

Treasury Committee

Oral evidence: The crypto-asset industry, HC 615

Tuesday 10 January 2023

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Members present: Harriett Baldwin (Chair); Mr John Baron; Anthony Browne; Dame Angela Eagle; Emma Hardy; Danny Kruger; Anne Marie Morris; Alison Thewliss.

Questions 214 - 281

Witnesses

I: Andrew Griffith MP, Economic Secretary to the Treasury; Laura Mountford, Deputy Director, Payments and Fintech, HM Treasury; Daniel Rusbridge, Deputy Director, Financial Services Strategy, HM Treasury.

Examination of Witnesses

Witnesses: Andrew Griffith, Laura Mountford and Daniel Rusbridge.

Q214 **Chair:** Welcome to our first session of 2023. I wonder if we could start by asking the witnesses to introduce themselves.

Andrew Griffith: Good morning. I am Andrew Griffith, the Economic Secretary to the Treasury and City Minister; I think that is the colloquial expression.

Laura Mountford: I am Laura Mountford. I am the deputy director in the Treasury for the payments and fintech team.

Daniel Rusbridge: I am Dan Rusbridge. I am the deputy director for financial services strategy in the Treasury.

Q215 **Chair:** This morning, we are going to cover two topics. We are going to start by covering the Edinburgh reforms and then move on to crypto.

Congratulations, Andrew. You were appointed on 27 October last year to this new role. On 9 December, the Edinburgh reforms were announced. How much of that package of reforms had been put into draft form before you took on the role, and how much did you shape it in that interim period?

Andrew Griffith: The Edinburgh package of reforms is an ambitious package. It brings together a lot of workstreams, some of which this



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Committee has been involved in. It is the manifestation of the recommendations, and so I, my officials and ministerial colleagues drew upon work that had been done by, for example, Lord Jonathan Hill and Sir Keith Skeoch, when we looked at ring-fencing, and some of the work that was done on fintech.

There has been a big body of work that, effectively, awaited in the in tray when this new team came into position. The Chancellor was keen to make the most of the opportunity. We have the Financial Services and Markets Bill. Again, this Committee has spent a lot of time on that, and that is the mechanism by which a lot of the reforms within what is known as the Edinburgh reform package will be delivered—not exclusively, but it is the mechanism that will give Treasury and the regulators the ability to implement the Edinburgh reforms.

I should say, before concluding, that it is a big priority for the Chancellor and me during calendar 2023 to turn what was an announced set of ambitions or decisions into something that the industry, consumers and the UK economy feel the benefit of. That is top of my to-do list for 2023.

Q216 **Chair:** It will be done by the end of 2023, then.

Andrew Griffith: I suspect that our work is never done. I certainly hope that, by the end of 2023, if you ask me back this time next year, we will be able to look at a significant amount of delivery against the set of reforms that was announced, but it would be folly to say it will all be done. Equally, I hope that the Edinburgh reforms are not the end of our reformist agenda to improve the global competitiveness of the UK financial services sector.

Q217 **Chair:** There are about 30 different workstreams. We have had a look at those and estimate that about 18 have absolutely nothing to do with the UK leaving the European Union. About 12 of them are linked to the changes that we can make now that we have left the European Union. Is that what you would say as well?

Andrew Griffith: That is about right. There is calibration within each one, but many of these are enabled by the fact that we have got back control, as they say, of our own rulebook. A significant proportion of them—and I include, for example, Solvency II—could not have happened had we not been able to control our own rulebook. I know that you have given the example in an interview in today's *Financial Times* about ring-fencing. That was a UK domestic intervention that Parliament itself came up with, and Parliament itself can make decisions about that.

To be quite honest, my job is about delivering those reforms. It is not necessarily about the corpus of rules from which they ultimately derived. The point is that, on a go-forward basis, we have to get on and deliver some of those.

Q218 **Chair:** To be fair, though, when it was announced on 9 December, it was spun quite heavily as being something that we were doing as a result of



our Brexit freedoms, but you are accepting that over half of the reforms are UK domestic responsibility.

Andrew Griffith: I delight in the fact that, as we sit here today, both this Committee and this Parliament, and I and my team of officials, have a clear line of sight as to the levers we control to make our financial services more competitive. The spinning and the dark arts are not what I am focused on. I am focused on delivery, and we have the ability to deliver all of these, whatever the previous impediments to that may have been.

Q219 **Chair:** But you did agree with me just now that fewer than half of them are linked to our exit from the European Union.

Andrew Griffith: I did.

Q220 **Chair:** You mentioned the impact on economic growth, which is, of course, incredibly important to all of our constituents. Has the Treasury done any analysis of what each of these workstreams, and the workstreams in total, will do in terms of their impact on UK economic growth?

Andrew Griffith: It has not, so far as I have seen. A lot of the individual measures have been very widely consulted upon as part of things like the future regulatory framework. The Treasury will have consulted and taken evidence from industry participants, much as you will have. For individual measures, there will be assessments or there will be advocacy from the industry as to what that benefit is. I am quite sure, to be clear, so that we are not talking at cross purposes, that we did not do that in aggregate overall.

In many cases, what we are doing is opening up opportunities. Some of those are very tangible. I worked with the industry on Solvency II, and it was clear in its mind that the pool of opportunity is over £100 billion, against the much larger £3.4 trillion of assets that are managed in that space. In other areas, we have prioritised just getting on and improving.

What they all do is eliminate the jeopardy to the financial services sector, to our competitiveness as an economy and, in many cases, to consumers from not pursuing those reforms, because they all have at their core the design to make those markets work better. Clearly, if we just ossify and leave things where they are, we are not improving our competitiveness. Then we are all clear—this Committee as well—about the jeopardy to the jobs and the sector, which is about 10% to 11% of UK GDP, so we are all very invested as an economy in the success of the financial services sector.

Q221 **Chair:** Is it your assertion that, in aggregate, they will stimulate the economy?

Andrew Griffith: Yes, that is absolutely the case. That is the design and the intention. We know that there are enough proof points. If the



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Association of British Insurers and the insurance industry assert, from their position of being the ones that deploy that capital, that, over the next 10 years, we can expect £100 billion to be invested in left-behind areas, in communities, in the clean energy revolution and in UK infrastructure that would not have happened in the counterfactual, it is not a big reach to assert that, taken as a package, this will help—I try not to use the word “boost”—the productivity and competitiveness of the UK economy.

That is our desire. There is always a balance to be struck with the needs of consumers as well, so we do not chase economic growth in a blind way, but that is clearly my belief and my intention, and that of my colleagues.

Q222 Chair: One thing that was not in the Edinburgh reforms was the call-in power. You said on the record in the House, as recently as the Committee stage of the Financial Services and Markets Bill, that a call-in power would be brought in, and then that did not happen. What happened in that period to change your mind?

Andrew Griffith: I remember that this Committee had some very strong views on the merits of the call-in power. I believe that, at the time, when I gave evidence to this Committee shortly after my appointment to this role, I said that it was about finding the right balance.

We all seek to do that: find the balance between holding to account regulators, which exert significant influence on things that touch every part of the UK economy and every household in this country—so there is a need for that level of accountability and scrutiny—and, on the other hand, the independence and the perception of the way in which our regulators operate. It is not an easy line call to make and I know this Select Committee does a lot of work on both holding regulators to account and making sure that we are seen internationally at the top table.

You will notice that, as we went through the Financial Services and Markets Bill, aided by some colleagues on this Committee, there were other enhancements around the accountability of regulators. The Chancellor has had an exchange of letters with the heads of the FCA and the PRA about what he considers their remit to be. We are taking the secondary objective on growth and competition, which was one of the geneses behind the potential need for an intervention power. There are measures within the Financial Services and Markets Bill that will see more regular reporting.

The way you hold regulators to account is not binary. An intervention power had some merits, and the Government said that they would keep it under review, but, at this time, there are other mechanisms by which we can put in place that important democratic accountability.

Q223 Chair: You have made a concession. What concessions did you get from



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the regulators in order to make that concession?

Andrew Griffith: We made a decision, with respect. You know much better than I do, as a predecessor in this role and with your extensive experience of Parliament, that as one goes through the genesis and formulation of a Bill one listens, quite rightly, to colleagues. One uses that and the process of amendments as an opportunity to air the debates. Ultimately, the Chancellor has to make a decision, amendment by amendment, case by case, on the right place to come down.

You can portray it as a concession, but it does not have to have a reciprocal concession on the other side. The important thing is that we have a good set of alignment with regulators, and we all have confidence that, ultimately, as shared parliamentarians, we have the toolkit to hold them to account. Looking at that toolkit in the round, although it will always be a finely balanced decision and a lot of that is just in the doing, I think we are in the right place on that.

Chair: We will now drill down into some more of these 30 reforms.

Q224 **Dame Angela Eagle:** You were talking, Minister, about the jeopardy of not pursuing the reforms. Will you admit that there is a jeopardy in pursuing them too much and opening up the system to risk? Can you say a little bit about what risk analysis you have done in developing the reforms?

Andrew Griffith: Of course, you are quite right. The job of financial services regulation is striding across that ridge of the mountaintops, where there is consumer harm on one side and, on the other side, a chilling effect on the growth of the economy, which, in turn, will impact consumers. There is not one of us who does not take that responsibility for finding the right balance and a surefooted path as seriously as possible.

I suspect that you will talk about things like ring-fence. No system of financial regulation should aspire to eliminate risk from the financial system, but it is about making sure that that risk is understood and that, taking into account the views of multiple stakeholders, we find that right balance.

If we look at something like the ring-fence, the Government's approach to this has been quite cautious over time. Sir Keith Skeoch, a very experienced independent financier who has many cycles under his belt, if he will not mind me saying that, was asked to conduct an independent review. He came up with some suggestions in a more considered climate after 12 years had elapsed since the original ring-fencing intervention had come to pass. He took into account, as did we, what we have heard subsequently from the Bank of England about its resolution regime.

Our approach to this is to be cautious and to take a prudent approach. You kindly have not said it, but let us be very clear. There is no race for the bottom. There is no bonfire of controls here. This is about calibrating



measures for financial risk in the system, in a thoughtful way and with as much industry input and expertise as possible.

Q225 Dame Angela Eagle: There is a risk to consumers, but surely there is also a systemic risk, as the problems with the global financial crisis in 2008 pointed out, when, all of a sudden, a load of risks that had been hidden and had built up over time, which very few people saw in the system, crystallised in the most dramatic and terrible way. The ring-fencing regime was brought in with cross-party support as a result of the lessons that were learned from the global financial crisis. It has been fully in place only since 2019. What you have said is that you have had the review, but that there has been no independent risk assessment of the changes you are proposing. Is that a correct analysis or summary of the situation?

Andrew Griffith: It is not quite that binary. There are practitioners who assess risk, including the Financial Policy Committee, all of the time. Let me characterise what we are seeking to do on ring-fencing. Do come in, colleagues, to correct me.

First, we are taking a consultative approach, so we are not announcing a unilateral set of changes. We are announcing a consultation to which this Committee and others will be able to respond. Secondly, we are trying to take into account all of the different facts that have happened in the intervening period since 2008. You are absolutely right that there is systemic risk in the financial system.

Q226 Dame Angela Eagle: It is the “too big to fail” stuff, which is what the ring-fencing regime was put in place to deal with, so that never again will banks’ gambling and their losses have to be taken on to the public balance sheet to prevent a collapse of the entire system. That is what we are talking about.

Andrew Griffith: Correct, and that is the risk we seek to manage: the risk to the financial system, to stability and to the taxpayer. We seek to remove none of those core objectives from a ring-fencing regime. That would be to mischaracterise what we are seeking to do.

However, it is right that not just this Committee but we in Government look from time to time and use independent advice to try to calibrate those decisions, and that we listen to the industry. For example, some of the ring-fencing is to take very small, non-systemic banks or some of the activities of banks.

Q227 Dame Angela Eagle: Hang on, Minister. Banks are always going to want to be allowed to take more risks, especially if they know that they are too big to fail and, therefore, will be bailed out. This is the issue. We can always listen to the industry, which we must do, but surely we should also think about the risk analysis for the system itself. I am just trying to ascertain to what extent you and the Treasury have been doing that. We know what the system wants. The system wants to be allowed to take more risks. Banks want to be allowed to take more risks. If investment



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banking could be done with the public as the bailer-out of last resort, they would do it tomorrow.

It is our duty to stop anything like the 2008 meltdown happening again. I am trying to establish to what extent you and your officials have been bearing that in mind as you have developed these changes to the ring-fencing regime, which, after all, has been in full operation only since 2019.

Andrew Griffith: I can give you the assurance you seek, because those objectives are front and centre to what we seek to do with the reform of the ring-fencing regime. This is a sensible set of reforms that do not dismantle or dismember the core objectives of the refencing regime.

It is right to look, from time to time, at the thresholds at which individual banks are captured, because there will always be some cliff-edge margins around that, and at some very small activities. For example, the ring-fencing regime does not currently allow banks to take into account some sensible actuarial risk management activities or to invest in some small minority equity stakes in fintech firms as they seek to explore innovation.

It is perfectly understandable that a regime that has its origins in a set of circumstances in 2008—the last financial crisis, if you like—should be looked at and reviewed. It is right that we take that into account, not with blinkered eyes about the risks to the system, or the self-interest of those participants in it. That is not what we have done. There will be an opportunity to consult as we go forward on that.

Dame Angela Eagle: Why have you increased the threshold from £25 billion to £35 billion?

Andrew Griffith: Dan, did you want to come in on that specifically or on my previous point?

Daniel Rusbridge: On the previous point, there are elements of the regime that, having looked at it and having had it implemented over the last three years, have not quite worked as originally intended. In some of the reforms that will be brought forward—things like technical changes to the definition of the relevant financial institution—there is a barrier that has prevented some small businesses, like financial advisors, from accessing some of these banks. That was not the original intention of the regime, so it is right that we look to address some of those minor technical changes.

Q228 **Dame Angela Eagle:** Those are tweaks. Why have you increased the threshold from £25 billion to £35 billion, Minister?

Andrew Griffith: It is a judgment call. The general size of assets and of balance sheets has increased over that period, and you are always going to have to make a judgment on thresholds. If you never revisit thresholds—again, this will be consulted on, but the Government have had a directional point of view—you will simply, by virtue of the equivalent of fiscal creep for ring-fencing, bring into scope more and



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more banks that you and this Committee did not intend to be captured back in 2008. It is just a judgment call as to whether you leave things fossilised in stone for all time or whether, periodically, you have a review.

The one thing that I do want to emphasise that is simply different to the fact pattern in 2008 is that there is a resolution regime, so there are a number of ways of trying to prevent that burden on the taxpayer and the systemic risk. That resolution regime did not exist in 2008. I am not sure that anyone is saying it is the only way forward, which is why the ring-fencing regime at its heart remains, despite these reforms, but we have to acknowledge the presence of that. Otherwise, we should just down tools now on the resolution regime entirely.

Q229 Dame Angela Eagle: The resolution regime has never been used, thank goodness, in anger so far, and we would not want it to be, so you would agree with me, then, that keeping the ring-fencing regime is important in order to balance risk.

Andrew Griffith: It is certainly good to have belt and braces until one is convinced that either one alone will do the job.

Q230 Dame Angela Eagle: Finally, you have talked about the dynamics by referring to things being ossified. What attention have you paid to the dynamics of the growth of perhaps risky activities in a way that was unanticipated by the rules—and we know that this happens in financial services—which might pose a systemic threat? We saw what happened to the pension funds after the disastrous mini budget, with potential and huge losses taken there by the fire sale of assets that happened. To what extent have you taken account of the dynamics of the financial services market in these changes that you are putting forward?

Andrew Griffith: You make a very good point about the growth of non-bank financial risk in the system. It is a topic that I would hope we, collectively, revert to in time, but that is something that is on my agenda. After this meeting, I am heading to Washington to meet with some of our financial regulators over there on the issue of where perhaps the systemic risk is moving to where you have multiple regimes.

Dame Angela Eagle: The shadow banks, for example.

Andrew Griffith: This is why one should look at all of these regimes periodically. One of the unintended consequences, in a way, of what we have done around the belt and braces approach in banks is that it has moved some of that risk elsewhere in the financial system. It is a collective endeavour of us and the regulators to look at what measures we can take on that.

Q231 Anthony Browne: My questions are going to be about another post-crisis reform that you are reviewing: the senior managers and certification regime, which was brought in particularly in the wake of Libor and was proposed by the Parliamentary Commission on Banking Standards that was set up. You have said that you are going to review it



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as part of the Edinburgh reforms. What is your motivation for reviewing it?

Andrew Griffith: To find the most effective way of delivering the core purpose of that regime. It seems to me entirely unobjectionable that we should, as most regimes do, have some form of “fit and proper” or certification for those who are involved in pushing systemic risk into the financial system. That seems a very legitimate exercise. Because, ultimately, it is taxpayers and consumers who bear the brunt of failure and there can be asymmetric risk in the system or asymmetric incentives, it is right to have that sort of regime.

The first point is that the core underlying principles remain the same. Much as we have been talking about on ring-fencing, it is also the case that one should look at the operation of that regime from time to time, not just through the lens of what helps UK competitiveness, although that is important, as big international firms have the ability, on a greater scale these days, to move people into different jurisdictions, but also to make sure that it is achieving its core purpose and, for example, that its scope is appropriate.

One of the things we are doing, increasing the burden of regulation, if you like, is expanding the scope of that regime to payment providers and to CCPs. Again, to Dame Angela’s point, as risk perhaps moves to different participants in the financial system, we should make sure that the senior management regime is pointed at that. It is also true, to be really clear about one of the objectives and one of the challenges that we face, that in some cases—and I pay tribute to the FCA, which I have met with a number of times on this specific point—authorisations are taking a long time.

Anthony Browne: Yes, we have covered that on this Committee. It is too long.

Andrew Griffith: That is providing a brake on the ability of people to operate their business, even within the risk parameters. It is not about the decision but about the time it takes to get to that decision. That is partly about operational investment and partly—and this is something we have taken forward as part of the Bill—about improving the transparency.

One will hear from industry participants how long things sometimes take. We should be clear about what the true picture is. None of us operates on the basis of anecdote, but, if there are cases where getting to the right decision is perhaps taking a little bit too long, it is right that everybody re-ups their endeavour to make sure that we get there.

Q232 **Anthony Browne:** You did not say it explicitly, but just reading between the lines, you are not considering scrapping the regime overall. That is out of scope.

Andrew Griffith: No, we are not.

Q233 **Anthony Browne:** What feedback have you had from the industry about



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the regime? You must have had complaints about some aspects of it—the bits that work well and do not work well.

Andrew Griffith: I have adhered to that. There is broad consensus about the validity of having a regime. There will be legitimate views on both sides in terms of how far down an organisation it goes, so the key decision-makers who we all understand and accept should be the real focus of that regime versus people further down the organisation just being brought into scope.

Then there is the substance or content of the various requirements. The key point is that this is a regime about financial risk. That is the moral hazard here that we are seeking to eliminate. It is not really to go into broader areas of how a firm conducts its business. The diversity and inclusion or environmental agendas are really important. They are important to this Government and they are important to me, but you have to keep a regime fairly narrowly within its tramlines for it to be fit for purpose and not let it range into other areas of how people run their firm. If Parliament wants to do that, it is for us to do that, not for scope creep under something like a senior managers regime.

Finally, I talked about the velocity or the speed with which decisions are made. This is a particular challenge for the FCA, which, thanks to all of our collective work, has a very large body of firms that it regulates. That is not easy for it, and I know that one of its priorities has been to devote management bandwidth and some systems investment to try to speed up what is, in a sense, a relatively straightforward process.

- Q234 **Anthony Browne:** When the SMR was brought in, there was a lot of concern and complaints from smaller banks—some of the challenger banks that the Government at the time were championing—that it was disproportionate for them, in that the regime was designed for big banks with huge numbers of personnel, HR departments, in-house lawyers and general counsels. It just was not tailored for smaller banks. Is one of the things that you might be looking at the proportionality of the regime in terms of the risk? If you have a tiny bank, does it really matter?

Andrew Griffith: “Proportionality” is a great word when it comes to financial services regulation, because there is a very good understanding of the risk. In each case, we should be collectively seeking to find the right balance that is proportional to the risk being taken. We do not like “one size fits all”, because that will often not be a suitable response to the risk at the riskiest endeavours. Equally, we do not try to eliminate risk from the system by crucifying some of those smaller, more nimble actors that do not pose the same systemic risk.

- Q235 **Anthony Browne:** There are some big question marks around the effectiveness of the regime in terms of enforcement. There was an FOI request to the FCA that showed that in the first five years, only four actions were taken under the SMR regime. You could say that that shows that the regime is working incredibly well, that everyone has their roles



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really well defined, that they all know what they are doing and that no one breaches it, or you could say that it is not really having much impact at all because no enforcement action is ever taken, so it is not really changing behaviour. Why do you think there are so few enforcement actions? Is that a sign that the whole system is not working?

Andrew Griffith: The truth is that I do not know enough. I will take that away, Anthony, because enforcement actions are only one metric. There are actions that I am aware of in other industries that fall well short of an enforcement action. People can voluntarily withdraw from a regime or, if it is an individual point, they might seek employment somewhere else rather than pushing it all the way to the point where an enforcement action needs to be taken.

It is an important point that you raise. We will look at that. One thing that will help inform this debate is to have more transparency and more data around it for us all to operate around. To be very clear, we are doing an industry call for evidence. That will surface ways in which we can make sensible improvements. To be very clear, that is exactly what we seek. We want the right regime but operated in the right way with the right balances in it.

Q236 **Anthony Browne:** From a public confidence point of view, if there are so few enforcement actions under the regime, people think that it is not really having any impact, although that may not necessarily be true. One of the few enforcement actions taken was against Jes Staley, the then CEO of Barclays Bank, over trying to find out the identity of a whistleblower. He ended up being fined 10% of his salary, which was £600,000 out of a £6 million salary. Are the sanctions that can be imposed under the regime proportionate? Will fining someone 10% of their salary really have a big impact?

Andrew Griffith: Clearly, I am not going to comment on any individual case. There is a wide range of sanctions. We have our own regimes and sanctions here in Parliament, and it is not always about picking any individual one. The fact that we drive with seatbelts prevents an awful lot of accidents that would otherwise have been there and would have shown up in the statistics, so I am loath to pick any one particular point. There is a call for evidence. I hope that you, Anthony, but also this Committee and the industry, will come forward with that.

Q237 **Chair:** Just on this point, is there any evidence that it is making recruitment from overseas any harder? Have you received any evidence at this point on that topic?

Andrew Griffith: I have certainly received representations. I do not want to elevate them to evidence, but it is a regular topic. When I, in my role, as well as in my previous experience, talk to those managing big global firms about how we seek to maintain the competitiveness of the City of London, this is a consideration. I do not have a strong view. Maybe it should be a consideration.



Q238 **Chair:** But you are calling for evidence.

Andrew Griffith: We are calling for evidence. While adhering to the core purpose, it would be an intellectual folly to say that we are likely to have arrived at exactly the optimal point on the envelope between all the trade-offs that Anthony talks about, the operation of this and, indeed, its scope, when it might be particularly onerous in some areas and leave other areas hitherto out of scope entirely. All of those are matters that are being consulted upon.

Q239 **Anne Marie Morris:** Minister, we turn to the interesting question of bankers' bonuses. What do you see as the benefits of repealing the bonus cap?

Andrew Griffith: The PRA has said that it is going to look at that again, and I think that is right. Forgive me, but I believe the Committee understands that it was not a cap per se; it was a set of prescriptive rules about the mix of consideration. I know that that often gets lost in the reporting, but it is an important point, because, at its heart, it is not how much bankers are compensated by but particular rules, thresholds and ratios within that.

We would all aspire for pay to reflect performance. Particularly for those who are extracting the largest amounts, there should be a very clear and well-understood link with performance and, ideally, the economic value delivered to the United Kingdom. That is what we should be in the business of doing. As we defend top pay, we expect top performance. We want that economic benefit to flow to the United Kingdom, and for us to be an internationally competitive location versus other jurisdictions.

That is why it is right for the PRA to look at that. It is an opportunity. We simply had no ability, as part of the fourth capital directive under the EU, to look at what might be right for our particular fact pattern versus what we had previously.

Q240 **Anne Marie Morris:** Do you have any evidence that removing what we will call a cap, although I appreciate it describes a much more complex concept—

Andrew Griffith: There is evidence. I do not want to speak out of turn. I will write to the Committee with the evidence I have seen about the increase in base pay as a result of that directive, so the mix of consideration. Ultimately, bankers ended up getting paid more, for sure, because their basic compensation was increased and is higher, for example, compared with practice in the United States. In the United States, where you did not have that fourth capital directive, they were able to keep basic pay low and the performance or risk-based element of pay a much higher proportion. I have seen, although I do not have it today, evidence that as a result of that fourth capital directive, banker pay in the UK and Europe increased at its base level.

Q241 **Anne Marie Morris:** Let me ask you this, then. If we have got to a point



where pay has had to be increased because bonuses could not, is there not, therefore, now a risk that those employers are going to be under pressure from employees saying, "Now you can give me a bonus, I get a bonus on top", so that overall pay will be considerably more, not constrained as it currently is?

Andrew Griffith: That is not my belief. We shall have to look at that, and the PRA will, no doubt, look at it as part of this. That is not an outcome we seek, to be clear. The outcome we seek is that businesses have the ability to calibrate their compensation practices in a way that we and the financial regulatory system seek to align to proper performance delivered. It is not just about that cap. If you remember, there are also elements about the length of deferral and things like malus and clawback provisions. It is right to look at this in the round, but it is not to seek to increase total compensation, because compensation should be a function of the competitive market, how attractive it is and, ultimately, the performance of the firm. That is what should drive payment in our system.

Q242 **Anne Marie Morris:** What representation have you had from industry? What have they said to you that they want?

Andrew Griffith: We talk a lot in financial services regulation about international standards and competitiveness. When we talked about things like the intervention power, it was all about saying, "We want to be part of global norms". People were making the point that that intervention power might depart from global norms. In this case, we have departed from global norms. Singapore, Australia and the US do not have this. The global competitive set, when we seek to look at key decision-makers, do not have this. It is Europe, but, because of our mix of businesses, it is particularly London that has departed from global norms.

One of the cases to look at this again, and one of the things that I think will be a positive, is to see if we can realign more with global norms in this respect—not depart from them or somehow bake more risk into the system, but revert to that. For that reason, because there is a global market here, it is the global market that will ultimately set compensation. We probably do not run too much of the risk, as you say, of going back to a high fixed base and then a bonus that is high on top of that. That is not the outcome we seek, and I cannot be clear enough about that.

Q243 **Anne Marie Morris:** One of the concerns, which is why this was introduced in the first place, was that the bonus culture encouraged risk-taking. Do you agree with that? If you do not, why not? That clearly is a crucial point as to whether or not we should change the cap position.

Andrew Griffith: I said right at the beginning that financial institutions and financial systems have the very clear and well-understood potential—and this is a clear focus of financial regulation—for asymmetric incentives between the individual and the firm, and between the firm, the economy and the systemic risk. It is true in most systems that the nature of



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financial systems often accentuates and amplifies that, so I completely accept that point.

The question is how best to address that. We have a rich tapestry of regulation and regulators. We have talked about the senior management regime. That is about the culture of risk-taking within a firm. There is transparency and disclosure. There is prudential regulation of balance sheets. All of those are designed to regulate that same point.

If I have a directional view, this is somewhat of a blunt instrument. It does not cover full scope, and other financial systems that have exactly the same potential for asymmetric incentives, such as the US and other markets outside of the EU, do not have that particular measure. They deal with the same issue and the same risk to the system, but in a different way, and that is what the PRA should look at. The PRA has, of course, the responsibility for prudential regulation in the system generally.

Q244 Mr Baron: Minister, thanks for joining us. My set of questions is more about assessing the implications of the Government's consultation into the EU PRIIPs regime, which, as we all know, was introduced in January 2018. Can I kick off by congratulating you on abolishing this regime? Some of us, as you well know, have been campaigning on this for a number of years, and it is nice to see it come through. I should also perhaps mention my interests in the register on this issue.

For clarification, the reason why, as you well know, Minister, the regime was ill suited in many respects is that it could very easily lead to misinformation when it came to investors. It could encourage mis-selling. It gave bad information to investors and it was misleading.

Can I ask you this as a starter? What are the objectives that you are trying to achieve with this consultation? Is it greater investment or investor confidence, greater transparency, or an increase in investment and savings to help boost the economy? How are you going to achieve this? You very much said that you are focusing on delivery, but how are you going to do it?

Andrew Griffith: The ultimate objectives of the package of Edinburgh forms is—I know that it sounds like a trite phrase—to get the right regulation for the UK fact pattern. I have been very clear that we do not seek divergence for divergence's sake. This is not an ideological approach and, indeed, we should be very clear. The UK contributed very significantly to many of the files that ended up coming back into UK regulation, so that is not the point that we seek.

Time moves on. The fact pattern moves on. There are cases—and PRIIPs are one example—where either UK practice supersedes what was in the directive in a more commercial and, often, user-friendly way, or we have a slightly different fact pattern. Solvency II is an example where the social insurance model of the European continent is a little different from the private provision for long-term pension liabilities in the UK. Therefore,



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that file was a sensible thing to reopen and look at.

Think of the Edinburgh reforms as better regulation for financial services. All of the outcomes that you seek flow from that. If we have a good financial system, that will produce good outcomes for individuals and consumers. Look at some of the financial products we offer—the insurance industry is borderline alchemistic in its ability to protect households from risks that, if that industry did not exist, could otherwise wipe out households' finances or set back generations—or our ability to let people accumulate capital over their life and provide for their old age or infirmity. These are really important societal outcomes.

Q245 **Mr Baron:** It is important. My sense from what you are saying is that this is, in a way, encouraging greater self-reliance.

Andrew Griffith: That is one objective: greater self-reliance; prosperity for the UK, because we are not trapping capital but allowing that to fructify in communities up and down the UK; and often better outcomes for consumers, because they are just given sometimes simpler but clearer information, so that they can understand the risks in the system.

Q246 **Mr Baron:** That is why many of us welcome the discarding of the PRIIPs regime. As you will be well aware, one of the aspects of that regime was the production of key information documents for investment companies, which were misleading, particularly when it came to the assessment of risk, the protection of returns and the comparison with open-ended sister funds. It is no accident that all those involved in the industry—particularly the AIC, the well-respected trade body of investment trusts—said that you should burn the documents before reading.

Can I just press you on this? The Financial Services Act 2021 gave the FCA greater discretion in dealing with those issues, but we still have a slight fudge here. For example, when it came to the performance tables that key information documents suggested should be produced before an investor should buy an investment trust, they relied heavily on past performance and could extrapolate unrealistic returns that would encourage the investment objective of buying high and selling low—something that we rail against. Again, the FCA has said, “We are replacing those with a narrative”, which is a little woolly.

Likewise with the risk comparisons, which suggested that investment trusts were less risky than open-ended funds over the short term, we are now leaving it to the discretion of the companies. This consultation with the FCA is still ongoing, but how convinced are you that the FCA is going to resolve these issues, given that early indications are that it is still asking a lot of questions and there is still a little bit of fuzziness in this area?

Andrew Griffith: I should commend you for your past work. As we looked at the area of PRIIPs, your name and advocacy came up very strongly, and it is good that this is a shared endeavour as we seek to optimise the corpus of financial regulation.



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The first point is to, in this case, repeal PRIIPs. That gives us the ability to have a greater range of outcomes. A lot of the approach of FSMA is to delegate the detail of these two regulators, and one of our core regulatory principles is proportionality. We cannot add this for its own sake, but simplicity, including of communication, is very important when talking to consumers about risk in the system.

Daniel Rusbridge: There are a couple of key issues with PRIIPs that we have already begun to address in collaboration with the regulators, which you have already alluded to. One is around transaction costs, where, historically, you could have a negative transaction cost, which is nonsensical. The other is on risk indicators. As you say, we legislated through the Financial Services Act, and the FCA is looking at those.

The broader issue is whether it is right that we have an aim of a single document that compares every type of investment product. As you will see from the consultation we launched in December, the Treasury's initial view is that that is not really an appropriate basis for disclosure going forward. This is a really tricky area. Even before the PRIIPs regime, we had the key features document, I am sure you will recall, and there were also issues with that, so it is a really tricky set of issues.

Q247 **Mr Baron:** I take that. Could I just ask this of you, though? I am pointing this really at the Minister, but thank you for that. That was very helpful. The FCA has had a little bit of latitude on this area for a little while. It has been given additional latitude, courtesy of the FSA 2021. Could I ask you, Minister, to make sure that you keep a focus on this? It is still work in progress and has caused a lot of problems in the past.

Every single trade body and every single interested party has been critical of the KIDs, and I am not sure that we are there yet. We had an assurance from the incoming chief executive that this would be a priority. Could I ask you to make sure that it remains so? There are still a lot of people who, in the interests of the retail consumer, want this sorted.

Andrew Griffith: I give you that commitment. I do not believe that I have yet met with the relevant industry group, but I am very happy to do so. It is an objective. I do want to and it is a big priority for me to promote savings, self-reliance and financial inclusion, and to improve financial education. It is not easy, as Dan said, but, if we can do things that communicate risk in a way that is fully understood on the other side by the consumer, we will have a better financial system.

Q248 **Mr Baron:** Good—and performance and so forth. I am sure that the AIC would welcome a meeting. There is a concern that, within the industry, commercial incentives override consumer interests, as you know. A good example of that is commercial property as an asset being situated within a unit trust, which is an open-ended fund. I am going to take it from this question that you understand the difference between investment trusts and unit trusts—open-ended and closed-ended, the investment trusts being closed-ended. You just trade the shares, not the assets.



Andrew Griffith: Correct.

Mr Baron: We are trying to create a level playing field. The Government's objectives are to try to get more investment in infrastructure and renewable energy, and everything from social housing to good causes, and yet these assets are allowed to be within unit trusts, when illiquid assets placed in an open-ended fund can make problems when it comes to withdrawals and so forth. It is putting a lot of people off investing in these areas.

Can we not equalise or level the playing field between investment trusts and unit trusts? Investment trusts have a much greater track record in investing in infrastructure, renewable energy, social housing and many other good causes that the Government want investment put into, and yet we have not created that level playing field.

I will give you one example. If you purchase an investment trust, there is stamp duty to pay. You do not pay stamp duty on unit trusts. There seems not to be a level playing field, and open-ended funds are not good for long-term investments, as we have seen with nobody taking up the long-term asset fund incentive. What is going to be the Government's answer to that?

Andrew Griffith: I understand your point. You are not the first to make the point to me about the huge potential for investment trusts as a vehicle for infrastructure investment or for some of the clean energy that the Government seek. I will take that point, including you and I perhaps meeting and going through this in more detail. One always aspires to a level playing field. I am learning rapidly that these things are never quite as simple as we seek, but I understand that point and will take that forward.

Q249 **Chair:** Minister, we are now going to move on to the section on the crypto-asset inquiry, and I wondered if we could start with April 2022, when the Prime Minister was Chancellor and made a big commitment to make the UK a global hub for crypto business. Quite a lot has happened in the crypto world since April 2022, and I wondered whether the UK Government's stance to this industry has changed in any way since then.

Andrew Griffith: If we step back for one second, our objective is to continue to seek for the UK to be the home for a well-regulated, technologically advanced financial system, and there is room for this technology within that. Clearly, recent events since April 2022 have highlighted what I suspect were known vulnerabilities, and educated people about practices that were taking place among some of the early participants in the sector.

That is regrettable for those who have sustained losses, although I observe that the financial system and regulators have done a good job at telegraphing some of the risks and the speculative nature of that. Underlying this is the emergence of a new set of technologies—distributed ledger technology and the blockchain itself.



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We should all be humble about our ability to predict long-term technologies and outcomes, but it would be wrong for the UK not to be forward leaning in seeking to make the most of the opportunity and making sure that we have a well-calibrated regulatory response that protects consumers but does not seek to impede safe uses of that technology. I recognise that, within that, there is a balance and probably a lively debate about how we get that right.

Q250 **Chair:** You are right that we have seen quite a few of the risks and vulnerabilities. I just wondered what your work plan is for the crypto-asset industry over 2023 as a whole.

Andrew Griffith: We want to establish a regime for crypto-assets and stablecoins that fosters growth and innovation. We want to ensure that consumers have the right information by legislating for financial promotions of crypto-assets. That has been talked about, but we need to get it on the statute book to give consumers the additional protection over and above what is already out there.

I want to see us establish a regime—and this is within the FSM Bill—for the wholesale use for payment purposes of stablecoins. The Government will be coming forward with a consultation document about the regulation of the crypto-asset sector in general, but also, in conjunction with the Bank of England, about what we should do about a sovereign digital currency.

Q251 **Chair:** Do you have a date for that that you can announce?

Andrew Griffith: It would be wrong to announce a date, but coming soon.

Q252 **Chair:** In January?

Andrew Griffith: That sounds awfully like a date, but let me stick my neck out and say weeks, not months.

Q253 **Chair:** Will you have achieved all of the things that you have just listed by the end of 2023?

Andrew Griffith: That is a little binary. Probably the intelligent answer to that is to say that there will be more work to do. We will have achieved the financial promotions regime. That is a priority that is very high up on my list. We are working through the final details of that. We will be coming forward to lay the statutory instrument that puts that into law as quickly as we can, and I understand the pressing need for that. It has been talked about for a while.

Q254 **Chair:** Have you been shown convincing evidence that there will be benefits to the UK economy as a result of the work that you are planning to do?

Andrew Griffith: Yes, I have seen evidence. Let us be clear about evidence. That is a high standard of proof. There is a very wide range of forecasts in the market. Ernst & Young has given evidence to this



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Committee, or I have seen reports from it, about a £60 billion opportunity.

One can look at the potential for the underlying technology to eliminate risk from the system, such as the credit risk often in the interval before atomic settlement, or to reduce transaction costs, which are a burden on consumers and the industry. As with any new disruptive technology, the key thing is that it often opens up new sectors and new opportunities that we all find hard to forecast as we sit here today.

It is not the Government's position that this is absolutely an inevitability, but it is right to seek to embrace potentially disruptive technologies, particularly when we have such a strong fintech and financial sector. This is one of the sectors in which we lead in the world. With the emergence of a potentially disruptive game-changing technology that can challenge but also turbocharge all of those industries, it is right that the Government lean into that, which is where we are today.

I am always reminded of what the president of Michigan Savings Bank said to Henry Ford's lawyer. "The horse is here to stay, but the automobile is only a novelty, a fad". We should be humble about our ability, as political actors and regulators, to predict the future. Equally, I would not want us to foreclose the future. Right now, given the events in FTX and others that we saw in 2022, part of creating that future is to get the right regulation—not to have no regulation or to bake it in fully, as if this is already an established market and a fact, but to get that balance right.

Q255 Chair: The April 2022 announcement included a commitment to establish a new industry crypto-asset engagement group. We have had evidence from the industry that this has not got under way. Can you confirm that it has?

Andrew Griffith: The form of crypto-asset engagement we are going to do will be, at my decision, much broader than a single engagement group. There are lots of standing groups in Government, to be completely frank. Some of them meet; some of them do not. Some of them have a regular cadence and others do not.

When I was first briefed on this, I took the decision to have a much wider set of engagement rather than to pick 12 or 16 anointed semi-industry worthies at a moment in time when this is a hugely broad sector where there are very many use cases.

I have held three crypto-asset regulatory round tables in my relatively limited span to date. My commitment is, over the course of 2023, to hold at least six of those rather more fluid and—as I like to think of them—agile round tables, which will expose us, as regulators and decision-makers, to a much wider range of actors. I want to be inclusive, not exclusive. I want to have a higher volume of activity than is customary from these standing groups.



Chair: It is under way.

Andrew Griffith: My goodness me, it is under way. It is the sector I have devoted the most time to, partly because of what we are going to talk about today, the coming decisions that we have to make on regulation.

Q256 **Emma Hardy:** Good afternoon. In all honesty, I am yet to be convinced by crypto. I am concerned about how volatile it is, and I am concerned that the reality does not match the hype. What is it you think crypto-assets will be able to achieve that cannot be done today with conventional finance?

Andrew Griffith: That is fair. We have to try, as best we can, to unpick some of the high-profile speculative instances of crypto that have probably taken a lot of the limelight. That is understandable because people, as perhaps is inevitable in an emerging disruptive industry, have made money, but they have also lost money. That is not unusual. It was true of the early ages of the internet, and it was true of the early ages of the steam train.

In an early industry, there is an element of that creative destruction. That is why it has been right for the regulators, particularly from a consumer perspective, to clearly telegraph the risks but not to legitimise this by coming in too early and regulating.

In terms of the use cases, there may be more of them in what are called the mid or back office. That may be in maintaining registers and ledgers in a way that is more resilient than a central depository, that offers atomic settlement time and that removes intermediaries. When we think about financial risk, the risk often sits with an intermediary, whether it is a clearing house or a counterparty.

Q257 **Emma Hardy:** Can any of that not be achieved with the conventional systems we already have?

Andrew Griffith: Not in a disruptive way, no. If we look at settlement, it has gone from five days to three days. There is a potential path we will look at as part of the Edinburgh reforms to see whether we can get settlement to one day, i.e. 24 hours. We have seen, in terms of liquidity on exchanges, people move from a penny to half a penny to a quarter of a penny to digital pricing. We will continue to see an improvement in all of those domains.

For credit risk, fundamentally, the more intermediaries we have and the more hand-offs in a process, the more potential counterparties, the more credit risk and the greater the danger that a non-bank intermediary presents a point of weakness in the financial system. It is desirable, in some cases, to try to eliminate that intermediary.

Q258 **Emma Hardy:** Are unbacked crypto-assets ever going to be anything more than a get-rich-quick scheme?



Andrew Griffith: I do not want to disagree or endorse that point. At one extreme, there are purely speculative, potentially mined crypto-assets. They will find a role or not in the market. I start at the other end of things. One of the core functions of a state is to have control of its sovereign currency. It is right, just as Biden instructed the Fed to do, to look at—if this potential change happens—the role for a sovereign digital currency to replace existing electronic currencies and the potential for wholesale blockchain as a means of settlement, perhaps fiat-backed. That is what we call stablecoins, which are backed one to one with a physical currency, so do not have that speculative element you talked about.

Q259 **Emma Hardy:** There are a reported 2.3 million in the UK who own some form of crypto-asset. Does that please you or does it concern you?

Andrew Griffith: What would please me is if all of those 2.3 million had gone into purchasing what are likely to be, today, speculative crypto-assets with a good understanding of the risk, as well telegraphed by the FCA and others—I share the view of the FCA about that risk—and of the consequences for what happens if that speculative investment does not deliver for them in terms of the burden to the taxpayer on the Financial Ombudsman Service or the Financial Services Compensation Scheme.

We cannot eliminate risk. To me, it is not about extinguishing risk. The Chair herself has made the point that it is not possible, in a financial system, to prevent someone who is determined to take a risk from seeking to do so, even with the potential loss of all of their investment.

Q260 **Emma Hardy:** How worried are you about the number of UK citizens who have lost or could lose life-changing amounts of money through crypto failures or scams?

Andrew Griffith: As I say, I am worried about that, but my worry would be not if they have done that in a knowing environment, as sentient and well-informed takers of the risk that is endemic in a financial system. My worry would be if they have fallen prey to an unregulated financial promotion or have misunderstood the status in terms of the UK regulatory system, the kitemark of being FCA-registered, or their access to the Financial Ombudsman Service.

Laura Mountford: The FCA has estimated that about 40% of the users you spoke of there do consider that they are purchasing crypto-assets as a gamble, and that is what they reported when they bought it. The FCA does have certain factors of harm that it has published as part of some its monitoring in terms of who is buying crypto for what purposes and their understanding of it.

Q261 **Emma Hardy:** Minister, we have had many conversations about financial inclusion. Some of the people supporting crypto believe it could help improve financial inclusion. What are your views on that?



Andrew Griffith: I would like to hear more on that. By its nature, it tends to be a digital currency. It will be accessed via an app. I am worried about digital inclusion as well as financial inclusion.

You know well that there is a very strong commitment to the continued use of and access to cash. One of the concerns people have about this is that in some way it would jeopardise that. Let me be clear: it will not. It is an alternative to other forms of e-payment. The Government's commitment to cash, and to making sure that nobody is left behind and forced not to use it, is very strong.

Q262 **Emma Hardy:** We have heard evidence from other people that they believe this could be something for people who do not have bank accounts; they could use crypto-assets. Is it realistic to think that someone who is unable to get a bank account will use crypto-assets?

Andrew Griffith: I am worried about that, in truth. We have a very good and well-regulated system of banks and intermediaries. The way we talk about this is as a potential disruptive opportunity with future use cases and today some speculative elements. It is important that an outcome of the regulatory regime is to protect people and make sure they understand that.

A bank, whatever the Committee will think about them from time to time, is a responsible and well-regulated actor in our system. We should lean into that when we think about protecting consumers. In that case, removing that intermediary, certainly given the current evolution of the market, feels very premature.

Q263 **Alison Thewliss:** I have some questions around the regulation of crypto-assets. The evidence we have had so far throughout the inquiry has revealed quite the clamour for crypto regulation, including from those within the sector as well. It sounds from what you said earlier like there are going to be more round tables but no actual regulation this year. Is that correct?

Andrew Griffith: That is a little unfair. The engagement is with a view to getting the regulation right. It is an immature market. It is very broad. We are talking about use on one level by central banks and wholesale operators who operate purely in the wholesale market and, at the other extreme, consumers and either their use cases or their desire to speculate on a new emerging technology.

I do not accept the implied criticism that, by spending time engaging with the industry at this stage, we are doing anything wrong. We will be coming forward with two consultations in weeks. One is about the general regulatory approach to crypto-assets. The other is about a sovereign central bank digital currency. Those will be really good fora for that conversation.

Implicit within that, we are probably not going to be legislating in 2023, but there are measures, such as the FMI sandbox in the Financial



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Services and Markets Bill, that can well be used to license and regulate for some of the applications and get them out into the market. That Bill will be done by, I hope, Easter. At that point the FCA will be open for business on the FMI sandbox. I am sorry; there were some very technical terms there.

Laura Mountford: The financial promotions legislation will be introduced this year, and the stablecoin legislation you spoke of previously is part of the Financial Services and Markets Bill.

Q264 **Chair:** Can you clarify that term for the record? Did you say, “FOI sandbox”?

Andrew Griffith: It is “FMI”—the financial market infrastructure sandbox. It is part of the FSM Bill. It will be administered by the FSA. It is for fintech and others. It can include blockchain applications.

Chair: I just wanted to get the acronym spelled correctly on the record.

Q265 **Alison Thewliss:** My concern would be that, in the absence of any actual legislation or regulation on this, you still have the prospect of people in the UK putting their money into things like FTX and being absolutely unprotected as a result of that while this consultation is ongoing.

If we move to the point about crypto-assets and bringing them into the regulatory perimeter, are you concerned that bringing some in could create a halo effect, as we have seen with other things, where things outwith the perimeter appear to look safe when in fact they are not?

Andrew Griffith: Yes, that is definitely a big concern. It is one reason why we are trying to take our time and get the balance right.

Q266 **Alison Thewliss:** How do you make sure customers know what is safe and what is not safe? How will that be set out?

Andrew Griffith: We can always do more and should do more. Customers do have a good level of literacy in understanding that, if they see the FSCS logo or the FCA logo on a promotion, it falls within the regulatory perimeter. There will always be, in life, financial schemes, endeavours and opportunities that sit outside that.

The FCA has been very clear about that. It was clear when it brought forward the anti-money laundering registration regime for crypto that, where people did not fall within that, they should not expect any recourse to the public purse if they pursued their risk-based opportunity to invest.

We will continue to do more of that, and that is why it is important to look at financial promotions. We already have things like the ASA—Advertising Standards Authority—regime, but it is really important that we get this SI on the statute book.

Q267 **Alison Thewliss:** What would the main features of an effective regulatory regime for crypto look like?



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Andrew Griffith: One is “same asset, same regulatory outcome”. We seek to mirror not the offline world but the previous regime. If something is a means of payment, we look to regulate it as a payment. If something is a speculative investment, it would fall into that particular bucket. An aspiration is to try to mirror the existing regulation for similar assets where possible.

Another is to be clear with consumers about where protection sits and where it does not. If we look at stablecoins, there is a gradation between those that are fiat-backed and those that are algorithmic.

Transparency is something that we seek. It would be wrong to pass judgment on any one individual failure or business, but transparency regimes, reporting, protection against market abuse and self-dealing, and proper trust-based custody are all things one would aspire to, for example, on a crypto exchange that are already mirrored in exchanges for other assets.

Q268 Alison Thewliss: The IMF has raised concerns about the fragmented global response on this. It has said the response “neither assures a level playing field nor guards against a race to the bottom as crypto actors migrate to the friendliest jurisdictions with the least regulatory rigour—while remaining accessible to anyone with internet access”.

Can I ask what you are doing internationally to try to make sure there is a level playing field for everybody rather than this race to the bottom? The UK is leaning into this and could be a victim of that race to the bottom, if we are seen to be laxer.

Andrew Griffith: I will ask Laura to expand, but that is absolutely right. We share the IMF's concerns. We in the UK are leading in all the international regulatory forums. It is clear, as in every other domain of financial regulation these days, that international and co-ordinated action will need to be taken.

The UK has a philosophical belief in innovation, and wanting to drive competition and make the most of these opportunities, but not at the expense of losing things like transparency or fuelling things like tax evasion or money laundering. We are working with FATF on this.

Laura Mountford: The Financial Stability Board is doing work on crypto-assets. It published a consultation with proposals for setting principles for the regulation of crypto-assets last year. The Treasury and the financial regulators were involved in that work. The regulators are also involved in the various standard-setting bodies that are looking at crypto-assets in the international fora.

Q269 Alison Thewliss: Europe has recently implemented its markets in crypto-assets regulation. Is there a risk that we are falling behind, if Europe has moved ahead on this? How do you see those regulations?



Andrew Griffith: It is a good attempt. It is not for me to adjectivise others' regulatory systems, but it is good that they have brought that forward. It covers some but not all of the areas we would aspire to cover. When we come forward with our consultation, we will talk about other activities, such as DeFi, that are not within MiCA. We have the opportunity to be potentially a bit more agile in how we tackle some of those same underlying purposes.

Q270 **Alison Thewliss:** Securities regulations in the United States restrict non-fungible tokens and so-called fan tokens, which journalist Joey D'Urso came and gave us lots of evidence on. Would you look at doing something similar here to protect consumers?

Andrew Griffith: This is a big domain, and you will appreciate that the potential use cases do cross other areas. My primary focus, Alison, has been those that fall within the realm of potential financial regulation, either pure investments or pure payments. I understand that there is a bigger domain than that. That is something we can look at as part of the consultation, but it may also fall into other regulatory areas.

Q271 **Alison Thewliss:** You may remember that a senior police representative gave evidence to the Economic Crime Bill Committee and said his expert staff were being tapped up and lured away by industry. What discussions have you had with regulators about the additional resources they might need to regulate, understand, police and enforce crypto-asset regulation?

Andrew Griffith: Those are always ongoing, but I have not heard specific concerns. Regulators always have to make priority calls. As risk moves, their resources need to follow that, whether that is the Home Office in terms of economic crime or the FCA. There is always a conversation about resources, but, to be very clear, I have not heard that they cannot take on the new responsibilities in this domain without more resources.

Q272 **Alison Thewliss:** If it is a lucrative industry and experts are being lured away by crypto firms that can pay them absolute fortunes, they are not going to stay in the regulators; they are not going to stay in the police.

Andrew Griffith: That is a challenge we face today. I will not say it is exactly the same, but all of our financial regulators also have the potential to go and work in the industries they regulate, typically for salary reasons.

I believe these organisations can succeed in attracting talent by, often, the mission they are engaged in. We have many parts of Government that people join because of the mission of doing something useful in society, not just because of the paycheque. That is true here. We also need to keep an eye on how we make all of our financial regulators great places to work.

Q273 **Danny Kruger:** Minister, I want to talk about central bank digital currencies. Before we get into that, to frame it, we are seeing this great



revolution in finance driven by technology. That is the story of this moment. Do you accept that fintech has not been disruptive to the finance industry itself, particularly to the banks, in the way it was predicted to be?

The story of the last 10 years in fintech has been the steady automation of existing banking procedures. We have seen a consolidation of the big banks that were present in the market 20 years ago rather than this great explosion of new opportunities for consumers. Do you recognise that fintech has been a boon to the established banking sector more than to consumers?

Andrew Griffith: I am not sure I do. If you look at open banking, for example, in many domains within the broad set of activities of an established retail bank, you have seen a very significant degree of predation. It is the same if you looked at market shares in small business lending. A lot of new actors have emerged and taken material market shares.

It is the nature, I observe, of innovation that people will disrupt. You will see founders and entrepreneurs start up new parts, explore business models and create proofs of concept. It is not a bad thing if that gets assimilated by existing players, if the consumer benefits and ideally the economy benefits. That is the nature of innovation.

You see that in many domains. If you look at the automobile industry, you can see one or two very disruptive pure zero-emission vehicle producers. The response is not for everybody else in the industry to just fall over and go home. It is then to adopt and assimilate those technologies. You end up with an industry that does not look vastly different in terms of the names and participants, but perhaps the activities are different and one or two new large-scale players have emerged as part of that disruptive change.

Q274 **Danny Kruger:** Talking about the Edinburgh reforms, the deregulation of finance that the Government are pursuing, you mentioned it was driven by what you called jeopardy, the threat of not acting because our competitors are making those sorts of changes. At least there is a threat particularly to the City of London and our other financial centres like Edinburgh.

The Government are now pushing ahead very fast and hard on central bank digital currencies. I look forward to the announcements that are forthcoming on that. Can you distinguish between the rationale for that in terms of the jeopardy that other countries are doing the same?

We know China is pushing very hard, as are the United States and Europe. How much are we doing it because other countries are doing it and we do not want to lose financial businesses, versus us seeing the enormous opportunities in terms of efficiency or innovation from the technology itself?



Andrew Griffith: In fairness, I did not couch the Edinburgh reforms solely in terms of jeopardy. There is a symmetry between the opportunities it will unlock and the jeopardy of the “do nothing” option. The same is true of sovereign digital currencies.

To be very clear, the consultation is going to say that this is still an “if” not a “when”. We are not fully into the inevitability of doing this. As you may go on and highlight, there are some really important public policy issues about how you come forward with the design of a sovereign digital currency. We have to get them right.

In many ways, with the UK’s strong financial reputation, I would rather be right than be first. In any case, there are some others that are ahead, like China. Some pilots have been run elsewhere. It will be a long lead-time activity. As Minister, I am not going to foreclose the opportunity by prevaricating and not coming forward now with the work we would need to do to put us—you—in a position to be able to make that decision subsequently. That is the purpose of the consultation.

Q275 **Danny Kruger:** Yes, I recognise that. There is a tension in what you are saying. You want to get it right rather than be first, but we do not want to prevaricate. The speed at which we proceed is a very material consideration. It would be good to understand where we are on that.

We need to make a distinction between wholesale and retail digital currencies. That seems crucial. I recognise the enormous case that exists for wholesale digital currency. You were talking about the speed of settlements earlier. There is a race to do digital wholesale transactions as quickly as possible. That is a key advantage the UK could own. I would be keen to understand the extent of your ambition for wholesale digital currency and, crucially, before I move on to retail, how you see wholesale digital currency being structured.

I am conscious of the distinction between a centralised and a decentralised model there. Can you just unpack that a bit? How do you see a wholesale digital currency working in a way that is both efficient and safe from a privacy perspective?

Andrew Griffith: I will try a different distinction, if I may. With a wholesale digital currency provided by a third party, a private entity not a state, that is fiat-backed—i.e. a stablecoin that is properly backed by fiat—we are a long way down that road. We are providing for that in the Financial Services and Markets Bill itself. I feel we should be very open to making sure there are high-quality and well—

Danny Kruger: That is not a sovereign currency.

Andrew Griffith: It is not. That is the distinction I would make. That will effectively be the first use case of what is likely to be a wholesale settlement coin. We are fully behind that, although that would not be driven by the Government and their own balance sheet.



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Probably the first use case of a sovereign digital currency would also be wholesale settlement. We see £750 billion a day or something flowing through the central bank settlement systems. The automation of that by a sovereign digital coin is likely to be one of the first use cases of a sovereign digital currency when it comes.

Because of the fraught public policy decisions that come with that, I am sure a wholesale fiat-backed stablecoin will get there first. We will see whether there are incremental settlement opportunities on top of that.

Laura Mountford: Another distinction that is useful to make is that, unlike in the retail space, in the wholesale space there is already access for banks to a digital form of central bank money. That does not exist currently in the retail space, and that will be the basis of the consultation.

The Bank of England will be able to speak in more detail on this, but it is doing reforms around the RTGS—real time gross settlement—system. Those reforms are looking at how the Bank of England can equip the central settlement system for the UK to interact with new forms of distributed ledger technology.

You are right in making the distinction that the Bank of England has not pursued a route by which the central bank's infrastructure is being decentralised, but it is looking at the improvements that can be made in how its infrastructure will be interoperable in the future. As I say, they will be able to speak in more detail on that.

Andrew Griffith: Doing that work is a prerequisite anyway for, later on, having a more decentralised system.

Q276 **Danny Kruger:** Do you agree that if the Government and the Bank issued their own digital currency, it would quickly crowd out the private competitors that might have arisen earlier? What would be the point of a private stablecoin if there was a wholesale sovereign currency?

Andrew Griffith: It is too early to know, in truth, what the different attributes of that would be.

Q277 **Danny Kruger:** Do you share my concerns, or do you recognise the concerns that exist out there, about the prospect of a retail digital currency backed by the Government? That could be centralised or decentralised, but a centralised one would effectively give Government oversight of people's private transactions. Even if it were a notionally decentralised or distributed system, do you recognise the very serious concerns that exist particularly around privacy from a retail digital currency?

Andrew Griffith: Yes. The Government take those very seriously and will proceed on a design basis that fully accommodates those concerns about privacy. That is not the basis. A direct retail coin that would provide all information about consumers on a transparent basis to the Government is not the model that is envisaged.



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The model that is envisaged is a platform model whereby the Government would have anonymised knowledge of individual providers. Providers themselves—probably banks—would provide wallets to consumers. That is the limit at which information would sit other than the requirements, as now, under the law to protect against things like anti-money laundering or fraud.

Let me reassure you and others that the Government take that extremely seriously. We would not be pursuing something that would amount to what people would characterise as a surveillance state.

Q278 **Danny Kruger:** No. I recognise your concern to avoid that, but you are not ruling out the natural progression from a wholesale currency to a retail one. You do envisage that people will, in due course, have a wallet on their phone that reflects an account that they hold—

Andrew Griffith: Yes, with an intermediary rather than directly with the Government. That is a key design feature, to be very clear.

Q279 **Danny Kruger:** But it is the intention of the Government to proceed towards a retail CBDC.

Andrew Griffith: That is the model that is being envisaged, if the Government proceed. If I can unpack that, we are coming forward with a consultation about what the attributes of a sovereign digital currency would look like. There are many issues around that, such as what it means for money supply, what it means to protect privacy, the technical feasibility of that and how you would come forward with it.

That is a consultation, leaving open the question of whether it is an “if” or a “when”, to be clear. The proposed model, if we do collectively decide to proceed with that, will be a platform model that would not allow the Government to know individual transaction data on an individual.

Q280 **Chair:** This is the consultation that we will see—

Andrew Griffith: It is the consultation I promised you within weeks.

Q281 **Anne Marie Morris:** Minister, I am a little confused as to why there is a rush to stablecoin as opposed to CBDC. The reason I ask is that, as was already made clear, the real time gross settlement system is going to be replaced, currently by 2025. The work being done on the Samson project, running in parallel with the US work, demonstrates that, in terms of wholesale, there is now a viable and workable system for a central bank currency in the wholesale space.

If we move quickly, it would give us very significant competitive advantage. We will be closely aligned with the US and we will be ahead of the game compared to others, who are much more focused on the retail, which is far more complex. The wholesale will be much easier to get off the ground. Why are you putting stablecoin first rather than a proper wholesale CBDC, given that you have the Samson project and given the win it would give? Perhaps you could explain why you have put it like that



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and made that your preference.

Andrew Griffith: There is not an express preference within that. It is not either/or. I am familiar with the Samson project, and it is interesting. As we go forward with a potential sovereign digital currency, I and the Bank will look at that, because it is a means of delivery. As you say, it is potentially an earlier-to-market delivery than some other routes, but that is all to be taken into account as part of how we proceed.

The issue with regulating fiat-backed stablecoins as a means of payment is that they are here and now. They exist today. There will be displacement and dislocation, if we do not come forward with regulation. That is a near-term opportunity that is being taken forward as part of the FSM Bill. It is definitely not either/or. There is not a particular trade-off. It is just that one we can move forward with and should right now. The other, partly because of the very good and probing questions colleagues have asked here at this Committee today, opens up some properly thoughtful public policy issues that we will all want to get right.

Chair: I thank you, Minister, and your team for covering a lot of ground. We are just over 90 minutes. It is clear that you have a lot of work on in 2023. I am sure you will be keeping us up to date. Thank you very much for your time.