identification, reporting, and management (including risk appetite), internal capital adequacy assessment procedures, the monitoring and management of (for example) loan asset risk, and (crucially) forward-looking scenario planning. Finally, it addresses regulatory and public disclosures.

This approach draws on classic and well-tested supervisory levers directed to firm culture and governance, internal risk management and monitoring, and disclosure. This augurs well for its effectiveness. Climate risk management is, however, a work-in-progress, as is clear from the 2022 'Dear CEO' Letter which noted that the extent to which climate risk management was embedded was variable. More recently, the PRA's 2025 Climate Change Adaptation Report notes that positive steps have been taken by the regulated sector to comply with the PRA's supervisory expectations, but that progress is variable and more is needed. This is not a surprise, given the novelty of the risks, the risk management challenges, and the need to develop new forward-looking/scenario planning tools (in particular Climate Scenario Analysis). But it underlines the need for sustained attention.

The PRA's approach in response appears measured and realistic, and reflects a concern to support the industry in building capacity to address the risks. The 2022 CEO Letter, for example, is evidence-based, having followed the pathbreaking 2021 PRA stress test on climate risk (the 2021 Biennial Exploratory Scenario: financial risks from climate change). It is also pragmatic and attentive to the technical difficulties, noting that the PRA does not expect an 'end-state' risk management response, albeit that it set down a marker as regards progress and ambition. Given the uncertainty in this area, and the need to encourage firms to build their capacity, an open and iterative relationship between the sector and the regulator, with strong incentives for firms to fully disclose challenges and also to experiment and test solutions (such as the development of forward-looking information), is important. This appears to be sought by the PRA, including through its convening, with the FCA, of the Climate Financial Risk Forum which produces a series of practical guides to support regulated firms in managing climate financial risks. It also appears that the PRA is learning from experience, with an update to the 2019 Supervisory Statement to be consulted on in 2025.

There are significant challenges here, however, for all regulators. These include the design of stress tests and scenario planning models, overseeing an increasing maturity in financial institutions' processes (including as regards forward-looking risk models), and ensuring that their internal supervisory models and related metrics are updated and that the quality of regulatory reporting and related data analytics is secured. This will require sustained attention, including as regards internal regulatory resources and capacity building.

What role can and should the PRC and PRA play in promoting the transition to net zero carbon emissions?

My sense is that the main channel through which the PRC and PRA can, given the PRA's role and powers, promote the transition to net zero carbon emissions is to ensure the soundness and safety of regulated institutions so that they can allocate capital efficiently to assets and business activities that support this transition (i.e. loans to innovative technologies), and thereby support the economy-wide transition. As part of this, regulated institutions need an evidenced understanding of transition risks and how they are mitigated, and this is supported by the PRA's activities in relation to the management of climate financial risks, as noted above.

More generally, the PRA's close engagement with and leadership of the international debate on climate change financial risks (including through its founding membership of the Network for Greening the Financial System as well as of the international standard setters such as the Basel Committee) places it in a strong position to diffuse innovation and best practice.

13. Apart from the issues highlighted above, would you highlight any other emerging or possible risks to the safety and soundness of firms in any of the sectors regulated by the PRA

The dynamic nature of credit risk – a core risk to bank safety and soundness – will always require attention. The very sophistication and maturity now associated with credit risk management, while a strength, raises the risks associated with mature systems, including of groupthink. Economic and fiscal developments, the geopolitical setting, supply chain shocks, the evolution of climate risk, changes to household preferences, and changes in the credit markets to which banks are exposed (including private credit markets), for example, can be expected to demand close and sustained attention to the management of core credit risk. Specifically, banks' capacity to see the overall risk picture, through risk data aggregation tools which manage and aggregate risk-related data, will becoming increasingly significant. Relatedly, the capacity of executive management and boards to maintain as clear as possible a picture of an increasingly intricate and dynamic risk landscape, and how it shapes their business lines and risk tolerances, can be expected to require PRA attention.

More generally, the global financial market might reasonably be regarded as skittish and accident prone given the current risk setting. The most recent global Financial Stability Report from the Financial Stability Board (November 2024) paints a picture of persistent and longstanding underlying vulnerabilities and of evolving newer risks from ongoing structural change, including as regards climate financial risks and cyber-attacks (Financial Stability Board, Promoting Global Financial Stability. 2024 FSB Annual Report). In such an environment, a sharp eye is needed on the potential for accidents which may lie around corners, and which have firm-specific but also cross-system effects.