



Financial Services Regulation Committee

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

Wednesday 22 May 2024

10.15 am

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Members present: Lord Forsyth of Drumlean (The Chair); Baroness Bowles of Berkhamsted; 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. 2

Heard in Public

Questions 19 – 32

Witnesses

I: Chris Hayward, Policy Chairman, The City of London Corporation; Kerstin Mathias, Director of Policy and Innovation, The City of London Corporation.

USE OF THE TRANSCRIPT

1. This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Examination of witnesses

Chris Hayward and Kerstin Mathias.

Q19 **The Chair:** Welcome to today's meeting, which is the second oral evidence session of the committee's inquiry into the secondary competitiveness and growth objective of the FCA and the PRA. I thank Chris Hayward and Kerstin Mathias for attending. A list of Members' interests that are relevant to the inquiry is available online.

This session is open to the public, is being broadcast live and will subsequently be accessible via the parliamentary website. A transcript of the evidence will be taken and put on the parliamentary website. A few days after this session, you will be sent a copy of the transcript to check it for accuracy; it would be helpful if you could advise us of any corrections as quickly as possible. If, after this evidence session, you want to clarify or amplify any points made during your evidence or you have any additional points to make, you are very welcome to submit supplemental evidence to us.

Can I ask you, Chris, to make an opening statement? You are aware of what the committee is looking at and you obviously have a very important role, given the importance of the City of London to our country's competitiveness.

Chris Hayward: Thank you very much. It is a privilege to join the committee today and give evidence on the FCA's and the PRA's secondary competitiveness and growth objective. I am joined by Kerstin Mathias, who is our director of policy and innovation for the City of London Corporation. After my brief opening statement, we will of course be happy to answer your questions.

As many of you will know, the City of London Corporation is the governing body of the square mile and is a leading convenor of financial and professional services. Last year, I convened much of the pension sector around the Mansion House compact, together with the then Lord Mayor, with the aim of unlocking over £50 billion of new capital by the end of the decade for investment in high-growth British businesses. We also worked with more than 300 organisations in the sector on our report, *Vision for Economic Growth*, copies of which my team have brought with us; we will share them with you, if we may, at the end of the session. That report provides recommendations on how financial services can deliver greater prosperity across the whole of the United Kingdom.

The City of London Corporation saw the Financial Services and Markets Bill, as it then was, as a golden opportunity to ensure that our financial services ecosystem remained open, competitive and innovative. We campaigned hard for the secondary competitiveness and growth objective, believing it to be an important step forward in three specific regards. First, in providing the regulators with this secondary objective, the Government, regulators and industry would work in partnership to develop a more agile and proportionate regulatory framework. Secondly,

the secondary objective would help ensure that the United Kingdom continues to provide a globally leading regulatory framework—one that is based on international standards and global best practice and promotes global competitiveness. Thirdly, the secondary objective would help provide long-term strategic direction in policy-making and regulatory approach; in other words, it would provide the stability that is so vital to the sector's success. Taking these three things together, an agile regulatory framework that provides stability and remains world-leading is, in my view, a worthy ambition for the secondary objective.

However, it should be said—I believe that Mr Celic of TheCityUK noted this in his testimony—that the secondary objective is only one piece in the puzzle around growth. Having recently returned from the United States, Germany and Italy, it is clear to me that ensuring that London and the wider United Kingdom remain the world's leading financial centre is contingent on a range of factors. There is fierce international competition among financial centres to lead on talent, skills, sustainability and more. Equally, ensuring that financial services remain the engine in the economy—a vital driver of jobs, prosperity and economic growth nationwide—will not be achieved by this secondary objective alone.

Finally, with regard to the regulators' response to the secondary objective, the City of London Corporation is deeply grateful for the engagement we have had with them on this issue. Ensuring that we have open, constructive dialogue between government, regulators and industry is a crucial part of solid, evidence-based policy-making.

I thank you for this opportunity to testify before the committee. We will be very happy to take your questions.

Q20 The Chair: Okay. Perhaps I could begin with the first question, following on from your remarks. You said that your expectations of this new objective were that it would result in an agile and proportionate regulatory framework. You have talked about the dialogue. How would you say it was going?

Chris Hayward: I think it would be fair to say that the dialogue is in development stage.

The Chair: What does that mean?

Chris Hayward: Well, look, we are interested in driving economic growth for the United Kingdom. That will be a fundamental objective for whoever wins the next general election. How does regulation help that and how do we have the dialogue that you are talking about with the regulators to ensure that they are helping that objective? The first point to make is that we need to have a growth mindset in our regulators. Regulators need to be innovators as well as regulators, and that is part of what this secondary objective is about.

When I talk about a growth mindset from our regulators, I think of the discussions that we would have with the regulators, covering three specific points. First, I think of proportionality between the oversight

provided and the size and activities of the businesses being regulated. We believe that there is no one size that fits all and that there should be a variation between regulation of wholesale markets and consumer markets. They are different beasts.

Secondly, there is an issue that Parliament needs to consider with balancing risk. We believe that there now needs to be more proportionate, responsible, regulatory risk taken. That risk is against the benefits of faster growth. The third point is one that we keep drilling into the regulators: we need them to move more quickly to respond to the applications for approval to invest capital for appointing new leaders, starting new enterprises and creating more products. The speed at which the FCA in particular has moved is not, in our view, fast enough.

The way in which they are being measured is important. We think that the Treasury's metrics under five headings are the ones that we would have advocated as well. At the end of July or August, you will no doubt receive the first annual report on how they are doing since the Bill became an Act. That will be revealing. Those metrics also need to be taken as being adaptable and developable over time. The first set of metrics we have today that the Treasury announced are the starting point of that.

In summary, the dialogue to get this proportionate, agile regulation is in place. It is going forward positively. The FCA and the PRA are responding but we will need to see just how they have measured against their metrics when the first report comes out.

The Chair: Could you give me one example of something that has changed as a result of that dialogue?

Chris Hayward: For example, the listing rules for the London Stock Exchange have been modified to make it easier for companies to list there. You may say that is a small move, but it is a significant one. That is one example.

The Chair: I can just about remember when Glasgow and Liverpool had stock exchanges and they disappeared. One looks at what is happening to the London Stock Exchange and people's preference to list elsewhere. What do you think is driving that? Is it from a regulatory perspective?

Chris Hayward: I think that it is largely from a lack of capital flows for UK businesses. We see this particularly with the fintech sector. We are very good at start-ups in the fintech sector, but we fail on scale-ups; they tend to go to the US. They go to the US to list because often, they can get two and a half times the valuation—they get more capital. We need to unlock United Kingdom capital.

That is one of the things which we tackled in our Mansion House compact last year—which I touched on in my opening remarks—the idea that 5% of defined contribution pensions should go into a pot, in effect, which we hope in due course will amount to £50 billion or more and which would

invest specifically in high-growth British businesses and in non-listed equities. We want to ensure that those businesses going across the pond and listing there at the moment remain here in the United Kingdom, so we get the benefit of the jobs, the tax receipts and the growth. The challenge has been that in their minds, they can get a better opportunity in the US than here.

Yes, we need the regulators to help with that. We need the regulators to have proportionate regulation which attracts them to stay here. I will make one further point on fintech. Fintech regulation has really developed quite piecemeal over the past 10 years, as fintech has come in and expanded. Much of the fintech sector tells us that this needs to be addressed and that it actually constrains the opportunities for growth. That is certainly a challenge.

Q21 Lord Sharkey: You mentioned the metrics agreed between the Treasury and regulators. It is probably common ground that objectives are meaningful only when there exists a method of assessment of progress towards those objectives. It is striking that in the Treasury's publication of the metrics in December, there is no metric or proposal for measuring or assessing growth, or having any idea whether or not it is having any effect on growth. Why do you think that is? How can we assess how the secondary objective of growth in particular is actually being addressed?

Chris Hayward: That is a fair point, and I shall ask Kerstin to comment on it in a moment in detail. As I said in my opening remarks, the contribution of the regulators, fundamental and important though it is to growth, is but one of a number of measures that will drive economic growth. Taxation and numerous other issues contribute to economic growth as well. To try to measure what is happening in the economy in terms of economic growth based solely upon the secondary objective is a bit of a challenge.

Kerstin Mathias: Yes, indeed, I think that is right. There are many aspects and factors that impact economic growth, and it would probably be a bit too much to look to Nikhil Rathi and Sam Woods to address that and solve that problem on their own when we have not really seen economic growth for more than a decade in the UK. Regulation, undoubtedly, is a very important part of that, but, in essence, there should be two ways we look at this.

First, we should have metrics that are actually in the control of the regulator. We have seen that in the proposal from the Treasury. We were very pleased that the PRA has even consulted the industry on how exactly to implement that. There is a narrative element of that, which can be less specific, that should also track how growth is going, because, as we have said, regulation is only one aspect that contributes to growth. To the extent that we can link what the regulators are doing to how our growth rates are progressing, that should be added to the narrative element. Ideally, we would have a combination of the two.

Lord Sharkey: Forgive me, but I do not think that quite addresses the

question of how we are to make an assessment about the regulator's impact on growth in the economy. The metrics for the competitiveness objective are reasonably clear and coherent, but there is no suggestion that I can discover that addresses how we are going to assess whether or not what the regulators were asked to do in the Act, with specific reference to the financial services industries, fulfils the requirements of that secondary objective.

Chris Hayward: One thing that we propose is a greater exploitation of our financial services sector globally. We say this in our *Vision for Economic Growth*. I talk about that specifically in the sense of FDIs and the importance that we could have—but do not have at the moment, in my view—in actually promoting foreign inward investment into the United Kingdom. I think that our regulators have to help that.

As I go around the world, I see that ours is high-quality, well-respected financial regulation. That is a pretty common way that people see the United Kingdom. But some of it is seen as cumbersome and burdensome. You get regulatory fatigue in some businesses, if I can put it that way.

We have to seek a dynamic economy. To be honest, since the financial crash, the word "risk" has gone out of our vocabulary. That does not mean deregulation, incidentally. People frequently say to me, "You want a race to the bottom". No, we do not, but we believe that much more proportionate risks should be taken.

I suspect that the regulators will do that only if they feel that the political accountability for risk is taken on a more long-term view. Businesses will fail; even regulated businesses will fail if they are under poor management. We have seen that in the past, so we must help the regulators to be more innovative and drive opportunity and growth, particularly around FDIs. When I talk about FDIs, we believe that there is a real opportunity to create a specific promotion agency for and across the United Kingdom. In our view, it would have to be driven by Parliament, but it is an opportunity to create something that could stimulate growth.

I am talking about a gold concierge service for inward investment. I look at our competitors, such as Ireland or Paris; they do this remarkably well. We rely heavily on our trade envoys. If you are interested in investing in the United Kingdom, you can do so through logging on to websites and getting information, but that is wholly inadequate. We need our arms around investment much more proactively to bring it in and drive growth.

Kerstin Mathias: There are two ways that we can look at the growth question. One is growth in the financial services industry, in and of itself. It is relatively easy to measure how many registered entities we have, the number of employees here in the UK and the tax take. The link between growth in the industry and the regulatory framework is much more direct. At a high level, those kinds of things should be included, acknowledging that other elements contribute to it.

To exaggerate, just to illustrate the point, if we were to raise our corporate tax rate to 70%, the FCA could have the most brilliant framework in the world but we probably would not see that growth. There needs to be some kind of acknowledgement of that. None the less, the link between growth in the FS industry itself and the regulatory framework is much more direct. On the link between growth in the wider economy—

The Chair: This committee is concerned with regulation, not with taxation and other matters. It would help if we could focus on that.

Baroness Noakes: I want to pursue this point about FDI. From the financial regulators' point of view, the only FDI that they can directly impact is further direct investment into the financial services industry. The question that Lord Sharkey has been trying to probe is growth in the whole economy. While there may be a case for an organisation to concentrate on FDI more generally, what can the regulators do in this area?

Kerstin Mathias: We are quite clear that it is not necessarily the regulators' job, in the first instance. That is quite clear in the objective to attract FDI. Their role is to create a framework that will make that easier. We do not expect the CEOs of our regulators to go out and have those conversations proactively. Of course, we want them to talk favourably about the UK in their international engagements, but that is quite an important distinction. We can have a conversation about whose job it is and what UK plc can do to make those conversations more impactful, in a way that delivers greater value for money and greater returns.

The headline is that, if we have a proportionate, agile and efficient framework, it will make that easier. We can point to a couple of examples of where we have that, but there are also a couple of examples of where things are not going so well. One of the great advantages of the UK is that we speak English. That also means that the rest of the world can read our news, so there is amazing awareness of what the regulators are doing. If something like the enforcement proposal is coming out, we will be asked about it in the rest of the world, because everybody follows our agenda. Chris spends a lot of his time travelling internationally and fielding those questions on behalf of the UK.

Lord Sharkey: It is the regulators' job to promote growth and the regulators are accountable to Parliament for doing that. For Parliament or anybody at all to make a judgment about how successful the regulators are in promoting growth in the economy, we need some metrics, and we have none at the moment. Were you part of the consultation that led to the metrics published by the Treasury in December?

Chris Hayward: We were.

Lord Sharkey: Did you submit views on what metrics would be appropriate to measure growth in the economy?

Chris Hayward: We supported the metrics that were there, but did not do that specifically, because what they would be is a challenge. I am not sure that we are best qualified to propose that.

Kerstin Mathias: We were part of that consultation and the wider industry conversation. Our responses focused on things that are in the regulators' control, so that they can be properly held to account and cannot blame anyone else for not meeting those targets.

Q22 **The Chair:** What about capital rules?

Kerstin Mathias: Yes, capital requirements are one example where we need to see a balance between safety and risk.

The Chair: So where do you think the balance lies?

Kerstin Mathias: It lies in the middle; that is where it is.

The Chair: What is it in the middle of?

Kerstin Mathias: It is in the middle between risk and safety. We need a safe financial system.

The Chair: Do you think that the capital regime is in the middle at the moment?

Kerstin Mathias: First, many of these standards are agreed internationally. Look at Basel, for instance; there is an international framework, which helps with competitiveness conversations. If all major financial centres have similar rules, it is helpful for the UK and the rest of the world. A lot of it then comes down to implementation and to what we do with the firms that are not the largest, which potentially pose the biggest risks. There is an opportunity for the UK to look at that again, where we may not have quite got the balance right.

Baroness Noakes: Just to take Basel, the US is well known for ensuring that the needs of its economy are well served by how it implements international standards. Where should the PRA be on something such as Basel which, for example, has new rules on secured SME lending leading to quite illogical capital requirements? Should the PRA not simply ignore international rules when they conflict with what is needed in the real economy? Earlier, Mr Hayward said that it was important to follow these international rules, but is it not more important to ignore them when they do not suit our economy, as the US does?

Kerstin Mathias: The UK benefits from international alignment. Many of the firms that operate in the UK operate in other jurisdictions. To the extent that there may be similarity or comparability between the frameworks here and those of other jurisdictions, it is an advantage to the UK. That is the high-level response.

The UK has a voice in influencing those standards. There is a case to be made that, especially after its departure from the EU, the UK's engagement in these institutions has become more important for its

competitiveness. There is potentially a case to be made to invest even greater resources into influencing the outcomes of those conversations.

It is also true that the compromises that will be reached in these international fora will not always entirely serve the UK and the needs of its economy. We should not blindly follow what is being agreed in these fora. The example that you have given on SMEs might well be an example of that. Equally, the UK can play a role in encouraging others, including the US and the EU, to follow these agreements and standards more closely, because ultimately they have been jointly agreed and we will all collectively benefit if we stick to them as closely as we can.

Q23 Lord Eatwell: We are having this discussion about the growth of the economy. One reason why we are finding it difficult to pin down the role that the City might have in the growth of the economy as a whole is that the City is not very good at this. It is extremely good at secondary markets, or it has been in the past, and very good at repackaging risk and whatever it might be from around the world. But study after study, including a recent study by the Treasury Committee, published just a week ago, shows that there are still very poor financial services available to SMEs in this country.

It is also true that the major companies generally do not raise primary capital in London; in fact, they usually reinvest. Over the past 10 years, the net primary capital in British top 100 companies has been negative, because they have been doing share buy-backs—whereas we look across the pond and see a thriving venture capital industry, and so on. We look at Europe, and there is still the residue of the great industrial banks, in Germany and in France. Does the regulatory role have a position in helping the City to become more of a primary market? At the moment, it is not a very good primary market, and we are all afraid that the secondary markets are leaching away.

Chris Hayward: I shall give a relatively high-level answer and Kerstin can pick up the detail. I think the regulators have a contribution to make to that. One of the big issues—again, I touched on this in my opening remarks—is that, in comparison with other countries, we do not have an overarching financial services strategy in this country, while many do. I go to the Far East and look at Singapore and Japan, where they have very clear visions and strategies as to how their financial services sectors are going to contribute towards their economic growth. We do not have that; we urge Governments to do that. There seems to be some reticence about having a public-private partnership, but we take the view that, without the private sector at the table, it is unlikely that that would develop. Do you want to pick up the more specific point, Kerstin?

Kerstin Mathias: Yes, of course the regulators play a role. The sector that we work with more closely of the SME sectors is the fintech sector. The collapse of Silicon Valley Bank was an interesting example that we can all learn from. Why did most of the fintechs have their bank account with Silicon Valley Bank? It was because they were struggling to open a bank account with some of the more established financial institutions

because they were too risk averse. They were seen as too risky even to give them a bank account. Of course, the regulatory approach pays a really important part in how those institutions make those risk assessments. Other things, such as the public narrative and conversations around those things, also play a role.

Q24 Baroness Bowles of Berkhamsted: As this is the first public session that I have attended, I first declare my interests as in the register, most notably as a non-executive director of the London Stock Exchange. I wanted to follow up on the Basel point but, as we have drifted a little into capital raising, I shall refer to that. A lot of technical companies go first to the United States, not to raise capital but to gain procurement—then once they are there to gain procurement, they might as well stay to do their listing. There is a lack of procurement in the UK, notably the lack of government procurement and mechanisms therefor, which is why our businesses do not manage to scale up within the UK because, absent that basis, it just does not happen. That is one point that you might want to think about and respond to.

To go back to the whole Basel scenario, how do you think it is possible for a regulator to be agile, to follow international standards and to be leading? Are not those things a little bit contradictory, and is it not the truth of the matter that they hide behind international standards? They go along to the Basel committee with all the ideas in their head. Yes, I accept that the Treasury is there as well, but I would say on balance that the regulators have the drop on these things more than the Treasury has these days; it may not have been the case in the past. So all kinds of things get agreed, then they come back to us and we have to do them because they are international standards. But then a little bit of gold-plating goes on, or a little bit of taking away—such as saying that we will not go that far with the things that could be done with the SMEs. Where does agility come into it?

Kerstin Mathias: That is an excellent question, thank you. In part, it explains why it is so hard to get this right. First, the UK has a market of £70 million, a big enough market to be significant on the international stage but a small enough market to be agile and review things that might not work in a more timely manner in other jurisdictions and actors.

Baroness Bowles of Berkhamsted: Sorry, did you say that we could review things in a more timely way than other jurisdictions?

Kerstin Mathias: I am saying that we have the opportunity to do that, yes.

Baroness Bowles of Berkhamsted: Do you think that that is so, with our need for consultations and the timescales that we tend to have around them?

Kerstin Mathias: I was not necessarily suggesting that we see a lot of that at the moment, but I was saying that we have the opportunity to do that going forward, and the competitiveness objective could be an opportunity to do more of that. When we recognise that there are

adverse or unintended consequences, we have the ability to look at things more quickly.

Baroness Bowles of Berkhamsted: Really? How quickly is quickly?

Kerstin Mathias: It depends on what you are looking at, of course, but we would need to see the impact first. If the first indicators were negative, after two years we could look at things again. In other jurisdictions review cycles are five, six or seven years but we would have the opportunity to do that. The other thing I would say is that there are international standards in many areas, but not in all areas, of course.

Baroness Bowles of Berkhamsted: I do not believe that the US regulators take five years to respond to a significant harm that might be coming—and they are about as big as they get.

Kerstin Mathias: That is true, but the EU does—the EU moves much more slowly than the UK has the ability to do, and we need to look at competitors across the world.

The Chair: I am confused. A few moments ago, I thought that you were telling us that we should be aligning ourselves with the EU, and now you are telling us that you think that there is an opportunity for us on a timescale that matches that suggested by Baroness Bowles. What are you saying?

Kerstin Mathias: Yes, we are talking about international standards—the work that the Basel committee and IOSCO do. Important as the EU's work may be, I would not classify it as an international standard.

The Chair: So you do not think that we should be aligning ourselves with the EU?

Kerstin Mathias: I think that we should make that decision on a case-by-case basis. Often that might be the right answer, but sometimes it might not, because it is not in the interests of the UK market.

Baroness Bowles of Berkhamsted: If we are so quick and lively about these things compared with the EU, how come it got ahead of us on all the legislation that is still stuck in our retained EU law? It has raced ahead and is already changing it, and we are not yet.

Kerstin Mathias: We have changed some things.

Baroness Bowles of Berkhamsted: After the EU did, following sort of what it did—it is not that different.

Kerstin Mathias: Yes, because sometimes—

Baroness Bowles of Berkhamsted: In fact, it is sort of identical.

Kerstin Mathias: Sometimes that is the outcome, because it is the right thing to do for the UK. Sometimes, being a second mover can be an

advantage, because you can learn from the mistakes that others have made, and sometimes being the first mover can also be an advantage.

Baroness Bowles of Berkhamsted: Oh, so now we cannot lead—we do not want to be first movers. You seem a bit mixed up. We have to be clear. The UK should be leading; we should be faster, we should have agility, and it should not take several years. In some instances, especially when you are looking at markets rather than capital requirements, these are things that we should be able to change in a matter of months. Is that not the case?

Kerstin Mathias: Yes, we should change them as quickly as we can, absolutely. But we should learn from what others are doing.

Q25 **Lord Grabiner:** Mr Hayward, I was interested in the part of your opening remarks where you talked about some overseas jurisdictions providing what you called a gold concierge service. We have been told about—and you have mentioned this too—Singapore providing red-carpet treatment to encourage inward investment. Is there anything in the suggestion that our own regulators could provide a gold concierge service as part of what they currently do? Would it be a useful add-on to their function to focus on the growth side of the story and invite investment?

Chris Hayward: I think it could. That is not the primary function of our regulators, but they should support it. As my colleague was saying earlier, they should positively and favourably promote the United Kingdom as a sound place to invest in. We have to do more in creating something beyond the regulators to exercise that promotion. We put in our report that we want a hub spot, effectively, of growth opportunity to be exploited by these gold concierge services. We just do not do that here in the United Kingdom; we are very polite about all this, and in my opinion we allow our competitors around the world to steal a march on us. The regulators can contribute to that but I suspect it will never be their primary function.

Lord Grabiner: But there would not be any conflict between what we all understand to be the usual function of the regulator and the concierge service alongside it. They ought to cohabit.

Chris Hayward: They should cohabit. I could not agree with you more. There is no reason why they cannot.

Q26 **Lord Hollick:** It would be helpful to the committee if you could identify some barriers to growth that have been imposed by the regulator and which you would like to be removed. What would they be?

Kerstin Mathias: An example that Chris has already mentioned is the speed of authorisations. As firms consider where to move their most highly regarded international talent, the speed at which they are able to do so is an important consideration, and then with that talent come further investment decisions about growing the presence in a certain market. That is an area that has been discussed at length and where we

have seen progress, but the FCA is still not meeting its target and it is of paramount importance that we invest further in this.

Lord Hollick: Why is the FCA resisting that?

Kerstin Mathias: I am not sure that the FCA is resisting it. I think it has accepted the criticism and is working on it, and the numbers are improving steadily, but it is still not at the 98%-plus target that it has set as its own green standard.

There is a second part to this issue. Currently we treat applications from someone who is already registered in the US or another highly regulated jurisdiction in the same way as someone from another jurisdiction that might be less highly regulated. Again, there is an opportunity for the FCA to show some leadership and say, "You're coming from the US and you have been approved there by the regulators, so of course there is a different high-speed track for you to go through. That will allow you, dear firm, to bring your talent to the UK more quickly"—and with that come certain investment decisions. That is one example that we really need to get right.

Lord Hollick: Could you give us more?

Kerstin Mathias: Another example is the regulator's approach to innovation and how it treats new ideas for which there might not currently be a framework within which to consider them. For example, a UK-based asset manager had an idea to launch a tokenised fund in the UK. They had conversations with the FCA about ways in which they might potentially be able to do that. They invested quite a bit of time into the conversations but ultimately no solution was found, so they took that idea to another jurisdiction.

Lord Hollick: Do you think that the FCA or the PRA have the necessary skills, experience and understanding to get their minds around these things?

Kerstin Mathias: That is a good question.

The Chair: We can take your hesitation as a no.

Kerstin Mathias: There is a lot of fantastic talent in the FCA. Its innovation team is great, for instance. We should be proud that we have such a good and strong innovation team within the FCA.

Lord Lilley: It was not very good on tokens.

Kerstin Mathias: The problem is that we then need to mainstream that across an entire organisation of 5,000 people. That is a big challenge.

Lord Hollick: Why is Singapore so fleet of foot? Why is it able to grasp these opportunities much more quickly than we are even if we were the primary setter of the rules?

Kerstin Mathias: The Singaporean system is very different from the UK's, and we should acknowledge that. What we can learn from is that it has nailed how to mainstream the innovation and growth mindset across everyone who works at the regulator. That is something that the UK can and should learn from.

Lord Hollick: Given where we are and the skill set and mindset of the FCA, do you think that growth is going to come only by having another agency which promotes growth? You mentioned in your opening remarks that there is an important distinction between wholesale and retail markets. The FCA has to straddle both. So do we have an institutional problem?

Chris Hayward: We certainly have a cultural problem, and I start from that point. The FCA in particular and the regulators generally have not found it within their psyche culturally to promote risk taking, taking opportunities for growth and being flexible in their approach. I put to you earlier the argument that we should create some specific vehicle—I think that is where you are going with your question—that differentiates from what the regulator does but acts, in effect, as a promotional tool for the country. I do not think that is going to happen under the present regulatory system, so something else needs to be created.

Lord Hollick: But it is impossible to strike an agile and proportionate balance between safety and risk.

Chris Hayward: That is why I differentiated a little between the two markets. Let me be clear: consumer risk must be protected. However, in wholesale markets maybe there should be a different regulatory emphasis on securing more flexibility of opportunity in the wholesale markets than in the consumer markets. That is why I say that one size of regulation does not fit all. We ought to be thinking about that in respect of different parts of the market.

Q27 **Lord Vaux of Harrowden:** I have a quick and specific question. You have raised several times the speed of approval issue as a real problem. Are there any actual metrics for how we are performing versus Singapore, the US, Dublin and European jurisdictions and how we actually compare? We hear this a lot but get very little on it that is specific.

Chris Hayward: That is because most other jurisdictions do not have metrics. We are fairly unique in what we can establish. Other jurisdictions have competitiveness clauses and competitiveness strategies. For example, we have just supported the UK Government in establishing the mutual recognition agreement with Switzerland—which is a great opportunity to work together—and it has a competitiveness driver, as it were. But there are no common metrics to measure our performance or that of our regulators effectively against the rest of the world. I believe I am right in saying that.

Kerstin Mathias: In the UK there are clear objectives. Approvals under the SMCR should not take more than three months.

Lord Vaux of Harrowden: The question is really whether three months is the right target if Dublin is doing it in a week. It is about trying to understand more specifically where we really are in that.

Kerstin Mathias: Some jurisdictions would publish objectives in those kinds of areas. We can certainly look at some of the key competitors that you mentioned—Ireland, Singapore and so on—and write to the committee on that, if you would like us to do that. The UK is very transparent about what its objectives are and how it is performing against them, which is a positive thing. Whether we need to be more ambitious is a question worth asking.

The Chair: You say that it is very transparent, but, for example, on authorisations, where they say that they have met the targets, if they ask for more information, they reset the clock and the information is not necessarily telling you what you think it is telling you.

Q28 **Baroness Bowles of Berkhamsted:** I have another question that follows on from the consumer aspect. Your 2024 six-point plan pointed out the low levels of financial literacy we have in this country. The question is: which consumer are we protecting? The consumer duty is, perhaps, meant to be flexible, but one of the ramifications of this could be to close down freedoms to invest in the retail area.

One of the big reasons why the US is so dynamic on a lot of things is that it also has a lot of active retail investors, and that leads the mindset, whereas now, if you want to go and buy an investment trust on a platform, you will discover that you have to start taking exam questions to find out whether you know enough. You do not yet have to take an exam question to buy a bank or an insurance company, which is somewhat more complicated. Where will this lead us, if it is the lowest common denominator that has to be protected? There will certainly be no risk in the retail market. Is that something that you are engaged with?

Chris Hayward: Yes, we are. Your first point is really important, because levels of financial literacy in this country are pathetically low. Recent Lord Mayors have taken this up as a specific campaign, so we are quite engaged in the whole literacy debate and how we develop it. What we do not want to do is to stifle by regulation—as you implied—the opportunity of individuals to invest. As always with regulation, it seems to be about getting the balance right between the two.

Kerstin Mathias: Yes, I agree. Financial literacy is a very important tool in encouraging greater engagement from the retail market. It is a long-term solution, and that has been part of the problem because if approaches to financial literacy keep changing, it is quite hard to see ultimate results. However, if you look at the numbers, we are moving in the wrong direction as well. Only about 11% of UK retail participants now hold shares, whereas 10 years ago the number was twice that. The development is very worrying. Encouraging greater retail participation

along the lines of what we see in the US would be good for consumers and the wider market here in the UK.

Baroness Bowles of Berkhamsted: Is the regulator moving in the opposite direction through the consumer duty and the way it is being applied? In a sense, it is being outsourced to platforms and others which do not want to take the risks, so they will clamp down.

Kerstin Mathias: We are concerned about the impact of the consumer duty. We will have to see how exactly it plays out but, yes, there are big concerns. However, I can give another example of where we have seen the impacts. As a result of the change to the rules around guidance and advice, significantly fewer retail investors have had access to advice and guidance. That was not what anyone intended, and it was not a helpful outcome for the UK as a whole. The FCA has now launched a review into that—too late and too slow, to pick up on our earlier conversation—but at least that is a positive example of where we could help shift things.

The Chair: Could you give us a note on the data you have on that?

Q29 **Lord Eatwell:** You said earlier that regulators need to be innovators. Can you give us a couple of examples of innovation? I take the point about authorisation—that is rather standard stuff not being done so well—but what about the innovation side?

Chris Hayward: As I see it, the challenge at the moment is that regulators will not really innovate because innovation implies risk and risk is something that they do not want to countenance. That is a cultural issue, but it also needs parliamentary support—that is, having the correct form of road map for the appetite for risk that regulators should be taking. That road, if you like, has to be set by Parliament and parliamentary committees.

At the moment, the regulators fear innovation a little because it implies risk, and with risk comes retribution if you get it wrong. We have to change that mindset and culture because if all we ever do is play for safety, we will never get growth in the UK economy. That is an absolute fact, yet because of what happened with the financial collapse, regulators moved firmly to the side of regulation and not innovation.

The secondary objective, it is alleged, will address this, and we will see whether it will do so. We will see the first report against the metrics and whether they are taking some of these more innovative approaches. I do not see huge evidence yet that that is the case, so, in answer to your request for specific examples of innovation, I am not sure that I can give you any today. I do not know whether Kerstin has any specific ones. We talked about the listings, earlier, which was innovatory.

Kerstin Mathias: There are two ways to think about this. One is innovation in terms of how the regulators go about doing their own job. There, the use of technology is a very important tool, and we could certainly see much more of it. For example, we still do not have fully digitised rulebooks that everyone can access. That is a very simple

example that we have encouraged regulators to progress—others have pointed this out before—which could help with innovation in the way they go about implementing their objectives and duties.

The other important area is how the regulators encourage innovation in the financial services sector. An example that is often given is the sandboxes. Of course, we are very supportive of the sandbox; it is a great idea. We should look for further areas where we can apply sandboxes, but the issue is that other jurisdictions have also picked up that idea. It is no longer good enough, and we need to do more to encourage innovation within the sector.

One suggestion we have made, where we might be able to learn from and build on the reputational advantages that we have gained from being a first mover on sandboxes, is to think about how we might use sandboxes on a cross-border basis to encourage firms or give them the ability to test something in two jurisdictions at the same time, which would ultimately create growth in both jurisdictions that participated.

Lord Lilley: I wonder what you consider the role of the Corporation in this. So far, we have been going only a short while, and, although my impressions of the way the regulators operate may be wrong, it seems to me that they suffer from a great deal of complacency and an incredible lack of urgency both in developing new rules—it is very leisurely, as Baroness Bowles said—and in authorising people. Yet your opening was a sort of paean of praise of these people who lack urgency and seem incredibly complacent. Should your job not be to hound them to do this—to say, “Why haven’t you done it? Do it by tomorrow!”, and not, “We’ll wait and be in line with the rest of the world”?

Chris Hayward: That is a fair point. Our regulators do not move at the pace at which we need them to move at the present time.

Lord Lilley: Should that not have been the point you made to this committee?

Chris Hayward: I apologise if my opening remarks suggested complacency—I was not intending them to—that all was good in the world and with the regulators. That was not the intent of my opening remarks; it was to set a scene. At the end of the day, our regulators are independent. Yes, they have accountabilities to Parliament, but, ultimately, they are independent regulators.

I cannot sit there as the policy chairman of the City of London Corporation and direct the regulators to do something. We can express dissatisfaction, as we do on specific areas—for example, on the recent issue of the investigation and the naming and shaming, where I, together with the trade associations, signed a letter to the Chancellor saying that it was utterly wrong and that the FCA should not do it. Indeed, I met the FCA yesterday and reinforced that point yet again. I would not like you or any member of the committee to think that the Corporation is in some way the regulators’ poodle. We are not. We want to see drive, innovation

and progress. They are not moving quickly enough but, equally, it would not be fair to make the regulators entirely the whipping boys.

The Chair: There were a few mixed metaphors there.

Chris Hayward: Yes, there were, I apologise.

Lord Kestenbaum: If I may, I would like to bring you back to your opening remarks and the word that for me will serve as the word of the session: agility. You set it up as one of your three expectations of the regulator. The other two are self-evident: global standards and stability.

Why do I want to press you on that as an expectation and, in line with what Lord Lilley said, how do we pursue it? I am prepared to wager that, if you polled the 50,000 or so regulated companies of the FCA and asked them to describe the conduct of the regulator in three words, or even in 500 words, none of them would use the word “agile”, so what kind of expectation is it?

It seems so removed from the experience of the regulated community—irrationally so. Is it reasonable for you to sit here, with the best of intentions, and press that as one of the three expectations, when it is nowhere near the lived experience—as they call it these days—of the regulated community? I do not understand; it seems such an enormous misalignment.

You said something earlier about “mainstreaming the growth mindset”. I did not really understand what that meant. We will come back to it in a moment, but you might put it as one of the answers to the question about the misalignment between your expectation of the regulator and the experience of the community, and, as Lord Lilley said, what we are doing about it.

Chris Hayward: Agility is certainly a long way from where we are today, so I accept your argument that if you talked to our regulated firms, they probably would not jump to “agile” as their first—or even last—word to describe the regulators. But do I regret using it? No, I do not, because if we are not aspirational enough to state that and to make it clear that that is what we require from our regulators, we may as well pack up and go home. At the end of the day, if we cannot drive the regulators into being more agile, we will have a constant problem in delivering on this secondary objective that your committee is considering.

I do not take back stating that agility is important. I talked about it coming from a change in mindset, culture and growth mindset. What I mean by that is—some members of the committee have touched on this today—that it is not and does not need to be incompatible for regulators to think about regulation on the one hand and innovation and growth on the other. They can come together but, at the moment, driving that is extraordinarily difficult and challenging. But we have to aspire to do so.

Lord Kestenbaum: Let us talk about “mainstreaming the growth mindset”. Please give it to us in language that I can understand. What is

it? Is it a leadership vacuum, resource limitation, a skills deficit, poor recruitment? What does “mainstreaming the growth mindset” mean in practical terms?

Chris Hayward: It is probably a combination of a number of the things you suggested; it is no one thing. It is about regulators thinking about their role as being not just about rule making, which regulation fundamentally is about, but about how they embrace their contribution as one of the parties that can assist in the process—I made the point at the start that it is not just the secondary objective that will drive economic growth in the United Kingdom. But to do so, they need to think differently. Their pushback against that is, “If we do that, we will be accused of deregulation. We will be accused by politicians of being too interested in risk and not interested enough in control”. Changing the mindset—maybe I choose the wrong word, but it is the word that comes to me—is about getting them to think differently and to think about growth as well as regulation.

The trouble is that the moment you start to say that—I say it as a politician—people immediately assume that it means deregulation, and it does not. I would be the last person to sit in front of this committee and say, “We need to deregulate”. We do not. Our regulation is quality regulation. We know that because we know that it is admired and it attracts FDI—not as much FDI as we want in this country; the Harrington review, which was mentioned in the Autumn Statement, made great recommendations to the Chancellor as to what we should be doing in that area—but until we can get our regulators to think differently, they will not act differently.

Lord Hill of Oareford: Before I ask my main question, can you remind me whether, when the legislation to introduce the secondary objective was going through, were you originally in favour of it being a primary objective?

Chris Hayward: No, we have never said that it should be a primary objective. We have always accepted it as a secondary objective.

Q30 **Lord Hill of Oareford:** My substantive question links to some of the things that you have said about the importance of growth and therefore the need for more risk. When you look at the behaviour of the regulators, do you think there is sufficient clarity between what they are able to do with the statutory underpinning and the things that appear to come suddenly out of a clear blue sky because they fancy doing them—of which the initiative on diversity and inclusion might be one example and another might be the issue we have been discussing about naming and shaming? Do you think there is sufficient clarity about where the boundaries are between what might be a reasonable expectation, underpinned by law and statute, about what the regulators are doing and what they have perhaps started to assume for themselves as more of a social mission?

Chris Hayward: That is a very good question indeed. There is clarity and

a clear understanding by the regulators of what their statutory responsibilities are, but there is always a tendency and an opportunity. We are starting to see that. The naming and shaming is a really good example of a policy that was not on the grid and we did not see coming. It was clearly dreamed up and was launched in perhaps not the best way to position it to the market—let us put it that way. That is an example of what we are talking about: the clarity between the statutory responsibilities of the regulator and the great ideas that they have and want to pursue, such as the examples you gave. There is clarity around statutory responsibilities, but less clarity on the other side.

Lord Hill of Oareford: Do you think that it would help with the achievement of the secondary objective on competitiveness and growth if there were greater clarity, and if the effect of that was that the regulators needed to operate solely on the statutory basis on which they were set up, which seems to me to be the correct position? Do you think that would help with the growth and competitiveness objective?

Chris Hayward: Yes, I do, but would it stifle the cultural change that I am trying get from the regulators, to think about the ways in which they can drive growth and innovation? Within their statutory responsibilities as regulators, I do not see that as being a key factor.

I know where you are coming from. Clarity is important. If the regulators do not really know what we do or do not expect of them, it is hard for them to deliver, but I would not want them to be so straitjacketed that they said, "We know what our statutory responses are as regulators so we can't get involved in things that are risk-taking or innovation because that's outside our statutory responsibility".

Lord Hill of Oareford: Do you not think that if regulators had a clearer focus, so that the parameters were not constantly expanding, that in itself might not help?

Chris Hayward: Yes, I do, but it is about what that clearer focus is. The focus potentially has to incorporate some form of change in responsibility or in where they focus themselves, but not to be wide-ranging, as it is at the moment, where a new idea comes up and sounds good and regulators think, "We'll run with that". I understand what you are saying. I agree that if they know what is expected of them, it is much more likely that they will achieve it.

Lord Hill of Oareford: The problem that some of us feel at present with the lack of clarity is that the discretion they use is in the direction of reducing growth and competitiveness rather than what you are hoping might happen, which is to increase them.

Chris Hayward: We agree with that. I think you are right: greater clarity would be helpful.

Kerstin Mathias: Yes, although sometimes it is necessary to expand the regulatory parameters. For instance, there have been calls from the

industry to regulate ESG rating providers. That was not clearly in the FCA's parameters so that has now been changed. That is positive, and it is a specific example where we think that ultimately helps, but in other areas where there is not greater clarity there is a need for legislative intervention to expand it but it does not do so.

The point that I want to pick up is focus and priorities. Regardless of where the parameter is going and how it is being interpreted, we need greater focus. The volume of regulatory change that we have seen over the last couple of years has been too high. That is making no comment on whether the changes were good or bad, but it has been increasingly difficult for absolutely everyone in the ecosystem to engage with the change. We can make good rules only if the entire ecosystem is part of that conversation but, because of the volume, that has basically been made impossible.

Lord Hill of Oareford: On that last point, can you quantify in broad-brush terms the increase in regulatory activity that you are rightly pointing out? What scale are we talking about?

Kerstin Mathias: We have not run the numbers. There are two things to say. One is that the documents that are being published keep getting longer and longer. Maybe that is a good thing because it means that we are seeing greater engagement and research ahead of a proposal being put out, but cumulatively it makes things more difficult. Secondly, because we have started reviewing—again, rightly—everything that we have onshored from the EU, that has been an additional area of activity that previously we just have not seen. It is good that we have done so, but we should have prioritised and staggered that activity to facilitate engagement from everyone with it.

The Chair: I think the committee will have a great deal of sympathy because we receive all the consultation documents.

Lord Vaux of Harrowden: Lord Kestenbaum referred to the word of the session being "agility". Another word that jumps out at me is "proportionate", which we have heard a lot, and someone referred to gold-plating a short while ago. A lot of the discussion that we have had so far has been fairly general in that respect but we have to try to come up with some specific recommendations. With respect to proportionality, could you give us four or five specific examples of where you think proportionality is currently wrong and the rules are currently disproportionate?

Kerstin Mathias: For four or five examples we might want to follow up in writing. One example is capital requirements for small and medium-sized banks. That is an area where we need to look at proportionality. Another one is disclosure requirements. What can smaller firms at that end of the spectrum realistically be expected to comply with? It absolutely cannot be the same as an institution with several thousand employees. Those are the two examples that I would draw out: disclosure and capital requirements for smaller firms.

Lord Vaux of Harrowden: Are there areas where we are doing better than other jurisdictions?

Kerstin Mathias: In terms of proportionality?

Lord Vaux of Harrowden: Yes

Kerstin Mathias: I cannot think of any.

Lord Vaux of Harrowden: That speaks volumes. Here is a different question. Early on, you talked about the importance of long-term strategic direction being important for stability. You have just commented on the burgeoning quantity of regulation, and there is a bit of a feeling that the regulators tend to be a bit reactive and short-term in their output. Could you put a bit more flesh on the long-term strategic direction that you were talking about?

Kerstin Mathias: One example is how the UK has approached and engaged with digital assets. Back when John Glen was still City Minister, there were encouraging noises about thinking about it all holistically and wanting to make the UK a centre for digital assets in a safe and secure way. Then not much happened at all, and others, including the EU, acted much more quickly with their proposals on MiCA. That is an example of proper long-term strategic priorities that everyone has bought into and we commit to a delivery plan. While the UK is catching up, we are doing okay and rectifying the mistake, that is an area where we might have lost a bit of time because we did not have a long-term strategic view that everyone had bought into.

Lord Vaux of Harrowden: Is that something for the regulators or for government?

Kerstin Mathias: I think it is for both, if I am being totally honest. Both will need to act and ultimately deliver on it.

Q31 **Baroness Donaghy:** You referred in your presentation to your global talent policies and the need to have more diverse and inclusive talent. Obviously, it is very tempting to go into that area as it affects the financial services industry, but what do you think the regulators could do to assist, apart from, as you have already mentioned, speeding up approvals? How could the regulators assist in promoting the best people to come to work here?

Kerstin Mathias: The biggest area is the speed of authorisations. The rest depends heavily on the wider immigration system, which they have no control over.

Baroness Donaghy: Given all the changes that have taken place with the FCA and so on, is it reasonable to expect an organisation to deal with an inquiry into GAP insurance, for instance, and at the same time deal with high level issues around UK plc?

Chris Hayward: There may well be an argument that suggests that one of the reasons for performance not being at the level we would want it to be is a work overload, if I can call it that. You are suggesting that there is too much for it to deal with.

Baroness Donaghy: I was suggesting not just that there is a possibility that there is too much but that it is basically a bit of a political dustbin.

Chris Hayward: That is a reasonable point. Kerstin, do you have a view?

Kerstin Mathias: Strategy gets set at the top, then the detail is delivered by the rest of the organisation. Even very detailed work should ultimately be able to link back to the strategy. Where that does not work and does not fit—for instance, the enforcement proposals—I am not entirely sure how that link can be made. That is when we have a mismatch, and that is what needs to be called out by the industry and others, but I do not think that in principle it is impossible for the same organisation to have high-level strategic views and priorities and to do the detailed work. Hopefully, they should be entirely aligned and complementary, with the detail to fulfil the high-level strategy.

Baroness Donaghy: We were told privately that people were unwilling to apply for the sandboxes that you referred to earlier because they did not want to appear as an outlier. How do you feel that can be changed? That is a bit of a self-denying ordinance, is it not? It is the companies themselves that are deciding not to go forward. What are your suggestions for changing that?

Kerstin Mathias: We have heard that too—that some firms for various reasons have decided not to use the sandbox, not always necessarily because they did not want to be seen as an outlier but because there was a perception that sandboxes are for smaller players rather than for big, established players, which is absolutely not the case. This is a comms challenge about how the opportunities and benefits that firms can gain from participating in a sandbox can be articulated better, consistently and repeatedly so that the message really lands with everyone. That is a misunderstanding rather than something that is based on facts and on how sandboxes actually operate.

Baroness Donaghy: Do you think that is something that the industry itself has some responsibility for? We have talked about the gold concierge service, and others have referred to the welcome mat. Is there an institution other than the FCA, which Lord Grabiner was asking you about, that would be good at promoting UK plc?

Chris Hayward: We do, but we think it needs to be set up. It does not exist at present. The challenge, as Lord Harrington was saying in his review, is that we do not have that institution at the moment. We have one side of the equation with the regulators, but where is the promotional activity to draw in FDIs? Broadly, it is just not happening. It happens when people ask, but we should be going out there and procuring this business, and that needs another organisation. We suggest that it should

be a public-private sector organisation that has real teeth and a brief to drive FDIs.

Baroness Donaghy: It would be good if you could put some flesh on the bones of that suggestion.

Chris Hayward: We will write to you with more detail about it.

The Chair: Thank you. Are you saying, Kerstin, that the sandboxes have run into the sand?

Kerstin Mathias: No, that is not what I am saying, honestly. We are seeing great engagement. Some institutions have asked these questions, but I would not say it is the majority.

The Chair: How many examples are there of people taking advantage of it?

Kerstin Mathias: There is a limited cohort that can participate in the sandbox at any given time, and the cohort is always full. That suggests that there are, at the very least, enough applicants.

The Chair: What is the size of the cohort?

Kerstin Mathias: It depends on the sandbox that we are talking about. For instance, there is the new infrastructure sandbox that the Bank of England has just launched and the digital sandbox at the FCA, and they all have slightly different numbers. Again, we will come back to you with precise figures.

The Chair: But it is quite limited.

Kerstin Mathias: Yes.

Lord Grabiner: Mr Hayward, I want to pick up on the last answer that you gave to Baroness Donaghy. If you had the power to do it, would you put some additional task, function or objective into the powers available to the regulator that would encompass the points that we have been discussing, rather than giving that function to some separate body? Out of interest, I would be interested to know whether you think it might be worth possibly doing both.

Chris Hayward: Frankly, from what I have seen of regulators, I do not think it would work within the existing regulatory set-up. I do not think the two skill bases are quite the same. One organisation dealing with regulation on the one hand and promotion on the other would not work. We would be better setting up an entirely new promotion agency.

Q32 **Baroness Noakes:** In your opening remarks you talked about part of the Mansion House compact involving DC pension schemes producing a fund of money that would magically help UK growth. Could you update us on where that has got to? Alongside that, what role do regulatory issues, or the involvement of regulators, have to play in the success or otherwise of that enterprise?

Chris Hayward: I will deal with the first part of the question, and Kerstin can pick up on the regulatory aspect of it. Ultimately, the Mansion House compact is merely a letter of intent. It is a letter that was signed last year by a number of the big pension players, with the support of the Chancellor of the Exchequer, with the idea of creating, long term, a fund to support UK high-growth businesses. The signatories to that compact are currently doing their work, research and due diligence. To be absolutely honest, I am a little horrified to say that there is talk that it will take four or five years to get the product to market and the whole thing happening, which strikes me as being way too far away.

Baroness Noakes: That is not very agile.

Chris Hayward: Indeed. If I may say so, this is a problem with a lot of things that Governments announce. I could talk about Solvency II. We make these announcements, but if we do not implement them in a timely fashion, we lose the opportunity. We will drive as hard as we can on the Mansion House compact, but it is not, ultimately, the Corporation's compact; it belongs to the companies that have signed it. We need to come back to agility and being fleet of foot; we need to move some of this stuff much more quickly if we are going to get responsive.

Baroness Noakes: Are there regulatory barriers?

Kerstin Mathias: Anything we can do to encourage the flow into some of these assets is helpful. A lot of them are being addressed, including, for instance, through Solvency UK, which is positive.

Baroness Noakes: You do not need Solvency II to get DC funds investing in UK assets.

Chris Hayward: Are there regulatory restrictions on them?

Kerstin Mathias: This is where the conversation gets difficult because there is a mix of so many different reasons why it is not really happening. Regulation gets mentioned, but when you ask for an exact example, it is often not the regulatory language itself but the implementation of the regulations, which is a different issue. There is no need to change the language but there is a need to change the approach and how it is being implemented. Of course, that sits with the regulators and supervisors, but it is different in nature.

The Chair: This has been a very interesting session, with some quite agile questioning, so thank you very much indeed; we really appreciate it. I would like to ask a final question, because I slightly rudely interrupted you when you hesitated on the issue of talent among the regulators.

What do you think about the model the Takeover Panel has of seconding people with direct market experience to, in effect, a regulatory function? I understand the arguments about conflicts and so on, but, certainly for as long as I have been involved in the City, no one has ever suggested that that has been a problem with the Takeover Panel. Do you think there

might be an opportunity to look at that model in the context of the FCA and the PRA?

Chris Hayward: My personal view is that anything that drives expertise into the FCA in specific areas should be looked at and examined. As you rightly said, it has worked elsewhere, so why should it not work in the regulators? I would support that, personally.

The Chair: As a follow-up to that, my observation is that the FCA in particular has a substantial turnover of staff. People go off and are employed by the people whom they have been regulating, at considerably more attractive remuneration. There is a self-fulfilling prophecy whereby they create more regulations and therefore there is more demand for compliance people. That appears to be what is going on; is it a misconception?

Chris Hayward: I suspect that it is not; I suspect that that is exactly what happens. As with any public sector organisation, the FCA needs to remain competitive to retain the best people and talent. This is a constant challenge between the public and private sectors. We see it in the Corporation, where we get some very bright people but, too often, we lose them to the private sector because the remuneration and opportunities are greater. That said, I suspect it is not easy to suddenly adjust the salary scales of the entire regulatory bodies, but there is a concern that we lose our best people to the private sector, and we should worry about that.

The Chair: Thank you very much. That concludes the public session.