



Financial Services Regulation Committee

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

Wednesday 9 October 2024

10.05 am

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

Evidence Session No. 5

Heard in Public

Questions 75 - 86

Witness

[I](#): Sandra Boss, Chair, BlackRock UK.

USE OF THE TRANSCRIPT

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

Examination of witness

Sandra Boss.

Q75 The Chair: Welcome to today's committee meeting. This is the fifth oral evidence session as part of our inquiry into the FCA and PRA's secondary competitors and growth objective. Thank you to Ms Boss for attending.

A list of members' relevant interests is available online. The session is open to the public, broadcast live and will be accessible subsequently via the parliamentary website. A transcript of the evidence will be 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. After this session, if you wish to clarify or amplify any points made during your evidence, or have any additional points to make, you are welcome to submit supplementary written evidence to us.

Ms Boss, you have indicated that you would like to make a brief opening statement.

Sandra Boss: Thank you, Lord Forsyth, and the committee, for having me here. I appreciate your time to listen to me, on behalf of BlackRock.

I start by emphasising how important the UK is to us as a global investment manager. This is unquestionably the global international hub for investment management. We have 3,800 people here, and that is a growing number. It is our largest office outside the US and one which has been integral to our business for more than 50 years, considering our predecessor firms. We are now the number one manager of client assets in the UK by assets under management. It is £750 billion of assets under management on behalf of our clients.

Although we manage funds directly, working through intermediaries, those affect the lives of 13 million pensioners in the UK. It is household names such as Rolls-Royce, British Airways, the Nest scheme, and some local government pension schemes. This is a really important part of what we do.

It is also worth noting that we are investing £570 billion in assets under management into the UK. That is listed equity and the debt against those listed equity companies, helping private companies on the equity and the debt side, and essential infrastructure.

It is important to note that our commitment to the UK is about helping people have better savings and better investing, but it also includes what we are doing philanthropically here. For five years, we have worked with Nest Insight on emergency savings. I hope we can talk a little more about that and the connection to the pension regime. Emergency savings is an opt-out programme that helps people who often have left less than £100 in savings begin to build a nest egg to be able to deal with emergencies.

Similarly, over the course of the last year, we have entered into a partnership with Age UK, for which we have put £1 million into a scheme

that will help 4,000 vulnerable older people attain access to £8 million in benefits that they are entitled to but may not know how to claim. We feel very pleased about that.

The only other things to say before leaving myself in your hands is that I am personally very privileged to be speaking to you today. We know how important it is that the UK is a predictable, outcomes-based and highly competent regulatory environment; that, combined with it being a very capable legal environment, enables the UK to be one of the best places to do business in financial services.

I say that advisedly because not every jurisdiction in the world has the deep understanding of capital markets, asset management and the securities industry that is prevalent in the regulators here. I have great respect for them and have spent time as a member of the Prudential Regulation Committee at the Bank of England. I know how carefully the regulators are considering primary and secondary objectives. When I was on the committee, we were consistently looking at both in every decision we took.

However, it is timely to look at our regime. It is one year into the secondary competition and growth objective and the world is not holding still. We know that the US is a huge part of the securities markets globally and a huge part of our competitive frame. We also know that we have got jurisdictions such as Hong Kong and Singapore very actively and eagerly seeking opportunities to host more and more financial services activity. This committee should be mindful of the burgeoning capital markets environment that is growing in the Middle East, where very rich sovereign wealth funds are being proactive about establishing a friendly domicile for activities such as wealth management. They will be competing directly with the UK for some of our activities.

- Q76 **The Chair:** Thank you very much. In your statement you listed a number of attributes which we have because of the regulatory regime in the UK. You missed out competitive and cost-effective. We had some evidence from another witness, from Marsh McLennan, which said that when looking at the various jurisdictions in which he operated he found that the UK was considerably more costly to operate because of the regulatory burden. You operate on a global basis. Have you got data on compliance and regulatory cost for the various markets in which you operate?

Sandra Boss: I do not have that data, but I can say—

The Chair: Do you not monitor what these costs are in your various markets?

Sandra Boss: It is important to recognise that, as a global asset manager, that is not really the way we track our regulatory and compliance costs. We are doing business in more than 50 jurisdictions in the world in one manner or another. In that context, many of the activities that we engage in will include, for example, authorising a fund that can be sold into that number of jurisdictions.

I can come back to the committee if there is information I can share. We carefully monitor the compliance activities that we need to engage in, country by country, and we ensure that we deliver on those compliance activities. But we do not make jurisdiction-based decisions of the type that you describe. We operate on behalf of our clients. Our clients tell us what type of funds and products we need, and our activities are engaged with the regulators as we need to in order to authorise the funds.

The Chair: But in those different markets you surely must have data about how many people you need to employ in compliance, what the costs are and what the relative burdens as a business are.

Sandra Boss: I do not personally have accessible the compliance costs of everything that we do. However, I note that compliance is an important activity in every country that we operate in.

If we look at the US and compliance with state-level regulation as well as federal regulation, we see that it is an important part of what we do in every jurisdiction around the world. I recognise and respect the perspective of Marsh McLennan, but what we do not see is that we are making choices here that are driven by compliance.

The Chair: If you are a very large organisation, you can afford to have a large regulatory cost. If there is a large regulatory cost, it limits people's ability to compete with you. I get the feeling that you are not seeing this as an important factor.

Sandra Boss: The most relevant point is that not only have we chosen the UK as our largest domicile outside the US for activities but we are growing it. We are growing in Edinburgh, where we have opened a larger office, and we are adding 400 jobs there. The reason we are doing that is that we find that, to do the activities that we need to do, the UK is a beneficial environment for us to do business in.

Q77 **Lord Smith of Kelvin:** Unusually, my question is not about the SCGO—the secondary objectives. What is your experience of the primary objective of regulation, and the FCA in particular? You mentioned international comparisons and so on, so I am interested in that. Do you think you are treated differently from small players in the market?

Sandra Boss: Our engagement with the FCA is very constructive. It is important to note that our business model is such that we are dealing more with the markets regulators than with the consumer regulators, because we intermediate the products that we are manufacturing. The solutions that we are providing then go through others to get to the end beneficiary.

Our experience is that the FCA is knowledgeable. We observe the positive changes that the FCA has made in improving the rate of authorisations. We have not done firm authorisation but we have done individual authorisations, and we notice the changes that it has been reporting.

We have generally found that our counterparts understand the importance of effective markets. It is worth noting some of the changes that have been made recently, which are quite positive, in which the FCA has been quite involved. That includes the listing reforms, where we have engaged with Lord Hill, and other reviews, whether the introduction of changes in payment for investment research or some of the changes around the introduction of the long-term asset fund. These are all changes on the market side, looking at the effectiveness of regulation. These changes have been implemented in the last year and we have found that to have been a productive dialogue.

Lord Smith of Kelvin: Is it yet in the same league as Singapore, for example?

Sandra Boss: I do not have direct engagement with Singapore, so I am not in a position to describe the wherefores and comparisons of our market regulator with Singapore. In our experience, the capital markets knowledge of UK regulators is the greatest in the world, with comparison to the US. That understanding of the business model, the roles played, primary and secondary markets, trading and sophisticated instruments is relatively unrivalled. We see the same kind of sophistication with the US regulators.

Baroness Donaghy: In your executive summary the emphasis seems to be that you are looking for political stability and certainty, with a clear and consistent strategic vision by Ministers, and to avoid relitigating. Would you like to say something about what precisely you mean by avoiding relitigating?

I also want to come on to your comments on the compensation scheme.

Sandra Boss: I will come to the compensation scheme secondly. You ask questions about stability and, in that context, the concept of relitigating. I recognise the term and where it was used.

The question that was asked and that we responded to was "Should we rethink the relationship between the primary and secondary objective?". It was implied that there might be a re-opening of the relationship between the two should they be equated. From our perspective, we feel that the introduction of that competition and growth objective is a very good idea.

As I mentioned at the outset, we are in a very competitive market right now. We always are, but we are in a time of change and real dynamism in the role of listed markets versus private markets. We need to be very front-footed as an industry in anticipating that.

We think it would be unproductive to spend time on the theory of how you balance these two things. In practice, any regulatory decision has a qualitative nature: there is not a formula or machine into which those two are injected. We think that the committee is very wise to focus on the effectiveness of implementation. That is what I meant about re-litigation.

On stability, when we think about an investment environment, regulation is enabling. Having effective change that is thinking about the relationship among the regulators and about new areas of innovation, with ideas of specific areas of innovation, would be desirable. That is all very well and good. It is incredibly important from our perspective that the economic opportunity that the UK offers its companies and its infrastructure is attractive to UK investors. Our job is to look after the financial interests of our clients: to help them save, to help their investments to grow and to prepare for their future. We need companies here that are seeking financing for net new productive activity, as well as net new infrastructure projects.

Those things are helped by a stable macroeconomic environment and a reasonably predictable path of interest rates. These are things that we have right now. It is very much helped by an industrial strategy, not meaning that it must be top down but rather a clear understanding of which are the priority industries, a supportive skills environment and a supportive employment regime. These things help us to see that the company opportunities that we have are good.

It is important to note that this is not something that the regulators can control. However, when we look at our capital markets activity, where we are talking to companies when they are seeking financing, and when we compare the dialogue that we have with many UK companies versus the dialogue that we have in the US, we find that many US companies are very eagerly pushing the edge on their new innovative plans and asking for additional equity and debt financing, from both public and private sources.

What we see, and there is data to back this up, is that companies in the UK in aggregate—that is important—are not asking the markets for lots of financing for net new investment. Dividends are high, and there is demand for dividends in certain parts of the market. But there are positive exceptions, and we would like to see more. Look at Nat Grid, which has just done a £7 billion rights issue in the UK market. This is the biggest equity base in the UK since 2009-10. It is a very big financing programme, in concert with a supportive regulator that is helping think through that dynamic.

The economics and the regulation need to be supportive of each other. Good regulation cannot cause a good economy, but good regulation is essential to enable the investors to take advantage of the economy.

- Q78 **Lord Sharkey:** I want to follow up on the innovation space. In its report on the secondary objectives, the PRA noted that it does not think that all innovation is beneficial to competitiveness, growth or market stability, because, as it says, innovation inherently carries risk due to the lack of knowledge about what might happen. Do you think that the FCA and the PRA have the capability to differentiate beneficial innovation from harmful innovation? If they do not, will encouraging innovation simply require a higher risk tolerance from regulators?

Sandra Boss: That is an excellent question. It is important to understand that regulators cannot cause innovation. Regulators should be apprised of innovation and should encourage innovation, but need not impeded innovation.

I will give a couple of examples. First, the premise needs to be addressed. The premise of whether innovation is risky is one that needs to be considered. An example that I would use is the intervention that has been made here, as well as in most major regimes, around central clearing and the use of central counterparties. Operationally, there was risk in shifting the system from the old model, which was bilateral clearing with bilateral, idiosyncratic collateral arrangements, to the new model, where there is centralised clearing. However, the outcome of that change—the LCH has obviously played an incredibly important role here in the UK—is a less risky situation. Innovation then led to less risk.

The exchange-traded fund market has demonstrated a similar outcome. We found that in periods of market uncertainty—during Covid and with the 2022 gilt dynamics in the markets—exchange-traded bond funds were one of the best sources of price discovery in the market. Innovation was made in order to achieve a beneficial outcome.

There are two key things that the regulators need: capability and approach.

The Chair: Forgive me, but the question was about their capability, so what is the answer?

Sandra Boss: If we think about the composition of the employees of the financial services environment, 50 years ago that was almost entirely financial professionals and people doing manual things in a back-office environment. Now, in all the leading global financial services firms in the world, the percentage of employees who are technologists has gone up very dramatically. We observe in the US that there has been investment by certain of the regulators in their technology capabilities, so that they can have better productivity in some of the modelling and supervision activities that they have done and so that they can be au fait with the changes that are happening in the industry.

This came out in the report that Huw van Steenis did on behalf of the Bank of England, in 2019. The discussion of the role of technology in the Bank was important.

It is important to note that the regulators do not just need to hire all this capability. It would be very interesting to think about models that would enable collaboration with technology-rich environments in the UK ecosystem, so that they can access expertise as and when they need to do it.

I want to make a comment on approach, if I may, to conclude. If the regulators, in their current area of capability and with their current level

of knowledge, take the approach that they are taking, I think it is the most constructive while they are building that skillset.

Let me be specific. Right now, the regulators are using existing regulatory approaches, such as operational risk management. There is plenty of documentation. As an FCA and/or PRA-regulated firm, we are told that we need to have enterprise risk management, that we need to manage our technology risk, and that we need to beware of operational risks. That is a very effective model. It looks at our regulated activities and ensures that we are doing them capably, regardless of how we are using technology.

Right now, the UK is doing a very good job in how it is thinking about AI. By taking a principles-based approach it is enabling a rapidly changing area to develop and enabling companies to look for productivity gains. It is enabling us, as an investment management firm all over the world, to use artificial intelligence to add value to our clients with systematic strategies, by using data in ways that were not possible 10 or 20 years ago.

We have located our only AI hub for the firm in Edinburgh, because we see this as a very rich environment. It is important in this country for us to be thinking about what we know and not overregulating where it is not an area of expertise and it could become a constraint to appropriate development of the industry.

Lord Sharkey: I want to come back later, perhaps, to talk about risk appetite in a more general sense.

Q79 **Lord Eatwell:** Your discussion of the relationship and interaction between regulation and the economy was most interesting. Are there any specific regulatory measures that specifically BlackRock would like to see which would enable you to invest more effectively in UK plc and achieve growth and competitiveness for UK plc?

Sandra Boss: The number one opportunity that BlackRock thinks that the UK should grasp is consolidated tape. A consolidated tape takes a market from being fragmented and information-poor in its trading environment to much more dynamic and more able to attract new business models and new use cases and more retail engagement in the market. The equities consolidated tape has existed in the US since 1975. Having such a tape here, pre-trade and post-trade, would have a really positive effect. It is important to note that, in Europe, they are working right now on consolidated tape, for equities as well as bonds.

The Chair: Perhaps for the benefit of the less technical parts of the committee, you could tell us what consolidated tape is.

Sandra Boss: I apologise. Essentially, this takes all the publicly available trade information and brings it together into a single feed which is then available for consumption by market participants.

In equities, there is a central limit order book, which is the gathering together of all the bids and asks for securities. Take an individual security: what are the bid and ask for IBM at this moment in time? When the trading environment can see that, it enables better price discovery and more liquidity, and thus activity, in the trading of that company.

We talk often about our listed markets. There is legitimate concern about whether there is enough trading activity in our mid-cap firms on the listed exchanges. The consolidated tape would be very beneficial.

Q80 Baroness Bowles of Berkhamsted: Who should pay for it?

Sandra Boss: I do not have a prior bias as to how it should be done. In my experience of how a consolidated tape traditionally is developed, burdens would be borne by different market participants depending on the role that they need to play in implementing it.

The London Stock Exchange obviously would play a role in this because it would be participating as currently the primary source of pre-trade equity information. Anyone who is trading securities will need to develop their ability to contribute data into this tape. They would then need to do their own investment. They have the data, so the act of providing that data in a standardised manner is part of the regulatory change that market participants engage in in every jurisdiction on a regular basis. If it were determined that this was a priority, you would see investment by stakeholders such as the London Stock Exchange and by industry.

Baroness Bowles of Berkhamsted: But at the moment, that is a revenue stream. That data is paid for by those who want it. Do you want it with low latency?

Sandra Boss: These tape products typically work as a centrally beneficial item. I do not want to get too technical, but, depending on the market, participants typically get revenue associated with their contribution to the tape. If you are a major contributor, you will get more revenue associated with it.

There are very interesting opportunities for a market not only to use it to help stimulate beneficial trading activities but to think about other data products that might be developed. So it could be a revenue stream for providers, and obviously it could inform investors and ultimately help our end clients have access to well-performing products.

Lord Eatwell: It could also be a source of considerable instability, could it not? Once everybody has the same information stream and is observing what is going on in particular bid-ask spreads and so on, you could then have a herd effect created within that system. It would be ideal, in fact, for creating a herd effect.

Sandra Boss: There is plenty of experience around the world today with pre-trade transparency on equities. It just happens to be done in a less efficient and effective manner. I do not think that there is a real risk of instability.

The Chair: I do not know that we want to go too far down this rabbit hole. Lord Eatwell's question was whether the regulators are in any way inhibiting this being delivered. In that context, what would you like the regulators to do?

Sandra Boss: Right now, we are finding that the FCA is open to engaging on the topic and to considering it. There is progress on post-trade bond tape. We feel that that has been constructive.

The Chair: So there is not a problem.

Sandra Boss: But it is something that would be really great if it happened, so I thought I would mention it. It is not impeding it.

The Chair: Baroness Donaghy, you may recall that you had another question. This one is on compensation.

Q81 **Baroness Donaghy:** The statement you made was that we should go back to first principles—that is, the polluter pays, rather than the whole industry. It seemed to be a point that you were making very strongly and saw as a regulatory limitation. Would you care to expand on that? Are the regulators in any way inhibiting discussion on that area?

Sandra Boss: This refers to the Financial Services Compensation Scheme. Right now, there is a problem in the way that we are experiencing this: the pool of responsibility is very broad and activities that we as an asset manager do not engage in bear a cost on the scheme, which we then pay. The problem with this is that, as a mechanism for deterring the wrong behaviour, it is not effective. Essentially, if the so-called polluter does not pay the firms that are causing harm, resulting in the need for compensation costs—if it is not bearing those costs and they are then being borne by others in the industry—that does not create the right incentive for changes in behaviour.

The best possible outcome for compensation is that harm is not done. One of the priorities of the FCA is to avoid consumer harm. Consumer duty is essential to that. In the context where there is a problem and harm has been done, we, and the entire industry, absolutely support that individuals should receive appropriate compensation.

From our perspective, the opportunity is really to look at the interrelationship between the FSCS and FOS to ensure that the mechanism for determining the amount of compensation is fair, proportionate and appropriate—and somewhat predictable by the industry, ideally. We operate from the perspective that there is no intent for responsible actors in the market to cause consumer harm; we are seeking not to do so.

This "polluter pays" situation is quite important because, when you have pools of unrelated industry actors responsible for problems that are caused by others, the other is not bearing the cost of the action.

Baroness Noakes: Are you are actually challenging the construction of the pools in the FSCS?

Sandra Boss: That is right—the construction of the pools in the FSCS. This is something that we have engaged with the FCA on. We understand that it is willing to consider that model because it is eager to ensure that the scheme is effective in having the right deterrent and ensuring that individuals are appropriately protected, but that it is also fair to market participants.

The Chair: On your point about the FCA considering things, that does seem to take a very long time. I do not want to reopen the consolidated tape discussion but, to go back to that, the Government announced in 2022 that they would go ahead with this and that it would be delivered by 2024. It still has not happened. The process of considering things seems extremely lengthy. Surely that puts it at a competitive disadvantage, does it not?

Sandra Boss: I think that we can find examples of speedy decisions and slow decisions.

The Chair: I am not asking you for examples of speedy decisions. You brought it up: you said that it was something you wanted, and it was promised to be delivered by 2024.

Sandra Boss: Sorry—I was taking literally the comment to not talk about consolidated tape.

Baroness Bowles of Berkhamsted: Only the bonds one was promised by then, I think.

Sandra Boss: We would welcome it with all due speed. There were multiple participants and a consultation is going on right now. This is a complicated one because it requires the whole industry to change.

The Chair: I am really just making a point about the time it takes. For example, take politically exposed persons. It takes a year to produce a dialogue and then there is a consultation process. I am making a point about the period of time that is taken to consider ideas and to act. Part of that is because of statutory obligations, but I am asking whether you acknowledge that this is a problem.

Sandra Boss: It is about whether you have a regulation that is totally in the control of the regulator. The consolidated tape is complicated because it is an industry change. Let us think about T+1. It involves the entire industry and is very complicated.

Where something is in the fief of the regulator, it does have the requirement to consult. Consultations can be speedy or they can be lengthy. We and everyone in the industry benefits when consultations happen in a speedy fashion, but it needs to be fair and considered. In particular, when there is a consultation that causes concern in the

industry, we think that having a speedy focus on that is important. Take the example of—

The Chair: I am sorry to interrupt you. Are you saying that you do not think the speed with which they do things is a problem?

Sandra Boss: It is very dependent on the situation.

Q82 **Lord Kestenbaum:** Your response to the chair's probing on the question of speed feels so dramatically at odds with everything we have heard from well-intentioned good citizens and good businesses. They were not here to bash the regulator but every single one of them expressed deep concern over the speed and pace of operation. This is the first evidence of this kind we have heard—it is carefully constructed and I sure that you are well briefed.

Picking up on the chair's theme, I cannot help thinking that there may be some kind of two-tier regulatory relationship going on with firms such as BlackRock—these enormous whales, with trillions under management. If I were a middle-ranking administrator in a regulator and I got some incoming from BlackRock, I might be culturally led to think, "Be careful".

It is difficult for me to understand the difference between your reaction, representing BlackRock, to this straightforward question on pace and everything else that we have heard. Or is it straightforward, and BlackRock, by virtue of its spectacular PNL, is able to hire people into the department and overwhelm the regulator? It is very hard for me to understand the disparity between your reaction and the reaction of everyone else we have heard.

Sandra Boss: It is very important to distinguish between what you are saying about the size of firm, which I do not agree is the case, and the nature of the business model. The most important difference between BlackRock and many of the others from whom you have heard is that we are an asset manager. We do one regulated thing: the manufacture of funds, which we then distribute through intermediaries. As it happens, the regime for those activities in the UK is one that is well established; it is a high-functioning regime. I am not here commenting on how the banks are regulated or how the insurers are regulated. I am really focused on us.

Like any market participant, we want regulators to move at a faster pace in order that we can innovate. I have gone through all of our consultations on changes around the structure of the UK fund market. There has been a variety of considerations. Of course, those are changes from policy that we would like to see. We think that the pace of change around policy in asset management here is similar to the pace that we see in other markets. The LTAF has been world-leading in something new and innovative. It has been comfortable, important and possible for us to launch the funds that we need. We see value in there being pace on fund approvals; that is important.

When it comes to how we are regulated, this is a principles-based regulation. As a firm, we are subject to exactly the same regulation as any other firm in our industry. This means that we have our regulatory dialogue and we are subjected to the same compliance questions. This is a principles-based environment, and we are all being held to the same standard.

We actually think that that approach being taken is one of the reasons why the UK is a good environment. Our resourcing is not really relevant to the nature of the discussions that we are having. They ask us, "Are you implementing your consumer duty? Do you have appropriate operational risk?", and we go through the process to demonstrate what we have done, and our governance is subjected to the same kind of question. It just so happens that asset management is an industry that is relatively straightforward from a regulatory perspective.

Q83 Lord Vaux of Harrowden: You have touched on risk a few times so I want to ask a more general question about risk. Nikhil Rathi has talked about needing a mature debate on the subject. We have heard evidence that the mindset of the regulators is too focused on eliminating risk of loss from the system—a default approach of stopping things going wrong rather than helping things go right. The previous Government talked about the "safest graveyard". Where do you think we are on the risk continuum? Is our current position inhibiting growth and competitiveness? Where do you think we could accept more risk, to drive growth and competitiveness, or facilitate more growth and competitiveness?

Sandra Boss: That is a very important question. If we want—as we all do—this to be a growing and thriving economy, we need to have much more discussion associated with return and risk and less discussion associated only with risk. It is not a minimised risk environment; it is about appropriate return and taking appropriate activities, and there is risk associated with that.

Think about the secondary competition objective. In the past, the engagement of the regulators with the Treasury Select Committee has been, at times, a zero-defect dialogue. In fact, there should be some failure; there should be some things that do not go right. We think that it is about focusing on whether a policy is effective. Was the intent good? Where is the failure in implementation? How do we fix that? That is a much more constructive discussion.

If we ask our regulators never to have something go wrong on their watch, it will lead to behaviour that I think many of you around the table are concerned would be too inhibiting to growth. It is something that we do not see in other jurisdictions. Certainly, the discussion about the tone of a constructive attitude towards commercial business risk-taking and understanding the results associated with that is a very important one.

Lord Vaux of Harrowden: That is a very general answer. Can you give us any specifics? You mentioned that you do not see this in other

jurisdictions, for example. Can you give any examples of where other jurisdictions are taking greater risk and it is driving better returns, better competitiveness and better growth?

Sandra Boss: Focusing on the UK, let us take the specific example of how the UK is evolving the Solvency UK regime. We are not subject to it, but our clients are. It is important because, as we know, the insurance industry in this country is a major current and potential investor in long-term assets, including infrastructure assets. The UK was actually the founder of valuation-based solvency analysis. It was very forward-thinking. It is much better at predicting the potential failure of an insurer than the old book value method, and was the foundation of a lot of the thinking in Solvency II.

The UK now has the opportunity to think creatively, if it is so inspired—perhaps by the secondary competition and growth objective—about where there is room for potential innovation at scale with, for example, what is called the matching adjustment, which looks at the matching of long-term income streams with long-term liabilities. There is room to experiment—obviously guard-rails can be put in place—with new asset classes that could be added to the regime under the matching adjustment. This would stimulate better returns in the industry and might also lead to beneficial investment in infrastructure or private assets in the UK.

Importantly, this could be done in a way that would potentially, with structure, cure concerns down the road if you had an imperfect match. We do not need to get into the technicalities of that but, because the insurance industry is so incredibly important here—some of the largest, as well as many of the most effective, life insurers in the world are located in this country; we are an innovator here—this feels like an area where innovation would actually be quite welcome and could be done in a consultative manner.

Q84 Lord Hill of Oareford: Carrying on from the issue that Lord Vaux opened up, on your point about risk aversion and the general climate and environment, is the logic of what you are saying that the root of that problem is basically political, rather than regulatory?

Sandra Boss: It is a good question. The Government set the risk appetite. Industry can ask for a risk appetite but it is in the power of the Government to determine what regime you would like.

What we have seen in the past 15 years, since the great financial crisis, is an understandable reaction to what turned out to be not the right risk appetite for the UK in 2008, which led to a costly global financial crisis for this country. But much time has passed and much learning has occurred. From our perspective, when we look at how the UK has evolved relative to other jurisdictions, the growth experience here and the performance of the stock market, it is legitimate to ask whether Ministers are both setting the necessary conditions—we talked about some of the fundamental things that are directly in their gift, such as industrial

strategy and taxation—and asking regulators to do something that is ultimately beneficial to not just stability but growth. I think that that is a very legitimate question.

Lord Hill of Oareford: How do you think mandate letters can work practically?

Sandra Boss: Mandate letters are very important. As we know, the FPC's mandate letter has included growth and competitiveness for as long as the FPC has existed. So that is definitely part of it. Cross-engagement by regulators on critical issues that drive change is another specific opportunity.

Take the example of asset owners and their relationship to the corporate governance, growth and long-term value of the companies that they invest in. They receive guidance from the FRC, the DWP and the Pensions Regulator on how they should interpret those duties. It is very welcome that effectively the FRC, in concert with the Treasury and the regulators that have a secondary competition and growth objective, is voluntarily moving in that direction, but that does not mean that every regulator is joined up against those.

In addition to remit letters, it is about making sure that there are not unintended brakes on growth that could be embedded in conflicting objectives from different groups.

Lord Hill of Oareford: What about duplication and overlap?

Sandra Boss: On duplication and overlap, as well as potentially unintended consequences, I will give you an excellent example. We absolutely welcome the value-for-money regime, which is long overdue. It was previously a problem that asset owners, particularly in the defined contribution space, were told that their objective was to minimise the cost of investments. That means that they did not necessarily get access to all the right asset classes, to the best investment strategies, some of which are active and more expensive, or to private assets. Now, value for money is really opening that up, but there is still guidance for those employers that host single-employer pension schemes telling them that their residual duty is to focus exclusively on cost. So we, the industry, now have the value-for-money regime, and we have motivated the FCA, which has produced this guidance, but the individual decision-maker does not yet have guidance.

Similarly, it is worth looking at the employee benefit consultants. They play an incredibly important role in this market in thinking about where pension funds should put their money. Potentially, one could look at what their duty is vis-à-vis value for money. How are they thinking about growth and competitiveness? What is their objective function? Those are real tools, but essentially, bottom line, we have to look at all the different parts in this ecosystem and make sure that we do not have hidden impediments that have derived from the decade or more of conservatism that followed the financial crisis.

Lord Hill of Oareford: What about scope and remit?

Sandra Boss: Do you mean scope and remit for the regulators?

Lord Hill of Oareford: Yes. Are the Government asking them to do too much and dumping too much stuff on them? Is there a lack of clarity? What about mission creep?

Sandra Boss: What the FCA is asked to do, in regulating 55,000 firms, is very complex. For example, it regulates the fair provision of funeral services. It is a very long tail of activities that it needs to look at. We as an industry, or as a country, have made a choice that, because it is principles-based regulation, we will resource it based on a principles-based approach to supervision and enforcement.

I will say that a major difference versus the US, for good or bad, is that the level of staff the regulators have in those countries is higher. That helps with nimbleness when nimbleness is required. You see in other jurisdictions that they are thoughtful about, "If I can't do something, do I need to invest in capacity?" I am not saying that one should change the amount of spending but one should think about what we are asking them to do, and other things that are less important to the country's growth objectives where there would be similar stability outcomes but potentially in a more proportionate way.

I do not have a magic answer for this; no one does. It is something that the regulators are constantly asking. But if we are really trying to make the growth and competitiveness objective different, we need to ask questions that we have not asked before, such as whether it is the right capacity. We had a discussion earlier about technology. There is not resource for regulators right now to hire numerous technologists who are highly paid to be able to be peers with the industry. These are important questions.

Partly we get the regulatory environment that we ask for from a risk-appetite perspective by our demonstrated behaviours, but we also need to think about how to enable them to build capabilities.

Baroness Bowles of Berkhamsted: Can I investigate that long tail—the funeral plans and things like that? Would it be better if the FCA did not have that long tail, and that was put somewhere separate?

Sandra Boss: Do you mean better for the financial services industry or better for the participants in the funeral plans?

Baroness Bowles of Berkhamsted: Overall.

Sandra Boss: It is difficult for me to make that kind of judgment. I do not have the context for that, given my role. Those are things that would be important to examine because the current structure—the FCA, the PRA and the Bank of England—has been there for more than 10 years. It is a legitimate question to ask, but I am not in a position to give an answer. I particularly do not have insight into the deep workings of the FCA and

everything. I merely know the figure of 55,000 firms, and that it is a very diverse set of firms.

- Q85 **Baroness Noakes:** It is going to be important to be able to judge whether the regulators have actually delivered on their competitiveness and growth objectives, and part of that judgment is inevitably going to be qualitative. A suite of metrics has been set up, designed to measure progress. Most of those metrics are around operation efficiencies, such as delivering on authorisations. What is your view of the suite of operational metrics that is being used as a prime source of information about the delivery on the growth objective? If they are not sufficient, can you identify what should be measured?

Sandra Boss: I think that those operational methods are appropriate as a starting point. They are relevant. Whenever a company is trying to make a decision about a net new activity, whether it is a company that operates in multiple jurisdictions or if it is a start-up, there is a consulting industry that can tell you how fast you can get authorised in different markets, and they can get tables that show that. That is the first experience that a company has with a regulator. The pace of authorisation of firms and of individuals are both very important.

Something that we emphasise—again, I am coming back to our relatively narrow business model—is the pace of authorisation of new products. The FCA has just introduced the long-term asset fund regime. We also have new naming conventions. We definitely think that, for our industry, focusing on the pace of other important decisions and making those transparent is very important. On the competitiveness of putting a fund here versus putting it in another jurisdiction, the ability to get the fund launched is critical for us. Lord Forsyth asked where we want to see things go as quickly as possible, and that is definitely one of the places.

Baroness Noakes: And that is not being captured in the current suite.

Sandra Boss: Not as I understand it.

I mentioned funds because that is our question, but I could also imagine other kinds of specific authorisations of new activities. I mentioned the matching adjustment earlier. There is also the question of transparency on pace of approvals for major business model changes. Those kinds of things could be beneficial.

There is something else that could be helpful. If you are sitting on the Monetary Policy Committee, you look at many things that are incredibly important to your decisions that you do not control. There are things that our regulators could look at that would inform what they do, even though they are not controlled. You could put it in an adjacent element and say: this is how we measure ourselves but this is what is important to whether the outcomes are being achieved in aggregate.

Take the use of the regulatory sandbox. You could look at whether the firms that are in the so-called regulatory sandbox are growing and becoming grown-up, large and successful firms. You could look at things

in the company valuation space, and care about whether listed companies in the UK are seeing a total return to shareholders that is attractive versus other markets. It has been very relevant in the listing reform to look at the performance of, for example, US companies' total return to shareholders since the financial crisis versus UK. We have seen ample evidence of very similar performance before the financial crisis and very different performance after it. You could do it with private markets, looking at subsequent rounds and how companies are increasing their valuation.

Using the payment protection industry experience as an example, it is about understanding the cost of misconduct. It is a sign in the consumer's eyes of whether they should have trust. It is also a relevant factor as companies think about their new business decisions.

When we were regulating from a prudential perspective, we were looking at the growing cost of PPI—this is a past incident—because it had prudential implications for the banks that we were regulating. As they were paying out compensation it was reducing their available capital. Again, it is incredibly important that the conduct regime pays individuals fairly and that they achieve fair compensation, but it could be a closer-watched metric of import for the industry.

Q86 **Baroness Bowles of Berkhamsted:** Going back to your introduction, you said that the UK is a great place to be. Why then are there more funds in Ireland and Luxembourg than there are here? You have got some in Ireland, I think.

Sandra Boss: Because Ireland and Luxembourg made the changes that they made decades ago to be an attractive environment for high-volume scaled vehicles that could be sold in multiple jurisdictions, they have created an advantaged environment. It is important to remember that the intellectual capital associated with managing that money is usually in the UK but the fund administration is often in Ireland and in Luxembourg. Looking at that, you could say, "Wouldn't it be lovely to change that?" Our observation would be the following. If you already have a liquid vehicle established, and it is deep and scaled, shifting that does consumer harm. You end up with less liquidity and higher trading costs and will ultimately have fewer options onshore than if you were using those funds.

The real question for the UK is where we can identify UK-specific vehicles where launching a new fund that is a UK vehicle is advantaged. That is where you would look at something such as the LTAF, where there is not yet a location, in Europe or elsewhere, that has established itself as being the place for these multi-asset vehicles and private assets enabling retail and defined contribution to be accessing this multi-asset-class environment.

We should be thinking about how we can host those products, and about how we can be the best structurers and the best manufacturers. This comes back to fund authorisation and making sure that when vehicles are

proposed they can be approved quickly. However, what we do not see happening is if there is already a £10 billion fund that happens to be listed in Ireland, that getting re-domiciled.

Baroness Bowles of Berkhamsted: But where will the next fund come? They will stay where they are already but if you were to create a new fund, would you, for those types of funds, always go to Ireland? Why would you not do a new one here?

Sandra Boss: The most important thing to think about is the European UCITS fund regime. This gives immediate access to distribution into about 50 countries. We find that, for the products that we launch into those environments, we sell in Latin America, Asia and all over the world. That would be very difficult to replicate.

Lord Hill of Oareford: On Baroness Bowles's point, you said right at the beginning that regulation did not really play that much of a role in how you thought about the UK and your business model. However, when Luxembourg and Ireland sought to make themselves attractive as places for you to manage your funds, did regulation form any part of the regime that they created?

Sandra Boss: This is looking back quite a long way. Asset management is a young industry. When the UCITS vehicle was developed, this was the dawn of asset management time. Mercury Asset Management, one of our predecessor firms, was a fund house seeking distribution. Another of our legal funds was Barclays Global Investors, as was the exchange-traded fund franchise. These were relatively small companies that took the model typically used for granted and used the path of least resistance—this is how it is done. There was an established, effective model that enabled distribution.

I was not there but I think that, at that time, if you were a relatively small firm, you would follow the model that was most accessible, that clearly offered the most benefits and that was right in front of you.

Obviously, we have many UK funds; we manage a lot of funds here. We are constantly looking at what is—

The Chair: Is it not just about tax?

Sandra Boss: It is not just about tax.

The Chair: But tax is quite an important factor.

Sandra Boss: From our perspective, what is most important relating to tax is value added tax, which is not a regulatory matter. If we manage a fund on behalf of our clients that is domiciled in Luxembourg or Ireland, there is no value added tax imposed on the end investor.

Some UK funds do not have value added tax and some do. The US has no value added tax. Singapore and Switzerland have mechanisms to ensure that, if a fund is managed out of their country, there is no value added

tax. That zero tax-type of idea is something to look at. If the taxes are exactly the same, the virtuous cycle associated with the ability to distribute is probably the critical item.

The Chair: On that note, we thank you. I hope you did not find it too challenging an experience. We are very grateful for such comprehensive answers.