



Financial Services Regulation Committee

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

Wednesday 18 December 2024

10.55 am

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

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Questions 275 - 286

Witnesses

[I:](#) Anna Dunn, Chief Executive Officer for the Commercial and Investment Bank, JP Morgan UK; Hani Kablawi, Head of International, BNY.

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Examination of witnesses

Anna Dunn and Hani Kablawi.

Q275 **The Chair:** Welcome to the second part of today's meeting, which is the 13th oral evidence session as part of the committee's inquiry into the FCA and the PRA's secondary competitiveness and growth objective. Thank you, Ms Dunn and Mr Kablawi, for attending. A list of the interests of the members relevant to the inquiry is available online. This session is open to the public, is being broadcast live and will subsequently be accessible via the parliamentary website.

A transcript will be taken of the evidence and put on the parliamentary website. A few days after this session, you will be sent a copy of the transcript to check it for accuracy. It would be helpful if you could advise us of any corrections as quickly as possible and whether, after this evidence session, you want 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.

I do not know whether you wish to make an opening statement.

Anna Dunn: Thank you for the opportunity to give evidence to the committee today. I am the JP Morgan UK chief executive officer for the commercial and investment bank, and JP Morgan chief financial officer for Europe, Middle East and Africa.

JP Morgan Chase has had a presence in the UK for over 200 years. Today, we employ over 22,000 people across London, Glasgow, Bournemouth, Edinburgh, Manchester, Leeds and Bristol. We offer a range of services to our clients and consumers here in the UK across our lines of business, including asset management, private banking, commercial and investment bank, and our new consumer bank.

Over the last five years, we have provided over £37 billion in credit and capital for financial institutions, such as local banks, insurance companies, asset managers and securities firms. We contribute to the communities in which we operate. Since 2019, we have provided £90 million in philanthropic support, which, among other measures, has supported 33,000 low-income households to reduce their debt and improve financial health, and 9,000 individuals to access apprenticeships or employment.

The focus of the committee on the secondary growth and competitiveness objective is welcome. Ensuring that the UK retains a globally competitive financial services sector is ultimately about ensuring the UK can continue to attract investment to support businesses and households across the UK. As a global systemically important bank, I hope we can provide you with some insights into how the UK's regulatory framework enables the financial services sector to invest and drive growth across the UK.

That last point, regarding our scale, is the first I want to stress. In the UK commercial and investment bank, we have \$67 billion of capital, \$1

trillion of assets, \$630 billion of daily payment flows and \$600 billion of assets under custody. Because of our significance to the UK financial system, we have extensive communication with the PRA and the FCA. We have fixed supervisory teams and we are able to discuss issues with experienced, knowledgeable regulators as they arise. We welcome the clear channels of communication that exist between JP Morgan Chase and our named supervisory teams, and we find it to be a system that works effectively.

Secondly, I want to reiterate the importance of the public debate that is now under way about the appropriate level of risk in the financial system and who bears it. The well-intentioned reforms introduced after the global financial crisis have created a cumulative effect, whereby arguably we have removed downside risk to the point of sacrificing long-term upside returns. If one never does anything, one cannot lose, but one will not gain either.

Adjusting the balance of informed risk taking is not straightforward, but it is important that this is a matter that industry, regulators, government and Parliament consider in order to ensure that the right policy outcomes are delivered: consumer resilience, while enabling UK growth and productive investment. We are encouraged that the Chancellor's remit letters to the FCA and the Prudential Regulation Committee highlighted the need for more responsible and informed risk taking across the economy and committed the Government to supporting the regulators in making difficult trade-offs.

Finally, we also welcome the recognition that UK competitiveness and growth is best supported by enabling financially literate and informed consumers to plan and invest for their futures. Of course, regulation should protect vulnerable customers and ensure that retail consumers have access to well-regulated products with clear recourse when rules are breached, but where we can replace regulation with education and resilience, we can build sustainable markets that work in the best interest of consumer, providers and the UK as a whole.

Hani Kablawi: Thank you for having me here on behalf of BNY. The UK is very important for BNY. We have just over 5,500 employees based in our offices across the UK, with our major hubs in London and Manchester. We opened our first office here back in 1967, and the UK serves as BNY's headquarters for our EMEA operations. It is an employing location that has operations, including lots of technology and team members, as well as client support and product.

Our services include asset servicing, asset management, private equity, hedge fund administration, broker-dealer services, depository receipts, corporate trust and treasury services. That actually makes this a pretty unique business model compared to those who have provided evidence before you previously. We are neither a retail bank nor an investment bank. It is wholesale, but it is wholesale in the areas of investment management and, very importantly, investment servicing.

We serve a broad range of clients in the UK, including financial institutions, pension funds, fund managers, government entities, charities, insurance companies, broker-dealers and family offices. The PRA and the FCA, as my colleague here said, provide strong supervision for the London branch of the bank and for our UK bank, but also for Pershing, our correspondent clearing and broker-dealer entity here, and for our investment management entities.

Our role as a global custodian overseeing \$52 trillion in assets under custody, as well as being a large asset manager with \$2.1 trillion in assets under management, means that we touch about 20% of the world's total investable assets. That gives us a unique vantage point on where investments are flowing across the globe. We have the big data models and technology to see that, and we often publish on that, including on what we are seeing in the UK.

The UK is a premier destination for global financial services activity. It is home to some of the world's largest and most successful financial services firms, from banks and insurance companies to asset managers and fintechs. These firms are here because the UK is a predictable jurisdiction with a very proficient regulatory ecosystem that, in combination with its legal coherence with other jurisdictions, makes the UK a leading place to conduct financial services business.

Despite this, it is right that we re-examine the UK's regulatory ecosystem following the UK's exit from the EU and given the increasing competition that the UK faces from other markets around the world. The UK must continue to evolve to maintain its strong position. We warmly welcome this committee's work.

I would emphasise that a large part of the UK's success as a financial services hub is due to the quality of the regulators, with a deep understanding of financial markets and different business models. This is directly reflected in our firm's experience of day-to-day interactions with the regulator, so I echo my colleague here.

As a firm that is regulated by both the FCA and the PRA, I would highlight that this can bring challenges, with us in some instances finding ourselves subject to double or overlapping regulation. There is scope to better clarify the delineation in the remits between the FCA and the PRA.

Further, for an international firm such as ours, consistency in rulemaking across jurisdictions or deference to home state rules is a key way of allowing us to reduce the cost of doing business and, in turn, increase the attractiveness of the UK as a place to do business. International consistency allows banks with cross-border operations to operate more effectively and minimise duplicative processes. We would therefore welcome the UK regulators continuing to take a leading role in international fora to prioritise consistency in rulemaking, as well as giving greater consideration to deference to firm's home state regulators where appropriate.

In addition, as the world's largest global custodian, we have a very different risk profile from retail and investment banks. That is the business model point I was making earlier. I would make the case that there is scope for regulators to have greater regard for business model specificity when developing or revising regulation. Insufficient clarity in rulemaking can mean that firms find themselves within the scope of rules that were not really intended to capture them, and that they have to spend significant time and resource carrying out assessments to be able to demonstrate that they are in or out of scope or which businesses are in or out of scope.

On the central theme that this committee has explored during this inquiry, that of whether UK regulators and policymakers have calibrated their risk appetite correctly, I would agree that there is a genuine debate to be had in this regard. Post 2008 financial crisis, there is a case to reset this with an approach that is more clearly supportive of growth.

Lastly, on innovation, I would highlight that, although the UK regulators generally do a very good job of collaborating with industry participants, there are examples from other jurisdictions that can further improve the work of the regulators in this regard, especially in relation to emerging areas such as digital assets.

We have been represented previously by UK Finance and TheCityUK. We are members of all those banking and financial services associations. In my commentary on your questions today, I will aim to be a bit more specific about BNY's business model, but the more general commentary provided on behalf of banks and financial services stands as well.

Q276 Lord Kestenbaum: Good morning. Ms Dunn, could you give a little colour to a phrase you used, which we have heard before: "trade-offs", which is a catch-all phrase? We kind of know what it means, but it would be really helpful if you gave us some tangible example of what constructive trade-offs would be. What would a trade-off look like? What kind of trade-off would produce the outcome that you spoke to a little earlier when you said that we are in danger of removing any prospect of downside risk at the expense of any potential upside return? That is what gave rise to your phrase "trade-offs", and that is what I would like to understand a little more about.

Anna Dunn: When looking at the regulatory position, it is very understandable that there is a huge focus on consumer protection. Particularly post the financial crisis, the regulatory remit has really focused on that downside risk. We have seen increasingly that that consumer protection is approaching a point where it is consumer indemnification.

The authorised push payment measures, wherein banks have to fully reimburse for authorised push payment fraud, arguably create a lack of sharing of the downside risk and personal responsibility, but also a lack of sharing and assessment of where the fraud risk is being introduced. Should there be more sharing of any reimbursements for

fraud across the various stakeholders that are involved in those payments? That would be an example of where the banks are being asked to protect to a point that potentially gives the wrong incentives across the broader ecosystem.

Q277 Lord Lilley: We are interested in the secondary growth objective. We are not particularly interested in the primary objectives of the regulators, except in so far as their over-onerous implementation affects the growth of the British economy or the growth of your industry, which brings wealth and income to this country.

First, are there specific examples of the way the regulatory system prevents you helping British industry to invest in things that would make the economy grow? Secondly, are there ways in which the regulatory system prevents you taking a larger share of the international market in wholesale financial activities?

Hani Kablawi: I will kick off with a couple of things. There is the passive way in which UK regulations, in their drafting and then implementation through supervision, might do that. The examples that I have are similar. Regulations should be, at an earlier stage, clearer in scoping in or out affected firms. Unique business models are not always taken into consideration in the applicability or lack thereof of a regulation. It is thrown over the fence and left for us to conduct significant work, including expense, to determine where, if anywhere, in our businesses a rule or a regulation might apply.

I would use consumer duty as exactly such an example. In fact, I might use the payment services directive API example that my colleague used as well. We knew from the get-go that we do not have volume in that space. It is a retail activity, and we are not a retail bank, and yet a lot of work had to be done to put in place the structures, the processes and the systems to enable us to support that activity should any volume come our way in the future. That is an example of where regulations can be better scoped and more specific to business models.

The second example has to do with the risk appetite question that this committee has spoken to many in the industry about. There should be explicit recognition by regulators of the role of risk taking. The setting of risk appetite should avoid being overly reactive and should not be set based on short-term incidents or events that might occur in the market.

As an example, after SVB and Credit Suisse, there is a consideration of the subsidiarisation of branches that might have deposits beyond a certain level. SVB's deposit base was £6.5 billion. The deposit levels that we have heard being contemplated are as little as £300 million. Say we had to subsidiarise a branch, not that that is going to happen, but we have to go through a thought process as to how we would respond to that. Subsidiarisation is expensive, capital inefficient and liquidity inefficient. We would prefer to reduce the amount of thought that has to go into something like that so that we can think more about growth.

As a third example, UK regulators generally collaborate very well with industry. This is really a growth point, so I am taking the opposite side of those arguments a little bit. There is scope for UK regulators to further improve the way they collaborate with industry participants on emerging policy areas, such as digital assets. By more explicitly driving market developments and co-operating with industry, UK regulators could enhance the international attractiveness of the UK.

We have seen examples of regulators in other markets doing exactly that and going to great lengths to bring industry together with policymakers. They even go as far as to host events and support secondment-type activity in order to bring experts from the UK, because this is where a lot of the experts are, to other markets, to help establish a new area of finance, such as digital assets.

The Chair: Are you thinking of Singapore there?

Hani Kablawi: Singapore, yes, but we also recently conducted a digital bond launch day in Europe, in partnership with another leading American firm, using Luxembourg digital ledger rails and a French CBDC—central bank digital currency. Effectively, you need the two sides of a trade. The securities side is a digital bond that is listed in Luxembourg, and the cash side is a CBDC that has its origins in France. That was the first of its type and it was done in Europe.

Lord Lilley: Did you have answers to either of my questions, Ms Dunn?

Anna Dunn: To add to the comments of my fellow witness, as JP Morgan is a global, universal bank, many of our clients are global. They consider their business decisions relative to the attractiveness of the various jurisdictions at a point in time. Therefore, there is sometimes a regulatory consideration when the UK takes a different standard from other international financial centres.

There have been encouraging steps taken to look at that divergence and consider where it is helpful and where it is not. That includes the follow-up to Lord Hill's listing reforms and the recent consultation from the PRA on remuneration standards. There are good signs that, where there is a measure of UK exceptionalism, there is now that self-reflection on whether the benefits of that are worth the potential international competitiveness considerations.

Q278 **Baroness Noakes:** You are both part of huge global organisations, so your organisations are exposed to regulators around the world. Do you have any reflections on what makes an effective regulator, from the perspective of allowing you to grow your business and to make confident investment decisions about where money is placed internationally, that we could learn for the UK?

Hani Kablawi: I would underscore that the UK regulators are one of the reasons why the UK is as credible a financial services centre as it is. We have very strong, close and continuous conversations and collaborations,

and we have the access that we need with the UK regulators. The commentary that we are trying to provide here is on the uplift and what more can be done.

Has there been a lot of accumulation of rules, and is there an opportunity to take a look at them? Has SMCR and the remuneration code become overbearing, compared to where other jurisdictions might be on this topic? That is Asia and the US especially, and, when I say Asia, it is really Singapore and Hong Kong. Interestingly, Singapore has adopted some of the UK's accountability practices and regime in SMCR, as have other regimes such as Ireland and Australia. That speaks to the credibility of the regulatory regime that we are operating within here.

It is very hard to compare countries that have been through very different cycles in the past. The financial crisis in 2008 played out very differently here in the UK than it did in Singapore. It is difficult to compare, but there are areas of regulatory practice where other regulators might have stolen a march, and I gave digital assets as one such example.

Just to underscore the point a little more, the MAS has not just brought industry together, but has paid for secondment activity into Singapore from other markets, including from the UK, to try to establish a new area of finance. In that space particularly, especially when it comes to innovation and digitisation, we see some advances being made in other markets that we should learn from.

Baroness Noakes: Does that speak to whether the regulators are sufficiently agile and speedy in the UK?

Hani Kablawi: I would leave that to you. The access we have is very strong. The innovation opportunities are definitely there to be advanced.

Anna Dunn: To add to my fellow witness's comments, in many ways, the UK regulators are being looked at by other international regulators as a leader in the space, given their introduction of regulatory sandboxes, which have encouraged the growth and development of the fintech sector in the UK.

If I extend that, however, it is also instructive that there have not been a lot of firms leaving the sandbox. That potentially speaks to something of your original question regarding what makes for effective regulation. Some of that is the clarity and the principles-based regulation where there is both certainty in the industry regarding the interpretation of regulation and a reasonable cost of compliance.

There was a very interesting Bank of England staff study. In 2007, there were 400,000 words or so of financial regulation. By 2017, there were over 700,000, and I can certainly say there are more now. In 2007, to understand a single rule you needed seven cross-references, on average. By 2017, that number is over 150. The thicket of regulation that has grown up definitely creates an opportunity for simplification, which then

makes the jurisdiction more attractive because the barrier to entry is more manageable.

Hani Kablawi: We are seeing the tone from the top shifting in a positive direction. The practical, day-to-day experience, from our perspective, is yet to follow, so we are eager to see how that progresses.

The Chair: Could that be summarised by saying, “There’s a lot of talk and not much action”?

Hani Kablawi: I would not summarise it that way.

The Chair: You both represent large organisations. To what extent is regulation quite helpful to you: because it shuts out competition?

Hani Kablawi: We like competition. We really do, because it makes us better at developing, innovating and delivering good outcomes.

The Chair: A very heavy of burden means that you do not get any competition.

Hani Kablawi: As my colleague said, the high barrier to entry is never a good thing, but the industry we operate in remains highly competitive. We are in a unique business model, but there are many others—including, actually, my colleague’s business—that have elements of the things that we do. In those elements, we compete head on every day in the market in a very credible and client-outcomes-oriented way. Competition is a very good thing.

Q279 **Lord Hollick:** You mentioned digitisation. To what extent in your two organisations will AI be able to take on a lot of the drudge of compliance and the dealing with the considerable amount of data that has to be reviewed, so that human capital can be released to grow the business?

Hani Kablawi: We are certainly using AI already in many parts of our business and we are experimenting with AI, including in the area of data cleansing, aggregation and insight generation to simplify decision making. I have great hopes for that from the perspective of efficiency—operational breaks and reconciliation; insight generation—the ability to make better informed management decisions; and, frankly, improving the quality of the work that our colleagues are performing. It is a significant opportunity to uplift the business.

Lord Hollick: What about specifically on compliance?

Hani Kablawi: There is certainly an opportunity. Our cost of compliance over the past few years, for reasons that my peer has mentioned, has gone up significantly. We are always looking for ways to remain compliant, on the one hand, and to try to reduce the cost of that compliance, on the other. Technology definitely has a role to play in that.

Anna Dunn: I agree with my fellow witness that AI is bringing opportunities. Some of those are in fraud identification and protection. I

would add, though, that AI is also available to criminals, and we are seeing increasingly sophisticated usage of AI for fraud attempts. There is something of an arms race where we need to invest in technology and AI at a more rapid pace than the fraudulent actors in the system.

The Chair: Mr Kablawi, you said that your cost of compliance had increased. Would you be able to provide us with some numbers on that?

Hani Kablawi: We can probably provide direct headcount in the compliance department. We will find it more difficult to provide all the other indirect costs having to do with compliance. For example, I mentioned earlier the scoping of regulations and rules that do not apply so much to a non-retail, non-investment bank such as ours. Senior management spends a lot of time parsing through things that eventually end up being excluded or descoped, and colleagues spend a lot of time producing management and governance reporting for our boards, although we are hoping technology will help us in that respect. There are a lot of indirect costs that are very difficult to gather, accumulate and draw very direct conclusions on, but we know they are there and you know them when they exist.

Yes, we can provide the number of compliance team members and risk management numbers.

Q280 **Lord Vaux of Harrowden:** We have had quite mixed views on the ability and skills of the regulators. Some have suggested that they have really quite deep technical knowledge. Others suggest that the staff do not have the right skills and that there is overly high staff turnover. You mentioned that the top is good, but throughout the people you are dealing with at all levels, do you have any reflections on the capabilities of the regulators and how that might compare with other countries?

Hani Kablawi: The good news is that it compares well. The PRA has been strong and solid. Its ability to retain people has been good. We build relationships with team members there at different levels of management and supervisory management, and there is continuity. Once they understand our business model, our unique risk profile and our risk appetites, they can bring that knowledge with them to the many conversations that they will have with us.

The FCA has very strong people, but we have experienced over the past few years a difficulty in its ability to retain staff, which then gets in the way of my being able to comment on it in the way I just commented on the PRA.

Lord Vaux of Harrowden: Has the culture of embedding the competition and growth objectives gone down through the organisation, do you think, or is that very much at the top still?

Hani Kablawi: In our experience, it has not gone down yet. We like and appreciate the tone from the top, from Sam and Nikhil. We have seen before that, when Sam and Nikhil set tone at the top, it certainly

resonates further down the organisations. We would expect it to resonate further down the organisations in this case as well, but it has not yet in our day-to-day interactions.

Lord Vaux of Harrowden: You said earlier that you felt that you were having to deal with stuff that does not really apply to you. Does that not show a lack of understanding of your business model?

Hani Kablawi: It is an opportunity to recognise a unique business model in this case and to scope out rules and regulations that might be applicable for very good reason elsewhere, but might be less applicable to us. In one case that I provided, we went through the expense and had to implement the change, knowing that we are not going to use it. In the other case, we descope most of our business, leaving a very small part of our business on the consumer duty side that is captured by it. Scoping it on the way in, rather than having us go through the process to descope ourselves, would have been nice.

Anna Dunn: I would agree with my fellow witness that the level of expertise, professionalism and knowledge of our supervisors is very high and compares favourably with other international jurisdictions. We represent, if you will, the equivalent of a gold card standard service at the regulators because of our size, our scale and, therefore, the financial risk that we represent. The FCA regulates 42,000 firms. Not all of those 42,000 firms have the degree of interaction that we have. The more complete answer probably would be to look at it in the round. We do not see that, from our perspective.

Hani Kablawi: I would agree with that.

Q281 **Lord Hill of Oareford:** Back to this point about costs of compliance, you said that, over the last couple of years, the costs of compliance seem to have increased. I assume you would not argue that that has made you much safer or more stable. What do you think has driven that increase over the last couple of years?

Hani Kablawi: A lot of the compliance cost that we have incurred has continued to make us safer, both systemically and from a conduct perspective. Some of those costs were less effective in that way, just to make a finer point. There is probably a conversation to be had on risk appetite set at a very high level. We have our risk appetites. We monitor them. We mitigate the actual risks that we are taking on. We try to make sure always that the residual risks that we are operating with are within risk appetite, but if you take it a step up and back from there, it feels like there is an opportunity for the regulators to be, on the one hand, clearer with the risk appetite that they will accept.

For that to happen, perhaps there is an opportunity for other policymakers, when an event occurs, to ask, "Has this occurred because somebody has operated within or outside of risk appetite?"—since risks do introduce themselves sometimes—"or because somebody was sleeping at the wheel?" There is a risk appetite element to your point.

Lord Hill of Oareford: By that logic, you must be arguing that, in the last couple of years, the risk appetite of the regulators has reduced disproportionately. You did say that it is in the last couple of years that your costs have increased. I am struggling to understand why that should be, unless they are asking you to do things that you believe you do not really need to do.

Hani Kablawi: It has been a few years, not just a couple. Our cost of compliance has been increasing and at a much higher level than in the past. The volume of rules and regulations still being introduced is still at a high level. That is not just in the UK, by the way, but in other markets.

Q282 **Lord Hill of Oareford:** Do you want to say anything about your experience of cost of compliance and what is driving it? It feels counterintuitive, in that a lot of these rules were introduced in the wake of 2008, and here we now are, 14, 15, 16 years afterwards, and it is still going up. Is that your experience as well?

Anna Dunn: I would highlight something that my fellow witness said regarding the expense of proving a negative. As part of the shift there has been to outcomes-based regulation, there is greater uncertainty regarding the interpretation and the scope. There is a need for legal advice, which is sometimes not entirely consistent, regarding the guidance, with what is needed for a regulation. Quite a large expense has been put on the industry in trying to prove that negative.

That really is a comment about the consumer duty. We certainly support the desire to go back to more principles-based regulation. That will be positive and refers back to my earlier comment regarding the on-shored regulation and the extent to which it has become a somewhat unmanageable rulebook. There is an in-between state, between the outcomes-based and the entirely rules-based, which would lessen that cost of compliance.

Hani Kablawi: We have some suggestions and examples on what has driven cost of compliance and what could be done about it. There is a bit of an overlap between the FCA's remit and the PRA's remit, especially in areas, for us, such as cyber resiliency, operational resiliency and third-party governance. Those remits can be separated. Why answer the same question, potentially from different angles, twice, when you can answer it more holistically once with the PRA and allow the FCA to focus properly on conduct regulations? That would reduce the cost of compliance and it would reduce the cost of regulation and supervision, frankly.

Q283 **Lord Hill of Oareford:** I have one general question to you both. What impact, do you think, on the behaviour of regulators in the UK might we expect to see from what is clearly going to happen in the United States shortly in its approaches to financial regulation?

Hani Kablawi: We are all observing closely the list of appointments, including at the SEC, which was a very interesting one. This is a former board member of the SEC under prior Administrations, no stranger to

financial regulation, and vociferous about deregulation and requiring less disclosure, especially in areas where the disclosures have not necessarily led to better outcomes, such as the introduction of regulations on digital assets and innovation more broadly.

These are all areas that we will be observing very closely. Our hope here is that our regulators remain very connected to US regulators. We have a strong view that reliance on credible home regulators would be a good outcome and would reduce the cost of compliance further. There are plenty of examples of how we reduce the cost of compliance without losing the good outcomes that we all want to achieve here. Reliance upon regulators and reduction in the overlap of the remits of the two regulators here are two such examples.

Lord Hill of Oareford: It is not inconceivable that the relative costs of compliance in different markets might start diverging.

Hani Kablawi: It is not.

Anna Dunn: There is already that divergence in various jurisdictions around the world. I believe that the UK regulators treasure their independence and will not follow any single jurisdiction without assessing the appropriateness of the measures being taken for the UK and its economy.

Equally, we are talking here about regulation as a cost and the cost of compliance. In the best version of regulation, the business and the regulators are entirely aligned, because we also want the system to have operational resilience; we also want to avoid complacency about risk taking; we also want to ensure that we have the right technological resilience, to give a few examples.

There are many regulatory measures where it is less about a cost of compliance and more about ensuring that we are doing the right thing for our business, which is aligned to regulatory objectives.

Hani Kablawi: Good client, competitive and systemic outcomes are absolutely the priority in everything that I have said and that my colleague here has said. That is foundational.

Q284 **Baroness Donaghy:** That brings me neatly on to my question, which is about providing leadership to the regulators. It has been said that the Treasury has deferred to the regulatory independence of the regulators and, therefore, has not set a convincing strategy on how it sees regulation supporting the UK economy. Do you think the Treasury should be more assertive in setting strategies for the regulators, or would you see that as something to be watching very closely? I think that was your phrase in response to the question about the US economy.

Hani Kablawi: We welcome the Treasury's tone on the topic of competition, including at the Mansion House speech and the engagements that we all have through the industry bodies with the Treasury. There has been plenty of access, from the prior Government

and this Government. The tone of the conversation, in our experience, is constructive and intended to both keep the priorities of safety and soundness, as well as competitiveness and growth, in mind. I would urge that we leave regulation to the regulators, and even the setting of strategy to the regulators. Tone is good. Regulators should regulate.

The Chair: Where is the accountability, then?

Hani Kablawi: There is oversight.

The Chair: Who provides the oversight?

Hani Kablawi: The committees in this building provide it.

The Chair: Have you any idea of the volume of material? Is that really realistic?

Hani Kablawi: I am sure I do not have an idea of the volume of material.

The Chair: We can make you aware of it.

Baroness Donaghy: I do not know whether you have anything in addition to say, Anna, before I ask my second question about political leadership, if you like, for a better overview of the UK economy.

Anna Dunn: We observe quite a bit of interaction between His Majesty's Treasury and the regulators. The Financial Services and Markets Act was a hard-fought compromise that tried to balance some of those tensions, and it is potentially too soon to judge the effectiveness of that Act and the compromise that was struck there.

Q285 **Baroness Donaghy:** What trade-offs do you think the regulators or the Government should accept to materially improve the UK's international competitiveness?

Hani Kablawi: Most of the conversation that we have had here so far has not necessarily involved much in the way of trade-offs, because there are opportunities to do both things: to have a clearer delineation between the PRA and the FCA, reducing cost and inefficiency, and to scope out firms early when rules are being drafted. That does not fly in the face of either of the priorities. I do not know that I would propose trade-offs. I would just propose more efficiency on the inbound and the outbound, the demand and supply, of rules and regs.

Anna Dunn: The trade-offs are more in the domestic, UK conversation regarding consumer protection versus risk taking, rather than in the international capital markets. If you are going to fully protect and indemnify consumers, potentially you have less risk. That then feeds into the financial system outcomes.

An example of that is the retail distribution review, which happened many years ago now. Arguably, we are still seeing the effects. By saying that financial advice needed to take into account an assessment of the person

you were offering the advice to, financial guidance got pulled from the market. There is now a financial advice gap, which fortunately is now being addressed, at least initially with the pensions review call for evidence from the FCA that has recently come out. I hope that then will extend to other markets as well.

Q286 **Lord Kestenbaum:** Do you think that the RDR, therefore, was an example of an unintended consequence of a regulatory intervention?

Anna Dunn: I would say that was an unintended consequence and, as a result, there has been an advice gap that the FCA, under the auspices of looking at competitiveness and growth, but also looking at consumer outcomes, is now looking to address.

The Chair: On that note, we have run out of time. Can we thank you for a most interesting session and for the way in which you have dealt with our questions?