



HM Treasury

Applying the Financial Services and Markets Act 2000 model of regulation to the UK Capital Requirements Regulation

Policy Update 2025

July 2025

Applying the Financial
Services and Markets Act
2000 model of regulation to
the UK Capital
Requirements Regulation
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Chapter 1

Introduction

1.1 In September 2024, HM Treasury published a policy statement¹ which set out its intention to apply the regulatory approach under the Financial Services and Markets Act 2000 (FSMA 2000) to implement the Basel 3.1 standards, as well as its plans to revoke the remaining parts of the UK Capital Requirements Regulation (CRR)². This approach is often referred to as the FSMA model. This document explains the steps HM Treasury will now be taking to further progress this work.

1.2 This approach involves revoking relevant parts of assimilated law on financial services so that the Prudential Regulation Authority (PRA) and the Bank of England can replace requirements in legislation with requirements set out in regulator rules, supervisory statements, and statements of policy. Assimilated law refers to EU legislation which was incorporated into UK law on the UK's withdrawal from the EU, together with the interpretations of it by the UK courts and any additions and modifications made to it by domestic law from time to time.

1.3 The FSMA model of regulation was established through the introduction of FSMA 2000. Central to the FSMA model approach is the setting of regulatory standards by expert, independent regulators that work within an overall policy framework set by government and Parliament. The model maximises the use of expertise in the policymaking process by allowing regulators with day-to-day experience of supervising financial services firms to bring that real-world experience into the design of regulatory standards. It also allows regulators to flex and update those standards efficiently to ensure that regulation responds to emerging developments and is tailored to the needs of the UK.

1.4 The Financial Services and Markets Act 2023 (FSMA 2023) revoked assimilated law on financial services so that areas of regulation covered by assimilated law can be made consistent with the UK's FSMA model approach. Revocation of parts of the UK CRR has already taken effect and, where appropriate, revoked provisions have been replaced with PRA rules. This document provides an update on HM Treasury's plans to commence the revocation of certain provisions of the UK CRR, as well as making the necessary restatements of the UK CRR in UK legislation where required by the FSMA model of regulation. It also

¹ [Applying the FSMA 2000 model of regulation to the Capital Requirements Regulation.pdf](#)

² Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

explains how the PRA will replace UK CRR provisions with regulator rules, supervisory statements, and statements of policy. This policy update covers HM Treasury's proposed approach in three areas:

- Basel 3.1 (Chapter 2)
- Overseas Recognition Regimes (Chapter 3)
- Definitions in the UK CRR which will be retained in legislation (Chapter 4)

1.5 HM Treasury has published two pieces of draft legislation alongside this policy update:

- Draft transitional regulations that will require institutions to apply specified PRA rules for the calculation of their market risk capital requirements until the end of the transitional period of 31 December 2027³
- Draft regulations that will restate relevant definitions in UK legislation⁴

1.6 HM Treasury is also making legislation to bring into force the revocation of parts of the UK CRR relating to definition of capital and total loss-absorbing capacity (TLAC) with effect from 1 January 2026.

1.7 The PRA has today published a consultation on its proposed implementation of Basel 3.1⁵. HM Treasury's proposals and draft legislation should be read alongside the PRA's consultation paper.

1.8 The PRA expects to consult on its proposals for incorporating appropriate definitions into its rulebook later in the summer.

1.9 For the purposes of this document, 'banks' will be defined as 'credit institutions' and 'designated investment firms'.

Responding to the consultation

1.10 HM Treasury welcomes views on the aspects of this document relating to Overseas Recognition Regimes and Key UK CRR Definitions, as outlined in Chapters 3 and 4, by 23:45 on 30 September 2025.

1.11 HM Treasury would also welcome comments on whether the provisions in the draft legislation published alongside this document will operate as intended to deliver the benefits associated with the FSMA model of regulation and to ensure a smooth transition for the UK's prudential regime to that model.

1.12 Comments on the draft legislation are requested as follows:

³[Applying the FSMA 2000 model of regulation to the Capital Requirements Regulation - GOV.UK](#)

⁴[Applying the FSMA 2000 model of regulation to the Capital Requirements Regulation - GOV.UK](#)

⁵www.bankofengland.co.uk/prudential-regulation/publication/2025/july/basel-3-1-adjustments-to-the-market-risk-framework-consultation-paper

- Basel 3.1 transitional Statutory Instrument: by 23:45 on 12 September 2025
- Key UK CRR Definitions Statutory Instrument: by 23:45 on 30 September 2025

1.13 The government cannot guarantee that responses received after the relevant deadlines will be considered.

1.14 This document is available electronically at www.gov.uk/treasury. You may make copies of this document without seeking permission. Printed copies of the document can be ordered on request from the address below.

1.15 Responses can be sent by email to Prudential.Consultation@hmtreasury.gov.uk. Alternatively, they can be posted to:

Prudential Banking Team
 HM Treasury
 Horse Guards Road
 London SW1A 2HQ

Next steps

1.16 HM Treasury will publish a draft of the UK's Overseas Prudential Requirements Regimes later in the year.

1.17 HM Treasury intends to lay the transitional regulations and make the appropriate revocations of the UK CRR in sufficient time for the PRA to ensure implementation of Basel 3.1 on 1 January 2027.

1.18 HM Treasury also intends to lay the legislation necessary for the PRA to complete the restatement of the remaining assimilated law by 1 January 2027, facilitating the PRA's implementation of the UK's Strong and Simple framework and Securitisation framework.

1.19 HM Treasury will also make any consequential amendments to the statute book that may be required once the UK CRR has been revoked. HM Treasury will make these amendments through a further SI and will provide updates on that legislation as appropriate.

Processing of personal data

1.20 This section sets out how we will use your personal data and explains your relevant rights under the UK General Data Protection Regulation (UK GDPR). For the purposes of the UK GDPR, HM Treasury is the data controller for any personal data you provide in response to this consultation.

Data subjects

1.21 The personal data we will collect relates to individuals responding to this consultation. These responses will come from a wide group of stakeholders with knowledge of a particular issue.

The personal data we collect

1.22 The personal data will be collected through email submissions and are likely to include respondents' names, email addresses, their job titles and opinions.

How we will use the personal data

1.23 This personal data will only be processed for the purpose of obtaining opinions about government policies, proposals, or an issue of public interest

1.24 Processing of this personal data is necessary to help us understand who has responded to this consultation and, in some cases, contact respondents to discuss their response.

1.25 HM Treasury will not include any personal data when publishing its response to this consultation

Lawful basis for processing the personal data

1.26 Article 6(1)(e) of the UK GDPR; the processing is necessary for the performance of a task we are carrying out in the public interest. This task is consulting on the development of departmental policies or proposals to help us to develop effective government policies.

Who will have access to the personal data

1.27 The personal data will only be made available to those with a legitimate business need to see it as part of consultation process

1.28 We sometimes conduct consultations in partnership with other agencies and government departments and, when we do this, it will be apparent from the consultation itself. For these joint consultations, personal data received in responses will be shared with these partner organisations in order for them to also understand who responded to the consultation.

1.29 As the personal data is stored on our IT infrastructure, it will be accessible to our IT service providers. They will only process this personal data for our purposes and in fulfilment with the contractual obligations they have with us.

How long we hold the personal data for

1.30 We will retain the personal data until work on the consultation is complete and no longer needed.

Your data protection rights

1.31 Relevant rights, in relation to this activity are to:

- Request information about how we process your personal data and request a copy of it
- Object to the processing of your personal data
- Request that any inaccuracies in your personal data are rectified without delay
- Request that your personal data are erased if there is no longer a justification for them to be processed
- Complain to the Information Commissioner's Office if you are unhappy with the way in which we have processed your personal data

How to submit a data subject access request (DSAR)

1.32 To request access to your personal data that HM Treasury holds, please email: dsar@hmtreasury.gov.uk

Complaints

1.33 If you have concerns about Treasury's use of your personal data, please contact our Data Protection Officer (DPO) in the first instance at: privacy@hmtreasury.gov.uk

1.34 If we are unable to address your concerns to your satisfaction, you can make a complaint to the Information Commissioner at casework@ico.org.uk or via this website: <https://ico.org.uk/make-a-complaint>.

Chapter 2

Basel 3.1

2.1 In January 2025, the PRA, in consultation with HM Treasury, decided to delay the UK's implementation of Basel 3.1 by one year until 1 January 2027. This decision was taken in light of uncertainty in some other jurisdictions, in an effort to facilitate alignment across jurisdictions, and to provide firms with the regulatory certainty they need. The UK remains committed to achieving full implementation by 1 January 2030.

2.2 International co-ordination is particularly important for market risk rules because of the global nature of the markets and the operational complexity of a disjointed implementation of the new requirements. The PRA publication of its near-final rules in December 2023, outlined its⁶ approach to implementing the Basel 3.1 standards, for these requirements.

2.3 The PRA has today published a consultation on a delay to the market risk modelling elements of the Basel 3.1 package, to provide certainty on the UK approach while other jurisdictions finalise their proposals.⁷

2.4 HM Treasury intends to facilitate the PRA's proposals by legislating for a transitional approach to firms' calculation of capital requirements for market risk under the internal models approach⁸.

2.5 The draft transitional regulations propose to insert a new Article 465A into the UK CRR, that delay the new market risk capital requirements under the internal model approach until 31 December 2027. The PRA has today published its consultation, which sets out the detailed firm facing requirements it is proposing in its rules.

2.6 HM Treasury also intends to update its draft commencement legislation to ensure that relevant permissions are saved to facilitate the implementation of the PRA's proposals.

⁶ <https://www.bankofengland.co.uk/prudential-regulation/publication/2023/december/implementation-of-the-basel-3-1-standards-near-final-policy-statement-part-1>

⁷ www.bankofengland.co.uk/prudential-regulation/publication/2025/july/basel-3-1-adjustments-to-the-market-risk-framework-consultation-paper

⁸ A revised internal models-approach (IMA). The new approach introduces a more rigorous model approval process that enables supervisors to remove internal modelling permission for individual trading desks, more consistent identification and capitalisation of material risk factors across banks, and constraints on the capital-reducing effects of hedging and diversification.

2.7 HM Treasury considers that this approach provides firms with the certainty they need to plan for implementation from 1 January 2027, will safeguard UK financial stability, underpin stable UK economic growth and support the international competitiveness of the UK as a financial services centre. HM Treasury will be revoking the relevant firm facing requirements from the UK CRR which will be replaced by PRA rules which will be used to implement the Basel 3.1 requirements, in line with the UK's FSMA model of regulation. This remains in line with the draft commencement legislation published by HM Treasury in September 2024.⁹

⁹ [Revocation of CRR provisions to implement Basel 3.1 - draft commencement regulations.pdf](#)

Chapter 3

Overseas Recognition Regimes

3.1 FSMA 2023 revoked assimilated law relating to financial services, subject to commencement. This was so assimilated law could be brought in line with the UK's domestic model of regulation.

3.2 This included the assimilated law which provided for the EU's framework for financial services equivalence to apply in the UK, post EU exit. The inherited body of EU financial services legislation 'onshored' into UK law under the European Union (Withdrawal) Act 2018 (EUWA) includes more than 270 EU equivalence decisions and 40 EU equivalence regimes.

3.3 This means that the government has a programme of work to replace the existing equivalence regimes inherited from the EU with legislation which is tailored to the UK's needs, and which fully reflects the government's outcomes-focused approach to the unilateral regulatory recognition of overseas jurisdictions. These are called 'Overseas Recognition Regimes'.

Overall approach

3.4 HM Treasury will take a standardised approach to the development of Overseas Recognition Regimes, with the key features consistently structured across different regimes. You can find the full approach outlined in HM Treasury's guidance document [here](https://www.gov.uk/government/publications/overseas-recognition-regimes-guidance-document)¹⁰.

3.5 Each piece of legislation will set out:

- The **scope** of the Overseas Recognition Regime, which describes the type of financial services firm or activity covered by the regime;
- The **effect** of the Overseas Recognition Regime, which sets out the result of designating an overseas jurisdiction. That result may be to enable overseas firms to provide services directly into the UK, align requirements on UK authorised firms whether they are engaging with UK or overseas markets or counterparties, or provide regulatory relief by removing duplicative requirements;

¹⁰ <https://www.gov.uk/government/publications/overseas-recognition-regimes-guidance-document>

- **Policy outcomes** are the outcomes that HM Treasury considers the overseas jurisdiction's regulatory framework must be compatible with to be designated. The outcomes are expected to be aligned with the objectives of the UK's regulatory regime;
- The relevant aspects of the UK's regulatory framework which HM Treasury considers are important in helping it determine whether a designation would be compatible with the policy outcomes. These are referred to as the "**matters to consider**". These provide clarity to overseas jurisdictions and industry on the matters HM Treasury will seek to examine in any given assessment.

Overseas Prudential Requirements Regime

3.6 The UK CRR currently includes equivalence regimes which specify the approach that UK banks may adopt for certain activities or exposures in jurisdictions which have been deemed equivalent. These equivalence regimes are aligned with international standards. Consistent with the government's policy, HM Treasury will set out the approach to replace existing UK CRR equivalence regimes with the UK's Overseas Recognition Regimes for banks, specifically, the Overseas Prudential Requirements Regime.

3.7 HM Treasury intends to restate existing equivalence decisions made under these equivalence regimes so that jurisdictions currently deemed equivalent are treated as designated under the Overseas Prudential Requirements Regimes and the effect of the current decisions is preserved, except regarding exchanges.¹¹

3.8 HM Treasury also proposes to introduce sufficient flexibility through the Overseas Prudential Requirements Regimes to allow the recognition of further exposures or activities, as appropriate.

3.9 This approach would allow HM Treasury to ensure the UK regulatory framework keeps pace with market developments and help enhance the UK's position as a global financial centre while maintaining UK financial stability and reflecting the UK's commitment to strong regulatory standards, including those set by the international standard setting bodies. For example, HM Treasury could consider recognition if new classes of assets emerged or facilitating markets in particular overseas assets became particularly important to the UK's role as a global financial centre.

¹¹ These decisions will continue to have effect in UK law until and unless they are revoked.

Approach to designation of jurisdictions

3.10 HM Treasury will designate new jurisdictions under the Overseas Prudential Requirements Regimes only where a designation would be compatible with the three policy outcomes as set out below:

- Protecting the stability of the financial system operating in the United Kingdom
- The safety and soundness of UK institutions, and
- One or both of:
 - Promoting effective competition in the interests of consumers in financial services and markets; or
 - Facilitating the international competitiveness of the economy of the UK and its growth in the medium to long term.

3.11 HM Treasury may consider additional factors when making new designations, in line with the matters to consider. These are likely to include relevant jurisdictions' regulatory requirements for entities' authorisation, supervision, and sound and prudent management; alignment with international standards; and the handling of confidential information.

3.12 Where HM Treasury is considering a new designation, or new effect of designation, HM Treasury will request advice from the relevant regulator(s), other than in exceptional circumstances.

Potential changes to the treatment of specific exposures

3.13 HM Treasury is considering adapting the current treatment of exposures to exchanges and investment firms under the Overseas Prudential Requirements Regimes and considering whether covered bonds should be designated under the new Overseas Prudential Requirements Regimes.

Covered Bonds

3.14 Covered bonds are bonds subject to particular protections designed to protect bondholders. The UK currently provides preferential treatment to covered bonds which meet certain criteria, including that they are issued by a credit institution which has its registered office in the UK.¹²

3.15 HM Treasury is considering whether it remains appropriate to maintain this approach when the regulation and supervision of covered bonds in overseas jurisdiction may result in similar levels of investor protection. Facilitating a preferential treatment to overseas covered

¹² UK CRR Article 4 (128A)

bonds from jurisdictions with similar levels of protection could be compatible with HM Treasury's policy outcomes, including protecting financial stability and the safety and soundness of UK firms. Extending a preferential treatment could also improve the liquidity of the UK market for overseas covered bonds and enhance the UK's competitiveness as a financial services hub.

3.16 As such, HM Treasury is considering whether to use the new Overseas Prudential Requirements Regimes to designate appropriate overseas jurisdictions in relation to the prudential treatment of UK firms' exposure to overseas covered bonds, potentially incorporating both capital and liquidity requirements.

3.17 HM Treasury would ensure any designation under the Overseas Prudential Requirements Regime did not create cliff edges in treatment for overseas covered bonds issued prior to the designation.

3.18 HM Treasury invites firms to provide evidence on the effect of such a decision and which jurisdictions have the most material and liquid covered bond markets to inform development of its final policy.

Covered Bonds

1. Which jurisdictions do respondents consider to have the most material and liquid covered bond markets?
2. What are the activities in which UK banks engage that would be facilitated by recognition of covered bonds from appropriate overseas jurisdictions?

Exchanges

3.19 The current definition of 'exchanges' in the UK CRR covers a diverse group of firms, both in the UK and overseas. These firms can range from long-established entities, such as stock exchanges, to newer, less conventional platforms for trading assets. These firms may be subject to substantially different prudential requirements, depending on their jurisdiction.

3.20 Currently, UK banks can treat exposures to exchanges in equivalent overseas jurisdictions as exposures to UK institutions.¹³ These capital requirements are lower than for exposures to other firms which are not subject to the same level of prudential regulation as banks, such as corporates. The capital requirements for UK banks' exposures to overseas exchanges are also lower than for their exposures to UK exchanges.

¹³ In this context, exposures refer to loans to exchanges or holdings of debt issued by those exchanges.

3.21 HM Treasury considers that this approach may not reflect the risk of the underlying exposure or be compatible with the policy outcomes. Some exchanges which are in scope of the current preferential treatment may not be subject to prudential regulation, which may not be compatible with the safety and soundness of UK banks. Preferential capital requirements for such exposures may not be compatible with effective competition between UK exchanges and overseas exchanges.

3.22 As a result, HM Treasury proposes to amend the effect of designations under the regime. HM Treasury proposes that UK banks will be able to treat exposures to overseas exchanges as exposures to institutions, where this is permitted by the banking regulator in the designated overseas jurisdiction.¹⁴

3.23 HM Treasury considers that this would be more compatible with the policy outcomes of the regime. It would allow UK banks to continue to benefit from preferential treatment for their exposures to overseas exchanges where that is justified based on the prudential risk. It would also equalise the treatment of UK exchanges and overseas exchanges which are not subject to the same level of prudential regulation as banks.

Exchanges

3. Do respondents have any comments on HM Treasury's proposed treatment of overseas exchanges in recognised jurisdictions?

4. Do respondents have any comments on how this approach would compare to the prudential treatment of exposures to exchanges in other jurisdictions?

Investment Firms

3.24 The Investment Firms Prudential Regime (IFPR) was introduced to create a more tailored and proportionate approach to the regulation of investment firms, separate from broader banking regulations. HM Treasury made a series of amendments to the definitions in the UK CRR to reflect the introduction of the IFPR. This included to the definition of 'third-country investment firm'.

3.25 HM Treasury plans to replace the definition of 'third-country investment firm' with a new definition of 'overseas investment firm'.

3.26 Consistent with the general approach to Overseas Recognition Regimes, HM Treasury intends for the new definition of 'overseas investment firm' to maintain the scope and effect of equivalence decisions for UK banks' exposures to investment firms at the point of EU withdrawal. HM Treasury will also restate equivalence decisions

¹⁴ In practice, this would mean UK banks would be able to treat exposures to exchanges in designated overseas jurisdictions as exposures to institutions where the banking regulator in that overseas jurisdiction allows domestic banks to treat exposures to domestic exchanges as exposures to institutions.

taken in respect of UK banks' exposures to investment firms so the scope and effect is maintained.

3.27 HM Treasury is proposing to use the following definition:

- '*Overseas investment firm*' means an investment firm (as defined in section 424A of FSMA 2000 which:
 - i. It is not a credit institution,
 - ii. It has its registered office or, if it has no registered office, its head office outside the UK;
 - iii. It is authorised in an overseas jurisdiction designated under regulation 3(1) in relation to this regulation, and
 - iv. If it was established in the UK and carrying on regulated activities in the UK, it would require a Part 4A permission to carry on regulated activities which are "investment services and activities" (within the meaning of section 417 of the Act.

3.28 The new definition is intended to reflect the introduction of both the IFPR and of the Overseas Prudential Requirements Regimes.¹⁵

3.29 HM Treasury would welcome comments on its proposed definition of overseas investment firm.

Investment firms

5. Do respondents have any comments on HM Treasury's proposed definition of an overseas investment firm?

¹⁵ In developing this proposed definition for overseas investment firm, HM Treasury will consider both feedback on the definition itself and the overall effect of the regime to achieve this intention.

Chapter 4

Key UK CRR Definitions

4.1 Articles 4, 4a, 4b, and 5 of the UK CRR set out the definitions for key terms used in the UK CRR relating to the requirements which apply to credit institutions and designated investment firms.

4.2 In accordance with the FSMA model of regulation, HM Treasury plans to revoke all definitions contained in the UK CRR. The PRA will replace appropriate definitions with definitions in PRA rules, and HM Treasury will restate in legislation those definitions that are necessary for the effective operation of:

- The regulatory perimeter,
- Overseas recognition regimes, or
- Other legislation, such as the Banking Act.

4.3 HM Treasury is today publishing draft regulations that would give effect to key restatements by amending FSMA 2000 and other relevant legislation¹⁶.

4.4 HM Treasury is clarifying certain definitions as part of the restatement, in particular definitions of ‘investment firm’, ‘financial institution’, ‘participation’, ‘common management relationship’, ‘financial holding company’, ‘mixed financial holding company’, ‘UK parent institution’, ‘UK parent financial holding company’ and ‘UK parent mixed financial holding company’. HM Treasury’s proposals seek to improve the clarity of definitions and make them consistent with the approach adopted in UK law. But HM Treasury is not intending to alter the substance or effect of the definitions.

UK CRR Definitions

6. Do respondents have any comments on the proposed restatement of the definitions in the UK CRR?

7. Do respondents agree that the proposed restatement of ‘investment firm’, ‘financial institution’, ‘participation’, ‘common management relationship’, ‘financial holding company’, ‘mixed financial holding company’, ‘UK parent institution’, ‘UK parent financial holding company’ and ‘UK parent mixed financial holding

¹⁶ <https://www.gov.uk/government/publications/applying-the-fsma-2000-model-of-regulation-to-the-capital-requirements-regulation>

company' enhance the clarity of the definitions while maintaining their effect?

8. Do respondents agree that the proposed restatements enhance the clarity of the UK's regulatory framework?

HM Treasury contacts

This document can be downloaded from www.gov.uk

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