HOUSE OF LORDS

Financial Services Regulation Committee

Uncorrected oral evidence: The FCA and the PRA's secondary competitiveness and growth objective

Wednesday 8 May 2024

10.05 am

Watch the meeting

Members present: Lord Forsyth of Drumlean (The Chair); Baroness Donaghy; Lord Eatwell; Lord Grabiner; Lord Hill of Oareford; Lord Hollick; Lord Kestenbaum; Lord Lilley; Baroness Noakes; Lord Sharkey; Lord Vaux of Harrowden.

Evidence Session No. 1 Heard in Public Questions 1 – 18

Witness

I: Miles Celic, CEO, TheCityUK.

USE OF THE TRANSCRIPT

1. This is an uncorrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.
2. Any public use of, or reference to, the contents should make clear that neither Members nor witnesses have had the opportunity to correct the record. If in doubt as to the propriety of using the transcript, please contact the Clerk of the Committee.
3. Members and witnesses are asked to send corrections to the Clerk of the Committee within 14 days of receipt.

Examination of witness

Miles Celic.

Q1 **The Chair:** Welcome to today's meeting, which is the first evidence session of the committee's inquiry into the FCA's and the PRA's secondary competitiveness and growth objective. Thank you, Miles, for attending.

A list of members' interests that are relevant to the inquiry is available online, but as this is the first evidence session, members of the committee are required to declare their relevant interests orally when speaking for the first time so that they are on the record. I will begin by setting an example. For the next eight days, I am chairman of Secure Trust Bank—I retired at the AGM—in which I have a modest shareholding. These are the only interests I have to declare.

The session is open to the public and is being broadcast live, and it will subsequently be accessible via the parliamentary website. You will be sent a copy of the transcript afterwards to check for accuracy, and it would be helpful if you could advise us of any corrections as quickly as possible before it is put on to the parliamentary website. If, after the session, you wish to clarify or amplify any points made during your evidence, or you have any additional points to make, you are welcome to submit supplementary evidence to us.

First, could I invite you, Mr Celic, to make a short opening statement? We are very grateful for the comprehensive material that has been provided to the committee, and it has been carefully read and digested. We will then proceed to questions.

Miles Celic: Lord Chairman, thank you for that, and thank you and your fellow members of the committee for inviting me to give evidence today. It is a particular privilege to be the first witness in this inquiry into what is a very important subject for the financial and related professional services ecosystem. I should note that the establishment of this committee has been very warmly welcomed across the industry. As the Financial Services and Markets Act passed through Parliament last year, it was clear that new mechanisms for scrutiny were required to ensure that financial regulators were properly held to account and that wider strategic issues were given full and proper consideration. I know that this committee, and the depth of experience and expertise in it, will play an important role in providing that.

The UK's position as a major international financial centre is a key national asset, and it provides an engine for growth, innovation and productivity in the economy. But in order for our ecosystem to continue to do that effectively, and for international firms to continue to allocate capital and resources to the UK, we must ensure an open, stable and welcoming business environment, encompassing mobility of people, domestic skills development, and particularly, proportionate regulation. To create that optimal business environment, we need financial regulators that uphold high standards but also operate with a more commercially conscious mindset, giving due consideration to the wider

economic impact of their rules and decisions. If we are to continue as one of the world's leading and foremost financial centres, we need a regulatory framework that is more stable, more proportionate and more agile than it has recently been. It is for that reason that TheCityUK, alongside other trade associations and industry bodies, was a leading voice in calling for the introduction of a new objective on competitiveness and growth for the FCA and the PRA.

The UK's current political and regulatory mindset is often too focused on eliminating risk of loss from the financial system. Too often there is the default approach of stopping things going wrong rather than helping things to go right, and that is a stark contrast to the starting point that we see in some other jurisdictions. If not addressed, it is our sense that this will have deeply negative consequences for economic growth and dynamism, directly impacting Britain's ability to finance vital public policy priorities such as the challenges of an ageing population, renewing our infrastructure, and investing in the defence of our country, to name but three. The existence of this secondary competitiveness and growth objective alone will not address these challenges, but it will be an important component. However, the objective will be useless unless it is meaningfully and demonstrably applied in the regulators' activities.

TheCityUK works closely with the Treasury in shaping the metrics that the regulators will use in reporting their performance against this objective, and we have recently published a report, in partnership with Freshfields, on how we can make better use of international comparators. We look forward to reviewing that performance data later in the year, and we welcome the efforts that the FCA and the PRA have put into various policy statements and events setting out how they intend to comply with the new objectives.

However, there undoubtedly remains a concern in the industry, and clearly in Parliament, that these are not being taken sufficiently seriously. If we look beyond encouraging policy statements to the regulators' actions, there is serious cause for concern. The clearest example of this is the FCA's recent proposals on changing how it publicises enforcement investigations. This is one of the first, if not the first, major, far-reaching, cross-ecosystem consultations launched by the FCA since it took on its new secondary objective. Candidly, it is hard to see how that objective has been considered in the formulation of those proposals. In fact, it is quite the opposite, and many of our members feel strongly that these proposals damage the UK's competitiveness.

In summary, we very much welcome the introduction of the secondary objective. There is clearly, however, work to be done on ensuring that this actually informs and shapes decision-making and that it is genuinely and deeply embedded in the culture of the regulators. I know that the work of this committee will be vital in addressing these and similar concerns, and I hope that the focus on wider competitiveness issues will continue to drive the committee's agenda. Thank you, and I look forward to your questions.

Q2 **The Chair:** Thank you for that. The committee has engaged on the issue of so-called naming and shaming, and there does seem to be huge opposition to this throughout the City. We had a letter overnight from the chief executive of the FCA declining to extend the consultation period, but we will be taking evidence on that, including from him, and it will be an opportunity for some of the quite strong views that have been expressed to the committee to be properly considered.

Can you give some examples of the kinds of factors that are limiting the growth and competitiveness of the UK, as an international and a domestic financial centre? Can you explain why you think the regulators are not responding to this? What is the motivation?

Miles Celic: Thank you for that, and for the update on your communication with the chief executive of the FCA. A number of factors contribute to the success of an international financial centre, which are often based on tax, policy, regulation, talent and access to talent. It is something of an alchemical mix. It is difficult to design an international financial centre as an act of government policy. It builds up over time; it is organic. If one looks at the major international financial centres such as London, New York, Singapore, Hong Kong, there is an issue of trust, of reputation, of attractiveness to talent, of prestige that comes with that, so there is a certain soft element to the policy mix.

Something that companies we speak to greatly value, whether they are in the UK or abroad, is predictability. That can be the predictability of tax and simplicity of tax. Often there is a focus on the tax rate. That is important, but companies, particularly when thinking of tax planning, greatly value the ability to know roughly where tax will be over a period of time. It is one reason why George Osborne's commitment to keep the UK in the bottom quartile of the G8 on corporation tax at the start of the last decade was particularly valued by a lot of companies in our ecosystem. Ultimately, regulation and policy are what drive a great deal of attractiveness and appeal for international companies, because that is what also tends to attract the talent. When you get that mixed together, you can produce a very powerful, magnetic appeal to companies to stay in or to come to a particular jurisdiction.

One challenge that the UK has faced in recent years is a period of policy interest. As one Asian CEO put it to me, the great attraction of the UK was that it was predictable and dull in a very positive way. One could be reassured that, if you invested in the UK, there would be no wild swing in policy terms. We hear from some of those we speak to that political debate, arguably going back to the 2014 Scottish independence referendum, has had an impact.

The critical thing from a regulatory perspective is that we have moved as a society—this goes beyond simply financial services—into what one former City Minister described to me as a caveat vendor versus a caveat emptor world. There has been an attempt to minimise risk and push it out of the system. I hear that from my counterparts in other parts of the

economy, not just in financial and professional services and the regulatory dimension and backdrop that they need to deal with.

Regulators have been incentivised, socially and, one could argue, politically and through the media and elsewhere, to stop things from going wrong ever since the global financial crisis and even before. We are producing a paper, which is being pulled together and led by the chairman of Fidelity International UK, which I would be very happy to share with the committee. Our argument is that, if we are going to address the growth challenges that I talked about in my opening statement, we need to move to a position where we harness risk rather than simply try to push it out of the system.

Q3 **Lord Sharkey:** I have no relevant interest to declare. Miles, it is nice to see you again. I would like to hear your view on the Edinburgh reforms' impact on the objective of promoting long-term economic growth. I would also like to ask a more general version of that question. On the basis that no objective can be meaningful unless there is a method of assessing progress towards it, it is striking that HMT's and the regulators' proposed metrics did not appear to address growth, only competitiveness. How do you think we should assess impact on growth, and how is it done elsewhere?

Miles Celic: It is good to see you again, Lord Sharkey. From our perspective, the Edinburgh reforms are very welcome, although, as I said earlier, I would caveat that by mentioning the huge volume of change that we have seen in regulation and legislation over recent years. When John Glen was the City Minister, he turned up to a meeting of industry figures that we had convened and he pointed to, I think, 40 different consultations that were in flight that were led by the Treasury or where there was regulatory involvement. Much of that was related to the policy environment at the time and the need to change how UK regulation operates post the departure from the European Union. Industry felt deeply consulted. I want to take this opportunity to pay tribute to John and his successors as City Minister as well as the officials at HMT. I give them full credit, as there was very much a sense of working hand in glove with industry on that.

The Edinburgh reforms were a natural moving along from that. From memory, there are well over 30 different proposals, which are welcome and which are designed to keep the UK an attractive and competitive place to do business, but there is a certain degree of fatigue in companies and a sense that we have been drinking from a fire hose due to the amount of change that has been going on. Treasury has absolutely taken that on board. There has been an attempt to prioritise a number of proposals in terms of which will have the greatest impact in the shortest amount of time, but without taking its eye off the other less urgent changes that might need to be put in place or changes that might take more time to put into place.

So we welcome the proposals, but the general sense in compliance and executive teams in a large number of our members is that there has been

a substantial amount of change going on and that we would benefit from putting the industry into a place where that becomes more measured. We must not lose sight of the fact that we need to ensure that the regulators are nimble, agile and proactive, because it is a very competitive world out there, and the UK is no longer the number one international financial centre. London is no longer number one by pretty much any major study, including some done by William Wright, but there is no reason why we cannot continue to push to regain that slot.

The secondary objective is particularly important on that point. In the coming weeks, we will see which KPIs have been taken forward. We felt that these were particularly important; otherwise, lip service would simply be paid to it on the basis that, if you cannot measure it, it will not be managed. We put forward a number of proposals for how competitiveness can be managed, and Treasury was very open to those. We say that economic growth would be implicit in a lot of the measurements in the KPIs that the Treasury put forward as an element that follows from competitiveness. We will wait and see what comes out in the next few weeks.

Lord Sharkey: Do you have a view about how we ought to go about trying to measure the effect on growth?

Miles Celic: Yes. We put forward a number of proposals to Treasury. We have looked at this, and the difficulty is being able to separate out what has happened as a result of action taken through policy or implementation and rule-making that has a direct impact on economic growth. There are economists considerably more experienced than me around this table who would probably say that it is difficult to separate out directly.

So we have sought to identify what is in our control to measure, but we sense that there is a degree to which we will need to mix the qualitative and the quantitative together. We have certainly looked at ways of providing international benchmarking through the Freshfields work that I mentioned earlier, and we will be taking forward further proposals and ideas on that, which will include a closer look at precisely the question you have mentioned.

Lord Sharkey: Are there any particular jurisdictions that are in fact measuring growth or the impact of their policies on growth?

Miles Celic: Interestingly, when we looked at this in 21 different jurisdictions, under the work that Freshfields led, we found that there are very few comparable or consistent metrics between markets. That was not entirely a surprise; it was one of the reasons why we launched the work. I have worked at two large British financial services multinationals, Prudential and HSBC. In my experience, individual market teams or business units would have a very good sense of what was going on in their own areas and whether their regulator was operating efficiently and in a way that drove competitiveness and economic growth, but pulling those metrics and that sense together at a central point was relatively

rare. It tended to happen to a certain degree through the corporate strategy function but not in a way that was specifically measurable in the way that you are alluding to.

When we look at the 21 major markets that are comparable, we think there are things that can be done such as producing proxies. Sentiment, as I say, might be one way of examining some of this. I would say, in credit to the British regulators, that, on the secondary objective, the KPIs and the approach proposed by the FCA are pretty much among the best in terms of transparency, openness and visibility.

Lord Sharkey: I have in front of me the objectives of the FCA and the PRA, but again it is striking that there is no attempt in these publicisable objectives or measurements to talk about growth.

Miles Celic: As I said earlier, we would welcome further focus on growth, both in the regulators and in the general perspective from government and opposition policy. We have certainly seen that in the latter case. The more there is a focus on growth and the role of the regulators in not providing obstacles to but, rather, generating opportunities for growth, the more we would welcome that.

We took a delegation out to the United States earlier this year. As a representative from one American company that has major operations in both countries put it to us, their experience of the regulators in the US—he summarised—was that they started from the position of asking, "What will the impact of what we are doing be on growth?" But his experience in the UK was that the regulatory starting point was, "What will the impact of what we are proposing here be on risk?"

Q4 **Lord Eatwell:** I was intrigued by your argument that the basic role of regulators is to reduce risk and that you felt that it should go in the opposite direction. The primary role of the PRA is to reduce systemic risk, which reduces risk to the taxpayer. The primary role of the FCA is to reduce risk to the consumer. Do you want to put more risk on the taxpayer or on the consumer?

Miles Celic: We see this as striking the right balance on risk. Our sense is that we have gone too far socially, as a society, in trying to push risk out of the system. This is not about the creation of risk unnecessarily. This is not about being blasé or cavalier in the way the economy operates. Any society, author or company that decides to push risk completely out of their work will ossify. That is just a simple reality. Our sense, as I say, is that this is about striking the right balance, harnessing risk in a more appropriate way to generate growth. You have raised the point about the impact on and the risk for the taxpayer. I would argue that if we have no growth whatsoever or are unnecessarily limiting growth, we are creating a risk for the taxpayer in a different way.

Q5 **Lord Eatwell:** I see. Okay. One of the striking things about the investment culture in this country, which was emphasised today with the company Wayve having raised $1 billion in the United States, is that

really innovative companies, from DeepMind some years ago to Wayve today, have had to go to America for their funding because the British investment system is incapable of doing it. What regulatory measures do you think relate to this deficiency?

Miles Celic: That is a key question, and it goes beyond just regulation. There is no magic bullet here. This goes back to the Macmillan committee in the 1930s. This is something we have struggled with in this country for nearly a century, and we have still not found an answer to it. I do not believe there is a simple, easy switch that we can flick on regulation, legislation, or government policy that fixes this.

You have raised examples. Let me add to those. We have a terrific life sciences sector here. I was part of a working group a couple of years ago, led by Sir Jon Symonds and Sir John Bell, which looked at why roughly half our leading life sciences start-ups are listing outside the United Kingdom. We have that fantastic triangle between Oxford, Cambridge and London. We have universities like Manchester, Edinburgh, and others that are contributing to this. We have a financial services industry that is among the world’s leading. We have the ability to attract people from all over the world to come and work in that sector, yet we are finding that Boston is where a very substantial number of these companies choose to go for further financing or to list.

Paris is coming up the track pretty quickly. Interestingly, if you look at the approach in these centres, partly, to a very large degree, it is cultural. There is a sense in Boston that this is an area of expertise that they have developed, the financing is available, and there is a closer link between the way the regulators, government, and the industry operates.

Paris has taken, to a certain degree, and I would not want to overstate this, a subsidisation approach. There is absolutely a challenge here in making sure the financing flows into these companies. There is no simple switch that one can flick. It is much more about shifting the culture.

Lord Eatwell: It is not a regulatory issue.

Miles Celic: It profoundly is a regulatory issue.

Lord Eatwell: No. You said it was an institutional issue going all the way back to the Macmillan committee, and that it is related to the overall institutional structure of the British finance sector. That is not a regulatory issue.

Miles Celic: I am sorry, but I do not see that they operate in isolation. The financial services sector in the UK operates within the boundaries and the frameworks that are set by the regulation and the policy that is put in place by government and then enacted by the regulators. If the industry is disincentivised from investing in what are seen as riskier investments, as has happened, people who have those high growth opportunities and high potential companies will go where they feel there is less of a negative approach.

Lord Eatwell: So the regulatory structure has been deficient for 100 years, since the Macmillan committee.

Miles Celic: We have not addressed it for at least 100 years. To give you an example from today, we have seen proposals from the PRA to make it harder and more expensive to provide bank loans to small companies. These are exactly the small companies that we ought to be investing in in order to make sure we have the growth and innovation we need to drive the economy forward.

The Chair: Is the point about making it harder about capital requirements?

Miles Celic: Yes, capital grants.

Lord Eatwell: I apologise for not declaring my interests. I am a partner in a private equity company called Palamon, and a former chair in the Jersey Financial Services Commission.

Q6 **Lord Hollick:** I declare a shareholding and advisory relationship with two tech and life sciences investment companies that are on record. You talk about serious culture problems. Inevitably there is tension between protection, which is the primary responsibility, competition, and growth. You talk about meaningful steps to address it. Can you describe what meaningful steps you think the regulators should adopt to demonstrate that it can effectively wrestle with and balance these two concerns?

Miles Celic: That is fundamentally the challenge here. To be completely clear, we are not arguing for any kind of deregulatory or cavalier approach to risk. One of the things that marks the UK out as an attractive place to do business is the quality of the regulators. I would like to make a clear distinction between that and, necessarily, the quality of the regulation and supervision that we have sometimes. Clearly, financial stability is the bedrock that we need to build upon.

One example of the steps we would like to see taken forward is the use of the cost-benefit analysis panel. We think that offers some interesting opportunities, but it needs to be utilised in the best possible way. Take the recent enforcement approach, which is not a rule change. The requirement for a cost-benefit analysis was felt to be unnecessary by the FCA. We would argue that that proposal has substantial potential impacts on and cost benefits to the industry. It has substantial impacts on customers and the taxpayer, so it ought to have been covered by a cost-benefit analysis.

We have talked about the KPIs, and the utilisation of the KPIs, to make sure that this is embedded into the way the FCA and the PRA manage what they do. To a large degree it is about providing air cover to the regulators. If it is going to do something that drives innovation, if something goes wrong it should not necessarily be hauled over the coals for it. One parliamentarian we spoke to when we were pulling our proposals together said that the problem—this is their words, not mine—was that every time the FCA appeared before the Treasury Committee it

went back to Stratford with a long list of customer complaints rather than having been questioned on what it was doing to drive innovation or a more growth and competitiveness-oriented approach.

It is genuinely unfair simply to lay this at the door of the regulators. It requires a broader shift in how we as a society approach risk and the need for growth.

Q7 **Lord Hollick:** Do you think there is a structural problem in the sense that the FCA has to deal with retail problems and wholesale markets? Obviously, the appreciation and understanding of risk is different. Should those be separated?

Miles Celic: You have hit on a really interesting point. Before I go any further, I should say that there is no TheCityUK position on this. However, in conversations we have had with market participants, former members of the ECON Committee and others, there is a sense that, when the FCA was created—I summarise the argument here—the issues you are talking about tended to take place at a European level; they tended to happen in the ESAs and in Brussels. The FCA was a very active and influential participant in those debates.

To a certain degree, and I exaggerate slightly for the sake of impact, it was the branch office of what was happening in the European Union which meant that at inception, at creation, and through most of its first years of operation, the focus of what was in its control was exactly in that retail space that you are talking about.

Subsequent to the UK's departure from the European Union, there is a process that the regulators, and that we as a society, need to go through to recognise that those levers are much more in our control than they were previously. I am not going to get into the Brexit debate. The point is that where we are requires a different approach and a different mindset from the FCA. I have no view on whether that is a structural shift and a change in the institutional architecture, and we have not consulted members on it, but there is definitely a need for a change in operation and mindset at the FCA to reflect that.

Lord Hollick: How good is the dialogue between financial institutions and the regulators? The problems we have been discussing today have been widely covered in the press and point to a situation of great tension. Is there a healthy relationship and dialogue between regulators and financial services companies?

Miles Celic: Normally yes, which is one reason why the enforcement proposals are, frankly, so disappointing. To take an example from within the institutional architecture of TheCityUK, Sam Woods and Ashley Alder attend our leadership council, which meets four times a year. We have regular meetings with the regulators at working level and above. A senior member of ExCo spoke at all three of our last major conferences, and I have appeared on platforms with them at party conferences. There is no lack of engagement.

The disappointment with the enforcement proposals, particularly considering that they are something of a test case, is that they came out of the blue. Unfortunately, there is an occasional tendency in the regulators for these sorts of things to happen. The proposals did not appear on the regulatory grid, a biannually updated grid on the nine major regulators relevant to our industry where they will flag what is coming down the track. The recent diversity and inclusion proposals also appeared slightly out of the blue.

To the point I raised with Lord Sharkey, the sense in the industry is that we have enough to be getting on with without other things—in our view, unnecessary things, in the case of the enforcement proposals—being added to what is already a very big to-do pile.

Lord Hollick: Would asking the regulators to appoint an executive director responsible for growth and competitiveness be a meaningful step towards reconciling the primary and the secondary objectives?

Miles Celic: In principle, we would certainly welcome it as an idea. What I would want to avoid in such a circumstance is for it to get siloed in the FCA and that it becomes the job of one individual or one team. The challenge here is to make sure that it runs through the FCA, across the different departments and elements and all the way through the FCA top to bottom. The concern I have is that, from our engagement with the executive team, it broadly gets it. I am not sure that is always the case further down the organisation in terms of seniority.

The Chair: Picking up on your point about the good relationship between firms and the regulators, if that is the case, why do we find that people are prepared to tell us stuff in private which they are not prepared to say publicly or give as evidence to the committee?

Miles Celic: At the risk of being flippant, it is what they pay me for. There is a concern, which you have rightly touched upon, that, as one person put it to me, being critical of the regulator publicly will result in an enforcement punishment beating later. To make sure that the relationship is as positive as possible, companies tend to prefer to deal with these sorts of thing behind closed doors and not to air their dirty laundry in public, or not to have rows in public, which is another reason why it was so unusual that the industry took the approach it has taken on the enforcement proposals. It felt blindsided. It felt that the proposals did not match the initial conversations.

The Chair: One thing that struck me is who decided to do this—and where is the accountability on taking these initiatives?

Miles Celic: As I said earlier, this is why we genuinely welcome the creation of this committee and the application of greater scrutiny on the role of the regulators. We passionately believe in an independent regulator, but that is not the same as believing in a regulator that can act without scrutiny and accountability.

Q8 **Lord Lilley:** You mentioned that we are now in a position to review the regulations we inherited from our period in the European single market. Would it be beneficial if you, as an organisation, were to go back through the briefs you provided at the time each of those regulations and directives were being negotiated and ask Ministers to see the briefs they received at that time?

I was the Secretary of State who introduced the whole single market programme and negotiated some directives. My recollection is that invariably the brief said, "We don't want this, Minister, but it's going to happen. The best we can hope to achieve is one or more of the following lists of improvements". You have the critique ready-made. The problem, now that it has all been done, is that those who had to go through the process of implementing it all have a vested interest. So we do not even want to go back now, not least because it provides a barrier to the entry of new companies.

Miles Celic: I am conscious that you have a former European Commissioner for Financial Services sat next to you who will be very well versed in this. I cannot speak to other parts of the economy, but our view is that the UK was successful more often than not, particularly on financial services, in influencing or limiting the negative impact. This is reflective of the fact that, as is the nature of the European Union, a large member state typically will act as the sponsor state for a key part of the economy. For agriculture, it is the French. For advanced manufacturing, it is the Germans. For financial and professional services, it was the UK.

There were instances where that did not go as well as we would have hoped, Solvency II being a case in point. I have spent nearly 15 years of my life working on Solvency II in one form or another, with no time off for good behaviour. Now, the challenge is not about looking backwards but about how we look forward.

Lord Lilley: You do not think it would be helpful to look at the briefs from the time.

Miles Celic: It would be very interesting from a historical perspective, and from the point of view of the context that we are in. As I mentioned earlier, this goes back to where we will get the greatest benefit as we move forward. My view is that the policy proposals that have been put forward by government, often with support from the Opposition—for instance, the secondary objective, the Edinburgh and the Mansion House reforms—are about making sure that we are match fit for the 21st century, building on the foundation that is in place at the moment.

The reality is that, even in the years since we left the European Union, there have been huge strides forward in areas such as data, AI, and the shape and the way in which the world operates with free trade agreements, which historically services have been a small part of anyway, have shifted quite radically. I would much rather we were looking forward and trying to be match fit for that.

A German finance ministry official gave me one example from outside the European Union, and I think Ursula von der Leyen used a version of it. The European Union will continue to be an 18-tonne truck moving down the road with great mass and a reasonable degree of speed, but not terribly manoeuvrable. The UK needs to be an Aston Martin. It is obviously going to be smaller. It is not going to have the scale of the EU, but it can have high quality, high standards and nimbleness, and it needs to operate at speed. Broadly, that feels about right.

Q9 **Lord Vaux of Harrowden:** I just want to come back to the question raised by the Chair. I am alarmed by the comment about companies being scared of punishment beatings if they speak up about things. That does not imply a culture of openness, transparency and open discussion. Are there any examples of that happening? Is it more of a perception, or is it actual reality?

Miles Celic: I have a limited number of individual examples but, to try to be helpful, it is more of a concern, a sentiment, and it is reflective of where we are on exactly the kind of issues we have been talking about: the balance of risk. You may find the next time a supervisory team comes into your firm that you feel that the atmosphere or the temperature is slightly chillier than it was. There may be one or two more pointed questions than would have been the case. To be clear, that is not the case at the top of the organisation. There is no sense that companies that speak out of turn are singled out, but it is reflective of the importance of the regulatory relationship and having the right regulatory relationship for firms when they are operating in the UK.

There is a concern about what the risk might be of putting a regulator's or a supervisor's nose out of joint. This is a single example, and I appreciate that it is anecdata rather than hard data, but I remember talking to the chair of a foreign firm who explained to me that he pulled his punches whenever he filled in his annual survey for the FCA, because he was not confident that he could not be identified, despite the fact that it was supposed to be an anonymous survey.

Q10 **Lord Kestenbaum:** My interests, insofar as they relate to the work of the committee, are my associations with two investment companies listed. One is JP Morgan Japan, of which I am a director, and one is RIT Capital Partners, to which I act as an adviser and recently stepped down from the executive committee.

Could I bring you back to something that Lord Eatwell touched on? In your opening remarks you twice used the phrase "proportionate regulation", which struck me. I am aware that the concept of proportionality is very much in the eye of the beholder, but you are the beholder in this instance. I would like to press you a little more on your understanding of the word "proportionality", and how you would defend your position that there is a disproportionate regulatory environment, particularly in relation to the secondary objective. To what extent does disproportionate regulation, as you put it, impede the secondary objective? Could you give us some colour and examples of that?

Miles Celic: This is a critical issue in how we move forward as a financial centre. Full credit to the FCA, which at times has done things historically that we feel have supported this. The sandbox is a classic example. I remember being in the United States 10 or 15 years ago when an American regulator was beside itself with envy that the UK had beaten the US to the punch on this. So credit where it is due. It is a really positive example. The problem is that it is the example that keeps being cited 10 or 15 years later.

A more recent example, which we have already touched on, is the capital requirements proposal for SMEs in relation to bank loans, which is not an approach that is being taken forward by any other comparable jurisdiction. We would argue that it is detrimental to the UK as a place to start and grow a business and is an example of disproportionality.

There is an excessive approach on risk. I will take another example from my own background. It is predominantly a European example, but the UK was an active participant in it and then in Solvency II. Subsequently, we saw the approach taken by the PRA on Solvency II. At one point, a view was taken that the only bonds insurance companies should invest in were government bonds; it was the safest approach to take. I was previously at an insurer, and we were being encouraged not to invest in equities. We would argue that it was disproportionate to the approach, to the challenge, and to the problems it was attempting to solve. So clearly the greater the risk or potential risk to the economy, the greater the regulatory scrutiny and focus that is required. However, our sense is that it is not going to be a one-size-fits-all single template; it needs to be applied across the entirety of the book that the FCA regulates.

Q11 **Lord Grabiner:** On the disclosure front, I am a commercial lawyer and, among other things, I practise in the field of financial regulation. In a previous life, I was regulated by the FCA and the PRA as a non-executive director with an investment bank under the senior manager regime. That is the disclosure responsibility discharged.

I want to take you back to a point raised by the Lord Chairman at the outset and what he described as naming and shaming. I am quite interested to know your view about this. We have seen evidence to the effect that approximately two-thirds of the inquiries established by the FCA come to nothing. These inquiries may take one year, two years, sometimes longer, and at the end of the day a large proportion do not involve any problem at all in a regulatory sense. Does that mean that there was little evidence to start with? I do not know what your interpretation of that statistic is, but it seems to me to be a rather important point against naming and shaming from the outset of an inquiry, because it produces a very unfair impact on the targeted party. I do not know what your view about this is, and I would be interested to hear it.

Miles Celic: That is a critical reason for the concerns we have around these proposals. As you have rightly pointed out, at the moment, the sorts of investigations that are carried out in this space can take up to

four years, and two-thirds, about 65%, result in no action whatever. We have used "naming and shaming". We have used "guilty until proven innocent". I would also add a term that has an unfortunate history at the regulators, "shoot first, ask questions later", which I thought we had moved away from. It is one of the reasons why it is disappointing that this has emerged as a proposal.

The FCA has pointed out that there are other jurisdictions where this approach is taken. It has pointed to Singapore, South Africa, and Australia. Our understanding is that the closest example of this approach is in South Africa, which, we would argue, has a very different set of circumstances in its financial sector.

The example of Australia does not make sense; it is comparing chalk and cheese. It is similar for Singapore. I think Singapore has used this power nine times in the 14 years that it has had it and, on every single one of those occasions, the naming was done in co-operation with the police. So it is a very different approach to what the FCA is talking about.

Lord Grabiner: One of the counter arguments is that it might produce a whistleblower, but the implication from that is that there may not have been enough evidence in the first place. That is the bit I am very focused on and would like your view about.

Miles Celic: We are also concerned about that part of the proposal: the argument that this may produce evidence that would otherwise not have been made available or, as you say, a whistleblower.

The concern is that it feels like a fishing expedition, as opposed to moving forward on the basis of hard evidence. We would much rather work with the FCA to try to find examples of these sorts of issues and malpractice, rather than simply fish around hoping that something turns up, with the consequence that that undermines faith in individual companies.

As the CEO of a small company put it to me: any black mark around a company that does not have the prestige, the marketing budget, or the track record of a large institution with 200 years behind it is the kind of thing that turns the lights out for a small company. There is a real risk that it undermines competitiveness, which is our concern, and acts to undermine economic growth.

The Chair: On the point Lord Grabiner has raised—I do not know whether this concerns you—the justification for going ahead with this is that it is a way of encouraging les autres: that focusing on one company will make other people realise what the policy is. What do you think about that? It seems to me that if you have a policy, you should say what it is so everyone knows, rather than choosing a particular victim—but I have put words into your mouth.

Miles Celic: No, I wish I had picked those words myself. I would entirely agree with that characterisation. The risk here is lack of clarity, and this

is always the problem with regulation that is not clearly set out, or where there is a problem with potential interpretation. We would much rather have a clearer sense of what is required and how companies need to operate than simply take a view that, by making an example of one company, we are setting out the policy to others; that is entirely counterproductive and not a credible or helpful way forward.

We struggle slightly to understand where the impetus for this has come from. Equally, we are told by the FCA that this proposal reflects the will of Parliament. It might reflect this wider issue of risk concern, but I have not seen any indication of that in the conversations I have had with parliamentarians.

The Chair: It was a reference to a particular case with the Public Accounts Committee. My understanding is that the PRA and the Bank of England are not going to do this, but the FCA is.

Miles Celic: This is very much an FCA proposal at this point.

The Chair: It seems anomalous.

Miles Celic: Yes. Our hope is that the FCA will think again, and step back and recognise that this is unnecessary.

Lord Eatwell: On the 65%, in my experience running a regulator, one reason for the lack of action at the end is that the firm makes adjustments during the process, and you would have to take those adjustments into account if you wanted to understand the effectiveness of the regulatory procedure.

Miles Celic: I cannot speak to individual cases. We do a lot with the Jersey regulator, which is a first-class regulator. Equally, as I said earlier to Lord Grabiner, our sense is that there is a bit of a fishing expedition on many occasions, and, after four years of exploration and casting ever more bait over the side of the boat, nothing turns up at the end of the hook.

Lord Grabiner: The point is that those investigations could be conducted without the naming and shaming.

Lord Lilley: I should have declared that I am on the advisory board of YiMei Capital of Shanghai, which invests Chinese money in China.

This is an area where it is very easy to reach agreement on abstract statements; for example, we want proportionality, more nuance, balance between growth and risk, and so on. But could you give some concrete examples of objectives you would like to achieve that would be beneficial to the growth of the financial sector or the growth of the British economy?

Miles Celic: I appreciate the point you raised: this is easy to turn into a debate about abstractions, partly because a lot of this is around the culture. But from our point of view, we would like to see a greater focus

from the regulator on reducing the amount of the approach it takes on risk. If one looks at the challenges of capital markets in the UK, one sees that a lot of that has been driven by factors outside regulation; for instance, one can point to stamp duty as playing a role here.

There has also been an approach by the regulators to disincentivise pension funds and others from going into equities. The proportion held in equities has declined over time, particularly the proportion held in British equities. We feel that is a clear example of the way that equities are seen as much riskier than going to gilts or bonds. The downside of that is that if you compare the returns from British pension funds to those of, say, Canadian or Australian pension funds, from memory, British pension funds are returning about 4.5% on average, Canadian about 5.5%, and Australian about 6.5%. That is reflective of the approach that has been taken by the regulators, if you want a specific example of a longer-term negative impact on growth and competitiveness.

Q12 **Lord Hill of Oareford:** My interests are that I am the Lead NED at the Treasury; I advise Santander, ICE and Visa Europe; I am on the advisory board of the Visa Economic Empowerment Institute, and, since the name came up, I am also an adviser to Freshfields.

I wanted to go back to what I think was Lord Hollick's first point about retail wholesale split conceptually as a way of thinking about regulation. I recognise TheCityUK does not have a position on that because you have a fairly diverse membership, but do you think it is a fair summary that one hears people in the City saying there has been a bleeding across of attitudes, shaped primarily by consumer protection, into wholesale markets? As well as Lord Hollick's point about the risk and the people carrying out these activities being different in their sophistication, is there also an argument conceptually that we need to think about the future of the City of London and growth, and to maximise the strength of our wholesale markets? I know TheCityUK does not have a position, but do you think this area merits further reflection?

Miles Celic: Yes. You have raised a really important point and summarised it very well, Lord Hill. We will be contributing to that reflection and pulling together a discussion panel in the weeks ahead to look at exactly this point. The sense from many people and commentators in and around the industry is that regulation in the UK tends to look at things through the consumer end of the pipe, and that has been overwhelmingly the approach.

As I touched on earlier, there has also been a sense that that is what the regulators get asked about. When they are taken to task by committees or appearing on the front page of the *FT*, the *Times* or whatever, it is because of consumer loss or risk, or something that has gone wrong on that side. That is in no way to denigrate that the sums involved are life-changing for many people, and it is absolutely right that the FCA is focused on that from a moral and ethical perspective, but also a point of view of faith, confidence and trust in the integrity of the system—but not to the exclusion of the wholesale side.

This is a legacy that we are working through, and we are probably a good two, three, four years from finally settling on what regulation in the UK looks like, at least for the foreseeable future. But it needs the FCA to have that wider, more strategic, more macro approach, because the reality is that, without, it we will struggle to retain our position as a major international financial centre.

Lord Hill of Oareford: Can I ask one other thing that I struggle with? I do not know whether you have done or could do some work on it. If one accepts there has been a regulatory mission creep, I find it very hard to work out how much of that is, if you like, the regulator's own initiative, how much is government dumping more and more stuff on them because it does not want to take responsibility for itself so it keeps pushing out the regulatory perimeter, how much is custom and practice in that people start behaving in certain ways and then assume there is a basis to an action after a period of time, and how much is clearly bounded by statute. Do you have any sense of that, or how one might go about trying to dive into that? It is a bit like wrestling with jelly at the moment.

Miles Celic: I completely agree with that characterisation. My personal view is that it is a combination of many of those factors. The diversity, equity and inclusion initiative put forward by the FCA was not at the behest of government; I do not think there was an expectation from government that it was going to do that. It was certainly not at the expectation of industry, where there is already a multiplicity of very successful initiatives that the industry has taken forward, although there is still work to be done in that space. It felt like something the FCA felt it ought to do; it was interesting and allowed it to operate in a space where it wanted to have a bit of skin in the game.

Ditto on the enforcement piece; I do not think that has come in any meaningful way whatever from government, Parliament, or indeed any other. There is a sense that the regulators are almost creating activity for themselves in certain areas and at certain times, which is unwelcome given the amount and volume of what we need to go through already.

But you have hit on an important point here: over recent years, Governments have been willing to, in essence, outsource a lot of this to the regulators to a very large degree, and then, when industry has turned up and explained its concerns about particular directions the regulators have taken, it has been very easy for Ministers to say, "Well, I'm sorry, this is an entirely independent regulator; nothing to do with me. Obviously, I can have a chat with the CEO, or with the chair". This is where accountability and scrutiny are really important. I do not think we can go on in the way we have done previously, partly because the previous organisational architecture with the European Union is no longer there, and we are finding our way towards what the appropriate balance is.

Lord Hill of Oareford: Do you think it is possible to do that analysis? Is that something government should do or you can do?

Miles Celic: We can certainly go away and kick the tyres on that. The concern I would have is visibility, because certain parts of that decision-making process will require and depend on a degree of candour from people with us or those whom we might choose to work with as we take that forward. I certainly think it would be worth while as an exercise.

The Chair: Candour from which people?

Miles Celic: From government or regulators. If we are trying to find where the balance of these initiatives is coming from, my suspicion is that very few regulators will say, "Well, I was lying awake at night and I suddenly had a brainwave that struck me, and I went into the office terribly excited. Nobody else has been terribly interested in this, but we decided to take it forward anyway". The difficulty with that piece of work will be the ability to get that insight.

The Chair: Just on this point—perhaps I am just speaking for myself—under the new Act, this committee gets all the consultation documents and materials sent to it, and the volume is enormous: more than 100 a year, and it is very rare for them to be half a dozen pages. This is an ever-rolling stream, and you are on the receiving end of it. Looking at this, one is left with the impression that this is an organisation that is not actually focused. I am sure the top brass in the FCA and PRA are all very able, but there is no way they can be on top of all this material, which seems to have a momentum of its own, or am I missing something?

Miles Celic: Volume is a factor. It is very difficult for industry to stay on top of it when you have two regulators—now budgeted at north of £1.1 billion and with 6,500 people across the pair of them—generating this amount of activity. Our first-rate head of policy is sitting behind me, and she will be the first to say that, as an organisation, we cannot respond to everything the FCA and the PRA put out. We have to focus on where we can make the maximum impact and work with partners and others to cover the areas where we cannot respond. I do not think that is an ideal position. The challenge we run into is that there is this ongoing mushrooming of activity.

I remember talking to the CEO of a challenger bank a few years ago. He had set this thing up pretty much from a standing start, and I asked him what the biggest, most unexpected thing was in setting up the bank. He said it was the size of the compliance function that he had to put in place. It was not getting the branch network or the tech in place; it was the compliance function. Compliance functions within companies have grown and grown in order to meet this, which, in itself, is a drag on economic activity because it is an increase in costs.

Q13 **Lord Vaux of Harrowden:** To declare my interests, I am a member of the Institute of Chartered Accountants in England and Wales, and a shareholder and ex-employee of Fidelity National Information Services, which owns Worldpay, among other things.

I wanted to look at the international comparisons. It seems to me there

are two ways of looking at it. One is that regulation, by its nature, is a bit of a break on activity, and you then get into the race to the bottom. In other words, the competitiveness comes from the fact that they regulate less than we do. The other is creating an environment that is conducive to growth and competition in that regulatory environment.

First, I would be interested in your feel for where we sit between those two balances. Secondly, I would be really interested in some tangible examples of what other countries are doing better than we are. You mentioned earlier that Paris is coming up behind and we are no longer number one. You have talked about the danger of us no longer being a major financial centre. What are other countries specifically and tangibly doing better than we are?

Miles Celic: On the first, rightly, the British regulators are seen as very high quality. When I speak to their counterparts in Europe and the United States, there is a very high regard for the senior regulators that they deal with and there is great respect. I am not sure we always make as much of that as we could do, but I will come on to that in a minute.

The other element is a sense that the amount of regulation that the UK provides is pretty heavy, as we have talked about already. I have already referenced the example from the delegation we took to the United States of a senior banker saying to us that he felt the amount of regulation and unpredictability were making it harder than it needed to be to do business in the UK.

Lord Vaux of Harrowden: Going back a few years, our regulation was basically created by Europe, and therefore we were not—by definition almost—dramatically different from the EU. Is this a result of the fact that we are now doing it ourselves, moving forward and trying to change our regulatory environment, or is it that we were perhaps gold-plating over the regulating—

Miles Celic: You have anticipated where I was going to go with my answer: there was a degree of gold-plating. When one looked at how, say, the French, the Germans, the Italians or the Spaniards would implement certain elements of financial services regulation, it is not that they would not implement it; they would emphasise or lean on different bits in slightly different ways, recognising the particular idiosyncrasies, or whatever it may be, of their own markets. The UK approach tended to be this gold-plating, or even platinum-plating in certain areas, which one could point to the difference in legal traditions and so on as being partly responsible for. So there was always that sense in that.

On your point about regulatory arbitrage, no major international financial centre succeeds if it has a reputation for being a low-standards centre. We do a lot of work with counterparts and regulators in Singapore, and the "Singapore-on-Thames" shorthand for the UK—as a shorthand for low regulation or deregulation—was always somewhat resented by the Singaporeans. Having worked at two companies that have substantial Singaporean operations, and having dealt with the Singaporean

regulators, I know that they are extremely capable, with very high standards. But they are also very focused on the growth, success and competitiveness of Singapore as an international financial centre; you have to be if you are the Singaporean economy.

In terms of where we sit on that, I would say very high in standards and the expectations and quality of the regulators. The challenges are increasingly in terms of how easy the UK is to navigate and work in, and this unpredictability element on regulation, which is a relatively recent issue that emerged in the UK, of which the enforcement proposals are a particular example.

I am sorry, what was your second question?

Lord Vaux of Harrowden: It was about some tangible examples of what other international players are doing better than we are.

Miles Celic: This is covered partly in the Freshfields work that we have done on metrics. As I said, I am very happy to send that to the committee afterwards. Taking Singapore again as an example, the Singaporeans—together with a number of other jurisdictions—also have a growth and competitiveness objective, and they have proved much nimbler at balancing that out against the point that Lord Eatwell raised about making sure you have financial stability.

We had a leading Singaporean lawyer—who had advised a number of clients in dealing with the Singaporean regulator—walk through how that process works in Singapore. There is much more of a hand-in-glove approach to that. At the starting point of Singaporean regulation, there is much more consideration of the impact on competitiveness and growth. They have a clear priority that, ultimately, if there comes a point where financial stability comes into question, of course that is the priority, but there is much less of a sense of it being binary or there being an unreasonable trade-off here; there is a recognition that they can work hand in glove.

Lord Vaux of Harrowden: The other aspect is the performance of the regulators compared to others; the "how fast is it to get someone approved"-type argument. Where do we sit in relation to that?

Miles Celic: I am afraid not terribly well, typically. There has been major progress on things such as the senior managers regime. We used to hear a lot of concerns—we still do, but fewer—about how long it takes for a foreign executive to be signed off to come to the UK. I still find it surprising that we cannot find some way of fast-tracking that with comparable regimes. The idea that people signed off by the New York Fed or the MAS have to go through a process in the same way as other centres is certainly questionable.

I was given another example by the chief executive of the Hong Kong Stock Exchange, which he allowed me to use. He applied for a representative office in the UK and in New York at pretty much the same

time. The representative office in New York was signed off within weeks. When I saw him, he had been waiting 18 months for the sign-off for the UK office, and this had become known. He had been approached by Dublin, which said, "Well, we can offer you a sign-off for a representative office. We can do it in a few weeks, and you'll have access to the European Union from Dublin as well". Fortunately, he stuck it out, and the approval came through a little while after I saw him, but that sort of example creates the impression that the UK is falling behind.

Lord Grabiner: As a supplement to Lord Vaux's questions, my impression is that you think that there are things we can learn from Singapore regulators. I noticed earlier you said you personally have an insurance background. What about Bermuda? Are there things we can learn from Bermuda regulators?

Miles Celic: I am open to learning from the best anywhere, whether that is in Bermuda, Singapore, Hong Kong, Jersey or Guernsey, which are examples within the British family of regulatory centres being nimble and able to get decision-makers in a room and moving quickly, although I am conscious Lord Eatwell will have far more experience of that than I have.

We will succeed only if we come up with our own innovations—such as the sandbox—but we are falling behind in certain areas. For instance, the Germans recently made some steps forward in fund management and the approach to it. Fund management is one of the keystones that keep an international financial centre moving. We need to approach other centres with a degree of humility, not with a degree of believing that we know best simply because we happen to be the UK.

Baroness Noakes: For the record, as listed in my interests in the register, I have holdings in a number of listed financial services companies.

Q14 I want to go back to the measurement of success of the competitiveness and growth objective. The competitiveness objective specifically references financial services, but, more broadly, both the competitiveness and the growth secondary objective are phrased in terms of the whole economy and are not specific to financial services.

If we look at the Treasury's attempt at metrics, we see that they were very financial services oriented; almost all the metrics can really be related to the impact on the financial services sector. But those secondary objectives will be ultimately successful only if they can be demonstrated in terms of the whole economy, which means teasing out the transmission mechanism between financial regulation through the financial services firms that are regulated into the real economy.

It seems that nobody is thinking about that, and I just wondered what your opinion was. It seems to me to be to the benefit of financial services firms to be able to home in on their contribution to competitiveness and growth in the whole economy, and therefore we should encourage regulation to facilitate that.

Miles Celic: We have looked at that, as I alluded to earlier. I completely agree: it is very difficult to think about the challenges of growth, regeneration and investment without thinking of the role of financial and professional services in the ecosystem we have here, and the amount of dry powder available for deployment in the right circumstances. I passionately believe that harnessing our industry in a more intelligent and focused way is going to be a part of the solution to the UK's growth dilemma.

Our chief economist looked at this in a slightly different context, in terms of how you can make a clear causal link between initiatives that are made in regulation and the impact on wider GDP growth. There is a sense that you know it when you see it, but creating a clear link in data terms is quite difficult because there are so many other variables in whether a move in regulation or supervision creates growth and contributes to growth in the wider economy. We know that we do; it is just being able specifically to measure that.

Baroness Noakes: If we take, for example, Solvency II, which is widely anticipated to result in an increase in investment in British firms and thereby achieve growth, should its implementation be accompanied by metrics that positively demonstrate that outcome?

Miles Celic: I would certainly be open to exploring that and keen for us to contribute to looking at that. Again, the issue is there is a counterfactual element to this: what would have happened if the changes to Solvency II had not happened and what would the impact have been? I would argue that that would be difficult to account for, but we would certainly be very interested in exploring that as a principle.

The Chair: You touched earlier on capital requirements, and we have just been through the most horrendous period because of Covid, lockdown, and so on, but most banks did not use their buffers, or the requirement that is supposed to be counter-cyclical has not operated in that way. Is that not an example of what Baroness Noakes is talking about? That has a huge impact on house building and other investments throughout the economy.

Miles Celic: Yes. That is exactly the kind of thing that we can point to, so I agree with that.

Q15 **Baroness Donaghy:** I have no financial interest to declare.

Could I go back to your initial statement about stopping things from going wrong rather than helping things to go right? I am interested in the facilitation part, and the extent to which a regulator can change its DNA, if you like, to put out a welcome mat. If there is a limit to that, do you think there might be some argument for saying we need an institution that will be the British welcome mat, which will encourage and facilitate in the same way you have described in Singapore?

If you do, would it be a state-funded organisation, which then leads to the difficulties of pay levels for civil servants, or could it be funded by the

industry to help, if you like, the extra bits—not just the regulatory bits—that require a company to become successful? Or do you think most of the existing industry would see that as assisting potential new rivals?

Miles Celic: It is a really interesting question with a number of layers to it; I will try to address them all, but please let me know if I miss one. There is a slight difference here between what the regulators would argue is within their duties versus what is not. My experience is that they would be resistant to the idea that it is their job to run around the world promoting the UK as an international financial centre. You would obviously need to ask them to confirm that, but my impression would be that they would feel that is perhaps a step too far and is not really their role.

From an industry perspective, we would rather they stuck to their knitting, but obviously, when engaging with foreign Governments, counterparts and foreign companies, we would expect them to be positive about the UK, as they are. If you are talking about companies coming into the UK, as a country, we are not as good in providing that welcome mat in comparison to other peer competitors—the Harrington Review was very positive on this, and work set in train by Lord Grimstone as Trade Minister was very helpful.

It is a running joke that you can spot the odd person out in any gathering of senior businesspeople: it is the person who does not have President Macron's personal mobile number. The French are the case study of doing this extremely well and having a single point of contact within government, whereas, when I speak to companies that we have supported and encouraged to come to the UK, they often feel that they are scattered across half a dozen different government departments, that the message they receive is often inconsistent across those government departments, and that trying to navigate government in order to come and make an investment in the UK is harder than it ought to be. I know that HMT and DBT have been looking at that at senior official level and ministerial level, as well as the Harrington Review, whose proposals are very welcome.

Please correct me if I am wrong, but I think the other part of your question is around what we do to welcome and support companies that are already here in the UK—that we want to have, if you like, not just a welcome mat but a "do not leave" mat and attempt to keep them here. Again, I think a great deal more can be done across government, with the regulators and with industry, because I take your point completely that companies do not go out of their way to find others who can eat their lunch, but there is a recognition.

That is why the objective that TheCityUK has—as set by its members—is not to promote the interests of its members; it is to promote the interests of the UK ecosystem. That is a wonderfully liberating mission to be given, because it means our job is to promote the greatest number of companies, the greatest innovation, and the success of the UK as an ecosystem on that basis. Companies have a wider interpretation of the

success of the UK and what is needed for that success than perhaps is often recognised, although they obviously want to be very competitive against one another in that.

In terms of keeping companies in the UK, again, that requires a wider approach that we will have to address in the coming years—whether we want it or not—because we are entering a period of global regulatory fragmentation and protectionism. As we have already seen in the United States and other jurisdictions, we are entering a much more muscular and interventionist industrial policy, and the UK will need to compete against that backdrop.

Baroness Donaghy: Do you think there should be a separate institution whose sole function is to facilitate this growth and competitiveness?

Miles Celic: I am not sure it would need a separate institution; I tend to be slightly wary of setting up new bodies for the sake of it. My sense is that, properly enabled, government should be able to do this, but it will require a more hands-on approach between government, the regulators and industry. There may be a need for a body of some description that acts as a place where that kind of strategic thinking can take place. In financial services, we have argued for what we call a partnership council where that can happen, and that is already the case in life sciences.

Baroness Donaghy: Could I ask just one small question about the cost-benefit analysis panels? I do not think they have got off the ground yet.

Miles Celic: No; my understanding is they are currently being drawn together.

Baroness Donaghy: But you referred earlier to their potential for providing better metrics. Would you like to elaborate on that and how you see the work? You said there was some reluctance to accept their establishment by the regulators.

Miles Celic: Our concern around the CBA panels when they were being drawn together was making sure there was sufficient industry representation on them so that it was not, in effect, just the FCA marking its own homework, which we did not think was in the industry's, the country's or the FCA's interests. My understanding is that industry representation will be on there, together with others. I believe a chair is in the process of being appointed or shortly to be announced. The question for us is making sure that the CBA panel is properly supported, resourced and able to step in when it has a question or believes it ought to step in.

For instance, as I have already said, no cost-benefit analysis was made of the enforcement proposal. I would have thought that was an obvious area where there was a knock-on effect, an indirect impact and a potential economic cost. It concerns me that the FCA either chose not to run a cost-benefit analysis on it, which would be very worrying, or, even more worryingly, did not even think about it.

Lord Hill of Oareford: There is a point where you could do proper cost-benefit analysis before something comes in. One problem with the regulation is that, once it comes in, we do not appear to have very good systems for seeing whether it has worked in the way intended or whether there have been unintended consequences for growth, competitiveness or anything else. Do you think the panels ought to also think about carrying out a cost-benefit analysis after the event, not merely in advance of an event?

Miles Celic: I think that would be particularly beneficial. To take Solvency II as another point, I would argue it would have been far more beneficial if something like that had been conducted on Solvency II earlier than the review that took place. You will recall the review was put in place almost as a sop to keep the industry reasonably quiet. Much to the surprise of many of those who designed Solvency II, it turned out to have done exactly what the industry feared it would do; it kicked investment out of a number of key areas. Hard-wiring something like that would be helpful, particularly in areas where we have concerns across industry or government, or even within the regulators, about the potential consequences of a proposal.

Q16 **Lord Hollick:** Liquidity and an appetite for risk are essential ingredients of a successful financial centre. The steady, rather sharp decline in pension funds' appetite to buy equities is alarming. As you said, you go back over 100 years and there were some similar problems there, but there has been quite a recent decline at a time when the demand for public project investment in innovation is rising. As Lord Eatwell mentioned, companies now have to fund themselves offshore.

Is that really a criticism of the way we are regulated? I was surprised to learn last year that the Pensions Regulator had become a champion for LDI, which turned out to be a rather bad bet. Is it really the job of a regulator to make asset allocation decisions and to encourage a mature and sophisticated way of assessing risk? Certainly, in the case of LDI, none of the regulators spotted it. I am just puzzling as to whether the regulators are part of the problem, or whether there is something more deep-rooted.

Miles Celic: I would say it is both. Regulators are part of the challenge here; Solvency II—case in point—had a particular impact on annuities, which we had warned would be the case, and it reduced their attractiveness because of the way the regulators chose to account for them. I completely agree that there is a broader, deeper, and, in many ways, more intractable problem. You can see that, for instance, in the approach that is taken to risk, and in the approach between, say, Europe and the United States on how successful companies are financed.

We did some work on this at TheCityUK a few years ago. In the United States, when companies reach a growth stage, about 80% of them will go for an equity solution and about 20% will go for further bank financing. We explored this because it is almost exactly the other way around in Europe. If you are a growth company in Germany, in 80% of cases you

go to the Sparkassen and try to get a loan; if you do not, that is when you go for equity.

The cultural dynamic is different. In Germany, it is: you had to go for equity because the Sparkassen would not lend to you. In the United States, it is: nobody is willing to take a stake in the company, so you have to go to the bank. The UK is interesting because it is about 50/50; it is somewhere between the two models. But there is this cultural dynamic that drives the approach that regulation is to a large degree downstream—that is certainly post-financial crisis, but I would argue that it predates the financial crisis to a certain degree. As I said, we will send a paper around that we have done on this. There has been this sense that the role of the regulators—as the organisational or institutional arm of public opinion and public concern—is to minimise the approach to risk and push risk out of the system.

Lord Hollick: So they are partly guilty.

Miles Celic: I have just expressed my concern about a guilty-until-proven-innocent approach from a regulator; they are part of the challenge.

Q17 **The Chair:** Very briefly, you have talked about predictability. To what extent is there a lack of consistency between the various financial regulators? I am thinking particularly here of the role of the Financial Ombudsman, which seems to have turned into a quasi-regulator, and how that relates to the FCA, the consumer duty and everything else. Do you have any views on that?

Miles Celic: Yes, the FOS has certainly started taking that approach. This goes back to what we were talking about earlier with the very retail-centric approach to regulation and the guilty-until-proven-innocent approach that we occasionally see emerging. There is a patchwork quilt and there are different approaches within it.

If I was to take a more positive approach, I would point to the Financial Reporting Council—under Jan du Plessis and Richard Moriarty, the relatively new chair and new CEO—which had a very positive exchange of letters with Kemi Badenoch where it stressed the importance of approaching regulation with a competitiveness mindset and recognising the wider economic consequences of regulatory decisions and its approach on the governance code, which was to take an axe to about half of what it proposed to put forward. I thought that was a model for other regulators to follow.

Q18 **Lord Sharkey:** My question is to do with growth, again following Baroness Deech—Baroness Noakes, I am sorry; I will apologise in detail later. I can quite see that it is difficult to construct a data-provable, causative connection between regulatory action and growth, but surely it should be possible to arrive at an agreed system of assessment of whether there is a plausible connection between actions taken by the regulators and growth. I am still struck by the absence in the Treasury

document of any meaningful discussion of how this is going. Do you have a view about whether there should be such a plausible system of assessment?

Miles Celic: I am slightly treading outside my expertise here, but, theoretically, I do not see why it is not possible to produce in-principle determinants or indicators. As I say, while there may not be a clearly provable causal link—particularly given counterfactuals and the complexity of other decisions made within the economy, which was the advice that we had been given—there is a sense in which we know when a move has been made or an activity undertaken by the regulators that is likely to be less supportive of growth than one that is likely to be more supportive of growth.

I am also conscious that it is not the job of the regulators to generate growth; that is not what we have asked them to do. We have asked them to be supportive of and have a mind towards growth, and I wonder whether we can be in a position where everything regulators do can generate growth. Certainly, as we have seen, there are plenty of things that regulators can do that will impede growth, and it would be a useful step forward to move those out of the way, at least in the immediate term, and then look at what we could do more broadly.

The Chair: There are no other questions from members of the committee. We have had you for more than an hour and a half.

Miles Celic: I hope it has been helpful.

The Chair: It has been extremely helpful, and we are very appreciative of the energy with which you have approached the questions and are most grateful. Thank you.