

Treasury Committee

Oral evidence: the Financial Services and Markets Bill, HC 756

Tuesday 11 October 2022

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Members present: Mel Stride (Chair); Rushanara Ali; Anthony Browne; Gareth Davies; Dame Angela Eagle; Emma Hardy; Kevin Hollinrake; Julie Marson; Siobhain McDonagh; Alison Thewliss

Questions 1 - 88

Witnesses

I: Andrew Griffith MP, Financial Secretary, HM Treasury; Rohan Lee, Deputy Director, Financial Services Strategy, HM Treasury.

Examination of witnesses

Witnesses: Andrew Griffith MP and Rohan Lee.

Q1 **Chair:** Good afternoon and welcome to the Treasury Select Committee and our evidence session on the Financial Services and Markets Bill. I am very pleased to be joined by two witnesses. I will ask them to briefly introduce themselves for the public record.

Andrew Griffith: Andrew Griffith, Financial Secretary to the Treasury.

Rohan Lee: Rohan Lee, deputy director for the Financial Services and Markets Bill.

Q2 **Chair:** Welcome to you both. Thank you for appearing. We have agreed to finish at 5.30, as we previously discussed.

Can I start by making an observation that many people have made? This new Government have had a very radical approach in many ways to many things. When it has come to our institutions, they have stepped in, in a very forthright manner. During the leadership contest, comments were made about the independence of the Bank of England. We have seen a certain attitude towards the Office for Budget Responsibility and whether it should have provided a forecast alongside the Chancellor's statement on 23 September.



HOUSE OF COMMONS

We had some comments some time ago about possibly amalgamating the FCA, the PRA and the Payment Systems Regulator. We have had the summary dismissal of the Permanent Secretary, Tom Scholar, from the Treasury. It has left some wondering what respect there is from this Government towards the independence and importance of our financial institutions. Andrew, what do you feel about those charges? Is everybody barking up the wrong tree? Or is some of it, at least, fair comment?

Andrew Griffith: First of all, thank you very much, Mr Chairman, and thank you for the work of this Committee. I have inherited what we are talking about here today, which is the Financial Services and Markets Bill. That brings in a lot of the work about the future regulatory framework that this Committee has previously reported on, and I would like to pay tribute to my predecessor as Financial Secretary to the Treasury, the hon. Member for Salisbury, who served this Committee and the Treasury for many years and has left the Bill where it is today to come forward.

I have the greatest respect for our independent regulators. They do a very difficult job. They spend probably more time than they would like in front of this Committee as well. We have a rich and very subtle tapestry of shared regulation in this country. I am now very proud to be responsible for fostering the growth of our fantastic financial services industry going forward. One of the ways it competes in the world is the very highest standard of regulation, to make sure that we have clean and efficient markets, and they are a really important part of that.

Q3 **Chair:** Do any of the points that I raised earlier about the various things that appear to have happened in respect of the Treasury, the OBR and the Bank of England trouble you, or are you comfortable with how the Government have approached it to date?

Andrew Griffith: What would trouble me is if anybody called into question the professionalism, the strong duty of care and the operational independence with which our regulators operate. This Committee knows that I am relatively new in the role. I have spent quite a lot of time with all of the different regulators.

Q4 **Chair:** When Tom Scholar was fired on his first day, did that bother you?

Andrew Griffith: With respect, we are here to talk about the Bill. You would not particularly expect me to comment on individual matters. I was not party to them. My point is that high-quality regulation of the sort that we want to modernise in the Financial Services and Markets Bill and that we are here to talk about today is a really important part of the financial ecosystem of this country, and that is a very shared objective. It is a shared objective with Treasury colleagues, with this Committee, which puts a lot of time into making sure we get that right, and with the regulators. I understand that you are trying to bring in a much wider set of pieces.

Q5 **Chair:** The reason I mention that is the approach informs the detail to come to the Bill. It involves what the balance should be between the



HOUSE OF COMMONS

independence of the regulator and the ability of, in this instance, the Treasury to intervene and dictate to otherwise independent regulators. I was just interested in where you were in general terms and what you thought about the various points that I raised, upon which you presumably must have a view.

Andrew Griffith: Some of those are within my swim lane. As Financial Secretary to the Treasury, I am responsible for the day-to-day operational relationships with the regulators, particularly the FCA and the PRA, less so with the Bank. The Governor speaks not just to you but to the Chancellor, and I am sighted on that as well, but some of the matters you talked about are fully outwith the domain.

Q6 **Chair:** You have views on education, presumably, and on transport. You used to run the policy side in Number 10, so you must have views on the approach to the Bank of England and our regulators and institutions.

Andrew Griffith: I have views and, probably more relevantly, experience of operating regulated industries such as media and broadcasting. That is where I spent over 20 years of my life before arriving in this place. In a very similar way, that was about having high-quality regulators that we all look to in society to make sure we deliver fair outcomes for society. That was also a balance in terms of those who we elect to make public policy decisions. There is important policy and there are operational decisions, and it is quite right that we draw a distinction between those two and that we respect all of our regulators and give them the space in which they can do their best job, because that is how we, as country, will compete very successfully. We know in this group that financial services is between 10% and 11% of the whole of our economy, so if we do not have successful financial services, we are not going to achieve any of our objectives around growth, prosperity and high-quality public services.

Q7 **Chair:** Let us both agree, as I think you are saying, that it is really important that we have independent regulators and that we support the institutions that underpin the confidence that markets have in our economy. That is probably one of the important messages that there has been over the last few weeks. Perhaps I could just leave it at that.

Coming to the Bill, what we had in the original draft was a power that the Treasury would have to direct the FCA, PRA, et cetera, to look at some of its regulation, review it and form an opinion after that review, but not necessarily be mandated to make any changes as a consequence. Is that broadly what clauses 27 and 28 are driving at?

When Richard Fuller had your responsibilities, he informed the House that, in Committee, an amendment would be brought forward that would give powers to the Treasury to mandate changes in regulations from those independent regulators. Could you talk us through the reason for the shift? What was the thinking? Originally, you did not think it was necessary, but then you decided it was necessary.



HOUSE OF COMMONS

Andrew Griffith: I am not fully sighted on the chronology. As this Committee knows, we have had a number of Chancellors in recent periods. What I can assure you is that this was not something that arose merely in the last few weeks. There is a clear thread of work on what people are referring to as the intervention power that goes back to the last Chancellor but one. My predecessor talked about that as early as June of this year.

This is not uncommon. We are engaged in the endeavour of bringing many years' worth of European regulation into UK law—thousands of clauses on something that touches the lives of every single person in this country. Financial services are in the business of transferring risk. Often within those different risk clauses, there are public policy considerations.

We want absolutely operationally independent regulators. We do not want Ministers interfering in the day-to-day of regulatory decisions. That would be, in my view, wholly wrong, but it is not uncommon, both in this country and in other common law jurisdictions, to have what I would term as a public policy safety valve that says that we cannot preclude the possibility that there may be some matters of great public policy that this Committee or Parliament, as directed by Ministers, may want to opine on.

I have thought about this hard, Mr Chairman, to try to bring it to life, but also something that was not too in the here and now. We have seen enormous advances in genetics. One of the domains that this whole piece of legislation regulates is insurance. It is not beyond contemplation that, in the future, genetic fingerprinting and the ability to predict how different groups in society are differentially affected by disease or by different life outcomes might have very public policy outcomes that are not within the weeds of individual insurance legislation. That is an example where we may all wish that there is something like the power that is being contemplated. That is just one example, and I accept that it is abstract.

Q8 **Chair:** What was the eureka moment that made the amendment come forward?

Andrew Griffith: It pre-dated me, so I am literally unable to tell you that. I have tried to give you an example of a public policy consideration that would be a justification for having what I regard as a safety valve amongst this huge corpus of work. The Bill itself is very substantial but, as this Committee knows, the Bill does not have the vast body of the detailed law and directives in it.

Q9 **Chair:** The amendment itself has not been tabled yet. Is that right?

Andrew Griffith: It has not, but the commitment is that it will be tabled during the Committee stage.

Q10 **Chair:** You may or may not be able to say too much, but can you give us a sense of the nature of this power and how it will operate, and how Parliament—the House of Commons in particular—will feature within the



mechanism itself?

Andrew Griffith: That would be premature. I would hope that there is an opportunity to consult with you and others around that. That will ultimately be for the Chancellor to decide. That moment is coming because we are entering the Committee stage, but I have couched the Bill today—and I believe this would be consistent—as something that would, first, be used sparingly, and secondly, would be very much public policy-led. I reiterate my earlier comments that I have never heard any intention that this interferes with what I would call operational matters, such as rulings on individual firms or products.

Q11 **Chair:** Would you accept that the circumstances under which this power might be used—that is, to direct as opposed to seek a review of regulation—would probably be a situation where the regulator was not up for the change, frankly? Otherwise, they would not need to be mandated to make it; they could just review and make the change anyway. It would be something significant, and under those circumstances you would expect some involvement from Members of Parliament, even if it was just a negative SI or some form of mechanism through which the voice of Parliament could be fed into that process. Would you accept that as a basic principle?

Andrew Griffith: That is a fair observation. The term that I would use is not necessarily that this is something that a regulator would object to, if I may clarify that. It could be a public policy ground that the regulator neither assents nor objects to, but simply feels it is above their pay grade, as it were, and that is something on which an elected official, no doubt influenced by Parliament, should rightly make that decision, because of its public policy nature.

Q12 **Chair:** It sounds like you are warm, at least, to a consideration of the idea that Parliament will be perhaps involved.

Andrew Griffith: That is fair. I do not want to be overly coy. Ultimately, we should bring forward that description as to how it would work.

Q13 **Rushanara Ali:** I have some further questions on this topic. Minister, can you talk us through what the definition of “significant public interest” would be in this context?

Andrew Griffith: I cannot, I am afraid. That would take us too far down the road of a clause that does not yet exist.

Q14 **Rushanara Ali:** Is it because you do not know yet and you need to do more work on this to define what it is?

Andrew Griffith: Yes, that is exactly right. This is work that I and my officials will be doing in real time over the next few weeks. The purpose of the Committee stage will be to give that scrutiny in more detail.

Q15 **Rushanara Ali:** You will have to have that discussion with your officials to give them an indication of what sort of categorisation “significant



public interest” would need to be and to give them a steer. How would you give them a steer? What would that look like? Give us an idea of what we are trying to achieve here with that term.

Andrew Griffith: I am trying to be as helpful as I can to the Committee. One of the steers that I would give to officials is to look at analogies, not just in other common law jurisdictions—which is always a good place, rather than always reinventing fire—but also to look at other similar duties. For example, the Enterprise Act has the ability for the Secretary of State to call in an investigation that the CMA has looked at. Without being overly familiar with the wording there, that is something that I would look at to see what are either the fetters or the definitions before that can be used.

Q16 **Rushanara Ali:** Are there any other examples that you could give to illustrate what “significant public interest” might mean? Quite a lot has gone on over the last decade during the financial crisis and so on.

Andrew Griffith: It is tempting, and I would love to help the Committee. I fear that this is just a little premature and I do not want us this afternoon to try to draft this by Committee.

Q17 **Rushanara Ali:** The Committee needs to have a sense that you have a good sense of what you are trying to achieve with this, and I would have hoped that you could come to this Committee with some idea of what “significant public interest” means. This is going to have an impact on the balance of powers between the regulator and its independence and what Government Ministers may or may not do.

Moving on, will the Government carry out consultations on the proposed changes to the regulators’ rulebook prior to making such changes?

Andrew Griffith: We will table the proposed amendment to achieve this during the Committee stage, and Parliament will have the opportunity to talk about that during the Committee stage.

Q18 **Rushanara Ali:** So there will not really be a consultation. It will just be the legislative process, not a consultation.

Andrew Griffith: It will be the legislative process. As part of that, because the Bill has only had a Second Reading, Parliament will have multiple—

Q19 **Rushanara Ali:** That is not really a consultation. You will know, Minister, what the process of an actual consultation is. What you are saying is that that is not what this is, so the answer is basically no.

Andrew Griffith: There have been many consultations in this domain, and many of the respondents in those consultations have suggested something like this. It is important to get it right, and a good mechanism from where we are now, with the Bill about to start, is to use—

Q20 **Rushanara Ali:** Minister, I am just trying to understand better how this is going to work. How you do it is in your gift, but a formal consultation is



HOUSE OF COMMONS

quite different from what you are describing, so it will not be that kind of consultation but will just be within the legislative framework. It is not really a consultation. It is scrutiny, not consultation.

Andrew Griffith: It will be the kind of parliamentary scrutiny that we are all very familiar with.

- Q21 **Rushanara Ali:** You are talking about scrutiny, not consultation. Will the Government have to carry out their own cost-benefit analysis of changes that they instruct regulators to make to their rules?

Andrew Griffith: Again, I want to be helpful. I assume that is a suggestion from the Committee, which we will take on board. You are asking me to describe into abstraction a clause that does not yet exist.

- Q22 **Rushanara Ali:** Hang on a minute. The thing is that your predecessor talked about this change that is going to happen. There are legitimate questions about costs and benefits, and changes to regulation. It seems like an obvious thing to be able to answer. I appreciate that you are new to your brief, and if you want to think about it and come back to us, you are very welcome to do so, but it would be helpful to understand whether any thinking has gone on in doing this. It is quite a substantial change that you are proposing to make.

Andrew Griffith: It is quite a substantial change. That is why we have committed to table this during the Committee stage, which will mean that Parliament has multiple opportunities to comment on it.

- Q23 **Rushanara Ali:** But you had the opportunity to, at that point, state whether there will be a cost-benefit analysis associated with it.

Andrew Griffith: Absolutely.

- Q24 **Rushanara Ali:** Do you think you might be minded to do that?

Andrew Griffith: That will be the moment to opine on whether one is minded to do that, and I am very open to representations from this Committee.

- Q25 **Rushanara Ali:** When making rule changes, will the Government pay compensation to firms that have invested in products based on the rules within the regulators' rulebook? You will appreciate why that is really important for firms that work within the current rules.

Andrew Griffith: I am not sure that I fully understand the question, in truth. Sorry.

- Q26 **Rushanara Ali:** Okay, I will try again. If you are a business, you are basing your decisions and plans on current regulation. If there is a change because of this provision, that could lead to a material cost to those companies. Are you going to put something in the provisions to make sure that those companies that find themselves in that position, where a rule change has a material impact on their company because of that decision, will be compensated? It is a very legitimate question,



HOUSE OF COMMONS

because otherwise you could have a situation where that interference and change in regulation has a negative impact on those companies. It is not that complicated to answer.

Andrew Griffith: At the moment, the regulatory rulebook changes all the time. It changes at the direction of the regulators themselves. We would not be directly reaching in and talking at the individual firm level. The firm-level relationship would stick with the regulators as now, and any protections that firms would have would be as in the current regulatory rulebook.

Q27 **Rushanara Ali:** Minister, can I take it that you are suggesting that whatever changes you make will be cost-neutral to those that are affected, if there is a change?

Andrew Griffith: That is not my understanding of the regulatory rulebook today. The regulators make changes. No doubt many members of the Committee will urge the regulators to make changes on all sorts of things—financial inclusion or access to cash—that have impacts on regulated entities.

Q28 **Rushanara Ali:** Minister, we are talking at the moment about the independence of the regulators and a new power that Ministers will have, which is very different from the current arrangement. That is why these questions are legitimate and you need to consider them. I appreciate that you are new to the job, but we really need Ministers to think about them.

Speaking to the Chair's remarks at the beginning, unfortunately the actions of Government Ministers recently—I am talking about not you but some of your colleagues—have undermined confidence in whether they value the independence of these institutions. That is why it is really important for us to be assured that the actions you take in these provisions are going to get the balance right. That is why I am raising those questions.

Let me move on to a couple of other issues. One is the Online Safety Bill. You will be aware that there is almost unanimous cross-party agreement in this Committee, along with the FCA, that we felt it was important that the Online Safety Bill ensures there are changes made to prevent the advertising of fraudulent financial products. We brought in some of those companies that are responsible for hosting. It has defrauded our constituents of thousands of pounds.

With the Bill now being suspended—we do not know for how long and what is going to happen—you have this opportunity with this Bill to bring it in. I understand that it would be within the scope and the FCA wants it. Would you consider taking the work that has been done and incorporating it into this Bill, because it would be a great help for tens of thousands of people up and down the country?

Andrew Griffith: I absolutely agree with you about the harm that is caused and the lack of proper regulation in this space that is perpetrating fraud and difficulty on all of our constituents. I will have to simply take



under advisement where we end up on the Online Safety Bill. You will understand that is well outwith my swim lane in the Treasury. If there were a decision not to take that forward and there were proposals that were practical to take forward in this Bill, I would certainly be open to looking at those.

The harm is well understood. All of us would desire—it is a cross-party point, exactly as you say—action to be taken.

Rushanara Ali: You will have the full support of this Committee.

Andrew Griffith: There are some measures in this Bill that allow the FCA to have a broader range of regulation of financial promotions. That is obviously something I welcome.

Q29 **Rushanara Ali:** I have one last question. The current situation with mortgages and mortgage rates increasing is affecting anyone who has a mortgage in the country. You will be aware of the work that I and Kevin Hollinrake have done over many years to raise the issues of mortgage prisoners and the fact that they have been stuck on standard variable rates. Some of the changes that we campaigned for around the relative test, around affordability, have helped some people, but not many and not enough.

Given what has just happened, with mortgage rates going up further, this is going to lead to a massive problem, even more so than before. Is that something that you could look into and look at what more could be done to help those who are in that position—who are trapped in mortgages? I suspect there will be others who will be caught up now, through no fault of their own, given the current situation.

Andrew Griffith: It is a very difficult situation. I would be very happy to meet with you and go through that. I have read into the situation. It would be wonderful if there were, but there is not a single silver bullet that deals with all the different use cases. I am very well aware of the work that you have done in this space and I would be happy to meet with you and see if there is anything that we could do that could help.

Q30 **Dame Angela Eagle:** Minister, on dealing with regulators, could you tell us whether you anticipate that the FCA, the PRA and the Bank of England—the current regulatory structure—will remain broadly as is, despite the changes that are incorporated in the Bill that we are talking about today.

Andrew Griffith: I was with you until you said “despite”. Yes.

Q31 **Dame Angela Eagle:** The structure is going to be the same.

Andrew Griffith: That is my belief and a desired outcome. I want regulators that have the right resources, that are focused on the big things that matter and are able to discharge their duties at pace, because that is important in a dynamic economy. I do not seek disruption from what we always know, which is that when one tries to reorganise things,



HOUSE OF COMMONS

you lose the best people. It takes a vast amount of time, effort and cost and does not always achieve the objective.

My objective is to build a really good working relationship with the regulators. It is a shared duty. All of these things are about balance. They are about working well together, accepting that we have a nuanced set of objectives and making sure that we can get on and do that. If that gives them more psychological safety to get on and deliver the outcomes that we seek, that is only a good thing. I have certainly heard that from the Chancellor, so I am very comfortable sharing that with the Committee today.

Q32 Dame Angela Eagle: That is good news that we are not going to be in a completely shifting circumstance. The decision to get rid of all EU retained law by the end of the year was announced at the Conservative party conference. I hope that is understood to be next year, rather than this year. I wonder whether you might confirm that.

Andrew Griffith: I can confirm that. That is two things, I hope, that we have been able to make common cause with the Committee on today.

Q33 Dame Angela Eagle: I did not say I agree with all of it; I am just trying to establish that there are actually some spades in the ground to keep things in a decent structure. Do you see any actual cost involved in getting rid of all EU retained law with respect to financial services by replacing it with new and so far unwritten law? Do you think that creates uncertainty and extra cost for UK financial services businesses?

Andrew Griffith: The approach in this Bill is absolutely to minimise uncertainty. I do not want to create any uncertainty. I do not want people not being able to sell their products, which are valued by consumers and provide an important certainty to the economy. The approach in the Bill has been to provide, with the powers, the ability to maintain regulation where necessary. I do not seek, and neither does the Chancellor, divergence for its own sake, I promise you. Remember, this is the first time this Bill has been updated since the FSMA 2000, so this is much wider an opportunity than simply cutting and pasting EU law and making some changes.

This takes on board the ubiquitous internet, the rise of smartphones, machine learning, the ability of people to put together large exchange-traded passive portfolios—all of these things. The FSMA Bill was, from memory, about seven years before the first iPhone. The world has changed. We have a great opportunity, working together, to produce a piece of fit-for-purpose legislation that takes us forward.

As part of that, we need to deal with the issue of what we do with retained EU law. The Bill is pragmatic in that respect and the Government will come forward with opportunities, having consulted endlessly with industry—there have been a great many reviews, and this Committee will no doubt have seen many of them and heard some of the witnesses—and



HOUSE OF COMMONS

this is an opportunity to bake forward some of the work that people such as Lord Jonathan Hill and Ron Kalifa have done, or the Skeoch review. It is an opportunity to advance some of these things that are otherwise just sitting gathering dust on the shelf.

Q34 Dame Angela Eagle: There is plenty in that that we could all support, but I suspect that financial services firms probably do not want everything to be up for grabs all at the same time by the end of this year.

Andrew Griffith: I share that objective. I absolutely share that objective.

Q35 Dame Angela Eagle: I would have thought it would be more of a progressive “Let us look at this area; let us look at that area,” rather than wanting to sweep away all EU retained law so that you can say you have done it by the end of next year. Many of these companies will have to retain their structure under EU law if they want to trade with the EU, for example.

Andrew Griffith: That is absolutely the objective. There is no desire to sweep everything away. This gives us the power and, in respect of each piece of EU law, we have the choice to retain, and it becomes part of the UK rulebook, repeal or reform. That seems to me an entirely pragmatic way of approaching what is a vast corpus of law.

Dame Angela Eagle: There is 40 years of it.

Andrew Griffith: Let me restate that there is no desire to diverge for its own sake. We will take a pragmatic, fact-based approach and we will do so in extensive consultation with industry and consumer groups—I mean all stakeholders.

Q36 Dame Angela Eagle: That is good to know. On the switch that my colleagues were talking about, when you were saying that this new clause would appear as part of scrutiny of the Bill, you meant in the Commons and not the Lords, did you not?

Andrew Griffith: I did. Forgive me.

Dame Angela Eagle: I just wanted to establish that.

Andrew Griffith: I meant in the Committee stage. That is the commitment that my predecessor gave.

Q37 Dame Angela Eagle: Often we get these things put into the Lords after they have gone through the Commons and we do not really get much of a say. It is going to be introduced during the Commons stage.

Andrew Griffith: That is the commitment that was given by my predecessor.

Q38 Dame Angela Eagle: Another area that I am particularly worried about are the quite wide-ranging Henry VIII powers in the Bill, particularly



clause 8, where the Treasury is taking to itself powers to introduce criminal statutes without reference to Parliament or anywhere else. This is very concerning to me. Can you give us some views of why the Treasury believes that it is appropriate for it to take these very wide-ranging powers, which include criminal sanction?

Andrew Griffith: There is a balance. I believe in the importance of parliamentary scrutiny. We are doing that today and Parliament, of course, has the ability to summon and debate things at any time. There is also a huge body of law here that we are dealing with. To not take that power would simply run the risk that it were needed at a future point in time and it was not possible to have primary legislation on a timely basis—we know that takes a long time. There is a huge amount that is in scope for this Bill. I do not know if there are any more technical points that Rohan wants to make.

Q39 **Dame Angela Eagle:** I worry about your view that there are not chances to take powers through the normal parliamentary routes. The Treasury does more Bills than most other Departments. It has several points in each parliamentary year where it has Bills before the House, not least because of Budgets and other things like that. It is also one of the more powerful Departments that can argue for a piece of legislation any time it wants, in my experience. Why, in those circumstances, do you feel that it is acceptable for this particular Government to take powers to write into law, without reference to this Parliament directly, criminal offences?

Rohan Lee: Clause 8 is a very specific part of the Bill that introduces the designated activities regime. This is designed to address a number of wholesale markets regulations that came out of the European Union, where the regulators do not currently have sufficient powers to replace those, other than going through the regulated activities order that would have required all these firms to be authorised.

Clause 8 creates a designated activities regime for activities that are done by wholesale markets participants. The example we often use is car manufacturers using contracts to hedge the price of metals, et cetera. It is a very specific type of activity.

The expectation is that the power currently included there around criminal activities is to replicate existing criminal sanctions that are currently set out in the existing EU regulation. We would be happy to write to the Committee and explain that in more detail.

I would also note that there is quite a lengthy delegated powers memorandum that has been submitted to the Delegated Powers and Regulatory Reform Committee for scrutiny. This is something we considered really seriously in setting up the designated activities regime, because it tackles a very specific set of regulations coming out of the EU.

Q40 **Dame Angela Eagle:** Do you not understand that, as a Parliament, we are hardly likely to be very happy with the Government taking on even



HOUSE OF COMMONS

more powers to write its own legislation without reference to Parliament at all? Surely there is a way that we could think of, short of taking these kinds of powers, to deal with that very specific case. It is convenient for civil servants—do not get me wrong: it is great to be able to write your own law and dispense with Parliament altogether—but that does not lead to the best kind of solution.

Andrew Griffith: Your point is well made about the importance of parliamentary scrutiny and not giving Ministers too many unfettered powers. That is very understood.

Q41 **Dame Angela Eagle:** The powers to write the law with respect to criminal sanction without reference to Parliament—that is what we are talking about.

Andrew Griffith: That is correct. The reciprocal is that some of these powers have a very important job of keeping markets clean and regulating behaviour. Bluntly, one does not want to be in a position of sitting here, in many years to come, with the regrets of saying, “We could have had that power. We could have closed that gap. We could have taken action when we had the chance, but we did not put that power in the Bill and now bad outcomes have happened to customers or to the integrity of financial markets because we did not have that power.”

Q42 **Dame Angela Eagle:** Without getting too technical, it is possible to write legislation with statutory instrument powers that can be done very quickly to deal with this kind of issue, where at least you have to put something through Parliament. Why on earth can we not do it that way?

Andrew Griffith: I’ll let Rohan clarify that and then I am happy to take it offline.

Rohan Lee: It would be the case that, in designating any activities to sit within the designated activities regime in clause 8, the Treasury would need to put forward a secondary instrument via affirmative procedure in order to designate an activity within that regime, so Parliament would have the opportunity at that point. In the same way the Treasury brings activities into the regulated activities order, we would expect that to follow public consultation in the usual way. There would be opportunities for Parliament to engage during that process.

Chair: It would be useful for you to write to the Committee on that point, because there are a lot of moving parts there to cover. Thank you very much for that offer.

Q43 **Kevin Hollinrake:** Andrew, you said a few minutes ago, in answer to Rushanara’s question about mortgage prisoners, that there was no silver bullet solution—I think you used that phrase—but there is. There is one that was passed in the Lords, a couple of years ago probably now, which was a cap on the standard variable rate, on the margin above base rate, so 3% over base, for example. I understand you are early into the job.



Andrew Griffith: No, I have read up on this. To clarify, I mean that there is not one single indistinguishable cohort and therefore we need to look at the different reasons why people are in that situation and what their particular opportunity may be, whether it is to move somewhere else, whether they are unable to service their mortgage or whether it is simply a matter of the rate. As I said to Rushanara, I am happy to take that offline and look at what would be suitable. One would be cautious about a single global solution unless one could be convinced that that was going to be proportionate in that situation.

Q44 **Kevin Hollinrake:** There is probably the thick end of 200,000 people and the current provisions that have been brought forward have helped a handful, a few hundred. It is just not right. A predecessor of the Chair of this Committee was given assurances by UK Asset Resolution that, when these loan books were sold to Cerberus and the like, they would have access to market rates, and that is not the case. It is unconscionable.

Andrew Griffith: You have clearly done a lot of work on this, Kevin. We have tried to reach out and connect. I am very happy that we continue to do that, if that is okay.

Q45 **Kevin Hollinrake:** Could I clarify something you said to the Chair a few minutes ago in response to the question about the call-in powers? I think the Chair said—I will not put words in your mouth, Mel—that when these powers were used, there would be a process for that individual power that was used to come before Parliament. Is that what you meant? I think that is what you said. Or is it the broad powers within the Bill that will come before Parliament? What were you meaning by that? If you decide to change something, in terms of Solvency II or something, through these kinds of powers and ask the regulator to do something different, would that individual measure come before Parliament in some form or other?

Andrew Griffith: That was not what I was implying. On the principle of an intervention power, I already put some codas around it earlier: that I thought it would be used sparingly and principally on public policy grounds, and it is certainly not interfering in operational decisions. Nor, by the way, I should be clear, is it interfering in monetary policy; this is something purely on the regulatory side. Given that we do not have the text today, by pointing to those codas I am trying to help the Committee understand a little bit.

Q46 **Kevin Hollinrake:** I am trying to clarify your evidence. You are saying that the individual measures would not necessarily come before Parliament.

Andrew Griffith: I would not expect the individual measures to come before Parliament, unless Parliament used its own ability to call for those. I am talking about the scope of this measure. The call-in reference was referring to the Enterprise Act. I think this has been more colloquially termed as an intervention power. The text of that, when complete—it is



for the Chancellor to ultimately make the decision as to the right form of that—will then be made available to Parliament. I am very happy to simultaneously write to this Committee to share that text, to ensure it is brought to your attention.

Chair: To clarify, my enquiry was about, in the instance where you use the power to mandate one of the regulators to change the rules, whether that would be a power that would involve Parliament in some form. That is what I was asking.

Q47 **Kevin Hollinrake:** Your answer is no, is it not?

Andrew Griffith: I was declining to comment on the detail of that. I was very keen to accede to the Chair's understandable request to appear before this Committee at the earliest opportunity. That is what we have done. Inevitably, there is one small flipside of that. The detail on many other matters is comprehensively covered in the Bill. In this particular matter, that detail is not yet available to us. I will make sure that, as soon as it is available, not only is it shared with Members but it is brought to this Committee's attention. Your points, as were the points made by Rushanara, are points that potentially would be covered within the wording.

Q48 **Kevin Hollinrake:** I will come on to my questions, which are on something else. I hope you do not think I have joined the anti-growth coalition—you could not be further from the truth if you thought that. I have particular concerns that this power—the call-in power, intervention power or whatever; the ability to direct a regulator—combined with the new secondary objective for international competitiveness, gives the Treasury a huge amount of new powers. I bear the scars of building a business through two major recessions, both of which were caused by poor, light-touch regulation. Are you not concerned about that at all? Is it not the case that, potentially, this move towards international competitiveness might be a race to the bottom in terms of regulation?

Andrew Griffith: No. I wholly resist that characterisation, in truth. It is very familiar territory for regulators to have multiple competing objectives. There are very few regulators that have just a single, solitary objective. We are very blessed by the quality of the people that we are able to attract to our regulators. I would include all of those I have dealt with in the financial services sector to date within that. There is always a balance to be struck.

I approached this debate thinking it was something other than what it actually is. If we look at the wording in clause 24(3) and clause 24(4)(b)(1B), which is the operant clause we are talking about, it explicitly says, "subject to aligning with relevant international standards". It is actually a subclause. The clause on competitiveness and growth is actually a subordinate clause grammatically to "subject to aligning with relevant international standards".



HOUSE OF COMMONS

I would not accept that characterisation in any case, but that should help people who fear or mischaracterise this as justification for a race to the bottom. That would insult the intelligence of our colleagues in the regulatory domain.

Q49 **Chair:** How is the word “relevant” defined in that? You read out “relevant international” rules or whatever. How do you define the word “relevant”?

Andrew Griffith: I do not, but the regulators would. Ultimately, they would be the arbiters of that. All of this is done in a sensible fashion and that is the tradition and heritage of the regulatory matrix that we have. People should not be concerned by that and it would be for the regulators to interpret what they mean by “relevant international standards”. Since our regulators are well represented in all those senior bodies, you should have a lot of comfort that those would be the sorts of standards of the G7 and the G20—what this Committee would regard as the highest tier of international regulators.

Q50 **Kevin Hollinrake:** I would never insult the intelligence of the regulators and I hope you do not think I was doing that. Is it not the case, though, that regulators themselves have concerns about this measure?

Andrew Griffith: In the time I have been here, I have heard a balance of different views.

Q51 **Kevin Hollinrake:** That is a yes, is it?

Andrew Griffith: No, it is not. I have heard a balance of different views. Many people would be concerned about the mischaracterisation of this as a race to the bottom or some sort of bonfire. I do not think the detail of that clause lends itself to that construction.

Q52 **Kevin Hollinrake:** Why did Andrew Bailey say that we tried a competitiveness objective before and it did not end well, in this context? Why would he say that, if that was the case?

Andrew Griffith: He must speak for himself. He appears regularly before this Committee.

Q53 **Kevin Hollinrake:** You were talking about the regulators. You were saying that the regulators seemed to be happy with this, but they are not, are they?

Andrew Griffith: I am not going to engage in debates about fragments of quotes. I have tried to set out a broad stall, accepting that there is a continuum and that different people will have views on this. I have seen a lot of different representations from regulators, the sector and consumer groups about the merits of this. It is a perfectly legitimate debate but, with respect, I do not want to take a fragment of something that somebody has said and then try to take that out of context, or even in context. It would just be inappropriate.

Q54 **Kevin Hollinrake:** Is it the case that you are going to expect the



HOUSE OF COMMONS

regulators to look at every rule they have in their framework and make sure everything we are doing is competitive internationally? Is that what you are expecting?

Andrew Griffith: These are broad—I will get the wrong word—principles or objectives, and the regulators themselves translate that into their own specific objectives and principles as to how they go about their business.

Q55 **Kevin Hollinrake:** In other words, yes, the whole framework needs to be internationally competitive.

Rohan Lee: We would expect, as the regulators are undertaking rule reviews of specific areas or looking at a new area of regulation, that the new secondary objective would then apply in that context.

Q56 **Kevin Hollinrake:** Or if the Treasury determined they should look at something, for example.

Rohan Lee: Yes, quite, but it is not the case that from day one after the Bill receives Royal Assent they need to go through the entire rulebook.

Kevin Hollinrake: I understand that.

Andrew Griffith: It is not uncommon. You have to accept that regulators of all types have multiple objectives that they have to reconcile.

Q57 **Kevin Hollinrake:** Recessions are not uncommon either, caused by regulatory failure. You remember the light-touch regulation of a previous Administration that resulted in the catastrophic situation around the global financial crisis. My point with all this is that we have a headlong push for growth, which I understand—growth is good generally; it is a good thing—but business and the economy does not need five years of 2.5% growth followed by a 6% contraction that we saw post 2008. It took us five years to get back to where we were. The concern is that we push for short-term growth and weaken standards, which leads to some problem we have not yet perceived. You are not concerned about that.

Andrew Griffith: I am concerned that we get the best regulation we can. I talked about how that is a really important competitive factor in production of the UK financial services. I have talked about how, in my view, these things are always a balance. With respect, I do not accept your characterisation, partly because I point the Committee to those specific words about “subject to aligning with relevant international standards”. If people are concerned, it should be a source of great comfort to them that our regulators, who are well-versed in what international standards are themselves, would have no desire to engage in the sort of behaviour or reach the sorts of judgments that you would suggest would cause risk.

Q58 **Siobhain McDonagh:** I would like to ask you some questions about access to cash. How will the measures in the Bill secure access to cash and for how long—years, a generation or indefinitely?



Andrew Griffith: That is a very good question. Access to cash is an important part. As a country and an economy we are making very significant progress towards digital forms of payment. I do not think anyone wants to impede that, but we all have constituents who are vulnerable, who will not be able to make that journey in the same timeframe. I am very committed to access to cash. The Bill confers on the FCA a power or duty to bring forward protections around that—not just access to cash withdrawals but access to cash deposits, which is what will be needed for the retailers.

Q59 **Siobhain McDonagh:** It was clear from Second Reading that Members on all sides of the House wanted to add the little word “free” in front of access to cash. In Pollards Hill, quite a poor neighbourhood in my constituency, there are no free machines. There are people paying £1.99 a time to take out £10. Can the Minister assure us that this will be free access to cash?

Andrew Griffith: The truthful answer on that is that I would like to understand more. I am wary of creating unintended consequences. There are significant industry-led initiatives. If you have particular cash cold spots in your constituency, I am keen to use those as a test of the veracity and success of some of the industry initiatives of the cash access group.

Q60 **Siobhain McDonagh:** In Pollards Hill there is a lease agreement that prevents any shop on the terrace from having a free machine because there are two paid-for machines. We are asking people with little money, who get cash out regularly, to pay £1.99 a time. Also, will the proposals of the Bill give the FCA the power to stop the closure of cash access points, be it a bank branch, an ATM or other cash access services, where there is no suitable alternative in place? If not, how will they achieve their aims?

Andrew Griffith: Crudely, it will give the FCA wide-ranging powers to look at factors such as the location of cash. It will be accompanied by a clear policy statement from the Government, which will be published prior to commencement, which will update the problem as it is. As of today, there are some very good levels of access to cash, but there are some cold spots that we should all keep sight of. It will set out what the Government expect of the FCA in this area. The big picture is that this is a mechanism to give greater prominence and to bake into law what Committee members have been talking about, in terms of access to cash.

Q61 **Siobhain McDonagh:** The Bill sets out the framework, which aims to protect access to cash, but many critical elements, particularly the baseline geographic distances that will apply to withdrawal and deposit facilities, will be set out in a policy statement to be published by the Treasury. It is impossible, therefore, to give a definitive view on whether proposals will deliver an adequate level of cash access points. When will this draft policy statement be published? We all really would not like it if it came after Royal Assent, because we could possibly be voting for a pig



in a poke.

Andrew Griffith: There is a broad consensus on this. I attended the Second Reading debate and heard the views of Members very clearly. I do not think anyone has that intention. The fact that draftsmen have gone to putting the clauses in the Bill and the FCA has accepted the receipt of this duty should give you comfort, but I hear you, in terms of what you are saying about the policy statement. That is within our control and I am open to representations on that as well.

Q62 **Siobhain McDonagh:** I am sure nobody can be surprised to learn that the Post Office handled £3.45 billion in cash in August, the highest total since it began recording volumes five years ago. There is the cost of living crisis—people having jars for their different bills, back to, perhaps, the way that our parents ran their budgets. Do you agree that there is a societal duty for the Government to ensure that the most vulnerable people in our society have free access to cash and are not left behind?

Andrew Griffith: I was with you on everything other than the word “free”. The only reticence on that, to be clear, is the risk of unintended consequences. On financial services, there is always the balance. The danger of more obligations is that we leave some parts of society either unbanked or unprovided. Certainly, I would like to see some more data in this space before committing to that.

Q63 **Siobhain McDonagh:** You will know, Minister, that it is more expensive to be poor than wealthy, and that there is a poverty premium. I suspect that this will be an issue that people from all sides will be bringing up. Mitcham is about to have its last bank, which will be Lloyds. The bank’s lease expires in February. Can Mitcham and Morden be at the front for a banking hub?

Andrew Griffith: I am very keen on banking hubs. I would be very happy to work with you. It is not my place to dispense banking hubs, but I am very open to seeing what we can do. I can assure you that this is a problem that is very real and live in Arundel and South Downs as well, so the Committee has my empathy and support on this issue. There are some good innovations. You mentioned the Post Office; the Post Office is doing great work to help people to maintain access to cash.

Q64 **Emma Hardy:** On access to cash, I hope the Minister is able to have a quick look at the briefing from the RNIB that talks about people with sight loss and the importance of free access to cash. Since I am going to be on the Bill, that will be something I will be raising directly as we go through. When you take evidence, I hope you look at what the RNIB is saying on that.

Quickly, before I go into my main questions, I wondered if the Minister is still committed to finding an affordable solution for people impacted by the loan charge. I know that before you took your ministerial position you were quite outspoken on this, were you not?



HOUSE OF COMMONS

Andrew Griffith: That is not part of my portfolio. That is part of the portfolio of Minister Fuller.

Q65 **Emma Hardy:** As someone who has been outspoken on this issue before becoming a Minister, I am just asking if you are still committed to finding an affordable solution for the loan charge.

Andrew Griffith: I am a massive fan of focus. I have a big role to do. I have a large Bill to get on the statute book and a very significant sector. I am not being coy for the sake of it. That is in somebody else's portfolio and it is right that they make the decisions upon that. I am not appearing here today in anything other than my capacity as Financial Secretary to the Treasury.

Q66 **Emma Hardy:** I accept that, but you have publicly spoken in support of people affected by the loan charge. You know that there has been a ninth suicide from this, so I am asking if you are able to reiterate your support for people impacted by the loan charge and for finding an affordable solution to it.

Andrew Griffith: The Minister was asked this today at the Dispatch Box in oral questions and he mentioned—I cannot remember the exact form of words—that he is well aware of the distress that has been caused by this issue, as am I.

Q67 **Emma Hardy:** I would like to strengthen the Bill in respect of financial inclusion, and that is what I intend to do and work towards in Committee. The explanatory notes for the Bill look at four measures to support financial inclusion: access to cash, expansion of credit unions, better regulation of promotions and legislation on push payment fraud reimbursement. One of my concerns is that two of these measures are to do with fraud prevention and therefore are not really to do with financial inclusion. I wondered what your thoughts were. As the Bill stands, do you think the measures are sufficient, or are you yourself looking at other things that could be added to strengthen financial inclusion in this Bill?

Andrew Griffith: As I have looked at the Bill, one area that I am very keen to try to support as much as possible on behalf of the Government is credit unions and alternative providers—I get the name wrong every time—

Rohan Lee: CDFIs.

Andrew Griffith: CDFIs—forgive me. There have been a lot of Government endeavours to bring in things such as challenger banks and to have more competition in the sector. We should not overlook institutions that are already there and an architecture that is already there. I am very keen to see what we can do on that front. There are more powers for credit unions in the Bill.

Q68 **Emma Hardy:** Will you be providing resources for credit unions so they can train up staff to understand how to sell the new products that they



will be entitled to under this Bill? My other concern with credit unions is that they are actually looking at expanding the provision of hire purchase. There is a concern that that could be a new way to get people into debt, if we are looking at credit unions offering that. I wondered what your thoughts on those two aspects were.

Andrew Griffith: It is the sector itself that has led that debate. They are obviously social purpose companies, so I lean heavily into that. They will still be regulated, so they will be regulated by the FCA, as well as their own member governance. I would be very concerned if an issue emerged on that. The measures in the Bill in respect of credit unions respond to what the sector have told us and I hope are a way to either give them new sources of income or increase the reach of credit unions, because they play an important role in financial inclusion.

There are obviously other things that the Government are doing away from the Bill. There is a consultation going on on dormant assets at the moment, which the financial inclusion sector may well want to respond to.

Q69 **Emma Hardy:** If you have had a chance to look at our report on the future of financial service regulations, one recommendation we had as a Committee was to look at the FCA having regard to financial inclusion. In fact, it was something I was lobbying your predecessor hard on. I want to express my gratitude for him meeting me on this issue to discuss it in more detail. I am keen to pursue that. Would you not agree that having an overall remit for the FCA to have regard to financial inclusion could be one way to ensure we do not have these cold spots, in terms of access to cash, and that we have services provided to everybody who needs them?

Andrew Griffith: I am open to it. It seems to me that one challenge for our regulators is that we have collectively put many different duties and “have regards” and objectives upon them. We have to maintain the strength of the sector but also be realistic about what the regulators themselves can do. There is a danger that Ministers, but also this Committee, can tie them up with many different objectives or things to have regard to.

I would be very happy to meet with you, as my predecessor did. Also, my early conversations with regulators have indicated that they feel they already have the powers and duties that they seek. They feel that there is a lot in this space that they would naturally tack towards—things like consumer protection and financial inclusion.

Emma Hardy: I will take you up on that offer.

Q70 **Julie Marson:** We are short of time, so I will crack on about credit unions as a distinct subject. You say that you are responding to the sector’s desire to expand its services, HP agreements and insurance distribution. From the Government’s point of view, it is not purely a responsive measure, is it? There must be other things that the



HOUSE OF COMMONS

Government want to solve or achieve. Is it because you think there has been some kind of market failure or a gap in the market, or is it purely a growth objective or aim for the credit unions?

Andrew Griffith: My understanding is that all of the measures in this Bill have come from the sector, so they have not been top-down imposed by a Government blueprint. My support for those and appetite to listen to the sector and go further, if there is a case to be made, relates to this idea of having multiple different institutions. We know that some people in society, notwithstanding the provision of universal basic accounts, remain unbanked.

The rates of credit offered by credit unions are attractive compared with those from the commercial sector. Unlike those with different objectives and shareholders, they are able to take decisions in the interests of their members, rather than having to distribute profit. I am attracted by diversity in the sector. Credit unions are part of that. I do not know if that fully answers your question, but I want to reassure you that it is certainly not some desire to push them into a role that they are not comfortable with.

Q71 Julie Marson: This goes a little bit back to Kevin's point about growth and the implications of a "go for growth" agenda. Credit unions obviously provide essential services to many people who have debts or poor credit ratings and so on, so there is a balance, is there not? What are the risks and what is the Government's perception of the risks that this growth may have for those people and the chance of terrible problems, defaults and financial distress for those same people?

Andrew Griffith: I will be humble about my lack of detailed expertise. It will show anyway. By and large, we have not seen significant consumer harm from the sector. The sector has some well-capitalised professional operators and a tail that is much more in the voluntary third sector. Inevitably, just like charities, within that tail there will be consolidation and there will, from time to time, be failure. They are protected by the Financial Services Compensation Scheme. I would be happy to take it under advisement, but I am not aware of scenarios where consumers have lost money as a consequence of that. In terms of the general things like affordability tests, they remain under the FCA rulebook and umbrella.

Q72 Julie Marson: From that answer, are you comfortable with an increase in defaults because you have a compensation scheme to address that?

Andrew Griffith: I am comfortable with a financial services sector, in the round, that accepts a level of tolerable risk. That is a responsible thing to do, but it is also what is required if we are going to provide competitive products. I have not seen anything to date that says that by encouraging the growth of what is a very small part of the overall financial sector, in terms of credit unions or CDFIs, that is putting undue jeopardy either on individual consumers or the overall structural robustness of the sector.



Q73 **Julie Marson:** To complete that circle, we have heard evidence from credit unions—

Andrew Griffith: It feels like there is something that you are worried about that I am not fully assimilating.

Julie Marson: We have seen credit unions reduce. There have been some that have gone bust. They operate from village halls. They do not have the technology. What about that concern—that there is a risk to the credit unions themselves as well?

Andrew Griffith: I hope that broadening their portfolio of products will give them more resources, and a greater ability to invest in the training. It is also one reason why we have to keep an eye on things like the consumer protection rulebook. Although we all tend to want to layer in more and more protections, at the other side of that there is some small institution that is struggling to keep up with the compliance burden on that. The compliance burden may fall unduly on those that are trying to get credit unions off the ground and reach people at difficult times.

Q74 **Anthony Browne:** My questions are on fraud, which is the most common form of crime. You are legislating for banks to reimburse victims of authorised push payment fraud. Up to now, it has been a voluntary scheme by banks. Once you legislate, does this mean the voluntary scheme no longer has any purpose and can be wound up?

Andrew Griffith: I do not know. There are other voluntary schemes that end up being slightly duplicated by regulation. I have heard from banks, "We will have one or the other, but please do not make us engage with both, because we just want to understand what the single source of the truth is."

It is slightly disappointing in this domain that we do not have a single scheme whereby all of the sector can agree, because ultimately this is about where one draws the line between the responsibility of individual customers, facing very difficult and very sophisticated fraudsters, and the responsibility of individual banks to protect their customers while still allowing them freedom of action. That is where we are. Given that and the very significant rise we see in this terrible push payment fraud—we probably all have cases in our constituencies—bringing forward this scheme is the right thing to do. If that ends up replacing the voluntary scheme, so be it.

Q75 **Anthony Browne:** You talk about the line of where people get compensation or do not get compensation. Can you give any indication of where you think that line should be drawn? I know you are worried about the moral hazard of guaranteeing that people always get compensation, because then they won't try not to be victims of fraud.

Andrew Griffith: No is the answer. It turns very much on the process level—literally the font size, the colour that was chosen in a pop-up warning, the number of minutes elapsed between two different



transactions. I will stay out of that operational detail. It will be for the payment regulator in this case to come forward and engage with the industry, because there is a moral hazard piece and we have to get that right balance.

- Q76 **Anthony Browne:** In the voluntary scheme at the moment, it is the banks that send the fraudulent money that are the ones who pay compensation, not the recipient banks. The recipient banks are the banks that bank the fraudsters. They are the ones that hold the accounts of the fraudsters and the victims are the sending bank. Will you look, or have you looked, at the possibility that the compensation should be paid by both the sending bank and the recipient bank and split between the two, to make sure that the recipient banks—the banks that have fraudsters' accounts—have an incentive to clamp down on fraudsters as well?

Andrew Griffith: That seems like a very good point, together with the liability, in some cases, of online partners, which we talked about earlier today.

- Q77 **Anthony Browne:** Are you interested? Will you look at the issue of whether online partners will pay compensation? Was that asked earlier when I was not here?

Andrew Griffith: We talked earlier about the right way to try to introduce consumer protection and liability for online partners, whether that was the Online Safety Bill or whether, in default, this may be an opportunity—

Rushanara Ali: It is a good opportunity for you, Mr Griffith to get on with it.

Andrew Griffith: I undertook to look at that, not knowing what the exact status of the Online Safety Bill is.

Anthony Browne: There is a lot of work on this. Let us meet to talk about it.

Andrew Griffith: The point on shared liability is well made.

Rushanara Ali: Perhaps we will have a sub-Committee meeting with you, between the three of us, Minister, on these two items.

- Q78 **Gareth Davies:** I am very quickly going to talk about mutual recognition agreements, which are covered in the Bill. One of the opportunities of Brexit is that we can negotiate our own agreements. The Treasury's *State of the sector* annual report said this year that we should be looking to replicate the work done in respect of Singapore on data and Switzerland when it comes to FS. As the new Financial Secretary to the Treasury, which other countries do you or will you prioritise for future MRAs?

Andrew Griffith: There is a very significant opportunity in this domain; I am convinced of that. I would put it into two categories for simple framing for this Committee. One is in respect of other very advanced



markets with whom we already have sophisticated financial architecture in place, but trying to look at opportunities, where we can, to have passporting, to look at mutual recognition, to make the flows of capital or products easier. That is, of course, partners like the US and Australia, which has a similar common law background to us, and more work with Singapore and Switzerland. That is at one level.

The other, on a longer-term view, is that the UK financial institutions are the most international in the world. As we think about how we compete going forward as a nation, there are vast emerging capital markets in Africa, where people are accumulating savings at really quite prodigious scale, and in Asia. There, I want to support the endeavours of our financial services industry by putting in place agreements.

Q79 Gareth Davies: In terms of prioritisation, what would be top of your list, in terms of countries to launch a new piece of work on a new MRA?

Andrew Griffith: We have the bandwidth to do both. I do not want to draw an artificial distinction. The near-term substantial opportunities are in other highly developed markets. The maths would say anything we can do to reduce friction with those, whether it is the European Union or the US, is where you would go, but I think we can do both.

Q80 Gareth Davies: MRAs are known as living agreements, in that they can evolve over time. What role do you envisage Parliament playing in the scrutiny of MRAs going forward?

Andrew Griffith: It would be the full CRAG process. Parliament, of course, has the ability of the Order Paper—it can choose what it wants to debate—but certainly I am very committed to, on any MRAs, not just engaging with this Committee, because you have deep domain knowledge and expertise, but also the proper CRAG process in Parliament.

Q81 Alison Thewliss: I have some questions on crypto-assets as part of this Bill. Are you concerned that the partial regulation of crypto-assets, such as regulating stablecoins but not other non-backed coins like Bitcoin, may lead to confusion among the general public, who have been stung on many occasions already by this, as to which digital currencies are regulated and safe and which are not?

Andrew Griffith: I am concerned generically about the issues you talk about. I am keen that we bring promotions of crypto into the domain. Does this Bill do that, or are we going to do that anyway? The current unregulated promotions that we see are a concern. There is a big piece of work to do to try to educate people without stifling a market that is in its early emergent stages and, in terms of its form of distributed ledger technology or stablecoins, can have a huge positive benefit to the economy and for society. I am very keen that we do not stifle that unnecessarily, but also that we protect consumers. That is about information, having the right degree of warnings and making sure that the financial institutions respond to that.



Q82 Alison Thewliss: Is there not a risk that all the digital coins will receive a halo effect from regulating stablecoins?

Andrew Griffith: There is an endemic risk—I conceded that—so we need to manage that. We cannot just put our heads in the sand and say, “There is a risk. We will do nothing.” As we do in other domains, we need to work that through. There is an informal lending sector that is very bad and perpetrates all sorts of harm. We do not stifle any legitimate lending. We bring forward a corpus of regulation that allows people to distinguish between the two.

Q83 Alison Thewliss: Those that seek to exploit that kind of halo effect do it pretty effectively so far.

Andrew Griffith: They do it right now, so let us get this Bill on the statute book and be able to start making those regulatory calls.

Q84 Alison Thewliss: Why is it useful for the UK Government to introduce rivals to sterling?

Andrew Griffith: There are some very broad geopolitical concerns if the UK sits out indefinitely the ability to issue its own digital currency. Others will. You have to decide what you think the counterfactual is. If the counterfactual is that either private enterprises or states come forward with their equivalent currencies and the UK—either the Government or the Bank of England—has no play in that domain at all, you could end up in some quite difficult consequences in terms of macroeconomic policy, but also the ability to regulate individual transactions.

Q85 Alison Thewliss: The Treasury and the FCA are going to need significant technical expertise in order to establish an authorisation and supervision regime. It is a very different world to the world they currently operate in. How do you intend that they resource that, pay for that and attract the best people? It feels to me like the cowboys in this industry are a million miles ahead in terms of paying people better to do it.

Andrew Griffith: There is a tension, because those are very legitimate questions about their resourcing model and how people are paid. We also talked earlier about the independence of regulators. For the Minister to reach in and start talking about how they allocate that would be inappropriate. They have funding mechanisms. Within the Bill, we have the sandbox that will allow people to go up that learning curve.

At the moment, this is largely an unregulated space. That seems to me to be a problem. One thing that we, as parliamentarians, can do is step in and start to impose some order and some regulation. You are not wrong. There will be technological skills and financial consequences of that. We must support the regulators, but not to the extent of a Minister here talking about how they are going to disport their human resources.

Q86 Alison Thewliss: There are a whole load of extra responsibilities going in here. Are they going to have any extra resource?



Andrew Griffith: That is ultimately a question for them. They are an arm's length body. They have their own levy powers to do that.

Q87 **Alison Thewliss:** You are giving them more powers to do things though.

Andrew Griffith: With respect, this Committee is always agitating for them to increase their scope. Sometimes that means you have to make choices. Sometimes things move on and they focus more of their regulatory endeavour on a new and growing domain and less on something that is more mature.

Q88 **Alison Thewliss:** Surely regulating cryptocurrencies on the cheap is a recipe for disaster.

Andrew Griffith: I am sure they would resist the idea that that is what they would do. If they are given the regulatory powers and obligations, how they conduct their resources is either a matter for them—that seems to me the highest form of independence—or, if there is a conversation to have, it is certainly not a conversation that has been raised with me to date by the regulators. They have sometimes been concerned about the sheer number of different challenges that are thrown at them. They have not mentioned that. This is one they are keen to bring into the regulated domain. If there are resource trade-offs and calls, that is a conversation we should have.

Chair: That brings us to the end. Can I thank you both for appearing before us, but perhaps particularly you, Andrew? Thank you for making yourself available to appear before us at an early opportunity and for reaching out to me to offer discussions about matters that were within your remit. Those are good signs when it comes to scrutiny and we appreciate it.

We have covered a lot of ground today. This is a very important Bill and we are going to watch it very closely. We will probably also have some amendments that various members of this Committee will want to put forward. We would value an opportunity to discuss those with you as the Bill makes its progress. That concludes this session.