



Response to HMT's Applying FSMA 2000 model of regulation to the UK CRR – Overseas Recognition Regime

30 September 2025

Introduction

1. UK Finance¹ and AFME² are pleased to respond to the HMT's consultation '[Applying the FSMA³ 2000 model of regulation to the UK CRR⁴](#)' – Overseas recognition regime (Chapter 3) (the **HMT CP**). Comments are also provided on the related draft statutory instrument '[The Financial Services \(Overseas Recognition Regime Designations\) Regulations 2025](#)' (the **Draft SI**).
2. We have been supported by A&O Shearman⁵ on this response, especially given the significant legal considerations.

Key messages

3. Regarding HMT's policy approach under the ORR:
 - a. We welcome the UK's new policy approach to designation decisions and the proposed continuity in generally adopting the existing CRR equivalence decisions under the ORR.
 - b. We would encourage HMT to adopt a pragmatic approach when determining which local requirements are relevant to assess for equivalence (e.g. it is considered unlikely that regimes on confidentiality are likely to be relevant in practice, although this is identified as a potential factor by HMT).
 - c. We strongly suggest that HMT establishes a formal structure for industry engagement in respect of potential designation decisions.
 - d. We also strongly suggest that a policy framework is adopted in respect of the withdrawal of designation decisions to ensure that unnecessary regulatory cliff-edges are avoided. Further, the risk-weighting of positions established while a designation decision was in effect should be capable of being retained for the life of those positions.
 - e. The legal route through which designation decisions take effect should be clarified, either by making appropriate amendments to UK CRR's

¹**UK Finance** is the collective voice for the banking and finance industry. Representing over 300 firms, we're a centre of trust, expertise and collaboration at the heart of financial services, championing a thriving sector and building a better society.

²**The Association for Financial Markets in Europe (AFME)** is the voice of the leading banks in Europe's financial markets. Our purpose is to advocate for deep and competitive, integrated capital markets globally, which support companies and investors, facilitating economic growth.

³ **FSMA**: Financial Services and Markets Act

⁴ **CRR**: UK Capital Requirements Regulation

⁵ **A&O Shearman** is an international legal practice with nearly 4,000 lawyers, including some 800 partners, working in 28 countries worldwide. Providing a truly global offering with unmatched reach and depth, tailor-made for complex, cross-border work, their team is created to achieve unparalleled outcomes for complex, multijurisdictional matters across an ever-changing world and regulatory landscape.

references to “equivalence” or via the terms of designation decisions themselves.

4. Regarding the approach to specific types of exposures under the ORR:

- a. We recommend that HMT puts in place a general criteria-based framework for designation of overseas covered bonds focusing on there being: (i) legislative safeguards (i.e. issuance under the dedicated national legislation, subject to public supervision); and (ii) security features intrinsic to the covered bond product (i.e. credit institution issuer, dual recourse, asset coverage test). This approach would avoid more cumbersome and time-consuming assessment of individual requirements in each of the overseas covered bond legislative framework.
- b. Regarding overseas covered bonds, we also want to stress that it will be important to holistically review all relevant regulatory frameworks in the UK that contain references to covered bonds (going beyond prudential regulation of banks), to ensure that prudential and non-prudential treatment of overseas covered bonds designated under the OPRR is fully addressed.
- c. We request that HMT publish a list noting the jurisdictions where loss of the current equivalence assessment for exchanges would result in a change in risk-weighting (or at least a list of those jurisdictions where the local banking regulator does not consider exposures to an exchange to be equivalent to an exposure to a credit institution) so that the impact of this proposal can be fully assessed.
- d. We suggest that the proposed definition of an “overseas investment firm” be reviewed for clarity and that the instrument and location into which this new definition will be inserted are confirmed.
- e. We request that Article 391 UK CRR is replaced with a statement that an HMT designation decision made in respect of credit risk under Article 107(4) UK CRR applies equally for the purposes of UK CRR’s large exposures regime.
- f. To address competitive distortions created by the current equivalence framework in respect of exposures to public-sector entities (**PSEs**), we request that HMT amends Articles 116(4) and 116(5) of UK CRR such that UK firms are permitted to treat exposures to PSEs as having the same risk as exposures to central governments, local governments and regional governments where the local regulator in that PSE’s jurisdiction has permitted this within their own jurisdiction.

Comments: approach to designation of jurisdictions

Overview

5. The UK is a major international financial centre and the world's largest net exporter of financial services, with a trade surplus of over £68 billion in 2023. Around 40% of global foreign exchange trading, 60% of interest rate derivatives trading and a major share of cross-border banking activity are conducted through the UK. This activity is enabled by global networks that depend on the UK remaining an open and outward-looking jurisdiction.
6. Not only are the UK's new Overseas Recognition Regimes (**ORRs**) central to this objective and strengthening the UK's role as a globally connected financial centre, they also provide both flexibility and the prospect of faster, outcomes-based decision-making. Additionally, the new ORRs could be a powerful tool for HMT and the regulators in balancing resilience with competitiveness and growth. We welcome the transition from the existing equivalence regimes inherited from the EU to a UK framework with an outcomes-based approach. This model, if applied consistently, offers a mechanism to maintain robust standards and support the UK's competitiveness.
7. We also welcome the proposed continuity in adopting the existing CRR equivalence decisions under the ORR (noting that exchanges are excluded from this – please see our comments below in this regard).
8. While the HMT CP on the ORR is an important technical step, it should not be considered in isolation. The UK's prudential framework must be consistent with recognition principles elsewhere to ensure the UK's competitiveness. We would like to see increased industry engagement on the ORRs more broadly and individual implementation of each regime, so industry has an opportunity to feed into the process. Further clarification would be welcome in the following areas:

Designation decision process

9. We welcome HMT's proposed policy approach to designations, which we consider provides clarity to industry on the factors that are relevant in making a designation decision and provides HMT with an appropriate degree of flexibility to make designations on a case-by-case basis.
10. In applying the new policy approach to making designation decisions, we encourage HMT to adopt a pragmatic approach when determining which local requirements are relevant to assess for equivalence. For example, paragraph 3.11 of the HMT CP suggests that a jurisdiction's regime for the handling of confidential information may form part of the matters considered by HMT – it is unclear why this would be relevant in the context of a designation decision relating to the risk-weighting of exposures under UK CRR, which relates solely to credit risk matters.

11. Further, it may be relevant to consider matters beyond simply the local regulatory framework and HMT should retain the ability to do so where appropriate.
12. We also welcome the proposal set out in the Draft SI for engagement between HMT and the regulators when HMT is considering potential designation decisions. However, there is currently no clear or publicly communicated approach for structured industry engagement in respect of potential designation decisions. We believe that:
 - a. A formal route for industry to request a designation of a particular jurisdiction should be made available.
 - b. Industry consultation should be a formalised part of the designation assessment process.
 - c. Industry feedback should be invited on an ongoing basis to allow feedback on effective functioning of the regime.
 - d. Industry consultation should be coordinated across HMT and regulators to ensure there is no duplication.
 - e. HMT should provide increased transparency regarding the decision-making process for each recognition case, as well as providing increased transparency regarding the case's progress and developments.
 - f. HMT should provide regular updates to industry parties involved on progress to be incorporated into the new approach on decisions that involve negotiation with other authorities. This is particularly important given the client services provided by UK firms can be affected by a lack of information on developments and clients may not be familiar with the UK regulatory approach in financial services.
13. The ORRs will operate a range of recognition determinations, including some inherited EU equivalence determinations. Wherever possible, approaches across the ORR regime need to be aligned, follow the same process – including on industry engagement – and be based on the same principles. This will reduce complexity for firms operating under multiple recognition determinations.
14. Similarly, the decision-makers and technical specialists involved in the ORR process should operate in a coordinated and aligned manner with regard to the new regime's approach. This will ensure the final execution of the ORRs will be aligned to the initial intent set out by HMT, thereby increasing predictability for firms when the ORRs are used in practice.

Withdrawal of a designation decision

15. HMT has emphasised that a withdrawal of any designation decision will be a last resort, which is welcome. However, neither the HMT CP nor the Draft SI specify a minimum notice period for withdrawal, nor any appeal mechanism.
16. In the absence of transition arrangements or a minimum notice period, firms could face a sudden loss of access, creating regulatory cliff-edges. Whilst there may be instances when HMT needs to withdraw a designation decision at short notice, this should be avoided in all but the most exceptional cases (e.g. significant risks to UK financial stability or the protection of consumers). Therefore:
 - a. HMT's process for determining whether to withdraw a designation decision should be preceded by formal (or informal) industry consultation unless exceptional circumstances exist.
 - b. Any potential withdrawal of a designation decision should be communicated clearly in advance to enable orderly systems updates to be made (we would suggest a period of at least one year).
 - c. Withdrawal decisions should be supported by a clear published rationale in order to maintain the clarity of HMT's policy approach.
17. Further, a presumption in favour of grandfathering should be established following the withdrawal of a designation decision.
 - a. This would operate to permit the position prior to the withdrawal to continue for the lifetime of positions entered into while the decision remained in effect. This is necessary because institutions price positions based on the risk-weighting regime in effect at the relevant time. It is not possible in all cases to adjust this pricing for a change such as the loss of a designation decision – the result would be that the institution suffers an increased prudential cost without the right to adjust the price accordingly.
 - b. We understand that grandfathering may not be appropriate in certain cases, such as where a designation decision needs to be withdrawn due to concerns relating to financial stability in the UK. Accordingly, this permission could be qualified to the extent required to address such needs.
 - c. Finally, grandfathering should be permitted but not required, and this permission should operate at position level (rather than at the firm level). This is because operating different risk-weightings for particular types of positions can be challenging. For example, whilst this is typically possible for loans, it is often harder for derivatives where multiple positions are risk-weighted within a single netting set.

18. We would request HMT provides a further Policy Update reflecting both of these points or, if needed, makes any necessary amendments to the Draft SI.

Legal effect of a designation decision

19. Finally, the legal route through which designation decisions take effect should be clarified. This could be achieved by (1) amending UK CRR in relevant locations⁶ to refer to designation decisions under the ORR instead of its current references to equivalence decisions; or (2) ensuring that published designation decisions state that they provide a finding of equivalence by HMT and identify the relevant provision(s) of UK CRR for that purpose.

Responses to questions – Covered Bonds

20. UK Finance and AFME members support the development of the OPRR that facilitates the designation of overseas covered bonds for preferential capital and liquidity/LCR treatment in the UK and welcome the HMT comments that it would ensure that any such designation does not create cliff edges in treatment for overseas covered bonds issued prior to that designation.
21. Set out below are responses to the two specific questions of the updated policy paper. Also included in this response are some additional comments relating to the treatment of overseas covered bonds that the UK Finance and AFME members would like to bring to the attention of HMT. We **want to stress** in this regard **that it will be important to holistically review all relevant regulatory frameworks in the UK that contain references to covered bonds (going beyond prudential regulation of banks), to ensure that prudential and non-prudential treatment of overseas covered bonds designated under the OPRR is fully addressed.**

Question 1: Which jurisdictions do respondents consider to have the most material and liquid covered bond markets?

22. The covered bond market is a critical funding avenue for both UK PRA-regulated firms and international banks. For many UK institutions it offers the “cheapest to deliver” wholesale funding avenue and is relatively counter cyclical in the sense that the market often remains active even during periods of acute market stress. The covered bond market is becoming increasingly global as legislative principles underpinning covered bond issuances in different countries become more standardised, as markets are increasingly interconnected across currencies, which leads to buyers sourcing covered bond investments beyond their borders and home markets. Since the inception of the LCR in 2015, there has been a long-

⁶ For example, Articles 107(4), 114(7), 115(4), 116(5) and 391 UK CRR.

standing practice to include in UK banks' HQLA third country covered bonds that meet applicable eligibility requirements.

23. Therefore, as a general point, from the perspective of UK banks as investors in covered bonds outside the UK, we recommend that the **OPRR should cover a wide range of jurisdictions with regulated covered bond frameworks subject to public supervision**. The UK recognition of overseas covered bonds will be a big step in the right direction that will drive materiality and liquidity of such markets, promoting cross-border covered bond investment globally and could foster reciprocity from the overseas lawmakers and supervisors (for example, it will help greatly in the context of the ongoing EU work on third country covered bond equivalence, see also further comment on this in the second question below) thus enhancing the UK's competitiveness and supporting the UK Governments' growth agenda. In addition, the UK recognition of overseas covered bonds under the OPRR could have a positive effect on the UK as a global location for trading and holding covered bonds. If firms were incentivised to increase their corporate treasury and reserve manager activity in UK debt markets, as a result of the UK's openness to a larger HQLA investable fixed income universe than in other jurisdictions, then this would contribute positively to the UK competitiveness as well as supporting the liquidity of UK markets.
24. The covered bond markets that UK banks source HQLA from is notable for its high credit ratings: year-to-date, every single publicly issued legislative covered bond denominated in sterling, dollar or euro (representing EUR140bn+ equivalent in aggregate) was CQS 1. This reflects the high credit quality of the issuers, the underlying cover pool and the legislative frameworks that govern the programmes.
25. The European Covered Bond Council (**ECBC**)⁷ collects annually comprehensive statistics on the global covered bond market, which are made available on the ECBC public website.⁸ As at the end of 2024, the global covered bond market had approximately EUR3.3trn equivalent of securities outstanding. While most of this paper was denominated in euros, over EUR1trn of this amount was denominated in other currencies in which UK institutions participate as issuers and investors, including: sterling, US dollar, Swiss franc and Australian dollar. UK bank investors currently include participation in transactions from a wide range of issuers including those located in the EEA, Canada, Australia, New Zealand, Singapore and there are developed covered bond frameworks in other overseas jurisdictions (for

⁷ The ECBC has over 120 members across more than 30 active covered bond jurisdictions globally and many different market segments. ECBC members represent over 95% of covered bonds outstanding.

⁸ See, for example, the Statistics chapter in the annually updated ECBC Fact Book & Statistics at: <https://hypo.org/ecbc/publications/fact-book/>.

example, South Korea and Switzerland) while other countries are in the process of introducing the new covered bond legislation.

26. Covered bond markets are becoming increasingly global with growing participation of foreign investors helping to support the liquidity of local markets. Since 2024, 15% of orders for sterling covered bonds (of all national origins) have come from outside the UK (with investors from Canada, Australia, Germany and Asia being among most active). This number is 12% when looking at UK-issued covered bonds only.⁹ In the EUR market, approximately 8% of orders in 2025 were from UK investors, and just over 15% came from investors outside of the EEA.¹⁰ In the USD covered bond market, investor participation sees approximately 49% from Europe (including the UK), 29% from the American investors and the balance from Asia Pacific.¹¹
27. Positive regulatory treatment for overseas covered bonds will give the opportunity for UK CRR firms to source HQLA across multiple jurisdictions and multiple currencies leading to diversification away from UK mortgages, and the ability to hold liquid assets that are potentially less correlated to the sterling market. To the extent that overseas jurisdictions give positive recognition to UK covered bonds, it will increase UK issuers' ability to source liquidity abroad while also supporting the depth of demand for sterling paper.
28. Therefore, as recommended above, when an overseas jurisdiction is being assessed for the purposes of its designation under the OPRR, it should always encompass an assessment of the existence of a regulated covered bond regime in that overseas jurisdiction. In this regard, we draw your attention to some tools developed by the industry that could speed up and help with such assessment.
29. Please note that the ECBC maintains (and annually updates) the **ECBC Covered Bond Comparative Database**¹² which is a tool that enables to explore the details of national covered bond framework in 32 countries (including the UK) and it has a built-in country comparison feature so that the UK framework can be compared

⁹ BMO Capital Markets, Bloomberg, based on orderbooks of 19 floating-rate transactions up until 4 September 2025. Average weighted by deal size. *Note that in the figure provided there may be occasional grouping of Irish and UK investors, and inclusion of some EEA investors in 'other' category.*

¹⁰ Credit Agricole Corporate and Investment Banking, Bloomberg, based on 119 transactions as of 4 September. Average weighted by deal size. *Note that in the figure provided there may be occasional grouping of Irish and UK investors, and inclusion of some EEA investors in 'other' category.*

¹¹ BMO Capital Markets, Bloomberg, based on orderbooks statistics from 5 transactions as of 4 September. Average weighted by deal size. *Note that in the figure provided there may be occasional grouping of Irish and UK investors, and inclusion of some EEA investors in 'other' category.*

¹² See: <https://compare.coveredbondlabel.com/frameworks>.

against other countries.¹³ We note in this regard that a number of countries in the EEA as well as outside the EEA adopted the UK covered bond model when introducing their national legislation.¹⁴ We further note that the Regulated Covered Bond Council (**RCBC**)¹⁵ has carried out comprehensive analysis of the EU Covered Bond Directive (**EU CBD**) that harmonises requirements across the EEA against the UK Regulated Covered Bond (**UK RCB**) regime and concluded that there are no material differences between the EU and the UK regimes.

30. Furthermore, on this ECBC database it is also possible to find the full list of covered bond issuers worldwide, including those UK and non-UK issuers that voluntarily adopted the **Covered Bond Label**.¹⁶ The latter was created in 2012 by the ECBC and developed by the European issuer community, working in close cooperation with investors and regulators and in consultation with other stakeholders. The Label is based on the Covered Bond Label Convention¹⁷ which defines core characteristics for a covered bond programme to qualify for the Label and which, among other things requires a dedicated national covered bond legislation and public supervision and a commitment to provide regular information to investors following the Harmonised Transparency Template (**HTT**).¹⁸ Whilst the availability of a Label is a helpful factor, we would caution against the recognition of overseas covered bonds being predicated on the voluntary adoption of this Label. However, we would **recommend that HMT puts in place a general criteria-based framework for designation of overseas covered bonds under the OPRR, which builds on the general principles and fundamental covered bond characteristics akin to the Covered Bond Label Convention. That is, the criteria-based framework in this context should focus on there being: (i) legislative safeguards (i.e. issuance under the dedicated national legislation, subject to public supervision); and (ii) security features intrinsic to the covered bond product (i.e. credit institution issuer, dual recourse, asset**

¹³ See: <https://compare.coveredbondlabel.com/compare/select/frameworks>.

¹⁴ Such countries include, for example, Italy, The Netherlands, Canada, Australia, New Zealand, Singapore.

¹⁵ The RCBC represents all UK covered bond issuers. The RCBC has always been a member of the ECBC and is actively involved in ECBC's advocacy and initiatives (including ECBC's publications and gathering of market data). The RCBC heads the ECBC ESG Task force and is a member of the ECBC Global Issues Working Group. The UK RCBC also attends the ECBC Steering Committee meetings.

¹⁶ See the list of issuers worldwide that adopted the Label: <https://www.coveredbondlabel.com/issuers/directory>. Note that the RCBC was involved in the development of the Covered Bond Label and attends the ECBC Covered Bond Label Committee meetings. To date, 13 UK covered bond issuers are using this Label on their covered bond programmes.

¹⁷ See: <https://www.coveredbondlabel.com/about/18/convention/>. Note that the Covered Bond Label Convention is reviewed and updated from time to time.

¹⁸ See: <https://www.coveredbondlabel.com/htt>.

coverage test). Such approach would avoid more cumbersome and time-consuming assessment of individual requirements in each of the overseas covered bond legislative framework.

31. We also acknowledge in this regard the recommendations of the European Banking Authority (**EBA**) to the European Commission on the third country covered bond equivalence set out in the EBA report (EBA/Rep/2025/24)¹⁹ published on 23 September 2025 (**EBA Report**). We would caution against the UK modelling its new regime on the EBA recommendations, some of which relating to the principles for the equivalence assessments are too granular and too prescriptive. Nevertheless, we also note that some of the EBA recommendations (in particular those relating to reciprocity) would need to be taken into consideration when developing the OPRR regime for designation of overseas covered bonds.
32. We also refer to the information shared by the members of UK Finance and AFME in the context of the earlier engagement in April-June 2025 with the HMT (and the PRA) following the publication (and subsequent withdrawal) by the PRA of a modification by consent process relating to the Level 2A High Quality Liquidity Asset (**HQLA**) treatment of certain non-UK covered bonds under Article 11(1)(d) of the LCR (CRR) Part of the PRA Rulebook.

Question 2: What are the activities in which UK banks engage that would be facilitated by recognition of covered bonds from appropriate overseas jurisdictions?

33. UK covered bond equivalence in the EU under the EU CBD

- a. UK bank covered bond issuers sell UK covered bonds outside the UK and would benefit from deeper, more diverse investor base and enhanced liquidity of the UK covered bond product in international (primary and secondary) capital markets. Designation of overseas covered bonds for preferential capital and liquidity treatment in the UK under the OPRR could achieve this as it would speed up the assessment of the UK's application for equivalence in the EU under the EU CBD regime, because such EU assessment (if the European Commission follows the recommendations of the EBA Report) will, among other things, be based on reciprocity and third country covered bond regime equivalence with some of the EU CBD requirements (and as we noted above, with regard to the latter there are no material differences between the EU CBD and the UK RCB regimes).

¹⁹ <https://www.eba.europa.eu/sites/default/files/2025-09/42a522ef-792a-4d00-90de-5d0d277673a7/EBA%20Advice%20on%20the%20review%20of%20the%20EU%20covered%20bond%20framework.pdf>

- b. On the reciprocity point, please also note our comments below on the Bank of England liquidity operations and its eligible collateral framework for covered bonds.

34. Preferential RWs for overseas covered bonds in the PRA capital rules

- a. Creating a level playing field in terms of preferential RWs for overseas covered bonds under the OPRR and UK “CRR covered bonds” (that meet certain eligibility criteria set out in Article 129) is in line with the Basel rules, which do not anticipate preferential regulatory capital treatment only for domestically issued covered bonds and it would free up regulatory capital thus increasing UK banks’ lending capacity, which will benefit the UK’s competitiveness. It is also in line with the recommendations of the EBA Report that EU-equivalent covered bonds are treated as domestic covered bonds for preferential RWs.²⁰ It would also strengthen diversification of covered bond investments, creating greater choice for improving investment returns and improving liquidity of the covered bond market thus further supporting eligibility of overseas covered bond as HQLA as further discussed in paragraph (c) below. Furthermore, this UK reform may serve as an impetus for establishing covered bond equivalence regimes benefiting UK covered bond issuers in other non-EEA third countries.
- b. Please also note that UK Finance will be making a separate response to the PRA CP19/25 (due by 30 October 2025) where we will also be raising specific comments on the need for a **definition of “overseas covered bonds”**²¹ and the need to provide for an adjusted application of Article 129 eligibility criteria for such overseas covered bonds and to otherwise comprehensively track through the preferential prudential treatment of such overseas covered bonds in the capital rules, liquidity/LCR rules and other relevant CRR and non-CRR provisions. For example, this should include review of the CRR provisions relating to Article 161(1)(d) provisions on

²⁰ See the EBA Recommendation 15 and Recommendation 18 and note that the EBA proposes to apply certain conditions which require (i) the provision of a list of by the national authority of the CRR-eligible covered bonds or (ii) a certified legal review of the contractual terms. We intend to discuss in due course with the PRA and the FCA teams what enhancements could be introduced to the RCB regime to facilitate Recommendation 18 if it is adopted by the European Commission.

²¹ By analogy with the UK securitisation framework which provides for a definition of “an overseas STS securitisation” under the permanent equivalence regime which is not yet introduced, we recommend to consider defining the “**overseas covered bond**” as to mean a “*covered bond of a description in relation to which a country or territory outside the United Kingdom is designated by regulations made under [refer to the relevant SI made under the applicable FSMA provisions relating to OPRR]*”. The PRA CRR rules definition of “covered bonds” will then also need to be amended to encompass “CRR covered bonds” and, where relevant “overseas covered bonds”.

LGD²² values for institutions using Foundation IRB Approach and provisions relating to eligible collateral for repo in Article 207(2) (Requirements for financial collateral under the Financial Collateral Simple Method, the Financial Collateral Comprehensive Method, the Foundation Collateral Method and the SFT VaR Method) and the review of the covered bond treatment in the Solvency II rules).

35. Non-UK covered bond eligibility for liquidity (incl. NSFR) treatment and as L2A HQLA in the PRA LCR rules (including possibility of extending overseas covered bond eligibility to L1 HQLA)

- a. As noted above (and as previously discussed with HMT and the PRA), UK banks already treat some of their investments in non-UK covered bonds as L2A HQLA, so the introduction of the OPRR with a positive regulatory treatment for overseas covered bonds will ensure that UK CRR firms can source HQLA in covered bond markets across multiple jurisdictions and multiple currencies leading to diversification away from UK mortgages, and the ability to hold liquid assets that are potentially less correlated to the sterling market. The LCR rules should be amended to clearly track through the eligibility of overseas covered bonds designated under the OPRR (we provide further comments on this in our response to the PRA CP19/25 as noted above). It will be a welcome development for the market to have clarity on eligible overseas covered bonds in this context and, as noted above, we also welcome the HMT comments in its policy update (and the PRA statement of 15 July 2025)²³ that any such designation should not create cliff edges in treatment for overseas covered bonds issued prior to that designation.
- b. The UK move to designate EEA legislative covered bonds as “overseas covered bonds” for capital as well as liquidity/LCR rules is likely to have positive impact on further EU work on the equivalence of third country covered bonds that takes into account reciprocity as mentioned above. Furthermore, and as already noted above, this UK reform will have a positive impact on the UK equivalence assessment, if the European Commission adopts the recommendations of the EBA Report (in which the EBA explicitly refers to eligibility for preferential risk treatment under the EU CRR, EU LCR and EU NSFR equivalence), and it may serve as an impetus for establishing covered bond equivalence regimes benefiting UK covered

²² Note that the EBA Report also discusses the relevance of the equivalence regime in the context of eligibility for preferential treatment in capital rules encompassing EU CRR Article 161.

²³ <https://www.bankofengland.co.uk/prudential-regulation/publication/2025/july/prs-statement-on-prudential-treatment-of-non-uk-covered-bonds-statement>

bond issuers in other non-EEA third countries. We also invite HMT and the PRA to open the eligibility of overseas covered bonds designated under the OPRR for Level 1 HQLA. This can further reinforce the UK's case for equivalence and influence the development of the EU equivalence regime, paving the way for reciprocal treatment of UK covered bonds in the EEA.

c. **As an aside, we also want to raise comments on the L2A HQLA requirements for third country covered bonds to have a certain minimum issue size and a minimum asset coverage level:**

- i. The minimum issue size post-Brexit changed in Article 11(1)(d)(vii) to £440m (from EUR500m). The conversion of EUR500m benchmark from the EU LCR into the £440m limit was arbitrary and calculated using the foreign exchange rate applicable at the time of the transfer of the “onshored” LCR Regulation into the PRA Rulebook at the start of 2022. As a result, this sterling benchmark was set at a level higher than what would have applied if a different post-Brexit foreign exchange rate was used for calculation. This leads to an odd outcome in practice whereby covered bonds that meet their domestic benchmark (eg EUR500m under the EU LCR regime (which is equivalent to £434m currently)) fail eligibility under the UK LCR rules because of the arbitrary £440m limit which has fluctuating foreign exchange calculations. We would therefore **recommend that: (i) the £440m issue limit is changed to £400m (or its equivalent in foreign currency) and used as a fallback where the domestic overseas covered bond framework does not otherwise prescribe a benchmark; and (ii) it is further clarified (in line with the EBA guidance that applied pre-Brexit)²⁴ that if covered bonds are issued in non-sterling currency, the exchange rates at the time of latest issuance are to be used for the calculation of the issue size.**
- ii. The L2A criteria also prescribe a minimum “*asset coverage requirement*”. This term is defined in the LCR rules with an acknowledgment of the relevant limit being determined either by the law applicable in the UK or third country. That is, the definition reads

²⁴ See EBA Q&A 2015_1976 of 18 March 2016: https://www.eba.europa.eu/single-rule-book-ga/qna/view/publicId/2015_1976.

as follows (emphasis added):²⁵ “*asset coverage requirement means the ratio of assets to liabilities as determined for credit enhancement purposes in relation to covered bonds by national law of the United Kingdom or a third country*”. This minimum asset coverage requirement in L2A differs for third country covered bonds depending on the issue size. For third country covered bonds with the issue size of £440m or higher, the minimum asset coverage requirement is 2%. However, where the £440m benchmark is not met, an asset coverage requirement of at least 7% applies instead. The latter raises issues in practice because the asset coverage requirement (also known as overcollateralisation) prescribed under third country frameworks is often lower than 7%. For example, an EEA covered bond issue that uses “European Covered Bond (Premium)” label that complies with the EU Covered Bond Directive and the EU CRR Article 129 eligibility criteria will be subject to a 5% asset coverage requirement (with optionality for Member States to set a lower level provided certain conditions are met and provided that in any case the minimum level of overcollateralization is not lower than 2%). Such premium-labelled EEA covered bond issued with a minimum issue size of EUR500m will currently fail the UK LCR £440m minimum issue size as noted in paragraph (A) above and, therefore, will attract the asset coverage requirement of at least 7%, which may not be met either because it is not a requirement under the applicable EEA framework. Therefore, L2A criterion in this regard is at odds with how “asset coverage requirement” is defined in the LCR rules as it fails to consider the applicability of the overcollateralisation requirements of the third country framework. Therefore, we **recommend that the L2A asset coverage requirement for overseas covered bonds designated under the OPRR is revised to better reflect different overcollateralisation requirements that exist in domestic frameworks**, and we would welcome further engagement on this issue with the PRA.

36. Considerations for UK subsidiaries and branches of the US-headquartered global systemically important banks (G-SIBs)

US-headquartered G-SIBs face strict expectations under the Federal Reserve Regulations H and K that limit UK subsidiaries’ and branches’ portfolio exposures

²⁵ <https://www.prarulebook.co.uk/prarules/liquidity-coverage-ratio-crr/16-09-2025#glossary-term-8a7412f4ba764e2793f07759714b5b66>

to any single form of credit. This means that UK entities within a banking group headquartered in the US are limited in their gilt (and other UK asset) holdings, regardless of the rules on HQLA classification. As such, access to overseas covered bonds issued in sophisticated and well-regulated jurisdictions such as those mentioned in this section are crucial for banks in meeting their HQLA requirements without breaching concentration risk limits and expectations. If such institutions were limited in their ability to trade and hold non-UK assets from their UK entities, it could inadvertently shift corporate treasury and reserve manager activity out of the UK into other jurisdictions in order to avoid breaching global limits.

37. Bank of England (BoE) liquidity operations and eligible collateral framework for non-UK covered bonds

- a. UK banks can use non-UK covered bonds (notably EEA covered bonds) in liquidity operations with the BoE as Level B or Level C collateral provided certain eligibility criteria are met. The jurisdictional requirements for Level B collateral are further limited to certain French and German covered bonds only and in all cases additional transparency requirements apply including loan-by-loan data (**LLD**) reporting using the BoE template. We appreciate that this topic is outside the scope or jurisdiction of the HMT policy paper, but wanted to note this as a general point as it is relevant to the activities of the UK banks involving investments in non-UK covered bonds, which could be facilitated by incorporating the concept of OPRR-designated overseas covered bonds as eligible collateral that is subject to better treatment (eg lower haircuts, uplift to Level B) in the BoE eligible collateral framework.
- b. We also note in this regard the BoE feedback statement of June 2025 on its discussion paper relating to transitioning to a repo-led operating framework²⁶ and its comments on the collateral eligibility processes, which acknowledge that the BoE is considering ways in which its due diligence processes can be refined and provided an example of STS-designated securitisations as the type of issuances that are typically quicker to review. By analogy, therefore, similar considerations should apply in the context of OPRR-designated overseas covered bonds. We also note the BoE's comments relating to the guiding principles behind its collateral framework, namely, that assets need to be held in sufficient quantities by a range of SMF participants in order to be eligible and that, in the event of default, the BoE must be confident in its ability to take ownership, value and risk-

²⁶ <https://www.bankofengland.co.uk/paper/2025/discussion-paper/transitioning-to-a-repo-led-operating-framework-discussion-paper-feedback-statement>

manage the assets effectively and efficiently as part of protecting the BoE's balance sheet and public funds. Given the dual recourse nature of the covered bond product, the growth of global, stable and liquid covered bond market (as noted in our earlier comments), there are many good arguments to further support the review of the BoE eligible collateral framework for better treatment of OPRR-designated overseas covered bonds.

- c. We also want to emphasise that better regulatory treatment of overseas covered bonds designated under the OPRR will also help to reinforce the UK's case for the purposes of the EU work on the third country covered bond equivalence. This is because the recommendations of the EBA Report make the maturity of the domestic (third country) covered bond market and the concept of reciprocity prerequisites for equivalence assessment. One of the criteria for assessing the market maturity is the eligibility and the utilisation of covered bonds for repo operations²⁷ and the concept of reciprocity seeks to ensure that EU-equivalent covered bonds are treated in third countries as domestic covered bonds. The EBA Report also observes that, while the ECB/Eurosystem already permits eligibility of legislative covered bonds from G10 countries (which includes the UK), introduction of equivalence assessment by the European Commission could affect the ECB/Eurosystem eligibility further. No further detail is provided at this stage, but it could mean in due course that UK covered bonds benefiting from EU equivalence could be subject to lower ECB haircuts, thus further increasing liquidity and attractiveness of the UK covered bond product.
- d. As a general point (and if reciprocity is considered as a factor by the BoE when assessing overseas covered bond-related changes in its collateral framework) we also note that UK covered bonds are eligible for repo with the Eurosystem, as well as Swiss National Bank and Reserve Bank of Australia (see section 2.3 "The repo treatment of covered bonds by central banks" of the ECBC Fact Book 2025 for further details).²⁸
- e. As an aside, we would also welcome a discussion with the BoE monetary policy team on the topic of eligible currency denominations (which are currently too restrictive and will not (without changes) accommodate the introduction of the OPRR-designated overseas covered bonds) and the BoE LLD reporting, which is not generally required under the national frameworks (nor is it required under the ECBC Label, which, as noted

²⁷ See Recommendation 16.

²⁸ <https://hypo.org/app/uploads/sites/3/2025/09/ECBC-Fact-Book-2025.pdf>

above, instead sets certain industry standard on reporting by requiring investor information using the HTT). If the BoE eligible collateral framework is amended to recognise and give better treatment to the OPRR-designated overseas covered bonds, there will be limited impact in practice if the BoE eligibility criteria on currency denominations and transparency does not consider the latest developed market practice on covered bond reporting.

- 38. Additional comment on the interplay of the OPRR with the UK securitisation framework for “overseas STS securitisation”:** We note that Regulation 13 of the Securitisation Regulations 2024 (as amended)²⁹ puts in place a high-level framework for developing a permanent regime on recognition of overseas simple, transparent and standardised (**STS**) securitisation. We note that the prime beneficiaries of such recognition in the future (and on a temporary basis for now under the temporary recognition regime) are EEA STS securitisations and that under the permanent regime (if/when introduced) potentially other third countries that implement the Basel simple transparent and comparable (STC) securitisation framework could also benefit. This overseas STS recognition is relevant from the perspective of better prudential treatment of securitisation under UK CRR capital and liquidity/LCR rules and Solvency II rules, as well from the perspective of non-prudential treatment under other regimes, such as UK EMIR that sets out certain exemptions for securitisations with STS status. We query the interplay of this overseas STS securitisation provision in the UK securitisation framework with the development of the OPRR and would welcome further clarity on the HMT plans.
- 39. Additional comment on interplay of UK EMIR, UK Solvency II and the OPRR/overseas covered bonds:** It will be also essential to holistically review other regulatory frameworks that refer to covered bonds to ensure that better treatment of relevant overseas covered bonds is fully tracked through. For example, this will be relevant to address in the context of prudential treatment of covered bonds by UK Solvency II firms. It is also relevant to consider for the purposes of non-prudential treatment of covered bonds under the UK EMIR provisions relating to covered bond exemption from clearing and a partial exemption from collateral posting (which exemptions, among other things, refer to compliance with UK CRR Article 129 requirements). We would therefore welcome further engagement with HMT and UK regulators on these points.

²⁹ <https://www.legislation.gov.uk/uksi/2024/102/regulation/13>

Responses to questions – Exchanges

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

40. We understand, HMT’s interest in deferring to local regulators when determining the risk-weighting approach for exposures to overseas exchanges.
41. However, the change in approach could affect the risk-weighting currently applied to exposures to exchanges established in Australia, Brazil, Canada, China, the EEA, India, Indonesia, Japan, Mexico, Saudi Arabia, Singapore, South Africa, South Korea, USA. Whether a change would in fact arise depends entirely on the approach adopted by the local banking regulator in each of these jurisdictions.
42. We request that HMT publish a list noting the jurisdictions where loss of the current equivalence assessment would result in a change in risk-weighting (or at least a list of those jurisdictions where the local banking regulator does not consider exposures to an exchange to be equivalent to an exposure to a credit institution) so that the impact of this proposal can be fully assessed.

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

43. No, because we do not have sufficient information to comment as HMT has not published any list or assessment of the type noted above.

Responses to questions – Investment firms

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

44. We welcome HMT’s proposed approach to the definition of an “overseas investment firm”. (However, please also see our proposals in respect of the CRR definitions regime regarding the definitions of various types of investment firm, which overlaps with this point).
45. We would suggest that part iii of this definition is revised as the reference to “regulation 3(1) in relation to this regulation” is currently unclear – identifying the instrument and location into which this new definition will be inserted may assist here. We would further suggest that references to “FSMA 2000” and “the Act” are aligned for the sake of consistency.

Further matters relating to the ORR under CRR

46. Beyond the matters noted above, we would raise two points relating to the new ORR.
47. Firstly, the Article 391 UK CRR currently provides for an equivalence regime to be established for the purposes of large exposures that is separate to the equivalence regime under Article 107(4) UK CRR for credit risk. This structure is a legacy of the way in which EU law provided for equivalence decisions. There is no policy-based reason why the equivalence regime for large exposures should depart from the equivalence regime for credit risk. We would suggest that Article 391 is replaced with a statement that an HMT designation decision made in respect of Article 107(4) UK CRR applies equally for the purposes of UK CRR's large exposures regime.
48. Further, the equivalence regime established by Articles 116(4) and 116(5) UK CRR needs to be updated to address the current distortion that has been established in maintaining pre-Brexit rules in a post-Brexit environment. In summary, UK banks should be permitted to risk-weight exposures to public sector entities as exposures to central governments, local governments and regional governments where the local regulator in that PSE's jurisdiction has permitted this within their own jurisdiction. This again aligns with the Basel Framework (see paragraph CRE 20.12) and again goes directly towards supporting the competitiveness and growth objective set out in section 1EB FSMA and the creation of a level playing field for UK banks.
 - a. Article 116(5) UK CRR currently provides that exposures to PSEs can be treated on a more favourable basis: for unrated PSEs, this is achieved by reference to the credit quality step to which the central government of the PSE's jurisdiction is assigned; for rated PSEs, this is aligned with the risk-weighting of rated institutions. This more favourable treatment is subject to both an equivalence decision by HMT (i.e. in future, a designation decision by HMT) and the treatment of PSEs in their local prudential regime.
 - b. In contrast, Article 116(4) UK CRR provides that exposures to PSEs may be treated as exposures to the central government, regional government or local authority of the UK where, in the PRA's opinion, there is no difference in risk between such exposures because of the existence of an appropriate guarantee by the central government, regional government or local authority.
 - c. The differences between these provisions create two key issues where a jurisdiction does not follow an approach that falls within scope of Article 116(5) but instead adopts an approach aligned with Article 116(4) UK CRR:

- i. The use of Article 116(5) requires two hurdles to be met: an equivalence decision must exist (which is the case in several jurisdictions) and the local regulator in the relevant jurisdictions must treat exposures to PSEs as described above for the purposes of Article 116(5). Where the latter of these requirements is not met, UK firms cannot apply the favourable treatment intended by Article 116(5). In such cases, any HMT designation decision under Article 116(5) UK CRR will have no effect on the risk-weighting of the positions, leaving UK firms to apply a risk weight of 100%.
 - ii. Compounding this, firms established in non-UK jurisdictions which adopt an approach aligned with Article 116(4) UK CRR benefit from that approach when risk-weighting their exposures to local PSEs. This can result in risk weights as low as 0%.
- d. The key example of such cases is the regime established under EU CRR. Article 116(4) EU CRR permits EEA firms to treat exposures to EEA PSEs as exposures to EU central governments, regional governments or local governments where in the opinion of the competent authorities of EEA jurisdictions there is no difference in risk between such exposures because of the existence of an appropriate guarantee by the central government, regional government or local authority. Although, like UK CRR, this treatment is expressed to apply only in “exceptional circumstances”, it is in practice the standard approach – the European Banking Authority (**EBA**) has published a list of over 200 EEA PSEs to which this treatment is applied by EEA competent authorities³⁰.
- e. The result of the UK’s regime is therefore that (1) the effect of HMT’s designation decisions is not within HMT’s control; and (2) in those jurisdictions, such as the EEA, where HMT’s designation decisions do not work, the local firms can be permitted to apply a lower risk weight than is available to UK firms. This establishes a very significant competitive disadvantage for UK firms as compared to those local firms and has direct impacts on investment decisions.

³⁰ This EBA list is available at: <https://www.eba.europa.eu/sites/default/files/2024-03/0ac84d0f-a885-47fd-b020-0d6a7e82a505/EBA%20List%20of%20PSE%20treated%20as%20exposures%20to%20RGLA%20or%20CG%20-%20Article%20116%284%29%20CRR.xlsx>.

The EBA’s page regarding this list is available at: <https://www.eba.europa.eu/activities/supervisory-convergence/supervisory-disclosure/rules-and-guidance>.

- f. Despite Article 116(5) UK CRR's reference to "guarantees", this competitive disadvantage cannot be remedied by use of UK CRR's credit risk mitigation regime under Chapter 4 of Title III. Taking again the EEA as an example, this is because the guarantees that are deemed sufficient for the purposes of EEA competent authority decisions under Article 116(4) are often not sufficient for the purposes of UK CRR's credit risk mitigation regime (and the same guarantees also would not be sufficient for the purposes of EU CRR's credit risk mitigation regime).
 - g. As a result, HMT should amend Articles 116(4) and 116(5) such that UK firms can treat exposures to PSEs as having the same risk as exposures to central governments, local governments and regional governments where the local regulator in that PSE's jurisdiction has permitted this within their own jurisdiction. This approach would eliminate competitive disadvantages for UK firms; has precedent in its alignment with HMT's approach to the risk-weighting of exchanges; and would be prudentially robust as it would incorporate the assessment of local regulators, who are best placed to determine the exposure risk posed by PSEs established in their jurisdictions.
49. Similarly, the capital treatment of government-sponsored entities should also be aligned with their capital treatment under local law applicable to local institutions.
- a. Primary examples of government-sponsored entities are the Federal National Mortgage Association (FNMA or "Fannie Mae") and the Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac.") in the US. Fannie Mae and Freddie Mac are U.S. government-sponsored enterprises that perform leading roles in the US housing finance system by providing liquidity, stability and affordability to the US mortgage market, including by way of securitisation. Their securities are generally assumed by the market to benefit from an implicit guarantee from the U.S. government. They are separately also currently under the conservatorship of the U.S government. Currently the US bank capital rules classify both entities in a separate 'government sponsored enterprise' category and assign them a risk-weight of 20%.
 - b. Despite this status, and their unique position in both US law and the US market, they are classified as corporate exposures under UK CRR as they do not qualify as 'public sector entities' due to being profit-generating and the absence of an unconditional or explicit guarantee from the US government. Under the standardised approach, and based on their current credit ratings, this assigns a risk-weight of 20%.

- c. Equally, various sovereign wealth funds also operate with explicit or implicit government support. Where this support is explicit, is often not in a form that is sufficient to meet the requirements for the credit risk mitigation regime but nonetheless changes the risk of exposures to the entity.
- d. We do not consider that classification as a corporate reflects the low-risk nature of exposures to these types of entities.
- e. In line with the changes proposed above to Article 116(4) and (5) UK CRR, HMT should further amend these provisions such that 'government-sponsored entities', being 'entities which would be public sector entities but for their commercial nature, where such entities benefit from a conditional or implicit guarantee of a central government, regional government or local government, are risk-weighted in line with local law applicable to institutions established in the entity's jurisdiction such that they can be treated as exposures to that central government, regional government or local government.
- f. Aligning with the treatment applied under equivalent local laws would address safety and soundness concerns for UK institutions by applying the relevant local regulator's experience and local expertise. It would also align the UK's regime with relevant overseas regimes and ensure the competitiveness of the UK's financial institutions in markets for exposures to government-sponsored entities.

Engagement

50. We would be pleased to facilitate any further discussion.

51. UK Finance and AFME are content with the HMT publishing this consultation response on its website.

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