**EXPLANATORY MEMORANDUM TO**

# THE CREDIT INSTITUTIONS AND INVESTMENT FIRMS (MISCELLANEOUS DEFINITIONS) (AMENDMENT) REGULATIONS 2026

**2026 No. 480**

## 1. Introduction

1.1 This Explanatory Memorandum has been prepared by HM Treasury and is laid before Parliament by Command of His Majesty

## 2. Declaration

2.1 Lucy Rigby KC MP, Economic Secretary to the Treasury, confirms that this Explanatory Memorandum meets the required standard.

2.2 Fayyaz Muneer, Deputy Director for Prudential and Sustainability at HM Treasury, confirms that this Explanatory Memorandum meets the required standard.

## 3. Contact

3.1 Kaya Smith at HM Treasury can be contacted by email at the following address with any queries regarding the instrument: kaya.smith@hmtreasury.gov.uk.

## Part One: Explanation, and context, of the Instrument

## 4. Overview of the Instrument

***What does the legislation do?***

4.1 The UK Capital Requirements Regulation (UK CRR)[1] was revoked by the Financial Services and Markets Act 2023 (FSMA 2023) subject to commencement. This revocation allows detailed, firm-facing regulatory requirements to be set by expert, independent regulators within an overall policy framework set by Government and Parliament. This approach is known as the 'FSMA model' of regulation.

4.2 The Government is using this instrument to restate in legislation certain definitions that are currently defined in the UK CRR and need to be maintained in legislation to ensure that the overall framework and wider legislation for banking prudential regulation continues to operate as intended.

4.3 The instrument does this by restating the relevant definitions in legislation whilst maintaining their effect. The legislation improves the clarity of certain definitions and makes them consistent with the approach adopted in UK law but does not intend to change the substance of the definitions or alter the wider regulatory framework.

***Where does the legislation extend to, and apply?***

4.4 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is England and Wales, Scotland, and Northern Ireland.

4.5 The territorial application of this instrument (that is, where the instrument produces a practical effect) is England and Wales, Scotland, and Northern Ireland.

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

## 5. Policy Context

***What is being done and why?***

5.1 When the UK left the EU, the body of EU legislation that applied directly in the UK at the point of exit was transferred onto the UK statute book by the European Union (Withdrawal) Act 2018. This is known as “assimilated law”.

5.2 The Financial Services and Markets Act 2023 (FSMA 2023) repeals assimilated EU law relating to financial services, subject to commencement. Assimilated law will be replaced with rules set by our independent and expert regulators, operating within a legislative framework set by the government and Parliament. This regulatory approach was established by the Financial Services and Markets Act 2000 (‘FSMA’) and is known as the FSMA model’ of regulation.

5.3 In September 2024, HM Treasury set out its intention to apply the FSMA model to the assimilated law specifying institutions’ capital requirements, in particular the UK Capital Requirements Regulation (‘the UK CRR’).

5.4 Articles 4, 4A, 4B, and 5 of the UK CRR set out the definitions for certain terms used in the banking prudential regime. At Mansion House 2025, the government set out its proposal to revoke all definitions contained in these Articles alongside HM Treasury restating in law the UK CRR definitions necessary for the effective operation of: the regulatory perimeter, overseas recognition regimes, or other legislation such as the Banking Act 2009.

5.5 HM Treasury’s policy intention is to maintain the existing scope and effect of each definition, while clarifying and simplifying certain definitions. This approach is intended to better tailor definitions to the UK legislative framework and make them easier for industry and regulators to apply.

5.6 The definitions that are being restated include, for example: “investment firm”, “financial institution”, “participation”, “common management relationship”, “financial holding company”, “mixed financial holding company”, “UK parent institution”, “UK parent financial holding company” and “UK parent mixed financial holding company”.

5.7 The restatement of definitions will make the bank capital regime easier to navigate. It will retain definitions in legislation where that is necessary to ensure the effective operation of the Overseas Prudential Requirements Regime and other legislation, such as the Banking Act 2009. Not retaining other definitions and allowing the PRA to set them out in its Rulebook will help the overall capital framework run more smoothly. This approach allows the PRA to respond in a more agile way to developments in the sector.

5.8 This instrument legislates for this approach by restating and, where beneficial, clarifying definitions in legislation without altering their substance.

***What was the previous policy, how is this different?***

5.9 Previously, detailed, technical definitions were set out in assimilated law.

5.10 The new policy keeps only those definitions needed to set the regulatory perimeter or ensure the effective operation of the OPRR and other legislation. This allows regulators to set the technical requirements in their Rulebook and is in line with the government’s FSMA model of regulation.

## 6. Legislative and Legal Context

***How has the law changed?***

6.1 This instrument restates certain definitions in article 4 of the UK CRR, which was revoked by section 1 of, and Schedule 1 to FSMA 2023, with that revocation set to commence on 1 January 2027. Other definitions in articles 4-5 of the UK CRR are expected to be set out in the Prudential Regulation Authority's (PRA's) [2]ulebook where appropriate. This instrument also makes a limited number of consequential amendments.

6.2 The main changes made by this instrument to primary and secondary legislation are as follows. This instrument amends the Financial Services and Markets Act 2000 (FSMA 2000) in relation to the following definitions:

- "consolidating supervisor" in section 71I (see regulation 4);
- "CRR firm" in section 144B (see regulation 9); "consolidated situation", "UK parent financial holding company" and "UK parent mixed financial holding company" in section 192O (see regulation 10); and "qualifying holding" in section 192Q (see regulation 11);
- "financial holding company", "financial institution", "mixed financial holding company" and "asset management company" in section 417 (see regulation 15, which also inserts the definition of "Part 4A investment firm" restating the definition of "investment firm" in Article 4 of the UK CRR.
- Regulation 18 inserts Schedule 19D to FSMA 2000, which restates a subset of the activities falling within the definition of "Annex 1 activities" in article 4 of the UK CRR. Regulation 19 amends the definition of "own funds" in section 3 of the Banking Act 2009.

6.3 Regulation 20 amends the definitions of "ancillary services undertaking" and "common management relationship" in the Financial Conglomerates and Other Financial Groups Regulations 2004 (S.I. 2004/1862). Regulation 22 amends the definition of "UK parent institution" in the Bank Recovery and Resolution (No. 2) Order 2014 (S.I. 2014/3348). There is currently no specific date for commencing the revocation of the Bank Recovery and Resolution (No 2) Order 2014 and the Financial Conglomerates and Other Financial Groups Regulations 2004.

6.4 These changes do not alter the effect of how these definitions apply.

6.5 Regulation 23 amends the definition of "securitisation" in the Securitisation Regulations 2024 (S.I. 2024/102) which restated (under section 4 of FSMA 2024) the definition of that term in Regulation (EU) 2017/2402 of the European Parliament and of the Council. The amendment made by regulation 23 aligns the definition in the Securitisation Regulations 2024 with the PRA's final Basel 3.1 rules[3].

6.6 Further consequential amendments relating to UK CRR Definitions will be made in a separate instrument before the end of the year and in advance of 1 January 2027.

***Why was this approach taken to change the law?***

6.7 This approach aligns with the UK model of regulation, known as the 'FSMA model', which relies on detailed regulatory requirements being set by expert, independent

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[2] PRA Rules | Prudential Regulation Authority Handbook & Rulebook https://www.prarulebook.co.uk/pra-rules

[3] PRA RULEBOOK: CRR FIRMS: (CRR) INSTRUMENT 2026 https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2026/january/ps126app1.pdf

regulators, operating within an overall legislative framework set by the government and Parliament.

6.8 Section 4 of FSMA 2023 enables the restatement of provisions in assimilated law, through the use of secondary legislation, where it would be necessary to retain provisions that would otherwise be revoked by section 1 of FSMA 2023. This instrument makes use of these powers as intended.

## 7. Consultation

***Summary of consultation outcome and methodology***

7.1 HM Treasury published a Policy Update at Mansion House. As part of this update, HM Treasury ran an 11-week consultation on its intention to apply the FSMA model of regulation to the UK CRR.

7.2 The Policy Update set out HM Treasury's plans to commence the revocation of certain provisions of the UK CRR and make the necessary restatements in UK legislation to facilitate the FSMA model of regulation. It also explained how the PRA will replace UK CRR provisions with regulator rules, supervisory statements, and statements of policy. The Policy Update covered HM Treasury's proposed approach to restating key definitions in the UK CRR which will be retained in legislation.

7.3 Alongside this, HM Treasury published the Credit Institutions and Investment Firms (Miscellaneous Definitions) (Amendment) Regulations in draft and sought technical comments from industry.

7.4 In response to our consultation on the Policy Update and draft legislation, HM Treasury received nine written responses. These came from a variety of financial services firms, banks, consumer bodies, and trade associations.

7.5 Respondents supported the overall approach of clarifying definitions whilst maintaining their effect. Some respondents provided technical suggestions on specific definitions that the legislation proposed to amend.

7.6 The comments were carefully considered together with further engagement with regulators and industry to help clarify and understand the issues raised.

7.7 Following analysis of the responses, HM Treasury has not changed the final legislation as a result of these comments. The reasons for this include that some suggestions could have altered the intended scope and effect of the definitions.

7.8 Nevertheless, HM Treasury does intend to provide clarity on the phrase 'acquire holdings in another undertaking', which is used in the definition of "financial institution", through this Explanatory Memorandum.

7.9 HM Treasury refers firms to the Financial Conduct Authority's (FCA's) Policy Statement 21/6, Paragraph 3.22: Implementation of Investment Firms Prudential Regime. This sets out that the concept of 'acquiring holdings' should be given its literal meaning – that the activity of acquiring holdings does not need to be ongoing – it is sufficient that the undertaking has acquired holdings at some point.

7.10 This wording is consistent with the long-standing interpretation under the UK CRR that the acquisition of holdings does not have to be a periodic undertaking (whether acquiring new holdings or actively trading in existing subsidiaries' shares) or a continuous objective or purpose. HM Treasury does not consider it necessary to amend the legislation because of the longstanding interpretation and the FCA's Policy Statement.

7.11 The government published a consultation response on 19 February 2026[4] which provides further detail on the government's rationale for this approach.

7.12 Financial services policy is a reserved matter.

## 8. Applicable Guidance

8.1 There is no applicable guidance.

## Part Two: Impact and the Better Regulation Framework

## 9. Impact Assessment

9.1 A full Impact Assessment has not been prepared for this instrument because, in line with Better Regulation guidance, the government considers that the net impact of this instrument upon businesses will be less than net £10 million Equivalent Annual Net Direct Costs to Business. As the restated definitions will remain the same in scope and effect, the impact on business activity should be negligible. As the framework should become simpler and easier to navigate, the policy should save firms money in the medium-term.

***Impact on businesses, charities and voluntary bodies***

9.2 There is no, or no significant, impact on business, charities or voluntary bodies because the effect of the legislation is to not change the substance of the definitions or alter the wider regulatory framework.

9.3 There is no, or no significant, impact small or micro businesses because the effect of the effect of the legislation is to not change the substance of the definitions or alter the wider regulatory framework.

9.4 There is no, or no significant, impact on the public sector because the effect of the legislation is to not change the substance of the definitions or alter the wider regulatory framework.

## 10. Monitoring and review

***What is the approach to monitoring and reviewing this legislation?***

10.1 As with all legislation, the Government will keep it under review.

10.2 However, as this Statutory Instrument does not introduce new regulatory requirements on businesses, it does not include a statutory review clause.

## Part Three: Statements and Matters of Particular Interest to Parliament

## 11. Matters of special interest to Parliament

11.1 None.

## 12. European Convention on Human Rights

12.1 The Economic Secretary to the Treasury has made the following statement regarding Human Rights:

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[4] Applying the FSMA 2000 model of regulation to the Capital Requirements Regulation - GOV.UK https://www.gov.uk/government/publications/applying-the-fsma-2000-model-of-regulation-to-the-capital-requirements-regulation

"In my view the provisions of the Credit Institutions and Investment Firms (Miscellaneous Definitions) (Amendment) Regulations 2026 are compatible with the Convention rights."

## 13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").

13.2 It does relate to the withdrawal of the United Kingdom from the European Union as it forms part of the process of revoking assimilated law from legislation.