



Financial Services Regulation Committee

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

Wednesday 6 November 2024

10.10 am

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

Evidence Session No. 14

Heard in Public

Questions 198 - 207

Witnesses

I: Chris Cummings, Chief Executive Officer, The Investment Association; Sir Douglas Flint CBE, Chair, Abrdn.

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 Cummings and Sir Douglas Flint.

Q198 **The Chair:** Welcome to today's meeting, which is the ninth oral evidence session as part of the committee's inquiry into the FCA and PRA's secondary competitiveness and growth objective. Thank you, Mr Cummings and Sir Douglas, for attending and sharing your views with us.

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

Would either of you like to make a short opening statement?

Chris Cummings: I thank the committee for the invitation to come along today. I am the chief executive of the Investment Association. The Investment Association is the representative body for the UK buy side. Among our member firms we have major international global investment firms and organisations such as BlackRock, Schroders and, I am delighted to say, Abrdn, through to boutiques running a few hundreds of millions of pounds.

Our members cover all types of investment philosophies and approaches in public and private markets, and we represent the world's largest buy-side fintech community. We have offices in London and Brussels and a presence in Washington DC, which I think gives us a comprehensive view of the investment market in the UK, representing an industry that is one of the UK's few truly global successful industries.

I mention the £9 trillion that our members manage. About £4 trillion comes from the UK; approximately £2.5 trillion is from European Union member states; and around £2.5 trillion is from other parts of the world. That is the part of our investment that is growing fastest, which is why I can confidently say that we are a truly successful global industry accounting for about 5% of our nation's export earnings already.

This committee is incredibly well timed, and I look forward to answering your questions.

Sir Douglas Flint: I chair Abrdn, which is a UK-based but international asset and wealth manager.

I am fascinated by the secondary objective on growth because I think it is timely and important. The work that has been done recently in looking at why the UK has not grown as fast as it might have done if it had kept up with its international peers begs a number of questions that the work

of this committee is very well positioned to look at. Indeed, our industry is very well positioned to respond. Some of them are political choices, but the committee can inform policymakers on the basis of the facts that it gathers.

I will highlight four things. The first is one of the things that got me into this industry in the first place. First, as a nation, are we saving enough money? That is in part a political choice, but there is also a financial education aspect. Are we saving enough money for future needs, particularly retirement? That is a relevant question for our industry and for regulators. Of the money being saved, is it being saved optimally? Is it in the right place? A lot has been highlighted recently about the large amount of money sitting in cash accounts. There are many reasons to do that, but is that the optimal place for it to go? If it is not the optimal place, where would we like that money to be invested and allocated?

From the point of view of this committee, what we think about is whether there are regulatory barriers to the optimal allocation of money, if such a thing can be defined. We talk about whether we are getting enough money to early-stage companies, to scale-up companies, to infrastructure and to long-term assets.

The final thing I want to say is that, in investment, a relevant question for our industry, regulators and policymakers is whether our industry is investing enough money in its own future. Is it capable of investing enough money in its own future? Can it attract the capital it needs to invest in its own future? When you think of the amount of money that is being spent, particularly in the United States and in the UK industry, on data and AI, which will absolutely revolutionise this industry, given that part of the remit of the FCA is to create a healthy and successful financial system, will investment in that system be hampered in so doing?

The question that is relevant for us as an industry, and for you and your work in looking at the work of the regulators, is whether we are doing enough to create an industry that is capable of attracting and investing the capital to make it relevant and successful in the future.

The Chair: Sir Douglas, these are all really important points. Do you have any specific recommendations—not necessarily now, but perhaps you could provide them to the committee in writing—on what actual things could be done in order to achieve those objectives?

Sir Douglas Flint: I will do that. One of the things that the regulator could be charged with is this. If there are gaps and if it is the case that we believe that not enough money is going into scale-up capital, early-stage capital or infrastructure, might the regulator be charged to say, "If these are gaps that Parliament and policymakers have decided are gaps, what have you done in your regulatory analysis to make sure that you are not contributing to obstacles and barriers? Show us the evidence. Is more money going into areas that we have decided, as a policy framework, we would like to see? What have you done to facilitate that?" Those are my thoughts, but I will be more expansive in writing.

Q199 The Chair: That is a neat segue into the question I want to ask you, which is about Nikhil Rathi's speech at Mansion House. I am sure you were probably there to hear it. He talked about the need for a mature debate about risks and argued that that could lead to growth but with trade-offs. Do you agree with that view? If so, who should be taking steps on it? Should it be the Government or the regulators leading the conversation in identifying and making these trade-offs and setting a risk appetite?

We have had evidence, most notably from Howard Davies and other former regulators, who said that it is all very well, but as soon as something goes wrong the politicians blame the regulator for not regulating enough. That crystallises the issue that Nikhil Rathi was raising, perhaps with a little more tact. What is your view?

Sir Douglas Flint: He is right to say there are trade-offs, but I think the word "risk" is used too loosely. It is a very broad word; it is a bit like "fairness".

When people talk about risk, I think they are talking about three separate things. First, are we creating an environment where we disincentivise retail consumers in particular from investing in products and services that have a higher variability of return? At one end there are government bonds and at the other end maybe infrastructure or something, where it is a riskier asset, so the returns could be higher, but they could be riskier and therefore they could be lower. Part of risk is variability of return.

The second part of risk that the regulator gets very concerned about and interested in is operational resilience. What are the risks within the system that something could go wrong that could create consumer harm because the operational strength of organisations is not sufficient? One that is obsessing everyone at the moment, in banking and asset management and wealth management, and which is a real risk, is: what happens if one of the big cloud providers fails? That is a horrendous question. Little organisations like us cannot solve Amazon Web Services, but it is relevant. What risk is the system prepared to take in operational resilience?

The third thing, which I think the system should take no risk in, is governance. Are the people managing money on behalf of consumers properly qualified and properly overseen? Do they have the skill set and ethical behaviours to do that? If they do not have it, they should not be in the system. There is no risk that should be accepted on governance.

With the other two, if variability of return is transparently disclosed, it is absolutely right to show people: "These are the range of options in your investment choices. These are zero risk but lower return. These have a higher variability of return, and you can decide whether you have a preference for it". There is something in the middle around how secure we want the belt and braces to be on operational integrity. Obviously, you make the system more and more expensive if you have belt, braces, bolts and everything else to deal with every conceivable eventuality.

One of the things that has grown up on the back of the financial crisis—properly so, but we can have a debate about whether it has gone too far—is whether demands on financial resilience, protecting against anything that could conceivably go wrong, begin to constrain people from doing the things that, on a risk-return basis, might be the right things to do, but they come with a certain amount of more operational risk because there is a complexity.

Chris Cummings: I absolutely agree with what Sir Douglas has said. I applaud the fact that Nikhil used part of his speech to comment on what we call an overabundance of caution and safety-ism that has affected the system, probably since the global financial crisis. We have seen an attitude to risk develop across policy-making, regulation and indeed in the industry. I do not think it is a case of finger pointing; it is a collective conversation that we need to have, which is less about trade-offs and more about course correction.

At the moment, in our country, we have around 15 million people who have more than £10,000 sitting in cash savings. I wonder if we have gone too far in protecting people and we have protected them out of the capital markets. We have seen ownership and investment levels fall since the 1980s. We end up now in a situation where, if you want to get into debt and take out a credit card, you can do so online in a matter of moments, but if you want to start investing then the first thing you will encounter is a disclosure regime that starts off with phrases such as, “Your capital is at risk”, “You could lose every single penny that you want to put in”. There is no calibration of risk. I think that immediately erects a barrier to people saving.

We have seen different characteristics. Certainly, young men are more likely to engage in crypto than they are to take out a simple stocks and shares ISA. More men do that than women, who are put off by the wealth and health warnings. We are calling for a bit of a course correction to say, first, that the greatest risk is taking no risk. If you opt out completely, you are in cash savings and will be subject to the rigours of inflation. Starting to save is a good thing, but investing is better. Secondly, we need to have a grown-up conversation between the regulator and the industry where we can actually reset the risk tolerance, not only for our industry but for the nation. Thinking about pensions, many of us know that we are facing a generation of pensioner poverty because people have not had the opportunity to think about how much money they should be saving into pensions.

Finally, I simply contrast us with the US. This year it is celebrating 100 years of the development of the mutual fund. Of course, our Scottish colleagues, and my father in particular, would remind me that these things were invented in Scotland a lot longer ago, but it is 100 years of the mutual fund and that has been the greatest tool to democratise access to capital markets. Up to two-thirds of Americans invest in stocks and shares outside their pension compared with less than a quarter here

in the UK. There is a conversation we need to have about how we build up our nation's attitude to risk again.

Lord Hill of Oareford: Can you construct a route map, looking at regulatory issues, of how you would start to take steps towards bringing about the change you are talking about? I happen to agree with everything you have said, but do you have practical proposals as to what a regulatory route map might be that we could start to think about?

Chris Cummings: We do. I am very happy to share it with the committee.

I think it starts off across the three levels of government, with government having a more open discussion about why investing is good. For those of us with slightly longer memories, the "Tell Sid" campaign actually started to equitize UK society. We saw record high levels of equity participation during that period. As a new Government, this Government have an opportunity to reset the national conversation about getting involved in one's own finances. I will not keep talking about the US, but other jurisdictions take it far more seriously than we do. Having that policy narrative would be a good start.

Secondly, it is thinking how we would work with the regulator to do things that mean that, as regulator companies, we can take a step forward to address issues such as advice guidance and move on with targeted support. These are things that have taken an age. It is right that we start to call out the pace of regulatory change.

Thirdly, the ISA regime is ripe for simplification. There are so many multiples of ISA variants that I think people have lost sight of them. What we need to do is return to a situation where we have a very simple investment ISA, which has levels that rise every year, and perhaps a cash ISA, where levels are below. Some of you may remember the PEPs and TESSA regimes, which encouraged long-term investing. We can then talk about financial literacy and building financial resilience and having not a disclosure regime but an engagement regime. Disclosure is a staid, arid process of legal protections that has built up because of regulation. We need an engagement regime that starts inviting people to the party.

Q200 **Baroness Donaghy:** We have heard from witnesses that it is more appropriate to deal with risk appetite on a granular basis, that the threshold of high net worth investor is set too low at £250,000 and what products should fall within the scope of that exemption. Do you agree that there should be a cut-off point? If so, where else could, and should, the FCA and the Government apply a more granular view of who should be exposed to risk? It is a continuation of what you have been saying.

Chris Cummings: I worry about arbitrary numbers, particularly round numbers that seem to have appeared and do not move for years. From my point of view, there is a conversation we should have. As a global economy, we want sophisticated investors to be investing in the UK. Looking at different target groups to encourage international investment

is great and we need to do more of that. For high net worth, we need to be looking way beyond characteristics of a certain level of finance, because different people experience vulnerability at different stages in their lives, and some people become more sophisticated as they deal in financial markets and others do not.

We should be making greater use of a couple of things, certainly in the regulatory environment. The first is a much richer knowledge of behavioural psychology, to help people engage and develop their levels of sophistication as they go through an investment journey. Secondly, there is technology. I completely echo what Douglas was saying about the profound difference that tech will make and how that will support people at all stages through their investment journey. That is an area entirely ripe for review. That is before we come to what people call simple products, but there are products that should just be gateway entry level products into better savings and certainly better investing behaviour.

Sir Douglas Flint: Technology will change the personalisation that should be required under consumer duty. Some 99% of people in the country would think that £250,000 is a huge amount of money, and it is. For some people, it is not, but that is very fractional. For most people, £50,000 is a lot of money. I think technology will enable personalisation by distributors around their customers. They already have an obligation to identify vulnerable customers. They should be able to guide people, or at least give them the guard-rails, as to whether something is the right kind of asset allocation within their portfolio.

I completely agree with Chris on the simplification of products. I am old enough to remember the review that Carol Sergeant did for the Bank of England way back in the day, which talked about a Good Housekeeping seal of approval on products. Regulators at the time fell away from that because they thought it was going to be giving advice. It was product identification: "Somebody like you would typically look at the following types of products to invest in" and so on. The regulators got some really good stuff on the website.

I remember being in a taxi in America and the young woman who was driving said, "Do you work for a bank?"—which I did at the time—"What should I be investing in? I've got £10,000". I said, "I'm not going to give you investment advice. I'll ask you one question. 'Do you have any credit card debts?'" She said, "Oh yes, about £35,000". I said, "Well, can I suggest the best thing you can do is pay down your credit card debt?" That was a revelation. That is the kind of simple guidance that I think should be generally available in financial education, together with simplified products with a stamp that says that it does what it says on the tin and the pricing structure is fair.

Baroness Donaghy: Douglas, you talked in the submission from Ayr about the importance of staying with international standards and the problem of what you call slow policy-making. Would you like to elaborate a bit on those two things?

Sir Douglas Flint: We should always try to be competitively better. That is not a race to the bottom. Given that the essence of the funds industry in the UK is distributing product internationally, we have to be internationally aligned. In an ideal world you would have equivalence, but in a world without equivalence you certainly want to meet the common international standards so that you can distribute around the world.

Sorry, I have lost the second part of your question.

Baroness Donaghy: It was about the issue you describe as slow policy-making.

Sir Douglas Flint: In one of your earlier submissions the committee commented on being given all the consultation papers and admiring how long they were. I think there should be a two-stage process. When I talk to Nikhil and his senior colleagues, they often express frustration that, when they talk to the chairs and CEOs of the industry, they find great alignment, but then when they get responses to the consultation paper it is full of caveats and what-ifs, and requests for more detailed notes and so on. That is because senior folk in the industry are probably not going to respond line by line on a 90 or 120-page consultation.

If you say that the direction of travel is to move more to principles as opposed to rules—"Do you all embrace that?" "Yes"—you can then set the team within the framework that is agreed at the top of the industry to find a way of implementing that. From the bottom up, people get more and more interested in getting really precise rules that they can embed in their systems, whereas at the top we are much more comfortable with principles, accepting the fact that there is a much higher duty of accountability and responsibility if you are a principles-based system because you have to evidence that you have applied the principle as opposed to a tick-box that says you followed the rules.

Q201 **Lord Vaux of Harrowden:** You have both mentioned international and global aspects. One of the aspects of competition is the regulatory burden that is applied here, for example, compared to in the US, Europe, Singapore or wherever. Do you have any useful international comparators on cost? We have had some slightly alarming numbers given to us by other witnesses about how much more expensive compliance is in this country compared to, for example, the US. Do you have any evidence to give us in that respect? It is not just about cost but about the way the regulation is carried out that makes it more or less easy to do business here compared to other places?

Sir Douglas Flint: The US is always a good and a bad example. Today, in the market capitalisation of the UK market, we are less than 4% of market capitalisation of stocks. The US, depending on how you measure it, is somewhere between 65% and 80%. It is a much bigger market, so you are spreading the costs over many more products.

We hold our head up extraordinarily well on framework and policy. Our policymakers in the regulators are hugely admired. When you get into the

detail of supervision and application, again it is a smaller system. It is more intrusive than it used to be. We could argue that that is necessarily so, but it is not any more intrusive than Luxembourg, which is the regulatory authority for most of the funds that are distributed through Europe and beyond. Our industry benefits from a regulatory barrier to entry. There is no question about that. We also benefit in this country from what I believe—as an accountant I always find it difficult to say this—is the best legal system in the world. There are many things that are to our advantage in this country.

If regulatory compliance is expensive, part of that is our own fault. I come back to what I said earlier. Part of the challenge we have is that, the further down the FCA you get, and the further down in our own organisations you get, people are focused on getting as many rules and guidance notes as possible to hard-wire things because therefore they can do their job without feeling that they might be missing something. If you have two levels of an organisation that are both trying to expand the detail of regulation and compliance, that is where the burden comes from. That is why I think part of the opportunity is to try to elevate that, recognising that more senior levels of our industry would be held to account more by the regulators, but that would be a good thing.

The Chair: I am sorry to interrupt but, just before you leave that point, you are on the international advisory panel of the Monetary Authority of Singapore. We have had a lot of comment that the Monetary Authority of Singapore is much more embracing; it has a concierge service and it imports high standards and rigorous supervision, but it trusts firms' competencies. Is there much that we can learn from the Monetary Authority of Singapore?

Sir Douglas Flint: Yes. I think we are pretty good too in the policy area. People in Singapore recognise that, if you make a mistake, the regulatory penalties are severe, and therefore people understand that.

The system is different. Obviously, it is a much smaller market, and they choose their areas of excellence very carefully. Obviously, asset management and wealth management is one of them, because they are effectively the host to many international companies running wealth management across Asia.

The advisory board, which I am going to in two weeks' time, gets the CEOs and chairmen—I do not know how it selects them—of a dozen or 15 of the largest asset managers, wealth managers, banks and insurance companies, and basically sets exam questions on areas of possible regulatory opportunity. Last year, it was largely around carbon border adjustment taxes: "How do we become the home for carbon trading for the world?", "What kind of regulatory system should we think up to watch digital assets and tokenisation?" They think ahead as to what they want to do. They then put UBS, Allianz, Standard Chartered and a bunch of others in a room and say, "What would you do to guide us?" There are the Americans as well. They try to learn from the best practice around

the world on what is coming next, and then build a policy framework to deal with that. We could do that here easily.

I have one other comment before I lose my thought. One of the things that we do not do well enough in this country is to have policymakers, regulators and the industry in the room at the same time. The regulators talk to policymakers and say that people in the industry either do not get it or do not do it right. Regulators talk to the industry and say that policymakers do not get it and want them to do things that are impossible. The industry talks to policymakers and says that the regulators are really on their backs. If we could all get in a room together, it would be an awful lot better.

Chris Cummings: To build on that, one of the most successful vehicles, and the envy of other parts of the industry, has been the Treasury's Asset Management Taskforce, chaired by the City Minister and with senior officials, which brought together the head and executive directors of the FCA and seven or eight chief executives from the investment management industry. That is why it is easy to point back to a track record of success on things such as developing the fund tokenisation regime for the UK. That was a product of that particular working party. We did three months' work and caught up on a three-year lead by Singapore. We have done other work in the area. We have just published a report on a base case for artificial intelligence, signed off by the regulator.

There is so much to learn from that experience about the benefits of co-creation, not taking the industry by surprise and efficiency of process. I contrast that with something like the development of the long-term asset fund, which was an Investment Association product. We championed it but, good heavens, it was basically three years of trying to convince policymakers, and particularly regulators, that something as simple as having a product that was not daily priced would not be entirely unique, despite the fact that it operates in America, in Germany and across the EU in ELTIF. In fact, in the European Union they like the ELTIF so much that they are on their second iteration of it, and we are still debating how far we could extend it into retail markets.

There is a cultural problem, which brings me back to your question on regulatory costs. We participate in surveys that look at regulatory costs. What we always find different in the UK is that it is not just the direct cost of regulation and how much we pay for the FCA; it is costs such as the £74 million that we pay towards the Financial Services Compensation Scheme levy. And that is on the low side. It is the cost of the Financial Ombudsman Service. It is the panoply of other regulatory costs, plus the fact that the FCA is not our sole regulator. Some of our firms are joint regulated by the PRA. There is also the Financial Reporting Council, and we have to pay attention to the CMA.

I mentioned that we manage £2.5 trillion of EU money. That means that, when the European regulators—ESMA, for instance, or the CSSF in Luxembourg and the CBI in Ireland—want to do something, that is a cost

on our industry as well, because we want to keep on managing that European money. There is a message there to regulatory authorities about understanding cumulative impact and not just individual actions. Too much of the cost-benefit analysis that we see tends to be focused on, "This regulatory change will cost that much". Well, that is fine, but we are digesting seven or eight others at the same time as well.

I have a list of the current regulatory requirements that our firms are trying to digest. Any one of them would take an entire board meeting to discuss, and there are seven of them—and, by the way, you want to do something on innovation and improve your level of service. I worry that the regulatory burden at the moment crowds out the discussions that we want to have and that sense of direction.

I support what Douglas said. Having a point of view and an alignment between policymakers, regulators and industry to get things done is entirely achievable. Jurisdictions that do it well are the ones that are going to be winning in the future.

Sir Douglas Flint: The other thing about Singapore is that it has the Central Provident Fund and mandatory savings, so you have a vehicle to direct where allocations go. In Canada, Australia, Singapore and Hong Kong, mandatory saving schemes are a very valuable thing if you are trying to work out how you want to run a savings industry.

Chris Cummings: If you split it between authorisation, supervision, policy and enforcement, you could say for any one of those, "Look at the cost compared to other jurisdictions". Take the cost of becoming an authorised person in the UK. If you are arriving from the US where you have been running a major firm, why does it take the FCA up to six months to authorise you as a senior individual and an approved person? We look at fund authorisations. There are service standards of three or six months, compared to in other jurisdictions where it is 48 hours.

There are hidden costs. We are doing the sustainability disclosure regime—or SDR—rules at the moment. We have firms that have been offering green funds—sustainable, responsible funds—for the last 20 or 30 years and are now on their second or third attempt at trying to get a label in the FCA regime and are still being rejected. Is that a regulatory cost? Absolutely. Does it go into a cost-benefit analysis? No, but it is a cost to the firm and it is a drag on our international standing as the global investment management centre, particularly when the EU is modernising and improving its SFDR regime.

Sorry, but it is a complex set of questions.

Lord Vaux of Harrowden: It is. I will not ask any more because I am conscious of the time. If you have any hard evidence or statistics about how we compare on some of these things, it would be really helpful to receive that later.

Q202 **Lord Grabiner:** Following on from what you have just been saying,

which I must say I found extremely interesting, if we had a clean piece of paper and we were looking at this de novo to try to create an appropriate regulatory structure, would your recommendation be that we should have a single regulator to deal with the whole of our financial services? My sense, from what you are saying, is that the presence of two substantial separate regulators is not actually helping matters.

Chris Cummings: The regulatory environment that we are in today is rather complex. No firm is regulated by a single entity, given the FRC's role and remit and the other regulatory bodies around. What that brings in benefits and advantage is that the quality of people we normally deal with in the regulators is quite high. We always try to get an alignment of standards between regulators. Sometimes that is slightly hard, but that is what we are trying to do.

The Chair: We were looking for a yes or no answer.

Chris Cummings: Heart and head, in trying to resculpt the regulatory environment at the moment, we would have to look at the delta as to what the level of improvement would be. I think it is a case in point and a worthy thesis.

Lord Grabiner: My question is really this: do you think the presence of the two regulators makes your life more complicated, unnecessarily complicated or more expensive, and could that be diminished, reduced or avoided if you were dealing with and facing up to one regulator?

Chris Cummings: My current experience, even dealing with one regulator in the FCA, is that where we are dealing with the investment management team in the FCA—people who understand the depth of the market—we have a very good and constructive relationship. Where we are even just going across the FCA, in areas such as SDR or consumer duty, we already find that people do not understand the technicalities of how the fund management industry works. If we were trying to do that across an even bigger regulator, I would be worried that we would get less attention and that that would make our life difficult. I am all for simplicity.

Sir Douglas Flint: Can I make an observation that usually gets me into trouble? There is a conflict between a prudential regulator and a conduct regulator. It is an interesting one, in the sense that a prudential regulator actually wants the firms that it regulates to be highly profitable and investable. One of the things that I think our regulatory framework, taking the two together, should reflect on is why our firms across the industry trade at a discount to their international peers, particularly in the US. That makes them less investable, which means that the public purse is more at risk in a systemic event than it would be if they were profitable. If we look at the financial crisis, we see that the Canadians, the Australians, Hong Kong and Singapore had a very good financial crisis because the firms were very profitable, and therefore they were recapitalised from private funds. In America, here and in Europe, bailouts were necessitated.

If you have a consumer regulator that is trying to act in the best interests of the consumer and keep costs down—which is perfectly legitimate and appropriate—and a prudential regulator that is saying, “I need these firms to be profitable so that they can recapitalise in the event that something goes wrong”, there is a bit of tension. Finding that balance is a public policy goal.

Within the FCA you have two competing streams of regulation. One is market integrity and looking after the big guys, where you have Pru, HSBC and Barclays. Then you have the 40,000-odd IFAs, with a very different set of skills, managed on a collective data basis, as opposed to a relationship management basis. There are three streams already within two regulators.

Q203 Lord Hill of Oareford: I will stick to the same area as Lord Grabiner. You said that the idea of doing a complete structural change on the patient when they are still alive is probably not the right way to go, but you are clear that there is quite a lot of confusion, overlap and duplication both within and between the regulators. Short of something structural, do you have thoughts as to how one could improve the current situation and where we could all be clearer about where the boundaries are so that your members, or you as Abrdn, are not being double-regulated? How could one simplify it, if we are not going to replace it?

Chris Cummings: There have been a number of steps that the industry has applauded. For instance, there is an MoU between the Pensions Regulator and the FCA looking at how they jointly and separately regulate the pensions market. I think there is a bigger question still to ask there: does that conjunction make sense or is there a more elegant solution, particularly given the need for the UK to address pension poverty and build on the great success of auto-enrolment? There is a hanging question over that.

Interestingly, there are some people who work for both the FCA and the PRA in the data space. They have a joint committee on data collection these days. I see bold and brave attempts to make sure that a firm regulated by the PRA and FCA is not asked for almost the same but slightly different data. If it is slightly different, it may as well be totally different, because you have to run each one, get the timing right and so on. There are some really dull technical solutions that could bring the regulators closer together.

The regulatory initiatives grid was supposed to be the air traffic control system, overseen by the Treasury, that meant that the regulatory authorities would publish in one place a view of all the consultations and so on that they were going to bring to market. The Treasury would provide air traffic control so that there were not too many. Sadly, that has just become a listing exercise. Then we have things such as the enforcement consultation from the FCA that do not even appear on it. That as a structure just needs to be load-bearing, and it really is not.

The FCA and PRA need a better understanding of the lived experience of a regulated firm in coping with consultations, policy statements, “Dear CEO” letters, speeches and the plethora of regulatory tools that are now used by the regulators, and how firms scan for those and then what they have to do, as well as digesting the previous three sets of culture change—consumer duty, label change and so on—that the FCA is already asking for. There needs to be more experience of what it is like to be running a firm in that type of environment. That is why we are much more positive about secondments both ways to help people understand what it is like to be a regulator as well as what it is like to be running a firm these days. I am sure we will come back to that.

Sir Douglas Flint: Even within a single regulator, particularly the FCA, you have the top of the house worrying about the secondary objective and growth; you have conduct, which is hugely important to market integrity; you have market integrity itself; you have the supervision of the way the firm does business consumer duty. Then you have the financial resilience team, completely separate, saying, “What they are doing is all very good, but what happens if—and how do you prepare for failure?” An amount of time is spent analysing all the really bad things that can happen and how you prepare for them. They are the kinds of things we should be doing in stress tests, and we do, but in some ways it is formulaic regulatory guidance around what a stress test should look like, as opposed to asking, “What do you do yourself to make sure you are covered in every foreseeable circumstance that you can imagine?” Even within a single regulator, there are lots of strands pulling in different directions.

Lord Hill of Oareford: On your example of the naming and shaming that did not appear on the grid at all, what is your impression of the extent to which the problems that some of your members face are driven fundamentally by the regulation—the letter of the law—or is it cultural and behavioural, and you do not quite know what to expect because the behaviour of the regulator might seem a bit wilful and you do not know where it is coming from?

Chris Cummings: It is a great question, because it reveals the multiple parts to which firms get exposed. There is the policy process that helps set and draft rules within a wider context, and then there are the interactions with very senior people at the FCA. I can cite consumer duty as a case in point where, on multiple occasions, senior people from the FCA would address the investment management industry and say, “There is very little for you to worry about. Because it’s a regulated industry and you have product regulation, there is very little for you to worry about”. What we then saw through the process was that there was an awful lot to worry about, because you would have to analyse the speeches and then have interaction with the supervisors. We have meetings and speeches and then interaction with the supervisors as to what should be going on. Organisations like mine then have to start producing guidance and so on.

In the IA, since July 2022 we have spent between 8,000 and 10,000 person hours, the equivalent of three FTE, plus legal counsel; we have published nine individual consumer duty publications; we have held over 60 formal meetings; we have 20 dedicated consumer duty workstreams, with about 100 members per meeting, and 40 working groups; and we have answered over 400 member queries. That was a 30-month work programme for an initiative that we were told repeatedly would not trouble the investment management industry. I would hate to see one that does trouble the investment management industry.

The Chair: I am just conscious of time. The answers are great and very helpful, but perhaps they could be a little shorter.

Q204 **Baroness Noakes:** I want to come back to the competitiveness and growth objective. I wonder whether you could help me by explaining how the investment management industry contributes to growth in the UK. Alongside that, what would be the two big regulatory changes that would help you to contribute more to the growth of the UK?

Sir Douglas Flint: The first one is boundary guidance on advice. RDR was for a particular purpose. It restricted pretty straightforward advice to the vast majority of people with average savings of less than £100,000, which for most people in this country is still a huge amount of money. Getting a way to give simple advice would help people understand better what their options are and what the variability of return might be, and start moving some of the money out of cash.

Baroness Noakes: It would be good for your businesses, but would it be good for UK growth?

Sir Douglas Flint: Yes; money sitting in cash is effectively losing money for the individual. Because it is in a bank, it is paying significantly less than inflation, so it is not preserving spending power. If that money is part of a pool of savings directed towards long-term ambitions—from saving for retirement all the way to saving to pay for a wedding or education—with a different time horizon you could make a better return on that money than leaving it in cash.

If this country is going to build the infrastructure it needs for transportation, energy and all these other good things, it has to harness more of the savings pool of the population. It is about getting more of the savings pool out of cash and into productive assets. Of course, we have to find those productive assets, and package them in a way that is attractive to the consumer and is well communicated. I think that would help growth in this country.

Baroness Noakes: There are a lot of ifs in that, are there not?

Sir Douglas Flint: I do not think so. You cannot say that you should just chuck it into infrastructure and it will be fine; you have to design a product and communicate it, but that is our job—that is what we do.

Baroness Noakes: What has been stopping you?

Sir Douglas Flint: At the retail end, the inability to give simple advice to people with modest amounts of money.

Baroness Noakes: But you do not have the products already available.

Sir Douglas Flint: We do, but it is much more difficult to promote them if you cannot give simple advice.

Chris Cummings: I completely concur with what Douglas just said. As the industry stands today, it is investing £1.4 trillion into the UK economy. As to what is going to turn the dial, there are two things. The first is a reset around recognising that saving is good but investing is better; that keeping your money in cash is value destructive. Things such as a junior cash ISA guarantees a loss; investing in an equity fund over the long run will deliver a return. If, 10 years ago, you put £10,000 into a cash ISA, today it is worth £8,500; if you put it into a global equity fund, it is worth £18,500. It is a really simple message: cash is for a rainy day; investing is for return.

When we talk to our investors in UK small caps, there is a real appetite to invest more in UK small caps. Of course, we manage money to other people's mandates. Pension schemes will say, "We want to allocate X% to the UK economy because that is 4% of the world economy. Don't allocate more than 4%. Allocate the rest globally because that generates a higher return". But there is a huge appetite to invest in UK infrastructure. We are a steady political jurisdiction that is well known for the rule of law. The problem has been a lack of investible projects, U-turns on offshore wind and onshore wind, and the length of time it takes to get a wind farm connected to the national grid. There are some policy changes that we would be delighted to see that would really make a difference to how investible the UK looks.

Sir Douglas Flint: The other thing is financial education. I will try to get in one of my obsessions. I think that to label or describe DC savings plans as pensions should be absolutely banned. People in this country say they have a pension, and they have a DC scheme. In people's minds a pension is something that pays out an annuity when they retire—they remember their granddad getting one, or whatever. Most people coming out of a DC savings plan today have a pot that is considerably less than £75,000. That will not look after them in retirement, yet people say they have a pension. They do not. I think that is one of the worst examples of mislabelling that is common in this country. That would help.

Chris Cummings: Only 8% of people in this country get financial advice. If we could get that into double digits, it would motivate money to be invested long term.

Q205 **Lord Eatwell:** I want to follow up what Baroness Noakes was asking about the way in which the industry can effect growth and investment. There is some real confusion about what we mean by "investment". For example, Mr Cummings just said that the UK invests £1.4 trillion. That is 40% of UK GDP. Real investment is 17% of UK GDP, so at least 23% of

what you are calling investment is not investment; it is buying instruments in secondary markets.

One thing that strikes me about the financial services in this country is the enormous targeting of investment in secondary markets. The banks have a predominant role in mortgages on houses that are already built. The flow of new houses compared with the overall stock is tiny. Similarly, if we look at large companies in this country, almost none of them draws money from what could be called savings in your terms. Their investments are typically funded either by retentions or the bond market. As Sir Douglas very accurately said, there is the whole problem of the funding of small and medium-sized companies that need equity investment; the money is not getting there.

How do we get more of the financial resources in this country targeted at real investment—not the secondary market but the primary market? I do not know whether it is IPOs or equity funding for small and medium-sized companies, or perhaps equity funding in infrastructure. How do we get funds into real investment and not confuse investment with buying instruments that already exist, which is not really investment at all?

Sir Douglas Flint: A very good review was made of the primary market challenges that we have. As Chris said, one of the things that sometimes is not as well understood as it should be by the public is the fact that the asset management industry basically has two jobs. One is to allocate money in accordance with the mandates it is given by its clients—insurance companies, pension funds and so on. Sadly, those funds today allocate very little money to investment in small and medium-sized companies.

I will not mention the name, but I chair a company that effectively commercialises predominantly science out of British universities. It trades half its net assets, and there is limited appetite for it. One issue is liquidity. For a company with a market cap of £500 million, 10% of that company would be £50 million. Most patient funds do not get out of bed to invest £50 million, so there is a challenge that the British Business Bank will go a long way to address.

Part of it is getting mandates that are pointed towards this. Again, that is where I think financial education will help. For consumers, if you said that they were investing in UK plc, people would be happy to do that for a return that looks adequate. It does not need to be leading in the way an institutional investor might look at basis points. If you look at the Universities Superannuation Scheme, which has done extraordinarily well over the past decade, you have to go to its 16th biggest investment to find something in the UK. Yet if you have a stewardship requirement, you are looking for a return, and the best return over the past decade has been in the United States because it has been in life sciences and technology. We do not have companies in that space.

Part of the challenge is not how we allocate the money but how we create the businesses that will attract the money, rather than how we point

them towards businesses that do not attract the money because they are not seen to be as good as opportunities elsewhere.

Lord Eatwell: The issue is which is cause and which is effect.

Sir Douglas Flint: It is both. Part of it—it is not for this committee—is that MiFID lost us the ability to host research in this country in the way it was done before MiFID, because it was bundled. Whether that was right or wrong, it facilitated a lot more research on smaller companies that simply does not exist today. We have to do something to create a pool of money that is pointed towards small and medium-sized companies in this country, because they tend to be domestic and to support our science base.

Q206 **Baroness Bowles of Berkhamsted:** One of the sectors that until a couple of years or so ago was doing very well in investment in the real economy was the alternative of investment trusts, investing in renewables, small companies, social buildings and things such as that. We have had the issue with investment trusts and the so-called cost disclosures problems, which was not about whether to report costs but how to report them. We got to what we thought was the happy situation in September, with the Government issuing a draft statutory instrument and the FCA issuing forbearance so that the complexities that had occurred due to EU legislation could be set aside.

I have to address this to you, Mr Cummings. That all happened in September, with the additional clarification from the FCA that it applied throughout the chain, down to manufacturers, distributors, retail platforms and everything. On 11 October you held a members' meeting and presented a slide from a pack that summarised the new FCA forbearance, saying that manufacturers and distributors were no longer required to prepare, publish or provide a PRIIP KID for an investment trust. Investment firms were no longer required to aggregate the cost of investment trusts as part of their MiFID cost disclosures. It went on to say, "The FCA's position is that investment trust costs are misrepresented under MiFID and PRIIPS but they are not zero. [Nikhil Rathi, Treasury Committee oral evidence, 8 May 2024]. Therefore, in our view"—that is, the IA's view—"manufacturers need to provide an appropriate number for MiFID ongoing costs in the EMT and the PRIIP KID", that being the PRIIP KID that is no longer required, and that number is not zero.

I would like you to explain to me how you think something said by the CEO of the FCA on 8 May somehow overrides what the Government and the FCA did in September.

Chris Cummings: Thank you for the question and the opportunity to set out our view. I see that you have circulated a slide from a meeting of our members that was held on the basis of discussing what the IA's position should be. This was not a conclusion; it was a point of view for discussion and then agreement by members. I would like to pause on that because it is important to understand that the slide in front of the committee was not the conclusion presented to members; it was for discussion to hear what members wanted us to do from that point of view.

As the representative body, we are concerned with a number of things. The first one is that retail investors should be entirely clear about the costs of investing. That is hugely important and goes to the fundamental of our industry. If people are not absolutely clear about the costs of investing, why on earth would they?

We had had a situation implemented across the UK because of the PRIIPS regime that was wholly unsatisfactory. I am on record as calling multiple times for the PRIIPS regime to be urgently reviewed for all investment products, because it led to an aggregation of costs that was simply misleading. You could trade in capital markets and get paid for it.

Baroness Bowles of Berkhamsted: We discussed all this on the committee. You do not need to go into it.

Chris Cummings: Forgive me. You are presenting a slide to me. I have only just seen it and I am trying to give the background because it is really important for the committee and the wider audience to understand that what we were trying to do was achieve a principle: how do we help retail investors understand what they are actually paying for? The FCA regime under PRIIPS was deeply flawed. Added to that was MiFID, and the two regimes did not line up. This is one of the multiple occasions where, as a representative body for the industry, we try to find a way to make sure our members are the right side of regulation, despite the fact that there are two fundamentally contradictory things in the market. I would suggest you look at consumer duty fair value assessment backward looking, with value for money assessment forward looking, as another case in point of the lack of systems thinking.

The Treasury—

Baroness Bowles of Berkhamsted: I do need to get on to the consequences.

Chris Cummings: Forgive me. The FCA forbearance statement arrived with a bold statement and no supporting notes or guidance. The first point we heard from members, who I would call manufacturers, and separately from distributors, was, "This looks like it applies only to the aggregation, not the product cost". We heard that multiple times. "What do we do about the product cost?" What we found in the market was that many firms, particularly large ones, were producing two sets of disclosure documents: one was a KID that said entry costs, management costs and exit costs were zero, with an asterisk saying, "Please see our terms and conditions and statement of expenses", which then listed a whole set of costs. If I am a retail customer dealing with a firm that tries to tell me that something is free and has costs, I am sorry, but a "now you see it, now you don't" disclosure regime does not work.

So what we were trying to do—

Baroness Bowles of Berkhamsted: Could I then—

Chris Cummings: What we were trying to do on this—

The Chair: Can you just let Baroness Bowles come back, because I am very conscious of time?

Baroness Bowles of Berkhamsted: You can talk it out, but I would like to get on to what the customer sees when they go to a retail platform. Let us say that you go on to Hargreaves Lansdown and choose Oakley Capital Investments Ltd, for example. It is not a slide that everybody has in front of them, but if you click on "How much does it cost?", and click again on "Investment charges", you will see that the net initial charge is zero. That is fair enough. Then the net ongoing charge is 2.69%. This is a venture capital fund, so it will be quite expensive. That gives you £618 odd. Then it refers to incidental charges and there is more than another £1,000 there. There is nothing for transaction costs. It has stamp duty. It then gives you total charges over five years of £1,827. It tells you that, if you had an investment of £5,000 growing at 5% per annum, your net result would be £4,306, so you will make a loss. So they are not going to buy it, are they? If you look at it, what is the net ongoing charge? That is £618, paid by the company, that is already incorporated into the share price. So that is not a charge that is coming off the investment held by the investor.

Let us look now at incidental charges. This is quite interesting, because, if you know your MiFID Org Reg, which I do, those incidental charges are performance fees. Therefore, it is saying that performance fees will be coming off. That is quite interesting, because for Oakley Capital Investments, performance fees do not click in until 8% and this is a projection based on 5%. So there is a bogus £1,055 coming off. It goes on. You are saying that this is better than saying zero in the EMT when you get to something near the true figure at the bottom.

Let us go to a company that has done that: GCP Infrastructure Investments—just the sort of capital investment we are supposed to want to have in all kinds of things. This has zeros in there. It tells you that for your £5,000 your illustrative five-year value will be £6,212, which is a lot nearer the truth of the matter because all the costs are inside the company. But if you want to buy this and click on "Buy", you will get the message, "This stock is currently unavailable to buy. Regulation requires HL to display information about costs and charges", which, incidentally, they have, "but we do not have access to this information at the moment". Actually, what they do not have access to is information that they say they want but is not the truth. "You can hold or sell existing shares, but you cannot currently buy more, and we are sorry for any inconvenience".

As I understand it, at the meeting that you held, after presenting slide 8 and asking if everybody agreed, there was no disagreement among the 50-odd participating members. There was also a presentation by Hargreaves Lansdown about how platforms would block retail access if you put zero in. When you get the truth of what your investment might be worth of some £6,000, you are blocked from buying it. If you phone them up and say, "Why can't I buy it?", they will say, "Well, if you buy it

via telephone dealing at a vastly greater commission, you can actually buy it". So that is a nice little wheeze, is it not?

How do you justify that it is better to block access to that truth, and you want them to continue with the sort of nonsense I have just read out about Oakley Capital?

Chris Cummings: I think you have explained the situation wonderfully, which is that we had a flawed disclosure regime under PRIIPs that put hopeless figures into the market.

Baroness Bowles of Berkhamsted: We know all about that, but you have the solution. The Government and the FCA have done everything they can within their powers, because the FCA cannot do anything other than say, "Right, as far as we're concerned, that legislation doesn't exist; this is forbearance". The Government said, "It's taken away, but the statutory instrument has not gone through yet", but you are saying, "No, we want to go back to the old version".

Chris Cummings: No. Forgive me: we are absolutely and fundamentally not saying that we want to go back to the previous regime—completely not. Our strong advice to policymakers in areas such as this, where a regulatory change is going to be introduced to a market at a moment's notice, is, "Please work with the industry so that we can sort out our computer systems, the advice guidance process and the manufacturing process so that we're able to do our main job, which is to help retail investors understand what is going on", because the way this landed in the market caused absolute confusion.

Baroness Bowles of Berkhamsted: I think the confusion is caused by you.

Chris Cummings: Forgive me, no.

Baroness Bowles of Berkhamsted: You have said you are quite happy to have zero when it is in aggregation. Your members, UCITS funds, can happily use zero, but the retail customer does not get to be told that it is zero. How can you sustain that? If you look at the retail access at the moment, if you are a retail platform and you buy an investment trust that is held in a UCITS fund, you are told it is zero, and that is okay—this is one of your members—but if you try to buy it on the platform you are blocked and you cannot buy it if it says it is zero. If you go to a business-to-business platform, they are all happily using zero. If you force the consumer to go through a more expensive route, they can have it as zero, but you are agreeing that you will not let retail customers do that at the place where they are most likely to go—a retail platform. They cannot be told. The nearest that you can get to the truth, if I could put it that way, is that it is not coming off their investment. You have agreed with platforms and your members that it is all going to be blocked and they cannot have that.

Chris Cummings: Just for a point of clarity, if I may, our membership includes investment trust companies as well.

Baroness Bowles of Berkhamsted: You do not represent investment trusts.

Chris Cummings: There is an association of investment trust companies that we work very closely with and we regularly produce joint work with. We have a mutual interest in making sure that retail customers—

Baroness Bowles of Berkhamsted: You are 45 times larger, as a sector, than the investment trust sector, so you have 45 times the access to the FCA, 45 times the access to the media and 45 times the opportunity to put forward your views.

Chris Cummings: My sincerest wish on this was that the FCA had brought out its consultation on the new disclosure regime ahead of issuing forbearance. We have been talking about—

Baroness Bowles of Berkhamsted: You want the forbearance to go on as long as possible.

Chris Cummings: No. Forgive me: what I want is a new disclosure regime based on engagement that encourages people to invest. We have a dip in the market at the moment where part of the market has a forbearance notice. Respected companies do not know whether they can stand on that and whether in five years' time there will be complaints brought about them to the ombudsman because, "You told me this was zero and now it isn't". There is ambiguity.

Baroness Bowles of Berkhamsted: Is it not the case that the main quandary for these companies is that the boards of the investment trusts are terrified that they will be blocked from the platform, so they will continue to put some number in there? It may not be what the old number is—there are all kinds of interesting numbers going in now—so they are not worried. The AIC has come out with guidance saying, "It really should be zero, but if because of"—my words—"the platform's blackmail you think you have to have a number in there, you could justify putting these kinds of numbers in as reasonably informative but less than the overall giant number that you had to put in before". Is that satisfactory?

Chris Cummings: The previous numbers were very misleading, and we are glad that the FCA has finally seized the initiative to have a review, after much industry campaigning saying the disclosure regime simply does not work. We want to get to a disclosure regime, at pace, that takes care of the whole market, and no investment platform will deprive its investors, its customers, of products that they want. I cannot speak for the AIC, but I would like to think that between us—

Baroness Bowles of Berkhamsted: Hang on a minute. The platforms are blocking, or they are not putting up the newest information, but then they will sell it to you if you pay a higher fee.

Chris Cummings: I have no knowledge of that, apart from what you say.

Baroness Bowles of Berkhamsted: Do you not think that is shocking?

Chris Cummings: Forgive me: all I would like to say is that between ourselves and the AIC I would hope there is fervent agreement that we need a disclosure regime that separates the difference between some costs and value.

The Chair: I do not think Baroness Bowles is convinced.

Chris Cummings: I would be very happy to meet with Baroness Bowles afterwards. This is becoming an issue that we just need to work our way through.

The Chair: It is an important issue and one that the committee is concerned about, so perhaps we can continue this discussion in correspondence with the committee, because I am very conscious of time. Did you want to say something, Lord Lilley?

Lord Lilley: No—take up the idea of a meeting, I would have thought.

The Chair: Yes.

Chris Cummings: With pleasure.

The Chair: Right. I should put your armour on.

Q207 **Lord Kestenbaum:** I have a question that relates again to the regulator's ability to enable that secondary objective of growth, and in particular a kind of two-tier system that we have heard about from one or two people. Mr Cummings, you may have something to say about this.

In so far as the larger funds are concerned—the kinds of firms that, Sir Douglas, you are so familiar with, both in terms of their ability to resource for the compliance burden and a kind of cultural understanding that the regulator has of them and with them—they are in a very different position from the smaller firms, let alone the start-ups that we have all spoken about, which self-evidently are less able to resource their compliance departments. But much more significantly—and we have heard it from one or two witnesses—there seems to be a sense that the regulator really does not get the kind of growth trajectory of the smaller firms. Therefore, I wonder if you might have something to say about this picture of a kind of two-tier system that seems to be emerging.

Sir Douglas Flint: It is an area that is worthy of examination. There are a number of technology solutions in terms of compliance that enable small firms to digitise the compliance burden as long as they stick with simple products. The biggest burden in our industry is “know your customer”, so you can identify vulnerability and place them in the right category for what kind of investments they should be able to access.

I would push back a little and say that the reputational risk that we do not want to bear as an industry is a small but highly publicised number of small firms doing bad things. Because the media tends to write more extensively about failure than success, and people get in their mind that this is an industry that we should be cautious about, you end up with getting risk aversion.

As I said earlier, at the governance level, there should not be a two-tier system for small and large firms; there should be a system that says you have to have the appropriate governance systems in place to be able to take money from the public to invest money on their behalf. If you are a small firm, you should not be doing the very complicated things unless it is the only thing you do and you have built a disclosure and a compliance system. Some of the small firms that do only one thing—very complicated and specialised things—have some of the leading experts in that area because it is all that they do. To try to be all things to everybody, as a small firm with 20 employees, in my view, is not the kind of competition that we want to see, not because it is against our self-interest but because the public interest means that there has to be a fairly high bar for admission.

Chris Cummings: From our perspective, we want to see a really rich ecosystem of firms operating in the UK, because that is part of the health of the ecosystem that we have, to the point where we regularly run trade and investment programmes to other parts of the world to advertise what a welcoming jurisdiction the UK is if you want to set up a new investment management firm here, and with some success. The UK tells a better story normally when regulators and businesses are outside the UK. I would be troubled if all we saw was an agglomeration of firms getting larger and larger. Because of the costs of regulation, that is a clear market trend that we are seeing, and that should be a worry to everybody, because greater consumer choice means better competition in the marketplace, and as investors we get a better deal.

I think the FCA is aware of that. There is a meeting going on in my organisation this very morning: the FCA's head of competition is coming to talk to some of our smaller firms to hear about the lived experience of running a small firm in an environment where the number of regulatory initiatives can be overwhelming, and how you keep pace with that. It is something that we are very alive to. There is a point about why the financial services compensation scheme is billed so heavily across financial services. It is because the FCA in its authorisation process has let in too many firms that did not have the financial resources and the non-financial resources to cope. It needs to do a better job of tracking those firms against the performance of the business plan that they have to submit to the FCA to get authorised.

If you say you are going to do X business and you are doing X plus 10, there should be a little amber light going off at the FCA somewhere that says, "Maybe a supervisor should drop by and just make sure everything is okay". There are some approaches that the FCA should experiment

more with, but the answer to doing it properly has to be more sophisticated intelligence gathering by the FCA and better use of tech.

The Chair: On that note, it has been a very interesting session, and we could go on considerably longer, but we do not have the time. May I thank you, Mr Cummings, and you, Sir Douglas, for coming today? There are a number of questions we would like to have asked that we will send you, and if you are able to give us a response in writing that would be much appreciated. This session is now ending. Thank you very much.