UK FINANCE

IDENTIFYING AND TACKLING FRICTIONS IN THE UK-US REGULATORY REGIMES FOR GLOBAL BANKS

December 2023

Global banks straddling the regulatory landscapes of the United Kingdom and the United States encounter a spectrum of challenges arising from distinct prudential bank regulatory regimes. This report highlights certain key frictions that emanate from the divergent approaches in both jurisdictions. With a focus on regulatory capital issues, resolution planning requirements, and other prudential areas of banking regulation, this report provides an overview of these frictions. It examines the impact on global banks operating in both the UK and US and offers insights into potential routes for regulators to take in mitigating them.

This report follows UK Finance's publication titled "International Trade in Financial Services: Defining Trade Policy for Banking, Payments and Related Financial Services" (**UK Finance Trade Report**), which explained the benefits of trade in financial services and discussed various strategies for promoting such trade, with a specific emphasis on the potential benefits of regulatory recognition. The effectiveness of any regulatory actions will vary based on the specific market, the types of services, and the companies in question. Nevertheless, these actions would generally involve steps aimed at reducing the overall regulatory burden on entities operating in both the UK and the US markets. This reduction is likely to be achieved through a process of mutual recognition and deference to each other's prudential frameworks. This report explores these measures.

UK Finance is grateful to Shearman and Sterling LLP for its assistance in the preparation of this report. Mark Chorazak, Barnabas Reynolds, and Simon Dodds coordinated the expert guidance of their Shearman colleagues, while UK Finance's Angus Canvin, ably assisted by James Leigh, guided the report's development and purpose.

1. Background

1.1. The Importance of the UK-US Relationship, and the Frictions that Impede It

UK and US global banks are unrivalled leaders in the development of innovative financial products and services. They benefit from stable and tested common law systems and robust capital markets, with their epicentres — London and New York—at the forefront of global finance and trade. They have a unique, symbiotic relationship, with each being a critical consumer or supplier of financial services from or to the other.

The trade flows between UK and US global banks are an important aspect of the overall relationship. It is a relationship that can be improved, however, through the identification and treatment of areas where non-tariff barriers have emerged. Barriers come in the form of cross-border regulatory frictions. These frictions can emerge intentionally or by historical accident, suddenly or over time, or simply through benign, divergent local interpretations of a common global standard. They can unnecessarily restrict growth, stifle consumer access and choice, impede robust market competition, and lead to fragmentation between the two markets that host the world's leading financial services firms.

Historically, the UK and the US have had the distinctive position of being both home country and host country of many of the leading global banks. While there are more similarities than differences in how each approaches banking regulation, several areas have emerged where there could be greater alignment, specifically in regulatory capital, resolution planning, and in other emerging areas. Regulatory frictions in these areas may be addressed by several tools, including through substituted compliance, mutual deference, or through mutual recognition and cooperation agreements.

The UK and US are currently undertaking the most ambitious and comprehensive re-assessment of regulatory capital requirements in years. This broader effort, known as the so-called "Basel III endgame," presents an opportune moment to assess the frictions that have emerged under both regulatory regimes and identify ways to minimize the adverse impacts that flow from them. Concerns regarding frictions are not centered on the avoidance of costs or compliance burdens on banks. To the contrary, they are rooted in the consequences that arise when frictions are left unresolved: reduced credit to businesses and communities, fewer innovations in financial products and services, and greater investor uncertainty.

In recognition of the longstanding relationship between the UK and US banking markets, regulators should embrace this opportunity for dialogue, whether through the US-UK Financial Regulatory Working Group or otherwise. Greater dialogue can promote greater trust among regulators, particularly where there is comfort as to the comparability of the prudential regulatory framework in each jurisdiction. In time, this may lead to the identification of targeted areas where a host regulator can rely on the home regulator's consolidated supervision of the global bank parent and "fine tune" its approach with regard to the operations in the host country accordingly. Dialogue is crucial for reducing frictions while upholding principles of fair competition and national treatment.

1.2. Institutional Scope

This report refers broadly to global banks operating in both the UK and the US. It is particularly relevant to those banking organizations that are UK-based banking groups with material operations in the US, and vice versa. It also would apply to other banking organizations that, while not organized under English law or US law, have material operations in both the UK and US.

2. Regulatory Capital Frictions

2.1. Selected Existing Frictions

2.1.1. Divergent Capital Approaches and Cross-Border Application

At the core of the frictions confronting global banks operating in both the UK and US lie divergent approaches to regulatory capital requirements. While both jurisdictions adhere to the Basel III framework, there are differences in local implementation that affect banks operating on a cross-border basis. For its part, the US applies supplementary capital provisions through the Dodd-Frank Act, specifically the Collins Amendment, which can create meaningful variances from practice outside the US. These variances and others are discussed below in this Section 2.1. In addition, in Section 2.2, this report discusses emerging frictions that are coming to light as both jurisdictions implement the so-called "Basel III endgame" standards[1] and assess how digital assets should be treated for regulatory capital purposes.

1 The Basel III endgame refers to the U.S. adaptation of the 2017 revisions to the Basel III capital framework adopted by the Basel Committee on Banking Supervision. In July 2023, the U.S. federal banking agencies issued a proposal that would incorporate these revisions into existing U.S. capital regulations. In Europe, the revisions are sometimes referred to as Basel IV or Basel 3.1.

2.1.2 Risk-Weight Calculation Methods

The risk-weighting of assets is a foundational aspect of modern banking regulation. It is a recognition that not all exposures are the same: cash, corporate exposures, and crypto, for example, have profoundly different risk profiles. The calculation of risk-weighted assets (RWAs) has major implications for any bank because they are used to calculate the minimum amount of regulatory capital that such bank must maintain. For global banks operating in both the UK and US, differences in how these jurisdictions calculate RWAs can create intragroup compliance mismatches, cost imbalances, and other frictions.

Although the concept of RWA is consistent across the UK and US, there are two notable distinctions in the methods used for their calculation. First, in the US, domestic global banks are governed by the Collins Amendment, which mandates the calculation of risk-based ratios through both the Standardized Approach and the Advanced Approach. The capital requirement that banks must meet is determined by selecting the lower ratio between these two calculations. Under the Advanced Approach in the US, banks employ their internal models to estimate the risk weight of each exposure, relying on their assessments of the probability of default by the counterparty and other characteristics. These models undergo rigorous scrutiny by regulatory supervisors and must gain approval before being employed to determine capital requirements. Additionally, banks in the US are obligated to compute RWA using the Standardized Approach, where fixed risk-weights are assigned to different types of exposures, irrespective of the counterparty's probability of default. In contrast, while UK global banks may use internal ratings-based models, there is no explicit minimum risk weight floor based on standardized risk weights. This gives rise to uneven regulatory capital impacts even for assets that have the same risk profile.

Second, there exist significant disparities in the restrictions governing the use of internal models in the two jurisdictions. To illustrate, US global banks are largely restricted to employing the Advanced Approach exclusively for operational risk modeling. Conversely, UK global banks have flexibility in choosing the Advanced Approach and the Standardized Approach for operational risk assessment.

While differences will of course exist in each jurisdiction, no doubt in light of historic supervisory experiences and other factors, global banks would benefit from measures that seek to minimize intragroup confusion and lessen adverse impacts. Such measures could be joint guidance by UK and US prudential regulators or regulatory recognition by one or more regulators of the other jurisdiction's relevant rules, or even mutual recognition of the relevant UK and US rules.

2.1.3. Sovereign Exposure Risk-Weightings

Existing capital rules apply differential treatment of exposures and assets for certain sovereign exposures. For example, US capital requirements require a 20 per cent risk-weight for exposures to US government sponsored entities, including Freddie Mac and Fannie Mae. However, there is no equivalent in the UK Capital Requirements Regulation (the closest is a public sector entity (PSE), but Freddie Mac and Fannie Mae do not meet the definition of PSEs). In the spirit of mutual recognition of the strong prudential frameworks in the UK and the US, rationalization in the risk weights for UK and US sovereign exposures applicable to banks operating in each jurisdiction should be considered.

2.1.4. Total Leverage Exposure Calculation

The definitions of total leverage exposure in both the UK and US closely align with the Basel standard, with a divergence in one key aspect. In the UK, banks are permitted to exclude deposits held at central banks (commonly referred to as reserves) from the total leverage exposure definition. That has not been permitted for US banks. At the onset of the COVID-19 pandemic, the Federal Reserve Board temporarily excluded US Treasuries and deposits at Federal Reserve Banks from the calculation of the Supplementary Leverage Ratio, but that relief has since expired. Divergent leverage exposure calculations could lead to unintended consequences for global banks operating in both jurisdictions. This is an area where action by the US prudential banking regulators would be most effective (e.g., the Federal Reserve Board could make surgical amendments to Regulation Q to align the US approach more closely with the Basel standard).

2.1.5. TLAC Calculations

Global banks operating in both the US and the UK must grapple with divergence in the calculation of certain Total Loss-Absorbing Capacity (TLAC) requirements. The US and the UK have distinct methodologies for determining the minimum level of TLAC that must be held by banks to ensure their resolvability. These variances introduce additional complexity for banks striving to meet these requirements in both jurisdictions. One notable friction between the UK and US regimes relates to the calculation of internal TLAC[2].

In 2017, the Federal Reserve Board published a final rule to require the largest and most systemically important domestic and non-US-owned bank holding companies operating in the US to maintain a minimum amount TLAC. While the Federal Reserve Board's internal TLAC requirement — measured at about 89 per cent of the external minimum TLAC requirement[3] — is within the Financial Stability Board's (FSB) guidelines[4], it is at the high end. By contrast, the Bank of England has scaled its internal requirement from 75 per cent to 90 per cent of external TLAC, depending on various factors (ring-fenced banks typically are subject to 90 per cent and decisions to set internal TLAC for a material subsidiary above 75 per cent can depend on a variety of factors, including the credibility of the resolution plan and the availability of resources in the group that could be readily deployed to support the material subsidiary). Greater material prepositioning requirements in the US contributes to further fragmentation of the banking system, leading to trapped capital and liquidity for global banks with UK and US operations.

In the UK, the Bank of England may set the internal TLAC ratio on a firm-specific basis depending on certain factors, whereas in the US, the internal TLAC requirement is set by regulation. The promulgation of such a requirement by regulation, as opposed to allowing case-by-case discretion, naturally constrains the Federal Reserve Board's ability to make changes. However, such constraints are not insurmountable, as no change in statute would be required.

The recalibration of internal TLAC and other requirements to the base end of what has been set by the FSB after significant international coordination over many years will lead to greater harmonization among UK and US global banks without affecting resolvability or financial stability in an adverse manner. The recently released Basel III "endgame" proposal, which was announced in July 2023 and is discussed in detail below, presents a unique opportunity for both jurisdictions to reconceptualize their internal TLAC requirements to minimize jurisdictional fragmentation. In particular, we encourage active dialogue between UK and US regulators to explore ways to minimize geographic compartmentalization of TLAC within a banking group.

2.1.6. Dividend Add-On Component to US Stress Capital Buffer

The Federal Reserve Board's stress capital buffer requirement has a dividend add-on (pre-funding) requirement that is based on a multi-quarter planning horizon. However, for US entities of UK-based banking groups, payments or distributions to the foreign bank parent are not the same as common equity "dividends." This frustrates the ability of intragroup capital flows, namely flows of capital from the US to the UK. Similarly, US banks could be denied capital injections or distributions from their UK subsidiaries, resulting in trapped capital and frustrated resolution planning, if the UK were to adopt a similar requirement. UK and US regulators are encouraged to work together to minimize these unintended consequences.

---

2 Internal TLAC refers to qualifying debt that is issued by a bank subsidiary to its holding company, whereas external TLAC refers to qualifying debt that is issued by the holding company to external investors.

3 In the US, per the US TLAC rule, the RWA component of the internal TLAC requirement is 16 per cent RWA issued to the foreign parent (16 per cent/18 per cent = 88.9 per cent internal TLAC calibration). See FSB Review of the Technical Implementation of the TLAC Standard (July 2, 2019).

4 According to the FSB, each material sub-group must maintain internal TLAC of 75 per cent to 90 per cent of the external minimum TLAC requirement that would apply to the material sub-group if it were a resolution group, as calculated by the host authority. See FSB Principles on Loss-Absorbing and Recapitalisation Capacity of G-SIBs in Resolution: TLAC Term Sheet (Nov. 9, 2015).

2.1.7. "Solo" Capital Requirements

The UK Prudential Regulation Authority (PRA) has "solo" capital requirements at the individual regulated entity level: UK subsidiaries are expected to be "structurally profitable" on a standalone and going concern basis. According to the Bank of England, structurally profitable means that such subsidiaries should not be solely cost centers for the group with accumulated costs that are extinguished by periodic capital injections from the group. Rather, each subsidiary should be capable of accreting at least some of its own capital (or contributing to the accretion of group capital), so that operating costs of the bank are covered on a day-to-day basis by income that it generates (income may be in the form of service charges to the rest of the group or cross-subsidies built into the pricing and funding arrangements between wholesale and retail business in the firm or other group companies).[5] By contrast, the US does not require solo capital requirements (other than for insured depository institution subsidiaries) or require risk-weighting of investments in affiliates. Further study is warranted to assess the impact of these differences on affected global banks and whether alternative means of compliance could lessen any competitive impact from such differences.

2.1.8. External Credit Ratings

Further complicating the regulatory landscape is the divergent approach between the US and the UK regarding the use of external credit ratings for prudential capital requirements. The US has moved away from reliance on external credit ratings with the implementation of the Dodd-Frank Act, which prohibits the US banking agencies from allowing the use of external credit ratings for prudential capital requirements. This is a material divergence from the UK and other jurisdictions that permit the use of external credit ratings. The disparity introduces additional complexity and potential ambiguity for global banks in their compliance efforts. Specifically, it creates an advantage for UK banks, as they are not encumbered with the same operational challenges as US banks, which must perform an internal credit assessment, while other jurisdictions rely solely on external rating agencies. While US regulators are statutorily constrained from issuing rules that rely on external credit ratings, they are not constrained from issuing guidance that encourages banks to consider external ratings as part of their own internal credit assessments. Guidance could aid global banks navigating both the UK and US approaches.

2.1.9. Securitization Exposures

Securitization serves as an important risk management tool for banks. For UK and US global banks, the capital treatment of securitization exposures continues to diverge. Currently, in the US securitization framework, under the simplified supervisory formula approach (SSFA), the supervisory calibration parameter is equal to 0.5 for securitization exposures that are not resecuritization exposures. By contrast, it is 1.0 under the UK framework. This difference allows for potentially lower risk-weighted asset amount for certain securitization transactions in the US compared with the UK. The UK and US regulatory capital regimes are poised to diverge even further under the US' Basel III "endgame" proposal, which was released in July 2023 and is discussed further below. Under that proposal, the US would eliminate the SSFA and replace it with a bespoke approach that is not consistent with the Basel III standard. More inconsistencies between the UK and US approaches on securitization may have unintended consequences for global banks operating in both jurisdictions, particularly in terms of capital planning and risk management. Regulators should carefully consider the operational and other burdens facing banks when attempting to navigate both approaches, especially now since the US' proposed revisions will likely not be finalized until early 2024.

---

5 See BoE, Supervisory Statement 5/21, "International Banks: The PRA's Approach to Branch and Subsidiary Supervision" (July 2021).

2.2. Selected Emerging Frictions

2.2.1. Basel III "Endgame" Coordination

Both jurisdictions are in the process of implementing the final remaining pieces of Basel III, specifically (i) the Basel Committee's standard published in December 2017 on standardizing certain risk-weights and reducing the reliance on internal bank models[6]; and (ii) the Basel Committee's revised standard for market risk capital requirements (the so-called "fundamental review of the trading book") finalized in February 2019."[7] Collectively, these reforms are generally referred to as the Basel III "endgame." In the UK, the Bank of England's PRA published a consultation in late November 2022 to implement these endgame reforms.[8] In the US, the Federal Reserve Board issued a comprehensive endgame-related proposal in July 2023, as part of its "holistic review" of capital for large banks.

The need for robust endgame-related dialogue and coordination between UK and US regulators is critical for the global banks that operate in both jurisdictions. A number of areas of variance have already emerged following the release of the US proposal:

- **Investment grade corporate exposures**: Currently, corporate exposures receive a 100 per cent risk-weight in both jurisdictions. However, under the US' endgame proposal, such exposures would be eligible for a lower risk weight (65 per cent) if classified as "investment grade" corporate exposures, which would apply if the corporate counterparty or its parent have securities outstanding on a public securities exchange. The UK has declined to propose such a revised risk-weight.[9]

- **Minimum Haircut Floors**: Currently, securities financing transactions are not subject to minimum haircut floors in either jurisdiction. However, under the US' endgame proposal, minimum haircut floors would apply for margin loans or repo-style transactions in which a bank either lends cash in exchange for securities or engages in certain collateral upgrade transactions with unregulated financial institutions. Consequently, any transactions subject to the minimum haircut floors that do not meet the haircut floors would be required to be treated as unsecured exposures for purposes of calculating capital requirements for credit risk. The UK, however, has not proposed any minimum haircut floors for securities financing transactions.

Other variances may emerge as the endgame proposals evolve. If left unresolved, these variances could develop into additional frictions between the two jurisdictions, resulting in operational burdens and costs for global banks with operations in the UK and US.

2.2.2. Digital Assets

The capital treatment of digital assets is a nascent area, but one that merits greater coordination to mitigate the adverse consequences of divergent approaches for global banks operating in both the UK and US. In December 2022, the Basel Committee approved a standard for banks to monitor and manage their exposures to cryptoassets, with a request that jurisdictions implement it by 2025. In particular, the standard introduced a 1,250 per cent risk-weighting for banks' exposures to so-called "Group 2" cryptoassets, which notably would encompass Bitcoin, and an overall Group 2 exposure limit of 2 per cent of a bank's Tier 1 capital.[10] Greater coordination and dialogue between UK and US regulators on cryptoassets, particularly capital charges and exposure limits, would greatly benefit global banks operating in both jurisdictions. In particular, regulators should coordinate their work to ensure that any capital treatment and exposure limits are consistently applied to global banks operating in both jurisdictions.

---

6 See Basel Committee, "Basel III: Finalising Post-Crisis Reforms" (December 2017).

7 See Basel Committee, "Minimum Capital Requirements for Market Risk" (rev. February 2019).

8 See PRA Consultation Paper 16/22 (Nov. 30, 2022).

9 Europe has yet to finalize its revisions to Basel III, but it is possible that it will permit banks to assign a risk-weight of 65 per cent to an unrated corporate counterparty that has an internal rating equivalent to an investment-grade rating.

10 See Basel Committee, Consultative Document, "Prudential Treatment of Cryptoasset Exposures" (December 2022).

3. Resolution Planning Frictions

3.1. Variations in Resolution Strategies for Global Banks

Different US and UK approaches to resolution planning strategies can create frictions for global banks operating in both jurisdictions. Resolution planning strategies highlight frictions for UK and US global banks, notably the US' historical preference for the single-point-of-entry (SPOE) approach (despite statements by US regulators to the contrary) and the UK's inclination toward a multiple-point-of-entry (MPOE) approach. Many global banks now incorporate elements that align with both the SPOE and MPOE approaches. This development acknowledges that global banks have varying business models and operations, suggesting that effective resolution strategies should combine aspects of both SPOE and MPOE approaches. However, there are disparities in the internal TLAC requirements that arise from these two distinct approaches. To address this issue, regulatory dialogue should explore how UK and US TLAC requirements could be better aligned, enabling a more nuanced recognition of diverse resolution strategies and allowing US intermediate holding companies (IHCs) of foreign banks to be resolved as domestic institutions within the US under an MPoE strategy. This adjustment would provide flexibility in issuing TLAC to third parties as well as their parent foreign banking organizations.

3.2. Support Agreements

Existing resolution strategies typically assume that the parent company in the home country may not provide financial assistance to the distressed operations in the host country promptly or even at all. However, such an assumption is unwarranted if a support agreement is in place. Recognition of support agreements has the potential to enhance the transparency and effectiveness of resolution plans in both the US and the UK.

Support agreements are legally binding agreements in which the top-tier holding company parent and IHCs or other funding vehicles in a resolution scenario are obligated to use their contributable resources to provide capital and liquidity support to the bank's material subsidiaries. The obligations are typically secured by the contributable resources that would be used to support the material subsidiaries, and obligate the parent holding company to downstream capital and liquidity support before the firm reaches its point of non-viability. In August 2023, the Federal Reserve Board and the Federal Deposit Insurance Corporation issued proposed guidance that would expect banks to consider the entry into secured support agreements and their related impacts. This is a positive step, and enshrining the use and importance of support agreements in both jurisdictions would foster consistency for global banks that operate in both the UK and US.

3.3. Contractual Recognition of Bail-In and Resolution Stays

UK and US regulators generally have powers to write down certain debts owed to creditors, convert certain debt to equity, or impose temporary stays on termination rights in contracts with bank counterparties. To mitigate against differences that could arise in the application of such powers, each jurisdiction's law could recognize the bail-in and stay powers of the other jurisdiction's regulators if the relevant instruments are governed by the first jurisdiction's law. This would obviate the need to have contractual recognition of bail-in clauses and reduce the legal and compliance burdens associated with ensuring contracts contain such clauses.

4. Other Areas of Friction

Expanding beyond the focal points of capital and resolution, other areas of banking regulation introduce yet more frictions. Below are two emerging areas where UK and US regulators may consider measures to avoid unnecessary incompatibility between their rules.

- **Data Privacy and Cybersecurity**: The divergence in data privacy and cybersecurity regulations is another area of friction. The US has a sectoral approach to data protection, with various laws such as the Gramm-Leach-Bliley Act and the Health Insurance Portability and Accountability Act, while the UK has the cross-economy European Union's General Data Protection Regulation (GDPR). These differences—coupled with the complex risk assessment processes required following the European Union Court of Justice's Schrems II decision—can complicate data sharing and security practices, particularly when it comes to cross-border financial transactions and the transfer of customer data among UK and US global banks. Furthermore, cybersecurity standards and breach reporting requirements vary significantly between the two countries; indeed, even within the US, the variances amongst 50 states and various federal agencies with different statutory mandates are profound. This UK-US disparity raises concerns about the potential for confusion and operational burdens for global banks. Disparities can also hinder international cooperation on combating cyber threats. Although the UK and US have agreed the "data bridge" framework for personal data transfers to simplify GDPR compliance, this does not extend to financial services firms.

- **Sustainability Related Disclosures and Risk Management**: In the US, the Federal Reserve Board and other federal banking agencies remain in the early stages of assessing how climate change may pose risks to individual banks and to the financial system as a whole. The SEC also has yet to finalize a formal disclosure regime for public reporting companies, including publicly traded banking organizations. The UK has moved faster, with the PRA having issued climate-related supervisory expectations for regulated firms back in 2019, the Bank of England having already conducted an exploratory scenario exercise on climate risk for the largest UK banks. Coordination amongst UK and US regulators is critical, and the Financial Conduct Authority is rolling out climate-aligned disclosure obligations for listed firms, and looking to expand these to other non-climate sustainability issues. A primary aim should be to make sure regulators take coherent approaches to sustainability disclosure rules, including by aligning with the disclosure standards of the International Sustainability Standards Board (ISSB) and collaborating to ensure that future disclosure obligations diverge as little as possible. UK and US regulators should work together through forums like the ISSB working groups and the International Platform on Sustainable Finance (IPSF) to minimize divergence in sustainability disclosure rules. Another aim should be to get good quality data from a stress testing exercise. Failure to coordinate will lead to unnecessary burdens and expenses for institutions, potentially conflicting messages as to how climate risk management should be conducted or improved, and weaknesses in the interoperability of data across jurisdictions. UK and US regulators should look for ways to align climate scenario inputs and assumptions, minimize duplication, and foster sharing of results between and among supervisory bodies. In particular, for institutions with highly global operations, the home country supervisor should be viewed as the "lead" for scenario analysis testing and reporting, with subsidiary entities not burdened by duplicative efforts in the host country.

5. Assessing the Impact on Global Banks and Finding Resolution

5.1. Implications

The frictions arising from variances in UK and US regulatory regimes for global banks have broad implications, including:

- **Reduced Financial Services Trade and Investment Between the UK and US**: The UK Finance Trade Report explains the benefits of financial services trade and, conversely, the economic damage to both economies of frictions to such trade.

- **Heightened Compliance Costs**: Navigating divergent regulatory standards can lead to higher compliance costs. In addition, there is increased potential for regulatory arbitrage for the placement of new activities.

- **Capital Allocation Conundrums**: Optimizing capital allocation within both jurisdictions becomes a formidable challenge when there are conflicting standards. Frictions in capital requirements can unnecessarily lead to trapped capital that does nothing to improve safety and soundness and which instead could be redeployed for lending and other activities that foster economic growth.

- **Resolution Planning Quandaries**: The difficulty in rationalizing divergent resolution strategies to satisfy both UK

and US regulators can lead to inefficient and ineffective resolution planning. It also could lead to confusion amongst creditors and investors on which resolution strategy would apply in certain scenarios.

- **Operational Uncertainty and Financial Stability Risks**: Divergences in risk management, stress-testing methodologies, and other areas can introduce operational complexities and increase financial stability risks.

5.2. Potential Resolutions

To address these frictions, the UK and US have a number of avenues available, including:

- **Enhanced Regulatory Dialogue**: Bolstering communication and coordination channels among UK and US regulatory bodies to foster a convergence of regulatory expectations. Engaging in deep and continuous dialogue can foster trust among regulators, which can aid in finding select areas for a host regulator to rely on the home regulator's consolidated approach and then refine its own approach with regard to the global bank's operations in the host country.

- **Regulatory Recognition**: UK and US regulators can mitigate frictions created by their rules (or by the dual application of their rules) by means of regulatory recognition measures, such as substituted compliance, deference and mutual recognition, as discussed in detail in the UK Finance Trade Report.

- **Harmonized Regulatory Framework**: The development of a more harmonized regulatory framework that bridges disparities in capital, resolution planning, the use of external credit ratings, variances in external TLAC calculations, and other areas.

- **Bilateral Agreements**: The use of bilateral agreements and memoranda of understanding to underpin clarity and consistency in regulatory requirements and processes.

Chief among the options available is enhanced regulatory dialogue, particularly as the prospects for a formal bilateral free trade agreement or similar arrangement are, at present, limited. As discussed above, the implementation of the Basel III endgame reforms presents a unique opportunity for UK and US regulators to revisit existing frictions between the two jurisdictions and minimize the introduction of new ones.

6. Conclusion

The frictions set out in this report between the UK and US regulatory regimes present challenges for global banks operating in both jurisdictions. Regulators should not only acknowledge the scope of these challenges but explore the tools to address them. Otherwise, these frictions can unnecessarily restrict growth, stifle the development of innovative products and services, impede healthy competition, and lead to fragmentation between the two markets that continue to host the world's leading banks.