

The Rt Hon. the Lord Forsyth of Drumlean  
Chair, Financial Services Regulation Committee  
House of Lords  
London  
SW1A 0PW

**Sent via email**

Dear Lord Forsyth,

The International Regulatory Strategy Group (IRSG) is a joint venture between TheCityUK and the City of London Corporation. Its remit is to provide a cross-sectoral voice to shape the development of a globally coherent regulatory framework that will facilitate open and competitive cross-border financial services. It is comprised of practitioners from the UK-based financial and related professional services industry who provide policy expertise and thought leadership across a broad range of regulatory issues.

We are writing in response to your Committee's inquiry into the secondary international competitiveness and growth objectives given to the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) under the Financial Services and Markets Act 2023.

Given our focus on international regulation we would like to offer our insights and feedback on Q9 of the call for evidence: *Does the requirement within the secondary growth and competitiveness objectives to align with international standards create any constraints to fulfilling those objectives?*

We believe it is essential for the UK to align with international standards, as this alignment can support and enhance the UK's ability to fulfil those objectives. While adhering to international standards, the UK must avoid imposing additional or unnecessarily stringent requirements that could compromise its competitiveness. By adopting an approach based on the following components, the regulators can ensure the UK's regulatory environment remains internationally competitive and enhance the regulators' contribution to achieving the secondary objectives.

**We would like to highlight the following key points:**

- **Clarification of approaches to international standards**  
We encourage the FCA and PRA to continue to clarify and refine their approaches to international standards, ensuring these are in line with their secondary objectives of promoting growth and competitiveness. We note that the PRA has outlined its suggested approach in its *Approach to Policy* document (CP27/23) published in December 2023, however, at the time of writing, the FCA has not updated its webpage on international standards since July 2022. Clear and timely communication from both regulators enhances

transparency and provides greater confidence in their commitment to fostering a competitive and internationally aligned regulatory framework.

- **Balancing proactive regulation with global competitiveness**

The UK has often taken the lead in developing regulatory measures in areas where no global consensus exists, such as Diversity & Inclusion (D&I), the FCA's enforcement proposals, ringfencing and the Consumer Duty. While these measures reflect important domestic priorities, we believe the regulators should assess whether they will place UK firms at a competitive disadvantage in global markets. Additionally, while we appreciate the proactive stance UK regulators take in ensuring a robust financial system, we suggest that additional supervisory measures are proportionate to the risk and systematic importance of firms and that supervisory intensity does not create unintended burdens on firms which could hinder their, and by extension the UK's, competitive position in the global market. We welcome the intention behind PRA's prudential regime for Small Domestic Deposit Takers which aims to reduce the operational and supervisory burden of firms.

- **'Global risk, global solution'**

Where practicable, notwithstanding areas where there is a need for a more tailored UK approach, we recommend that UK regulators embrace the principle of 'global risk, global solution,' – which involves addressing risks that have international implications through coordinated and consistent global approaches - to ensure international consistency. We are encouraged that UK regulators are already prioritising international engagement and support the continuation of this work to exercise leadership by influencing key global issues.

- **Encouraging greater interoperability of standards across jurisdictions**

We recommend that the regulators collaborate to ensure maximum alignment between regulatory frameworks in different jurisdictions. Cases in point are Environmental, Social, and Governance (ESG), digital/ technology innovations and operational resilience, where global interoperability - the ability of standards and frameworks across jurisdictions to work seamlessly together can provide significant benefits. A key example is the alignment between the International Sustainability Standards Board (ISSB) and the European Sustainability Reporting Standards (ESRS). Efforts to support interoperability between these standards are underway and require ongoing commitment and collaboration. Achieving interoperability ensures that firms operating across borders can adopt consistent practices, avoid/reduce duplicative or conflicting obligations and comply with local regulatory requirements more efficiently.

- **Interpretation of international standards as 'minimum standards'**

We agree with the PRA's view that international standards support a globally resilient financial system and enable firms to compete on a level playing field. However, where regulators propose going beyond international minimum standards, it is particularly important that this is assessed by a robust cost benefit analysis. In this regard, we welcome the recent realignment with the Basel standards of certain provisions in the PRA's Basel 3.1 near-final rules (PS9/24).

- **Tailoring international standards to meet UK needs**

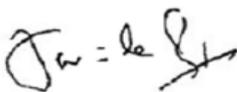
We believe that UK regulators can tailor international standards to meet UK needs when global frameworks include built-in options or national discretions, and the chosen option does not create significant competitive disadvantages evaluated through a cost benefit analysis. Where there is no international consensus on either the creation or the timing of international standards, UK regulators should use their influence internationally to trigger a reconsideration of the approach and ensure the UK is not put at a competitive disadvantage. There may be exceptional circumstances where the UK should not adopt international standards, but this should be treated carefully in recognition that globally consistent standards are the preferred approach.

- **Regulatory divergence between the UK and key competitor jurisdictions**

It is vital that, alongside international standards, regulators also consider how the UK's rules compare with those of key competitor jurisdictions, such as the EU. A notable example of regulatory divergence is the FCA's prudential regime for asset managers—the Investment Firms Prudential Regime (IFPR), which is largely similar to the EU's Investment Firms Regime (IFR) but diverges in its application. While the EU adopts a more uniform “rules-based” approach, the FCA uniquely applies “judgment-based” capital requirements on firms. For example, a global asset manager that manages less than 10% of its global assets in the UK may still be required to hold 70% of its global regulatory capital in the UK due to more onerous FCA rules. This divergence could place UK-based firms at a competitive disadvantage in the global marketplace. Although not directly related to international standards, this disparity highlights the importance of carefully assessing the competitiveness impact of regulatory approaches, even within broadly equivalent frameworks.

The IRSG encourages the regulators to adopt a strategy that ensures the UK aligns with international standards while advancing the UK's objectives of growth and competitiveness. The IRSG stands ready to offer financial and professional services industry insight into key strategic issues, including how to shape the UK and international regulatory environments to ensure our industry can best support the achievement of the government's growth mission.

Yours sincerely,



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IRSG Council Chair