PRIORITIES OF FOREIGN BANKS FOR THE REFORM OF FINANCIAL SERVICES SECTOR REGULATION

Foreign banks have a key role in delivering the economic growth ambitions of the Government. The following recommendations by the Association of Foreign Banks[1] (AFB) are designed to improve the UK as a location for international banks and to help them play a full part in delivering economic growth.

The Government can help foreign banks play their part in delivering economic growth by ensuring that the UK is a competitive destination for international firms, maintaining a proportionate and effective regulatory regime for firms already here, and fostering an environment that encourages innovation, investment, and the adoption of new technologies across the financial sector.

The Government has published the Financial Services and Markets Bill announced in the recent King's Speech (13 May 2026), it continues to advance a programme of policies, following the Financial Services and Markets Act 2023, seeking to ensure the regulators and regulation support growth and international competitiveness. This follows the introduction of the regulators' secondary international competitiveness and growth objective in 2023. AFB continues to monitor developments, and this paper sets out our recommendations on how to achieve this at a granular level for the financial services sector and for non-UK headquartered banks in particular.

There are two key areas of focus required, which can be summarised as follows.

1. **Make the UK more internationally competitive by:**

- setting out a broader, more ambitious **tax roadmap for financial services**, with a focus on simplification, consistency, and an internationally competitive tax system to support inward investment and attract capital
- committing to **remove the bank surcharge and bank levy** by a specific date
- continuing to play **a key role in the development of international standards**, pushing for proportionate implementation to ensure international banks are not subject to additional cost
- making **agreements with other financial centres** through memoranda of understanding, mutual recognition agreements and trade partnerships to reduce frictions to cross border banking
- working to **include financial services as part of the UK-EU reset** whilst maintaining an outcomes-based approach to regulation

[1] Note: AFB represents over 170 foreign banks operating in the UK. Foreign banks employ thousands of people across the country, invest in infrastructure, help UK firms to export, support businesses to grow and savers to invest.

- enabling **access to talent**, both within the UK and from overseas, and **allowing greater short-term business mobility**
- further developing and reforming the Senior Managers regime
- easing intra-company transfer requirements through amendments to the UK visa system

2. Make the UK regulatory regime more effective and proportionate by:

- **improving the proportionality of regulation** by ensuring the regulators better consider firm size, different business models or the risks within the sector, to reduce the costs of compliance
- **reducing reporting requirements** and freezing the introduction of further reporting obligations (such as Operational Incident Reporting), particularly where legacy templates add little supervisory value or duplicate existing data collections
- HM Treasury (with the support of industry) communicating to the regulators **clear parameters and benchmarks** to **recalibrate the risk-appetite of financial policymakers** and ensuring that it **designs policy to support growth** rather than seeking to eliminate all systemic and non-systemic risks in specific policy areas
- increasing oversight by **HM Treasury to challenge regulations and decisions** made by the regulators by **introducing a call-in power**
- continuing to ensure that all major prudential and conduct requirements go through **the independent Cost Benefit Analysis process**, making tangible amendments where costs are found to be unnecessarily high
- **preventing regulatory overreach** into areas beyond financial stability and market integrity
- **reforming 'know your customer' (KYC) checks** and anti-money laundering regulations to focus on the areas where firms can prevent harm, rather than a tick-box approach to compliance
- **ensuring that costs of fraud and financial crime are borne on a cross-industry basis** by, for example, moving to a split reimbursement model for scams which start online with respect to Authorised Push Payment (APP) Fraud
- continuing with a principles-based approach to regulation and new technologies, adopting a technology positive approach in areas such as AI

The following sets out the above priorities in more detail, providing commentary and context as to specific policy and regulatory recommendations.

1. MAKE THE UK MORE INTERNATIONALLY COMPETITIVE

The UK is one of the world's leading financial centres, home to over 170 foreign banks operating as subsidiaries or branches. The UK's financial and related professional services industry employs over 2.4 million people[2], contributes more than 12% of total UK tax receipts[3], and generates a trade surplus of over £70 billion[4].

The UK's position has not been created by accident but by design. Openness, a strong judicial system, the application of the rule of law, and London being a great place to live and work have all played a role. However, competition from other financial centres is increasing.

International banks have choices of where to invest capital, where to conduct business, and where to allocate resources and create jobs. These choices do not take place in a vacuum. The UK must maintain proportionate regulation and a business-friendly environment to remain internationally competitive.

A. Tax Environment

Tax is a key consideration for international firms when they decide where to locate or where to grow their businesses. AFB members understand the need for prudent management of the public finances and international banks make a considerable contribution to the tax take through business and employment taxes.

Stability and predictability are crucial for investment. Corporation tax, and bank taxes in particular, have been subject to significant levels of attention and change in the last decade and a half, and international banks welcome the Government's commitment not to increase corporation tax over this parliament.

Currently, the Total Tax Rate for a financial services firm in the UK in 2025 is 46.4%, significantly higher than other competing financial centres such as New York (27.9%) and Frankfurt (38.9%).[5] This highlights the impact of sector-specific taxes such as the bank surcharge, the bank levy, and irrecoverable VAT, as well as uncapped national insurance contributions.

The level of UK tax rates is an important factor for AFB members when deciding on the location of businesses and the hiring of personnel.

In the medium-term, the Government should commit to phasing out the bank surcharge and the bank levy so that banks are taxed in the same way as other corporates, and in line with other international financial centres. At the start of this parliament in 2024, the Government has stated that no additional windfall or sector-specific taxes will be introduced on banks during the Parliament. This avoids uncertainty and supports long-term investment planning by internationally active firms.

In summary, the Government should increase the competitiveness of the UK's tax system by:

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[2] 'Key facts about the UK as an international financial centre 2024,' TheCityUK, 2025, https://www.thecityuk.com/media/as4fus2y/key-facts-about-the-uk-as-an-international-financial-centre-2024.pdf

[3] 'The total tax contribution of UK-based financial and related professional services,' The City of London Corporation and TheCityUK, 2024, https://www.theglobalcity.uk/insights/col/total-tax

[4] 'Financial services in the UK,' House of Commons Library Research Briefings, 2024, https://researchbriefings.files.parliament.uk/documents/SN06193/SN06193.pdf

[5] 'UK Finance publishes 2025 banking sector tax report,' UK Finance, 2025, https://www.ukfinance.org.uk/news-and-insight/press-release/uk-finance-publishes-2025-banking-sector-tax-report

- setting out a broader, more ambitious tax roadmap for financial services, with a focus on simplification, consistency and an internationally competitive tax system to support inward investment
- committing to remove the bank surcharge and bank levy by a specific date

B. International Engagement and Standards

AFB members, by definition, operate in multiple jurisdictions and have parents/head offices based overseas. Deep, sector-specific market access agreements such as the Berne Financial Services Agreement could provide a template for the type of cooperation and enhancement to cross-border market access in financial services that will help maintain and enhance the UK's position internationally. Supplementing traditional equivalence assessments with outcomes-based systems of mutual recognition allows the greater use of deference where other regulatory regimes and supervisory objectives are comparable. This is underpinned by robust cooperation, information sharing, and supervisory tools, ensuring that risks can be effectively managed.

The majority of international banks operating in the UK are engaged in wholesale market activity, where international standards, harmonised rules and cross-border access are crucial to facilitating business. Divergence from international standards and other major markets needs to be carefully considered. The trade-off between market access and UK specific rules always needs to be considered by our regulators, especially for wholesale markets.

It is important that the UK adopts international standards and baselines and pursues alignment with these standards in a proportionate way, to ensure that financial services firms with a global footprint are not subject to additional cost.

An example of the importance of adopting baselines and standards to help ensure interoperable frameworks and taxonomies for banks operating in different jurisdictions is green and sustainable finance. The UK should continue to support global sustainability regulatory coherence through organisations like the International Sustainability Standards Board (ISSB) and the International Platform on Sustainable Finance.

For example, AFB supports the fact that the final standards of the UK's Sustainability Reporting Standards (published 25 February 2026) are aligned closely with the ISSB's IFRS 1 and 2.

Also, the PRA's decision to delay Basel 3.1 implementation to 1 January 2027, to align more closely with other major jurisdictions, was welcomed by AFB members as an example of proportionate, internationally aware policymaking.

On the UK's relationship with the EU, it is encouraging that both the EU and UK understand the benefits of structured regulatory cooperation. AFB supports the Government's efforts to seek closer cooperation with the EU as part of the UK-EU reset and believes that financial services should be a key part of these discussions, particularly in the context of financing increased defence and security spending, and sustainability projects and the transition to Net Zero.

The UK Government should use the reset of relations to start a dialogue on equivalence with the European Commission, which would mitigate obstacles to cross-border activities and benefit both jurisdictions by reducing barriers to growth. The UK should also seek to include a discussion on how to standardise the EU national regulators' approach to allow back branching[6], which would have a positive effect on financial markets and customers in both jurisdictions.

We support initiatives such as the Joint EU-UK Regulatory Forum to allow regulators and civil servants to discuss regulatory interoperability and alignment on relevant issues, such as the timing of settlement for securities trading and requirements on clearing houses.

The Government (and regulators) should consider mitigating the challenges faced by firms operating in the UK and EU, for example aligning the implementation deadlines of regulations with similar outcomes.

In summary, the Government should:

- continue to play a key role in the development of international standards, pushing for proportionate implementation to ensure international banks are not subject to additional cost
- make agreements with other financial centres through memoranda of understanding, mutual recognition agreements and trade partnerships, potentially using the Berne Financial Services Agreement as a template
- work to include financial services as part of the UK-EU reset

C. Skills and Talent

AFB members want to access the best talent to grow their businesses. The UK needs people with the right skills to support the energy transition and to take advantage of new technologies to grow the economy.

As a partner member of the Financial Services Skills Commission, we are committed to playing our part in helping the financial services sector to ensure that it has the talent and skills it needs for the future, to widen access and attract talent from all sections of UK society, and to promote inclusion and progression. We support the Government's aim to break down barriers to opportunities by expanding skills training to spread opportunities.

AFB members need access to a diverse and skilled workforce, from both within the UK and overseas. We support the introduction of a reciprocal youth mobility scheme with the EU and would argue for further such arrangements, where appropriate.

There are changes that can be made to the UK visa system to ensure that the UK economy has the workers it needs and to reskill UK employees. For example, the Government should allow overseas individuals to provide training, and facilitate short-term placements, such as graduate

[6] Back branching is a term referring to the legal concept of a third country branch of an EU bank or investment firm producing services in the EU based on the regulatory authorisations of its parent entity, as a branch is the same legal entity as its EU parent. The FCA applies this concept to the EU branches of UK-authorised firms, and it allows them to provide services to clients in the UK. Some EU national regulators permit back branching by non-EU branches of UK-authorised firms. Despite this, the supervisory expectations of the ECB are that third country branches of EU-authorised firms, particularly those based in the UK, do not provide services to EU clients.

schemes and sickness cover. Steps should also be taken to review the business mobility requirements. Any review should prioritise the reduction of costs and administrative requirements with respect to short term business mobility and intra-company transfers.

In summary, the Government should increase the UK's access to skills and talent by:

- enabling **greater short-term business mobility**
- **facilitating intra-company transfers** through amendments to the UK immigration system
- re-evaluating the salary threshold for the skilled worker and mobility routes so that early career roles (e.g. graduate schemes) are eligible for sponsorship
- expanding the **recognition of certain overseas professional qualifications**, for example, with respect to education that is equivalent to the Investment Advice Diploma
- allowing financial institutions to request that the FCA relax the qualification requirements under COBS when deploying overseas staff into UK senior/technical roles

2. MAKE THE UK REGULATORY REGIME MORE EFFECTIVE AND PROPORTIONATE

The ambition for the UK should be to be the best and most efficiently regulated international financial centre in the world. That requires well-resourced and responsive regulators, a stable and predictable regulatory framework, and HM Treasury to lead on reforms that will increase the proportionality and effectiveness of the regulatory regime for non-UK headquartered banks. It is critical that HM Treasury remains engaged and vigilant to ensure that regulators assess whether existing rules are required at all, and do not default to making minor changes where the short-term costs outweigh the benefits.

AFB supports reforms focused on creating a more efficient and competitive regulatory regime, particularly the introduction of the secondary international competitiveness and growth objective (SICGO) for the regulators. AFB supports the findings as published as part of the House of Lords inquiry into the SICGO report ('Growing pains: clarity and culture change required'[7]). AFB also supports the ongoing work being carried out by HM Treasury to assign clear metrics to the PRA and the FCA to support and monitor transparency on authorisations and integration of the SICGO into policy development. Further, AFB supports HM Treasury considering making competitiveness and growth a joint primary objective as a next step.

A. Regulatory Performance and Accountability

AFB members recognise the regulators' efforts to reduce SMF authorisation timelines in recent years and that there have been some improvements in performance. There have been advances in timeliness, however, some banks are concerned as they continue to experience delays with authorisations and challenges communicating with the regulators (in terms of both

[7] 'Growing pains: clarity and culture change required - An examination of the secondary international competitiveness and growth objective,' House of Lords Financial Services Regulation Committee, 2025, https://publications.parliament.uk/pa/ld5901/ldselect/ldfsrc/133/13302.htm

slow responses and gaps in the requisite knowledge amongst some staff). The regulators must be more transparent with how they report on the timescales involved in authorisations, including when they 'stop the clock', and the HM Treasury should review the statutory operating metrics to ensure they are in line with peer jurisdictions.

AFB supports robust and relevant metrics, and proper reporting and scrutiny on the regulators' performance against them, to help ensure the regulators are supporting the competitiveness and growth of the UK economy. Non-UK headquartered banks are uniquely placed to provide perspectives on the attractiveness of the UK and its international competitiveness.

It is our view that 'international competitiveness' is, by definition, a comparative measure. It is therefore vital for both HM Treasury and the regulators to have access to data, for example, indicators referenced in IMD's World Competitiveness Ranking report, and evidence to gauge that competitiveness.

AFB asks that HM Treasury reviews and revises the metrics against which the regulators report their performance. There should be a focus on greater granularity, transparency, and outcomes-based metrics to illustrate the impact of the regulators' actions on the real economy. Further, HM Treasury should research how the UK regulators' performance can be measured against international counterparts.

It is important that the Government holds the regulators to account on their secondary objectives. We were supportive of the comments made by Darren Jones MP, then Chief Secretary to the Treasury, in the context of the FCA's 'name and shame' plans on publicising enforcement investigations, that the Government must ensure the "regulators are geared towards driving investment and growth in the economy. That means the regulators, which rightly are independent and led by experts, have to operate in what is called a 'strategic steer' from Government about their policy outcomes"[8].

For this reason, we support the announcement in the Industrial Strategy to make the "regulatory system focused and proportionate, by strengthening central Government oversight of the regulatory reform agenda through the creation of a new unit in the Treasury"[9] through the introduction of a 'call-in power'. In parallel, HM Treasury should consider introducing a formal review mechanism that enables industry bodies to request that HM Treasury instructs regulators to review priority issues.

In summary, the Government should work alongside international banks to:

- increase oversight by **HM Treasury to challenge regulations and decisions** made by the regulators by **introducing a call-in power**
- **undertake a review of the regulators' metrics** to ensure they are appropriate and granular
- **review the statutory operating service metrics** for the FCA and PRA to ensure they are in line with comparative jurisdictions

[8] Ibid.
[9] 'The UK's Modern Industrial Strategy,' UK Government, 2025, https://assets.publishing.service.gov.uk/media/68595e56db8e139f95652dc6/industrial_strategy_policy_paper.pdf

B. Reporting Requirements and Costs of Compliance

AFB members report that the costs of compliance in the UK are significantly higher than in other jurisdictions. These pressures are particularly acute for smaller, non-UK headquartered banks, which do not have centralised teams to manage the continuous flow of new regulatory requirements. As such, AFB strongly supports the Government's aim to reduce the cost of regulation by 25% by the end of the Parliament, as set out in the Government's regulatory action plan (19 March 2025) (here), and to reduce the burden of the Senior Managers and Certification Regime (SM&CR) by 50%, as committed to in HMT's Financial Services Growth and Competitiveness Strategy (15 July 2025) (here). We support similarly ambitious targets in other areas of the regulatory regime/compliance.

Regulatory change and continuous policy activity are major drivers of operating costs for banks. Members have also confirmed that a range of regulatory requirements disproportionately affect smaller and medium sized firms, constraining their growth and limiting the competition between financial services firms needed to ensure a dynamic and growing sector.

To support competitiveness, regulators should prioritise the removal or streamlining of legacy obligations, pause non-essential new initiatives, and focus on targeted, high-impact reforms. As it stands, many smaller firms are required to meet standards designed to mitigate systemic risks they do not pose, incurring unnecessary and disproportionate cost.

Participants highlighted several areas where requirements are not proportionate to firm size or risk profile, including:

- operational resilience
- reporting and oversight requirements
- SM&CR
- data collection

AFB welcomes the increased focus on competitiveness and proportionality under the SICGO, but further steps are needed for the UK to deliver a genuinely efficient and growth-supporting regulatory framework.

In summary, the Government should reduce unnecessary costs of compliance on banks by, for example:

- **encouraging regulators to take a proportionate approach to implementation** of the operational incident and third-party reporting rules (published on 18 March 2026).launching an **independent study to assess the cumulative cost of compliance** in the financial services sector relative to that in other international jurisdictions
- **reassessing the PRA and FCA CBA panels** to ensure that they accurately reflect the cumulative costs of compliance and assess the costs post implementation for accuracy

C. Regulatory Approach to Risk

The House of Lords 'Growing pains' report highlights that the regulators continue to exhibit a highly risk-averse culture. This slows decision-making and leads to policy choices that prioritise the elimination of risk over growth and competitiveness. As set out in SICGO, the UK should adopt a clearer and more balanced approach to regulatory risk that maintains strong prudential standards, while avoiding unnecessary or disproportionate requirements.

In summary, the Government should look to recalibrate the approach to risk in financial services regulation to enable growth by:

- increasing the proportionality of regulation by asking that the **regulators better differentiate between wholesale and retail businesses** and giving **greater flexibility to smaller non-systemic banks**
- communicating to the regulators **clear parameters and benchmarks** to **recalibrate the risk-appetite of financial policymakers** and ensure that they **design policy to support growth**
- **requiring major regulatory initiatives to include SICGO assessments**, so that decisions about the acceptable level of risk are framed against their impact on growth, investment and the UK's competitiveness

D. Scope and Proportionality of Regulation

Regulators should focus on core prudential and conduct risks and avoid expanding the perimeter of regulation into areas more appropriately addressed through wider public policy. A proliferation of "have regards" obligations risks diluting focus, driving regulatory overreach and creating uncertainty for firms.

In some areas, regulatory policy has been used to deliver broader social outcomes, particularly in relation to fraud and consumer protection. Measures arising from the UK Fraud Bill and the mandatory APP reimbursement regime have placed significant financial and operational responsibility on banks, even where the underlying harm originates outside the financial system (e.g., online platforms).

Further, it appears to AFB members that the UK regulators and HM Treasury consider that there is inherently more risk in operating through a branch. For example, policy in relation to Digital Securities Sandbox eligibility, depositaries of authorised funds, and the cryptoasset framework.

In summary, the Government should ensure an effective and proportionate scope of regulation by:

- increasing oversight by **HM Treasury to challenge regulations and decisions** made by the regulators by **introducing a call-in power**
- **reducing the number of "have regards" obligations** and ensuring the regulators focus on their most important objectives, preventing regulatory overreach into areas beyond financial stability and market integrity
- **maintaining clear boundaries around regulatory responsibilities**, avoiding the use of financial services regulation to achieve wider social policy objectives unless the risk profile

demands it and without acting to the detriment of the primary objectives of wholesale banking regulation

- **expanding guidance on the scope of regulation and on the meaning of proportionality** for third country branches
- streamlining the prudential regulatory reporting requirements for UK branches of non-UK headquartered banks (e.g., reports on capital adequacy, balance sheet, financial resilience)
- promote predictability in regulatory scope, **reducing instances of policy reversal or expansion that create uncertainty** and hinder long-term planning by, for example, increasing use of discussion/engagement papers and market studies prior to consultation papers

E. Approach to Financial Crime

In 2024, industry studies estimated that regulated firms spent the equivalent of £21.4k per hour on fighting financial crime[10]. Much of this activity focused on extensive KYC and documentation processes.

Current KYC and documentation requirements do not consistently direct resources to the highest-risk areas. Low value, repeat document collection for long-standing clients, including regulated financial institutions and listed companies, increases time and resource costs without meaningfully improving detection and prevention.

A risk-based and technology-enabled approach would allow firms to redeploy resources toward measures that genuinely improve detection and prevention of financial crime, such as real-time, AI-enabled, adverse media tools and advanced transaction monitoring systems.

Decisive anti-money laundering supervisory reforms could improve resource efficiency and provide regulatory certainty[11]. The introduction of the mandatory APP reimbursement regime exemplifies the need to align responsibility across the wider digital ecosystem. Most APP frauds originate on online platforms, yet banks currently incur most reimbursement and operational costs. A more balanced approach would support both consumer protection and system efficiency.

In summary, the Government should improve the effectiveness of the UK's AML regime by:

- committing to the implementation **of proportionate reforms to the AML and CTF Supervisory Regime**
- exploring measures **to introduce greater proportionality** into the UK's approach to addressing risks in financial crime

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[10] 'The True Cost of Compliance,' Oxford Economics, 2024, https://www.oxfordeconomics.com/resource/the-true-cost-of-compliance/

[11] 'Clean Foundations for Growth: Unlocking Economic Opportunity by Tackling Economic Crime,' APPG on Anti-Corruption & Responsible Tax and the APPG on Fair Business Banking, 2025, https://static1.squarespace.com/static/5e4a7793b0171c0e2321f308/t/68654b99037a132a19a55cd0/1751468954892/CLEAN_FOUNDATIONS_FOR_GROWTH+with+Recomendations.pdf

- instructing the **regulators to embrace smarter, tech-driven solutions**
- **moving to a split reimbursement model for scams which start online** (APP Fraud)
- **improving the NRA to focus on known risks**

F. Reforms to the Senior Managers and Certification Regime

AFB agrees that reform of the SM&CR is necessary. AFB welcomes the decision to remove the statutory requirement for the current Certification Regime and give the regulators the powers to make rules as they deem appropriate and proportionate, as well as to implement changes to further streamline the Senior Managers framework and processes. The SM&CR has clear benefits as a framework for governance and accountability, contributing to higher standards across the sector. However, the regime presents challenges for non-UK headquartered banks, and there are several areas where targeted reforms could improve proportionality and enhance the UK's competitiveness without undermining the regime's core principles.

The Government and regulators have recognised the need to improve clarity and efficiency in the authorisations process, and the recent policy statements (HMT's Reforming the SM&CR, FCA PS26/6 and PRA PS12/26) offer an opportunity to introduce proportionate changes that preserve high standards while reducing unnecessary friction for international firms.

By way of example, AFB supports the following changes to the SM&CR:

- **exempting certain categories of SMF applications from the requirement to receive approval prior to beginning an SMF role**. Banks would still apply for approval but would not be required to wait for that approval before the SMF starts their role. The exclusion would be for SMFs that have previously been approved, where the new role is not materially different to the previous role and where there have been no prior concerns in relation to their fitness and propriety
- **introducing mutual recognition/equivalence/deference** for non-UK senior managers, so that, if an individual seeking to hold a senior manager function (and relocate to the UK) has already gone through an approval process in an equivalent jurisdiction, they would not be required to go through the full process again
- **removing the requirement to request regulatory references from employers which are not in scope of the SM&CR**, such as those outside the territorial scope of the UK regulators or outside the financial services industry
- introducing a notification process rather than pre-approval for an SMF22 and for the membership of a branch's governing body (SMF3) SMF22 could also be on a notification basis

Association of Foreign Banks

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