



HOUSE OF LORDS

Financial Services Regulation Committee

Corrected oral evidence: Work of the Financial Conduct Authority (FCA) – The FCA’s five-year strategy

Wednesday 16 July 2025

10.05 am

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

Evidence Session No. 1

Heard in Public

Questions 1 – 15

Witnesses

I: Nikhil Rathi, Chief Executive, Financial Conduct Authority (FCA); Sarah Pritchard, Deputy Chief Executive, Executive Director for Supervision, Policy and Competition, and Executive Director for International, Financial Conduct Authority (FCA); Sheree Howard, Executive Director for Authorisations, Financial Conduct Authority (FCA).

USE OF THE TRANSCRIPT

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

Examination of witnesses

Nikhil Rathi, Sarah Pritchard and Sheree Howard.

Q1 The Chair: Welcome to today's session of the committee, and we particularly welcome Nikhil Rathi, Sarah Pritchard and Sheree Howard from the FCA. As this session is not linked to an ongoing inquiry, any interest by Members should be declared at the point where they first address the committee. This session is open to the public, it is broadcast live and subsequently accessible on the parliamentary website. A verbatim transcript of the evidence will be taken and will be put on the website. A few days after the session, you will be sent copies of that transcript to check it for accuracy, and it would be helpful if you could advise us of any corrections as soon as possible. If, after this evidence session, you want to clarify or amplify any points made during your evidence, or have additional points to make, you are welcome to submit written evidence to us.

Perhaps I could begin by asking the first question. There have obviously been a huge number of developments. The committee very much welcomes the speech made by the Chancellor of the Exchequer in Leeds yesterday, which responds to many of the recommendations which were included in our report on growth and competitiveness. We are very much looking forward to having a response to that report from the FCA and the PRA, and indeed from the Government, and in due course, the opportunity to debate it on the Floor of the House.

Perhaps I could ask you about the five-year strategy which you have published and which presumably now needs a rethink in terms of the objectives set by the Chancellor. The thing that struck me about that strategy was that it provides very little detail on which initiatives or work streams you will prioritise between 2025 and 2030 to deliver your strategic objectives; it lacks a delivery roadmap. What will the FCA prioritise in this regard?

Looking at recent developments in particular, the Government's regulatory plan is committed to reducing the administrative costs of regulation for businesses by 25% by the end of this Parliament. What are you going to do to realise that ambition?

Nikhil Rathi: Thank you for the opportunity to talk about our strategy. We look forward to responding to your recent report into the secondary international competitiveness and growth objective. Yesterday, I was in Leeds in the morning and at Mansion House in the evening with the Chancellor when she announced the Leeds reforms and the Government's financial services competitiveness and growth strategy.

It was encouraging that in the government strategy there is a specific section about the FCA strategy, where the Government welcomed our strategy and noted that they had very positive feedback from stakeholders. Paragraph 2.16 of the government strategy welcomed what we had published; it has inspired some reforms that the Government

yesterday proposed to bring to Parliament as to whether the multi-year strategy approach that we have taken this time round should become a permanent fixture, not just for us but for the PRA, and in doing that, will that enable us to simplify other elements of the framework like the “have regard”s.

The strategy is deliberately high level. We often get feedback that our documents are long, and certainly my colleagues around the world the trade associations here who have looked at this and are pleased that we have been able to keep it succinct at around 20 pages. Alongside that, we publish other things. Every year, we publish an annual business plan; we publish the regulatory initiatives grid with the other regulators; we published our letter to the Prime Minister where we set out 50 proposals that we were prioritising this year and an update against that, and in all those you will see the delivery plan and the timetables that we are working to on all the key issues.

You asked me about priorities. There are four limbs of our strategy: becoming a smarter regulator; supporting growth; helping consumers navigate their financial lives; and fighting crime. On the first, we are significantly embracing data and technology right across our organisation; we have launched a digital portal— Sheree can talk about the speeding up of authorisations—we have retired over 92 supervisory letters in the last few months, and we have retired a number of data returns where we do not think we need the data any more in order to simplify the experience for firms. So that is some of the work we are doing, and there will be a rolling programme.

I can go through the other themes one by one if you like, Lord Chair.

The Chair: We are familiar with them. I am just thinking: how are you going to reduce the cost to industry by 25% in this Parliament?

Nikhil Rathi: The Government have set an ambition around the administrative burden of 25% for the entire regulatory system. We are working with the Government on this; they have not yet shared with us their analysis of the baseline and their methodology, but as they do that, we will obviously be contributing and playing our part, and it is through some measures we have already talked about. We have gone through a very significant streamlining of data reporting; we are peeling back the rule book following the introduction of the consumer duty; we put out a very significant set of proposals earlier this week on capital markets; you saw the announcements yesterday as well—those are all moving forward at pace too. Through digitisation of our systems, we certainly hope to make life significantly easier; a double-digit percentage of forms for authorisation now operate digitally.

The Chair: So you will be able to reduce the cost to industry by 25% by the end of this Parliament.

Nikhil Rathi: The Government are going to set targets for every regulator. What they have said is not necessarily going to be the same

for every single regulator; they are going to look at it across the system and then we will work with them on our contribution.

The Chair: Are you are hoping to escape that target?

Nikhil Rathi: No, I am not hoping to escape it; I am hoping to make a full contribution. For example, one of the things that was announced yesterday was the reform of the senior managers and certification regime, and the potential reduction of pre-approvals by around 40%. We cannot move on that until there has been legislation, because it is hardwired in statute, but the moment that is done we can move to reduce that burden by 40%.

Each of these things needs to be worked through and we will have a plan against each of them. Some will be legislation; some will be for us.

The Chair: If you do not want to talk about the specifics, can we talk about the high-level position? In our report on the competitiveness and growth objective, we concluded that the FCA is currently too risk averse. That was something which the Chancellor said yesterday: that the pendulum had swung too far. In our *Growing Pains: Clarity and Culture Change Required* report, we suggested that the culture within the regulator needs to change.

You have just been appointed for a second term. What will you do to set the right tone to change the culture? What will be different from your first term?

Nikhil Rathi: A core part of our strategy is to rebalance risk; it is a central pillar of what we are talking about here, and what the Chancellor said yesterday. She was very appreciative of the work the FCA has been doing to drive forward the growth mission and play our part in rebalancing risk.

Before the strategy was launched, I gave an all-staff engagement speech to colleagues to talk about our responsibility to support growth and to deliver the change that we are being asked to deliver, while of course continuing to deliver the primary objectives around integrity and protection of consumers, which is also in statute.

If you look at the pace and breadth of things we have done in the last six months, you will see that we have put around 50 proposals to the Prime Minister and Chancellor; we have moved at an incredible pace to adjust the mortgage lending standards; we have put out proposals to reform the payments environment; we have launched the next stage of the advice guidance boundary review—we are well on track to delivering that in the next few months—and we have made significant capital market reforms. The speed with which we are moving on all these issues is significant, and I hope that, through this committee and the other committees we are accountable to in Parliament, we can do that in a way where we can have an open discussion around risk.

We have moved on mortgages, as I have said. There has been a significant shift in the market, and you have seen how the banks have responded; it is coming through in the data. The Bank of England data last month showed net mortgage approvals potentially going up for first-time buyers. We are going to open up the discussion now for later-life lending and for those who are renting.

One thing I have said is that, although we can do all that, is it totally coherent that we still have a mortgage charter which disincentivises repossessions? That government charter was put in place in 2023, in a different environment where interest rates were rising sharply. What we're saying about risk is can we try to make sure there is coherence across the system? It is natural that as we relax lending standards, tens of thousands of first-time buyers can perhaps get on to the housing ladder who might not have done before, but for some it is not going to work out over the cycle. If there is a sense that the banks cannot get their security when it does not work out, how do we shift the risk in the system?

Q2 Lord Smith of Kelvin: I have no new interest to declare. Our recent report—I am sure you have read it—expressed concern that the FCA is slower to authorise firms, and indeed senior managers, relative to jurisdictions such as Singapore and Ireland. I know you have looked at this recently because I read a paper addressing this very subject yesterday, but I would like you to tell us what you intend to do to speed things up.

Nikhil Rathi: We meet 99% of our statutory timetables, but Sheree runs the authorisations division, so maybe I can turn to her to give a fuller explanation.

Sheree Howard: Absolutely, thank you. There are a few things that we are doing in this space. Nikhil has already referenced our focus on digitising the gateway; in June, 27% of applications came through our new digitised platform. That makes it simpler, easier and quicker for firms to apply. It also has better guidance and better validation, so we can enhance data quality at the same time. There is a whole programme of work associated with that; currently, there are five forms on it. New firm authorisations are coming down the track through that programme.

That is about the speed of application, but we have significantly enhanced our speed already. You specifically referenced senior managers. At the start of 2022, we had some 2,800 in the work in progress. As of June, we had 800 in the work in progress, which is a significant reduction in the backlog. To go back to 2021-22, the median time was 89 days, it's now at 40. So from that perspective, you can see the marked shift, and that's elapsed time from date of arrival into the system to date at desk, including if we stop the clock. So that's the median, that's 50% of applications, so from that perspective we have significantly speeded up.

But we equally realise that we need to enhance and have been enhancing our guidance and support for firms. We are being much more visible and

holding events; we recently held events with the payments and digital assets sectors where we invited along the professional support, advisers, lawyers and consultants, to explain the good and poor practice we see in applications. We had really positive feedback from both those events, and we want to do more; we will be having a whole planned series.

We are also doing a pre-application support service. As part of our commitment under the PM letter, one of the 50 initiatives, we have guaranteed a pre-application support service to any wholesale crypto or payment firm. That is really helpful for two reasons: first, it gives us an opportunity to understand the business model, and the application that the firm is considering putting in, which means that we can then match the right case officer to the application when it does come in. Secondly, we can be really clear about things that they need to think about as they put that application in to enhance the speed. Since we launched that, we have had about 60 applicants and 50 meetings held to date, and this is something that we are looking to increase.

You will also have heard about the targeted support reforms under the advice guidance boundary review. We are offering pre-application support meetings before we have even opened the gateway for those, so that firms can come to us very early and talk it through with us. We are doing a whole-system response on that one, so it will not just be authorisations; we will be working with supervision because most of these firms will already be authorised.

The final thing I would highlight is our minded to approve approach; we are trying to give firms certainty much earlier in the process. They might not have finished raising their capital, or they might not have fully recruited all their senior managers if they are a new firm, so we are trying to show that if they do these two or three things we will approve them. That gives them certainty to finish the process. There is a whole bundle of things that we are progressing.

Lord Smith of Kelvin: Did you speak to Singapore at all?

Sheree Howard: We have not yet; we have more contact with Ireland. To be fair, our first focus has been on speeding up to get to what I call a stable backlog, which we now have. We are very comfortable with our work in progress and now we are looking at international comparators as part of working through that, but the first thing was to get to a stable position, and we will be going faster through that. The regimes are different as well, so we need to allow for that as we go through.

Nikhil Rathi: I do speak to Singapore, and I speak to all my counterparts fairly regularly. This question of the speed of approvals is not an unfamiliar topic for partners around the world, including Singapore. If you read the press, they have been under huge pressure recently for delays in fund management authorisations because they have reportedly had a backlog of over nine months. In other areas, they are faster. They do not have the same senior manager regime that we have in legislation here—that is particular to the UK environment—but we are

all trying to digitise, trying to use more intelligence in a more sophisticated way, and deliver pre-application support.

We have also located one of our senior colleagues who has come from industry— a director—in the Asia-Pacific region to be there on the ground and talk to firms before they have even decided to launch in the UK and help them understand how they can navigate the UK regulatory system at a senior level. Singapore does that in London: it has people on the ground in London talking to the market here as well.

Baroness Noakes: You talk quite a good story on what you have achieved to date, but if you look at the actual statistics for last year compared with the year before, that story is not really borne out. There is virtually no change in the median performance for new firm authorisations and senior manager approval. Change of control got better, but on the other hand, variation of permissions got worse. In the context of a spotlight on your performance and you talking about things that you were doing to get better, that does not show up in the numbers. What can make us believe that you can actually deliver performance?

Sheree Howard: Digitisation will be key. So far, we have not digitised many forms, so that is a critical part of enhancing from my perspective. As part of that, we are reviewing all our processes to try to make sure that we are not being too risk averse in certain areas and in things that we have put in in the past. For example, where do intelligence checks go in the journey? Where do they have the most impact based on the sector? Change was a bit one size fits all, so how do we make it much more responsive to risks in the system? All that work is going alongside.

I appreciate your point that there was not much movement between the two years; for example, on the senior manager regime. Obviously, there was a marked reduction over the period of the last strategy. We are revamping and restarting; you will have seen the commitments that we have given to the Government. We are fully behind them and believe we can achieve them.

In moving from three months to two months as statutory—which we will start to report against next year—we will not see an immediate green, but along with the PRA we are absolutely committed to enhancing our performance, and the teams are fully behind this process. We are looking front to back and part of that, coming back to the previous question, will be to look at what our international comparators do so that we can take best practice from them.

Nikhil Rathi: What I would also say from my experience, Baroness Noakes, is that while on occasion I get escalations about the speed of authorisations, those are much rarer now than would have been the case two or three years ago. Obviously if the numbers go down by 40% and we have fewer to approve, that will accelerate things quite considerably.

The final point I would make is that it is sometimes the firms. For example, there are situations where we will have a senior manager case

come in, we will offer an interview within one or two weeks, but the firm or the individual themselves is not ready and they will ask for four, five or sometimes six more weeks because they want time to prepare before they come in. That extra time counts in our stats as well. So certainly, on the senior manager approvals where you have an interview process, there is going to be a certain lower bound because the individuals you are approving want to take time to prepare themselves.

Baroness Bowles of Berkhamsted: When you talked about a “stable backlog”, that expression rang alarm bells in my head.

Sheree Howard: I am sorry, that was my poor wording. I meant to say stable work in progress.

Baroness Bowles of Berkhamsted: A stable backlog is quite alarming.

Sheree Howard: It is stable work in progress.

Baroness Bowles of Berkhamsted: Because of what Nikhil just said, I accept that obviously there are some things that have to be work in progress. So what is happening about actual backlogs rather than work in progress?

Sheree Howard: We do not have a backlog. There was a backlog in 2022, and I referenced 2,800 because, clearly, we did not have enough case officers to be working on that number of applications. Now our work in progress is at a stable level.

The Chair: What is the difference between a backlog and a work in progress?

Sheree Howard: A backlog means that we do not have enough people to progress all the cases. We deemed it a backlog because the statutory timeline to approve was 90 days, or three months. Our median was at 89, so that tells you that we were significantly not achieving the statutory deadline. We are now achieving the statutory deadline in 99.5% of cases for senior managers.

Nikhil Rathi: We will always have around 4,000 cases in the system across all our authorisations. The UK has one of the largest financial services centres in the world; we have 42,000 firms, and it is a living, dynamic, breathing industry. People are changing permissions, new people are applying, new firms are coming in. There is a constant stream, so that broad work in progress is always going to be there. That is the sign of a healthy industry, because you want new things coming through.

Baroness Bowles of Berkhamsted: Do you have an ambition for it to be 60 days rather than 90 days?

Sheree Howard: The Government will legislate for the statutory timeline to move from three months to two months; we have committed to further reduce the median to 35 days.

The Chair: Forgive me, I ought to know the answer to this question, but if there is statutory requirement to do it within 90 days, why does that stop you from doing it more quickly?

Sheree Howard: It does not. That is why the median is much lower than the 90 days.

The Chair: You made the point earlier, Nikhil, that legislative change was required.

Nikhil Rathi: The point I was making was that the Chancellor announced yesterday that she is going to legislate to remove 40% of the scope of the senior manager regime, so there will be 40% fewer applications coming through in the future.

The Chair: I see; okay.

Nikhil Rathi: The breadth of roles is specified in legislation, so it is going to take a whole load of roles out of what needs to go through the regime. There will be fewer applications, and we will therefore obviously be able to go somewhat faster.

We always aspire to beat the statutory timelines, which is why alongside the announcements yesterday about legislation, Sam and I had an exchange of letters with the Chancellor, which committed to more stretching voluntary targets for us.

The Chair: But if the Government are going to legislate, and I understand you have some statutory duties, why would you not just take a light-touch approach?

Sheree Howard: Under the current legislation, we have to be comfortable that the person is fit and proper; we have to do an assessment of the individual. We cannot ignore that; it is an absolute requirement that when they leave the authorisations team, we are saying, "That person is fit and proper". The legislation is saying that for some roles, firms are going to take that accountability. They are going to say a person is fit and proper and we are not going to pre-approve them.

The Chair: You cannot just decide to do that because you would be in breach of the legislation.

Nikhil Rathi: We are checking people's criminal records, which sometimes come up; we check if they have been declared bankrupt before—all these things. It is quite hard for us to declare someone fit and proper if we have not done those core checks.

The Chair: Thank you for clarifying that.

Q3

Baroness Donaghy: I have no interest to declare. Going back to the five-year strategy, I understand what you said about high level, but of course there are very few benchmarks to measure your performance. When and how are those benchmarks going to be published? Would that

be in conjunction with discussion with government—in other words, jointly agreed benchmarks? On the website, you have said that you will be producing new metrics. Can you give us a clue as to what those metrics are? I apologise to Lord Sharkey for stealing his area of metrics.

Nikhil Rathi: I am a big fan of metrics. In strategy 22, we published a whole set of metrics which we updated with our annual report last week. In addition, we have the operational service metrics we produce, the statutory metrics that the Government ask us to produce, and the secondary competitive objective metrics. There is a lot of data out there. One of the bits of feedback we had was that there was just so much; how can we cut through to the things that really shift the dial?

Now that the Government have published their strategy and set out their vision and their benchmarks, we can make sure we are aligned with those.

The things that we are looking at are deliberately limited in number and relatively simple because that is the feedback we had, so inevitably we are going to miss things that others would have liked us to do. But on growth, we are looking at our position in the Global Financial Centres Index. You will see that in the last year we have narrowed the gap with New York and the financial centres in Scotland have improved in their rankings. So we are putting that as one of our metrics. We are looking at the number of applications for our innovation services, we are looking at the perception metrics that we take from surveys; you are aware of our practitioner panel survey. We are looking at the data from the ONS on financial services exports, because one limb of competitiveness is the contribution to our export surplus of our services industry. That has gone up in the last four years from £90 billion to around £130 billion. It is a metric in the government strategy, and we will put that into our strategy as well.

One thing we are working on with the Bank of England—because the request is out to the FPC Bank of England and us—is access to capital for businesses and getting the right measure on access to capital. That is the growth component.

On helping consumers navigate their financial lives, we are looking at three metrics. One is an inclusion metric which we measure through our financial life survey, which looks at the proportion of consumers who hold key financial products. Over recent years there has been a big focus on basic bank accounts. A couple of years ago, 1.2 million adults in the United Kingdom did not have a bank account. It was a major financial inclusion issue. That has come down quite considerably and we increasingly think that if people do not have a bank account today that is largely by choice. They either have someone else in their household who has one, or they do not want one for other reasons. That issue has improved quite considerably, but we have other issues; for instance, 29% of people do not have a savings account and some people are not accessing insurance, so we want that metric which we can be measured against.

Yesterday, you heard the Chancellor talk about the proportion of consumers who hold cash over certain amounts; we will be looking at a metric on that and increase in consumer satisfaction with their financial services providers. YouGov did a survey right at the start of the consumer duty and it has just done one in the last few months; it has seen a significant improvement in trust and confidence metrics for key financial services providers. That is very encouraging because it is what we wanted to see. Trust is a nebulous concept, but it is improving on the consumer protection side.

On crime, I will just mention the three metrics which we reported in the last strategy. On continuing to slow the growth in investment fraud, we saw some improvement over the last three years. We are continuing to slow the growth in automated push payment fraud. We have a market cleanliness metric which looks at anomalous trading in our markets, and that is something we do internationally in looking at comparators around the world. Finally, we are going to be working with the Government on the right metric for money laundering in the system, because obviously the Government own the economic crime plan of which AML is a key component; we will work with them on what the right target is once they have decided on their plan. So that is where we are.

Baroness Donaghy: Those are all external metrics. How do you measure your organisational performance against them, and would that be looked at by the whole board?

Nikhil Rathi: Those are the outcome metrics for the strategy. Alongside that, we produce 54 operational metrics each year, which are published alongside our annual reports and are reviewed by the board. The quarterly performance report goes to the board so that it can take a look at where we are. Of those published in our report last week, we missed two out of 54, in both cases quite marginally. One was a complicated case in the money laundering directive; with some metrics you have a very small numbers of cases and if you have a complicated case, it can slow you down. So that is all published and reported. You will see a trajectory over the last few years that we are pretty much all green now on most of the key operational metrics that we publish.

Q4 **Lord Sharkey:** I wanted to ask a question about metrics as well. You mentioned several times that you have called for a discussion about the desirability of metrics for tolerable failure and tolerable harm; I wondered how the discussion about that was going.

Nikhil Rathi: There is a section about this in your committee's report. What is important from my perspective is that we are moving fast in line with the overall strategic direction set by the Government on rebalancing risk. I can talk about any number of things we are doing, from mortgages, capital markets, the wholesale markets, the consumer duty rule review, the way in which we have opened up innovation for AI to the sandbox we have launched with NVIDIA; we are doing a whole series of things. The point I am making on risk is that we are one part of the system. We can move, but we also need firms to move, we need the

Government to move, and we need a good degree of consensus in Parliament. If we can get that, then this can endure, and we can really crack this issue. I am determined to try to crack this issue, which is why, for example on mortgages, when we publish our discussion paper and our final proposals we will put out in scenarios that, "If we relax the standards in this way, we might in certain scenarios expect defaults to go up by X amount". The question we want to bring to government and Parliament is whether that is broadly something they are comfortable with.

That is the reason I bring the mortgage charter into the discussion, because the experience of two years ago was that when interest rates rose and defaults started going up, there was a very strong cross-party political steer for us to intervene to stop reposessions and to stop action against consumers. A major intervention was pulled together in a couple of days. That inevitably conditions the willingness of banks to potentially embrace the freedoms we might give them by adjusting our supervisory standards.

I will give you another example where it does not necessarily have to be a metric; sometimes it could just be an overall steer in terms of direction. If you look at the United States right now, it is clear that the new Administration have a very high risk tolerance when it comes to crypto assets. That has been signalled all the way through the system from the White House, and the rest of the system can adjust and mobilise behind that. It is not a detailed metric, but it is a steer on the risk posture in that new area of financial services. On the back of that, you have therefore seen regulators, whether they are the securities regulators or the Fed, adjust their regulation in light of the strategic steer they have had on risk appetite from their Government and their Administration.

We have generally had a different overall perspective on crypto in the UK. We want to embrace innovation, but we are also keen to make sure that consumers understand that they could lose all their money. It is very high on our national money laundering risk register as well, so there is a financial crime component, and increasingly HMRC is engaged in a tax component.

Those are some things I am talking about, but I can go through other things that we have suggested. It is an evolving discussion as to how it is going.

Lord Sharkey: I was going to ask about that. It seems to me that there is a distinction to be made between hard metrics, in the way we have been talking about up until now, and the steer you have just mentioned, in the case of bitcoin for example. Is it realistic to look for metrics—in the proper mathematical sense—when it comes to tolerable failure or tolerable harm? Should we be looking for signals from the market as you suggest, or signals from government as in the USA, rather than the basic arithmetical metric?

Nikhil Rathi: In my view it is a combination of both. We may need to try a few things and see what works most effectively. There are some signals around risk appetite already in the economic crime plan, and the previous Government put percentage targets around different components of economic crime. If you put percentage targets in, it is implicitly accepted that some crime will be tolerated. The target is to bring it down or reduce the growth. That is an example of where it has already happened in our system previously.

There are other areas that are worth a debate and discussion. In our last strategy, one of the metrics we said we would want to be assessed against is bringing down the Financial Services Compensation Scheme levy. At the start of the strategy, there was a lot of feedback from some trade bodies that the scale of the levy was a barrier to growth, particularly for small financial advice businesses and small businesses in the UK. There were some estimates that it could go as high as £1 billion; it is now down to a 10-year low of around £300 million, so the cost of that component of regulation has come down. That has been achieved partly because historic cases have come through the system. We were tougher on the gateway of authorisations. One of the reasons for some pace issues a few years ago was that we were implementing some independent reviews and findings from Dame Gloster and others. There is also more proactive supervision.

If we dial down some checks at the authorisations gateway because we have adjusted our risk appetite, we need to assume that there will be a modest increase in failures, some, not all, of which will fall on the compensation system. So what is broadly acceptable there? If we are at £300 million today, is something in the range of £300 million to £500 million or £600 million or £750 million broadly okay? Clearly, £1 billion was unacceptable a few years ago, and we got that message; but how far should we go? Then we can think about how we calibrate our approach in the system and match the macro steer we get with the micro supervision policies and decisions.

Those are the debates that we would like to have. If we can get there even with one or two, it could be quite liberating, and we would then have an opportunity to solve some foundational problems. Sarah can talk about advice guidance. If we deliver a better service for 90% of the population, the critical mass of the population that is not taking advice right now—in our view only 9% of adults take financial advice—

Lord Sharkey: I certainly agree with that.

Nikhil Rathi: Will we accept that 10% may get a less optimised service, a less customised service? When they complain, will we accept that as part of the choice we have made in rolling out something for the critical mass?

Lord Sharkey: In the example you gave about crypto in the United States, the resulting relaxation of risk parameters—if it exists in practice—came from a signal from the central Government. Are you

relying here on the Treasury to give an equivalent steer in whatever area we are talking about?

Nikhil Rathi: We can calibrate the risk, and we can put out our view as to how we are calibrating it. If there is a feeling that we can go further, there are some moves which will result in significant social loss. Different cultures and different political systems have different tolerances for that social loss. Ultimately, the reason we want to have this discussion is not to cover our backs per se, but to say that the place where we have that discussion and work out where are we going is here in this committee, in the House of Commons and with government.

For example, on crypto, it is not normal for health professionals to talk about financial services products, but you will have heard the previous chief executive of NHS England say that some places in addiction clinics for drug addicts and alcohol addicts have been taken by crypto addicts, and that this is putting pressure on the health service. That is something that the Government and Parliament need to engage with if we are going to go down the road of totally unlocking the risk appetite on that product.

Lord Grabiner: For perfectly good reasons, you may take the view that you are very concerned about being more open to risk—for want of a better expression— than the Americans, in relation to, say, bitcoin.

Nikhil Rathi: We can come to a view. I will give you another example, and this is relevant to the international competitiveness objective. The new Administration have sent a direction to all enforcement agencies in the system to deprioritise enforcement of the Foreign Corrupt Practices Act in the United States. As I understand it, that is on the grounds of a feeling that American businesses overseas have potentially lost ground to Chinese businesses in acquiring assets and gaining licences in markets around the world.

The equivalent legislation here is statutory; from a competitiveness perspective, we do not have the freedom as a regulator to take a similar approach. A judgment like that is a strategic judgment; it is a broader public policy judgment. When people come and say, “Well, our rules on financial crime and market integrity are more onerous”, that is because we are implementing what Parliament have asked us to implement. A choice like that is very much a political choice.

Q5 **The Chair:** But hang on; you are the regulator, and at the end of the day surely it is your job to look at the risk and form a view on that? If, without naming any particular Government, a Government were to lose the place in terms of what an acceptable form of risk was, surely it is your job to push back on that, and push back very hard?

Nikhil Rathi: That is what I am saying. We have not adjusted our position. Fighting financial crime is one of the limbs of our strategy, and we are doing record enforcement cases and record criminal prosecutions.

The Chair: There are several kinds of crypto where our regulators have taken, I would say, a very sensible view, despite the fact that something

else is happening in the United States or elsewhere. You appear to be arguing that you are just subject to whatever guidance comes from government, but surely you need to take an independent view and to be able to justify that?

Nikhil Rathi: I am not arguing that we are only subject to that; I am arguing that we take those decisions. However, I am talking about certain areas where we may want to fundamentally rebalance and getting a consensus on some of these issues, whether that is mortgages or crypto. For example, on crypto, it is no secret that there was a tension with some Ministers in the previous Government. They wanted the UK to be a crypto hub, and we got a lot of sharp criticism—it was quite public—about why we were saying no to applications. We turned down 85% of crypto exchange authorisations, not because we were trying to be anti-innovation but because we had money laundering standards set in legislation that we had to police, and they just did not meet them. In many cases, they were not even close. That cut across a government agenda to be the world's leading crypto hub. Sometimes, therefore, you need to have a discussion to try to reconcile those two objectives.

The Chair: Let us take a simpler example that you raised: mortgages. You say, "We can reduce the criteria and that will mean more reposessions and we will get criticised for that". Surely it is your job to work out what the right rule should be in that respect, not be looking over your shoulder as to whether you are going to get criticised.

Nikhil Rathi: That is not what I am saying. I am saying that if we want this to work, ideally every part of the system needs to be as coherent as possible. The point I am making on mortgages is that, if we relax on our side but there is a government mortgage charter on the other side which says to the banks, "Do not repossess", the thing does not work.

The Chair: But at the end of the day, it is up to you to decide what a reasonable set of rules for mortgage lending is.

Nikhil Rathi: We have done that.

Sarah Pritchard: I wonder if I can just come in with a different example, because this is exactly the right forum for a very challenging conversation around risk appetite. I hope you have seen us really trying to service the risk appetite question publicly, through Parliament and through all our consultation processes.

Let me give you an entirely different set of reforms: listings reforms, which we concluded and published two weeks after the general election. There was a disagreement all the way to the end about where that rule set should sit. I led the work through, and I know that it was a difficult set of reforms, but we have taken confidence from being able to conclude that set of reforms. We made some bold choices; we did not just compromise on every area where there was a difference of view. If you always go down a compromise approach, you are in the middle, and ultimately where there is a difference of view both sides are not happy.

Nikhil and I convened many round tables where we brought CEOs into our building to talk about where this balance should be. We talked about building consensus and then being bold enough to make a decision. We wanted that to be a public conversation, because through having a public conversation, through publicly debating risk appetite, our hope and expectation is that the risk posture endures.

What we would be worried about is, in circumstances where the strategic intent of that set of reforms is to encourage greater healthy capital markets, it is inevitable that if companies come to list earlier there may be failures and people may lose money. We wanted to make sure that that risk was known up front.

Lord Chair, you touched on culture change. Organisationally, we have confidence that we delivered those reforms. We have taken confidence that we have concluded our prospectus reforms yesterday, where we have significantly increased the threshold for a prospectus requirement for further issuances. We are showing that we are willing to make bold decisions where we believe that they are the right thing to support growth, but we think it is important that it is a public conversation and one that is had through the accountability system and through our consultation process.

Q6 Lord Sharkey: Nikhil, on page 12 of the document we got on Monday, which was the statutory review of the secondary objective, you are quoted as calling again for an honest debate with government, Parliament and relevant stakeholders about how we rebalance risk, the choices involved and so on. How will these conversations reach conclusion? How will we know when they have reached a conclusion, and what role is the Treasury playing in all this?

Nikhil Rathi: We are driving to conclusions on areas where we can. When we put out our press release on prospectus reform yesterday, it was very interesting because in its statement afterwards, UK Finance, the trade association for banks, implied that we had gone too pro-risk. The position has reversed; on listings, some on the buy side were opposed and some on the sell side were in favour. On prospectuses, it flipped the other way. Why did it flip the other way? Who carries the risk if we raise the threshold? It is the underwriting committees in the banks. We were saying to them, "If you want to streamline this prospectus for existing listed companies, you're going to have to take some risk judgments. You're taking a fee of X per cent to raise this capital, so make some risk judgments here. On the investor side, you're sophisticated investors; you make a judgment with this disclosure whether you would like to invest or not and what the price is. We are going to move away from checking everything". Since we put the listing rules through, 25 significant transactions have gone through for existing listed companies in a more streamlined way, which we think has been a benefit to British business.

In terms of your question around the debate, I am not sure this debate will ever end; it is one of those things. If I take one example, AI, we have set out a posture. We were one of the first regulators in the UK to set out

a posture. We are not writing new rules; we are going to rely on the consumer duty, our market integrity framework which sets outcomes, and the senior manager regime which gives accountability. We are not writing new rules for every application or manifestation of AI; it is simply not possible because the frontier of technology is moving every three, four, five months. We have said, "We will only go after firms where there is egregious failure, so go and innovate, use chatbots, use AI in a different way". We think that is consistent with where successive Governments have been.

Interestingly, the City of London put a report out last week on risk culture, and it referenced your report too. It praised our stance, and it said the issue is the reticence in some firms to innovate and take the risk judgment themselves around use of that technology. We have opened the door, we now have sandbox testing—we allow people to come in and live test products with us, using some of our data to test—but we cannot solve problems if commercially the firm itself does not want to take the risk. Some firms do, but some firms do not.

That AI conversation will be a continuous conversation for many years to come; it is never going to conclude.

Lord Sharkey: I look forward to that.

The Chair: We look forward to discussing it, and the conduct of our committees, in the House of Lords.

Q7 **Lord Vaux of Harrowden:** I should probably declare an interest as a shareholder in Fidelity National Information Services, which owns a big chunk of Worldpay, among other things.

The strategy sets out financial crime as a key priority, and I am going to come back with a specific question on that in a moment, but, more generally, the strategy does not cover other risks that you intend to monitor and address. Could you tell us a bit about what other risks and issues you are intending to monitor and address over the next five years?

Sarah Pritchard: I will start with financial crime and then address your question on other risks.

What we are signalling through the strategy is that we really want to focus on investment in financial crime, working across the system as a whole to address fraud and money laundering, but I can assure you that does not mean that that is our only area of supervisory focus. Ultimately, we have a very important job to do, working with others, particularly with colleagues in the PRA and the Bank of England, but our job is to make sure that markets function well.

One of the things you may have seen set out in the smarter regulator chapter is a focus on reforming our supervisory model. It is through supervision, alongside working with Sheree's colleagues in authorisations, where we deliberately want to keep standards at the right level at the authorisations gateway. We are focused on speeding up the work that we

do, but we know that high standards are the right thing. We have seen the consequences if you do not keep harm out from organised crime groups or from criminals at the gateway. You see the systemic harm that fundamentally undermines trust in the financial system and increases the levy at the end.

On the supervisory front, we are saying that we want to be more certain and predictable in relation to our supervisory priorities. There are some key baseline areas that we will always be focused on: operational resilience, financial crime controls, and working with the Prudential Regulation Authority on some of those prudential standards. That will remain.

We are having a look at our certainty and predictability about the way that we carry that out, because we have heard from firms that there is scope to improve the way in which we have that handoff, particularly with those we work closely with and where we have a specific relationship-based team. Equally, we want to provide more touch points for the biggest population of our firms that do not have a specific point of contact within our supervisory teams at the FCA.

Lord Vaux of Harrowden: That does not really answer the question of raising and looking at the horizon. What other particular risks and issues are there, other than financial crime, that you are keeping an eye on or looking out for?

Nikhil Rathi: The biggest one I would draw your attention to is the scale of market risk out there in the context of complicated geopolitical circumstances, potential disruptions to the global trading system and the way in which security and financial issues can start to intersect. For example, at the height of the Israel-Iran conflict, we saw cyber warfare taking down ATM machines and taking down trading systems. That was part of the conflict. That technology has moved and has now become an increasing feature of the risk landscape for us.

At our conference in October last year, we convened a number of international leaders from Wall Street and regulators from around the world. We talked about predictable volatility; that has come true. April was grisly. The week before the tariffs were paused, the markets were looking very challenging. We now have sovereign corporate debt markets which are worth around \$100 trillion globally: three times the amount was borrowed last year as compared to 2007. The pace at which there can be price movements in those markets is significant; in our market, the gilts market, we have seen a shift in the composition of participants such that 27% of our weekly dealer-to-client volume is hedge funds. Increasingly, parts of our market are offshore. We are not the only G7 country affected by this, but the composition of the market has changed.

A point I made at TheCityUK annual conference two weeks ago was that, while we are totally aligned with removing data which we do not need and we have moved quickly to do that and will keep doing it, there are some areas—I call this out as one—where we need more data and we

need it faster, because the markets are faster. We need more real-time data on trading in some fixed-income markets so that we can understand what is going on and do our job for the whole system. If I pick one out, that would be it; the operational risks Sarah talked about would be another.

That is important in all these conversations, as we talk about the growth and competitiveness agenda. With the Bank, you will talk about financial stability; with us, it is market integrity. That is going to take a lot of my time internationally in the next few years, plus the work we are doing internally, to make sure that we never drop the ball on that core responsibility.

Lord Vaux of Harrowden: May I ask a specific question on the financial crime side of things? In your strategy, you have your "How you will know we are succeeding" section, which you mentioned before. You say, "By 2030, we will be able to report ... Slower growth in investment fraud victims and losses" and "Slower growth in authorised push payment fraud cases and losses". It seems extraordinarily unambitious just to slow the growth in fraud and crime, particularly since you are taking over the PSR's responsibilities. At the very least, one would expect a reduction; why are you so unambitious?

Nikhil Rathi: The Government set the targets for economic crime and the Government's target is around slowing growth. We fall in behind that. It is a recognition of the fact that we are one part of it. Only 1% of police resources are devoted to tackling financial crime. The core fraud task rests with the police. We cannot stand in for them or other parts of the system. We can contribute and do our bit; actually, investment fraud has slowed, and APP fraud has slowed. Some PSR measures were controversial, but in the broader economic crime landscape, in the range of things that law enforcement agencies are dealing with, it struggles to get the resource and attention that would drive a cut such as you talked about.

Lord Vaux of Harrowden: I am uncomfortable with this concept that because the Government have a target you cannot do better than that, which we have heard a couple of times. Surely your own targets should be better than that.

Nikhil Rathi: The question we then come back to is that, if we want to deliver those targets, that means us adjusting the risk appetite and the compliance burden. One of the things we wrote to the Prime Minister about was whether we should look at how we adjust money laundering controls to make them more, not less, proportionate, and how we should strike the right balance. This goes a little to Lord Sharkey's question earlier around tolerable failure. We run one of the world's largest global financial centres, so when you occasionally hear statements such as, "We have to have zero tolerance for money laundering", what does that mean in a centre like ours, where hundreds of trillions of dollars are traded from all around the world? What compliance burden would we need to impose on the system to achieve that?

This is a debate I am keen to have, and on APP fraud as well. We can drive it down. You saw earlier in the year the reaction from fintechs at some measures that were proposed to drive down APP fraud and their concern around the cost and burden of doing business if they had to implement those measures, and their criticism of the cost to competitiveness and innovation of doing so. On that one in particular, there is a very delicate conversation about what is for regulators, what is for firms, and where consumer responsibility starts and finishes? Who is going to have that debate with consumers about where their responsibility starts and finishes?

Lord Vaux of Harrowden: There is a fourth element, which is: what is the responsibility of the tech and telecoms companies as well?

Nikhil Rathi: We would agree on that, but that is definitely one for the Government. They have made a commitment to look at that, but it is wrapped up with the broader discussion around online safety.

Sarah Pritchard: On that tech company point, that is where working as part of the ecosystem through the economic crime plan is so important for us. We see criminals being very adept and moving their methodologies, so we have to be fast at taking down financial promotions. We have been doing that on an ever-increasing basis, but we know that many of these scams are originated and pushed from some tech platforms. The ability of the system to stay up to date and be ahead is reduced through some aspects that are within our direct perimeter. That is why I go back to the importance of us playing our role in that economic crime plan with a strategy set by government.

Baroness Donaghy: On the subject of other risks that Lord Vaux was asking about, there is what happened in Spain and Portugal, where ordinary people—who do not have investments or even savings—had no light and no access to ATMs. That is pretty basic stuff which could hit the population in numbers a lot more than some of this high-level stuff. The risks are quite high. Do you have any ability to prepare for that and to prepare the population for that?

Nikhil Rathi: Operational resilience is a core part of our market integrity objective. We work on that jointly with the Bank of England. I would say that the financial services industry is probably more advanced in its preparation for some of these types of incidents than other sectors in the economy.

Again, when you come to the intrusiveness of regulation supervision in the United Kingdom, I would say this is one area where, even prior to my time at the FCA, the regulators were pretty intrusive. It is because of that intrusiveness that our system in the UK navigated the pandemic and moved to remote with everything still working. It has navigated multiple crises, including the volatility in April, because people had invested in the resilience they needed to invest in.

For those kinds of catastrophic events, there is a government-wide business continuity machinery which we play a part in, but so do other sectors—energy and other sectors come together to test those kinds of events. The public awareness campaign is something the Government lead on and we contribute, because it would affect not just financial services but supermarkets, hospitals and the entire economy, as it did in Spain. At that point, it is the COBRA machinery that swings into gear.

Q8 Baroness Noakes: I declare my interest in a number of shares in listed financial services companies that are on the receiving end of the FCA's activities. I want to ask about mission creep, which you know we criticised in our report. The FCA has a lot of activities, and something that concerned us is that you were engaging in things that were not central to your statutory responsibilities, which not only causes a diversion of efforts within the FCA but also imposes costs on firms.

Against that background, could you explain why you have chosen to pursue non-financial misconduct? While harassment, bullying and all that is a very important thing in the workplace, it does not seem to be core to your statutory responsibilities. Could you explain why you decided to go down that route and why you thought that the existing apparatus of remedies—employment law, equality duties, et cetera—was insufficient to deal with that and therefore why you had to intervene for financial services firms?

Sarah Pritchard: You are quite right that we very recently confirmed our final rules on non-financial misconduct, explaining that we were extending them to and giving greater clarity for 37,000 firms—firms that are already subject to our Senior Managers Regime, where good standards of conduct are expected. We confirmed that non-financial misconduct was in scope. That was aligning those rules to rules that already apply to banks and was part of a consultation that we consulted on jointly with the PRA in 2023, which covered non-financial misconduct and a broader set of DEI proposals.

You may have seen that we heard a lot of feedback through that consultation. In March this year, we decided that we would no longer proceed with the broader DEI proposals, recognising that the feedback was that that was not appropriate for us as a regulator; it was going too far and creating too many costs. But there was support for us being clearer in the rules for non-banks to confirm the non-financial misconduct rules; we had 80% support the approach, including 90% of the trade bodies and 80% of authorised firms.

We also had a recommendation from the Treasury Committee on sexism in the city—which both Nikhil and I were before—about the importance of taking action to be more specific. Part of this rule change will help prevent what is colloquially termed the “rolling bad apple”. How can we ensure that there is consistency of regulatory references where there is serious bullying, harassment and discrimination that has already been upheld by an employer? How can we ensure that there is clarity in the

level playing field across financial services if those people move from firm to firm?

We have really tested hard and looked at the cost side of this. You may have seen that we have confirmed this narrow rule set that aligns the 37,000 that are already in scope of the Senior Managers Regime with the rules for banks, but we have said we are prepared to give further guidance on what that means in practice if stakeholders want us to. We are not defaulting to guidance because we recognise that guidance will increase the costs through our cost-benefit analysis. We have also heard that there is benefit in guidance; it would enable some consistency in firms and might prevent the number of occasions on which firms have to seek legal advice.

Equally, there are some downsides to guidance. We would inevitably say that these scenarios are always fact specific. Any guidance that we issue would be indicative but there is always a risk that, by the time the regulator writes some guidance, it is viewed as prescriptive, not indicative. We are open-minded and seeking views on that guidance.

On the cost estimate side of things, our original set of proposals had implementation at £303 million and ongoing at £118 million. We have brought that down significantly to £25 million implementation and £15 million ongoing for the rule change. We know that it would cause more costs on the guidance front, which is why we are openly consulting and open-minded as to whether guidance is helpful or not.

Baroness Noakes: Do you consciously seek to ape PRA rules and restrictions? The PRA has a much smaller population that it deals with; by definition, you have a very large population. Is it something that you constantly try to do? If the PRA has it, do you have to have it as well for your much bigger population?

Sarah Pritchard: The rules for banks are already in our rules—the conduct rules that apply to financial services as a whole. This was touched on a little earlier in relation to the Senior Managers Regime. What is the purpose of the regime? What is the purpose of fitness and propriety? What is the purpose of that rule set? It is to ensure that there is trust in financial services and that those in senior management positions are not involved in serious and substantiated bullying, harassment and discrimination. This rule change is to be more specific and clearer so that there is consistency across all those who are already subject to our Senior Managers Regime.

Nikhil Rathi: On the link to the objectives, we have had quite high-profile cases—I will not go into the specifics—where clients and counterparties lost confidence in large institutions and the way they were dealing with certain issues, such that those institutions subsequently failed. The clients and counterparties withdrew, and that had market integrity implications.

Some of the work we do here is some of the most unpleasant work that my colleagues have to deal with, because we do not have a choice under the Senior Managers Regime. I will run through the types of cases we are dealing with. If we are confronted with a situation, at the extreme end, of someone with a conviction for child sexual grooming, serious sexual violence offences or illicit drug use, even a decision not to do anything is a decision. We have to make a judgment whether that person is fit and proper, with integrity, to operate in the financial system as a financial adviser or whatever. We and firms have to take a decision either way in dealing with those cases.

On the more extreme end is the issue that Sarah was talking about, where people have been dismissed by their employer, with written warnings, for very serious sexual harassment cases, but that information has not been passed on to future employers. That situation has then continued under a new employer, with no one ever knowing about it. All this will say is that, if there has been a formal process and written warning, we will need to know about it and it should be shared. That is the debate we had with the Treasury Committee.

On the harder end, we said to the Treasury Committee that, if Parliament wanted to, it could go through those lists of serious offences and make the judgment as to whether you should be prohibited from operating in a regulated industry like ours if you have been convicted of something very serious. That is not where we are, so we need to take those decisions ourselves now.

Baroness Noakes: There is a big difference between a conviction for a criminal offence and an internal process that results in a warning.

Nikhil Rathi: There is a difference, which is why we had calls for clarity from firms and trade bodies. At the serious end, in one sense it is clearer. Where somebody has been dismissed for theft or sexual harassment in the workplace but has not had a conviction, should we and a future employer know about that if we are determining them to be fit and proper? This tries to bring a degree of consistency and clarity to that question. As I say, we have seen cases where people have moved and continued some very damaging behaviour.

Q9 **Lord Hill of Oareford:** I declare an interest as an adviser to Santander, Visa Europe and Intercontinental Exchanges. I want to explore a theme that builds on the specific example that Lady Noakes raised about coherence. Last night when we were all at Mansion House, the Chancellor said, "We are going to simplify the Senior Managers Regime", and everyone said hooray. Then we were just talking about an example where—notwithstanding the examples you give for why you are doing this—it feels like the direction of travel is slightly different. On the one hand, the message is, "We want to make things less burdensome", and then at the same time we are doing something that is clearly going to make some requirements more burdensome.

You were just discussing an example and you obviously had had a

conversation with the Treasury around some of this stuff. Do you feel that there are these incoherences? Is some of it perhaps to do with a time lag? Were things in the system trundling along at their normal pace at a time when the general climate and mood around these issues was different and more risk averse, and so there is stuff that was started quite a long time ago that now grinds its bureaucratic way through, pops up and then seems to fit slightly oddly with the new mood? What are your reflections on how we can get more coherence?

Nikhil Rathi: It is important to have a rounded discussion about burden, because we also heard from industry on that one in particular that it was burdensome not to have clarity from the regulator. They wanted to know how we would think about these kinds of situations when, sadly, they occur in their organisation and how they as the regulated firms should deal with them. This is exactly what Sarah said on guidance. We have published draft guidance. We do not have to adopt it; we have put the detail out there of how we think about it, but we will adopt it only if you stakeholders want us to adopt it. If you think it is helpful for us to do it, we will do it. We have some feedback that it is very helpful because it just cuts through a load of internal process that they would otherwise have to go through themselves on these cases.

On the data point—going back to markets—we have to get that data from somewhere to do our job. You can have a debate as to whether we get it from the banks, the hedge funds or others, but sometimes it is not completely zero-sum. But your general point around coherence is an important one. I would draw your attention to data requests, which are a big point of pain in our surveys. People worry about data requests and the amount that we ask for. We have made some redundant; in other areas we need data, as that is the basis of how we supervise and can use technology more effectively. The requests that are sometimes the costliest are the ad hoc, short-deadline requests.

In many cases, we are acting on behalf of the Government or working with the Bank of England or others. To look at some of the most painful data requests we have put into the system in the last two years, we were asked to do a piece of work at very short notice when there were allegations that banks were closing accounts on grounds of freedom of expression. A hugely onerous data request came in from the FCA; multiple data requests came in. It would not have been something we would necessarily have prioritised, but we put it into the system and some of that evidence made its way into your report around why we required attestations and others.

We were being asked—by some of your colleagues in Parliament and the Government at the time—to attest for the system that we did not think bank accounts were being closed due to freedom of expression. Huge data requests for the Motor Insurance Taskforce got into the system after the election. If we are going to be coherent around data requests, we need to have that coherence across the board. That is something we discuss with the Treasury, and in forming its strategy it has been quite

open to us saying where there are things that we think it could row back on as well so that we can be more coherent.

Lord Hill of Oareford: Do you think the Treasury is becoming more coherent as this discussion goes on?

Nikhil Rath: We have a very good working relationship with the Treasury. Yesterday the Chancellor acknowledged its really close work with the regulators while respecting the independent decisions that we have taken.

There are two things on which we can still do further work, in trying to make sure we take a system-wide view when making these big reforms. I am actually very excited that the Government are grasping the nettle on pensions reform, which we are supporting. We are grasping the nettle on mortgage reform. Part of us grasping that nettle is tackling some very vexing issues around later life lending. If we are really going to solve this, you have to link up the later lending conversation with the pension reform conversation, because you have a huge cohort of people who, when they retire, basically have housing wealth, a DC pension and not much else. Unless we join up those two conversations, we are not going to get a policy outcome, because there is still work to do to get some of that coherence. There is also a really important issue for us all on driving through execution once we announce things—that big digital plan yesterday or whatever—and making sure we deliver what has been announced before moving on to the next thing.

Lord Hill of Oareford: I do not think it is your job in some ways to make the lives of compliance departments easier. I completely understand the dilemma you express, but the relationship between what you are doing and what they do is acting as a ratchet for which you are then blamed. One should reflect quite carefully on that.

My other main question is about priorities. We are all over the Edinburgh reforms, the Leeds reforms, the document dump yesterday—there is hundreds of it. I think you said you had made 50 proposals to the Prime Minister. The sense one goes away with from this session is of huge amounts of stuff. You are all rushing around doing lots of stuff, all trying to push in one broad direction. What are the three things you have done in the last year that have most moved the dial and what would be the three biggest things in the next year of which you would say, “If I can do those, that’ll make the biggest contribution to moving this debate on”?

Nikhil Rath: On growth and competitiveness in particular, or just generally across the board?

Lord Hill of Oareford: I am interested in growth and competitiveness, but you can take it how you like.

Nikhil Rath: I do not know if Sarah is going to agree with me on this; she might have a different view. I would always say to this committee and across Parliament that our job around ensuring market integrity is

fundamental for growth and competitiveness. The vigilance and the work we do when we have these massively disruptive events—whether those in April or the geopolitical events—remain fundamental. I would say that is the most important thing we do for both market integrity and the operational resilience of the system and infrastructure. In my mind, that will always be right at the top of what we need to do.

Secondly, the mortgage reforms have been very significant, as we are now seeing in the statistics over the last few months. There is a limit because, obviously, part of the issue is housing supply and that is not within our gift. There is a separate set of work going on around housing supply, but we have meaningfully shifted the dial and will shift it further.

Third—I will dodge your question, because I am trying to wrap loads of things into one thing—is the overall posture on regulatory reform, where we have streamlined a load of rules coming out of the consumer duty. As Sarah said, we have streamlined some of the capital markets rules on listing as a prospector and there is what we have done on AI. There is always going to be a lot of stuff. We have the largest financial centre in the world in many measures: asset management, insurance, banking, insurance broking, fintechs. They all have their asks and there will always be things we are doing to engage with them, but that overall direction and posture has been quite significant.

Lord Hill of Oareford: What about in the coming year? Your first answer would no doubt be the same.

Nikhil Rathi: My first answer would be the same. Second would be landing the advice guidance boundary, which is also in your report. From my perspective—it is not talked about much—I would say, like any large organisation, the cultural movement around the adoption of AI and data to change the way we work is the single biggest leadership challenge and something that could be profoundly transformative for our economy and productivity performance. We have signed up to licences for all our colleagues to use some of these tools and will drive that all the way through the organisation. That will generate innovation success in areas that we have not even thought about at the moment; it will just come. I am saying to industry: “Come. Walk through this door as well. We are opening the door for you to innovate here. You need to shake off a bit of your risk aversion as well and take advantage of it”.

Lord Hill of Oareford: We will ask you about this in a year’s time.

Nikhil Rathi: The Chair was saying that AI is going to be used in committees too, so maybe we will see in a year whether that has manifested.

The Chair: There are some issues that we need to resolve with that.

Q10 **Lord Kestenbaum:** I declare an interest in several Rothschild investment entities as well as serving on the board of JPMorgan Japan, listed on the stock exchange. There has been much discussion so far of

outputs, outcomes and the metrics that measure those outcomes, and rightly so. Such measures are absolutely key to driving the kind of change that you have described to this committee and others. Somewhere in our notes was written: "Underlying the new strategy is a shift in the FCA's tone and approach to regulation".

I wonder whether you could speak a little to not only the science of driving the change but the art of driving that change: what has been called in many previous discussions with you and others the deep and desperate need for culture change within your organisation. It is a significant theme in our report, which maybe you will address at some point, and I imagine you would agree that it is a significant measure of your leadership. There is no chief executive in the world who would not say that at the very heart of the change exercise that they have taken on, alongside all these measures, is the need to drive that culture change. Absent the culture change, no amount of measures will embed the change deeply in the organisation.

I wonder if you could speak to that core leadership challenge, whether it is an intangible sense you have or, preferably, the kind of levers at your disposal to drive that culture change: incentives, sanctions, recruitment and the parting of company with underperformers or, more likely, the parting of company with those whom you feel are just not the right fit for this change in tone and approach?

Nikhil Rathi: I am very proud of my colleagues at the FCA. We have 5,000 very dedicated colleagues who achieve an extraordinary amount, often in environments where we cannot talk about everything they are doing. In terms of the health of the organisation, if you look at our overall workforce statistics, our turnover is the lowest it has ever been. It is incredibly low, at around 6%. We recruit very successfully, including from the industry; over half our top leadership has had industry experience. We have grown in Leeds and Edinburgh; in Leeds, we grew from a standing start. We are now the largest, fastest-growing financial services employer in Leeds and Edinburgh. That has really changed the culture of the organisation because we are bringing perspectives into our organisation from right around the country with lots of different skills coming in.

We as the senior leaders—Sarah, Sheree, I and our ExCo colleagues—are responsible for everything the organisation does. I absolutely engage with the feedback when I hear this about our colleagues and we must respond to it, but they are doing things in our name so we set the tone and the risk appetite and we have to make sure that the systems in the organisation work for people to deliver the firm and consumer experience we expect.

We have seen very significant pace improvement in authorisations and enforcement compared to even a year ago when I came before this committee. In fact, we have very recently completed one case in three months, a record time, and we have a number of cases now that have been done in 16 months. Given how fast the world is moving, that

question of pace is a big issue for us and all large organisations. We are really up for the challenge on that and are driving that hard. Technology and adoption of technology will dramatically help us achieve that.

On performance management, we have moved very significantly and have probably put through more public service reform on performance management than just about any other agency you will have before you. Some ideas we have implemented are now being looked at by others to follow through on.

Those are leaders we have and some of the things we have already done, but public service reform does not stop. I would go back to the third priority that Lord Hill asked me about. Cultural movement in the organisation around using technology differently will be the key unlock to deliver the kind of culture change that is alluded to in your report, which is needed right across the economy. As the largest economic regulator, we have a role to play in executing that. Straightforwardly, grappling with that was one of my motivators for staying on at the FCA; that is a really profound leadership challenge and something I really want to grasp.

Lord Kestenbaum: You spoke with pride. I very much understand and admire a chief executive's pride when it comes to low turnover as a metric. At the same time and rather perversely, everything we know about driving deep and radical cultural change in an organisation such as yours teaches us that low turnover is a mixed blessing, and there will be periods in the cultural change exercise where low turnover is not a badge of honour. I wonder how you feel about that.

Nikhil Rathi: You can chart turnover over the last few years at the FCA. We went through a significant transformation in 2021-22. I was coming before committees being probed on the higher turnover at that point, but we put through a very rigorous set of performance management changes and linked base pay to performance. You will not find many organisations in our type of arena that have done that. I am not taking it as a badge of honour; I am giving it to you as an indicator of the health of the workforce because you also raised questions around turnover in your report. I am saying to you that it is the lowest it has ever been. Firms raise the issue of rotation with us, which Sarah can speak to. It is relevant but is not the only metric by any stretch.

When we look at global comparisons—the Global Financial Centres Index or some of what the Lord Mayor said last night at Mansion House—the regulatory environment here is seen as a positive enabling factor for our global competitiveness. If I can be so impertinent as to state this, it ranks higher than tax as a positive factor for the United Kingdom and its attractiveness, but we know it is a competitive race and we want to keep sustaining that.

When I look at our recruitment—Sarah and I are involved in a few situations now—we are attractive internationally. We have people from all around the world wanting to come and work for us. When other regulatory or industry experts from around the world are looking at

where they want to come, we are talking to a number of them about the FCA. Like other employers, we have to sort out their visas to get them here, but people look at what we are doing and see us at the top of the league of comparable organisations.

Q11 Lord Grabiner: I should disclose investments in financial services entities which are listed in my entry in the Register of Lords' Interests. On Lord Kestenbaum's question a moment ago about turnover, you gave the figure of 6% across the board. Is there a particular part of the business that has a bigger turnover, which I assume there must be, and other parts of the business that have a very small turnover? Do you have any information about that that you can provide us?

Nikhil Rathi: I do not have it in my head. It used to be the case that authorisations had a higher turnover because it is generally where we have some average lower pay colleagues, but actually that has come down dramatically.

Sheree Howard: It has come down massively; we are actually slightly below 6%.

Nikhil Rathi: Data and technology used to be a really hot market, and that is sometimes hard for organisations such as ours to retain, but that has come down significantly as well. Leeds has been really fundamental in us being able to recruit new talent. There might be variations in range from 5% to 7% but this is what we are seeing at the moment broadly across the board in our organisation.

Sarah Pritchard: It is the same across the supervision and policy regulatory fund, which is tracking the FCA at around 6%.

Lord Grabiner: Is it pretty stagnant at the top of the business or is there movement?

Nikhil Rathi: I made some adjustments just after being reappointed. I was really delighted to appoint Sarah as deputy. There will be some consequential moves that flow from that, which we are working through. We will be recruiting a new chief operating officer as well. There are some movements in our director population.

I mentioned the colleague who has moved to Asia-Pacific. She was our director of buy-side who joined us from Legal & General and is now based in Asia-Pacific to network with the senior leadership of the financial services industry there, so there is recruitment going on for her successor. That is a really big buy-side role in the FCA. I would say there is nothing out of the ordinary in an organisation of 5,000 people.

Lord Grabiner: My next question arises out of an answer you gave to Lord Hill on the point about the available data and whether more expectation was being demanded of you by the regulated party than you could maybe have reasonably expected that they would be dealing with themselves. The example that you had in mind was the failure to disclose some previous improper behaviour. At these meetings that take place

very regularly between the FCA and individually regulated entities, presumably you are interested in what the governance structures are and whether the entity has a process for dealing with misbehaviour. For example, would you be interested to know the answer to that question in relation to whether people were fit and proper?

Sarah Pritchard: We have 66 fixed firms where there will be a specific supervision team that is assigned and we will be engaging with them on a variety of different issues according to the risks that we have seen relating to that particular firm or our top priorities. As the Financial Conduct Authority, of course governance systems and controls are always issues that we will have a look at. We will not just rely on those meetings. Our standard model is three meetings a year. The lived experience for firms will be very different depending on the supervisory work programme that we have with them. Alongside the meetings, we will have a series of notifications that will come to us probably by email and we will be notified much more quickly than the normal pattern of our supervisory meetings with them.

Lord Grabiner: But is your expectation that the entities that you are regulating will have processes in place for dealing with the kinds of point that we were discussing a moment ago?

Sarah Pritchard: If I take non-financial misconduct—the point we were discussing earlier—our Senior Managers Regime sets our code of conduct requirements and what we expect in terms of fitness and propriety. We expect notifications; they do not need to wait for a meeting. We will expect normal standard supervisory notifications, and that is one of the things that has changed for that broader population of firm in terms of the specific situations in which we would expect that.

Lord Grabiner: If they did not have such a process in place, that would be a matter for criticism, would it not?

Nikhil Rathi: It depends. What is not consistent currently is the extent to which a firm will include information it has in a regulatory reference that it gives to another firm. Some firms do and some do not. We do not prescribe anything at the moment. Some firms have different approaches and employ people in senior positions who have criminal convictions.

Lord Grabiner: But surely the transferee would be bonkers if they did not make the appropriate inquiry.

Nikhil Rathi: But the transferor may not disclose. With references, there may often have been a settlement with the departing employee and they have a one-line reference, "This person worked at our firm from these dates", full stop. Nothing else is disclosed. That person then goes on to get another job somewhere else having had a track record that was well known in the exporting firm, if you want to use that word. There are some renowned cases of that and some that we know about through our own intelligence. We are trying to deal with that. There are different views. This is a sensitive question, but can somebody who has been

convicted of a child sexual grooming offence hold a fit and proper position or not? It is yes or no. The public might think there is a very clear answer to that question. I can give you examples where firms have taken different views on it and we have had to intervene when we discovered the conviction.

Lord Grabiner: My final question is entirely different. It is a point that I have been wrestling with and would really like to know your reaction to it, Nikhil. Is it realistic to assume that there are improvements that you could make to the regulatory function that would stimulate growth?

Nikhil Rathi: We have launched and published research on this and the evidence is mixed. We clearly play a role in the investment climate. The speed, clarity, certainty and efficiency with which we operate is a factor. You have talked about authorisations, our firm experience and the speed of enforcement investigations. The ease with which you can do business with us makes a difference. Actually, what you tend to hear from firms is that they are quite happy to meet high standards; they just want an efficient interaction to enable them to meet the high standards.

The posture we set on innovation can make a difference. Maybe I can turn to Sarah to talk about the tech sprint we did on advice guidance, which was very warmly welcomed. That could make a big difference. If we could have the support from this committee and others to take a bit of risk on allowing technology into retail financial advice and enable the critical mass of the population to be served in a different way in intermediating their savings, we could bring the cost down and reach millions more people. It will not work for everybody; potentially it might not work for thousands of people and they may get a less good outcome than they would today, but millions might get a better one.

What I sometimes worry about—I see this also in the listing discussion and Lord Hill will be familiar with this—is the discussion about it all being rules and regulation. Change the listing rules and suddenly, magically, the problem will be solved. We have done radical changes but, when people get to it, the issues are tax, the pension system, education, governance and so on. There is a whole set of issues; it is not just about regulation. For many years, everyone was focused on the rules and did not really grasp the nettle on all those other things.

Sarah Pritchard: To pick up that culture change point that Nikhil quite rightly talked about, we are really execution focused. Success in the advice guidance targeted support is not just about a set of rules; it is about a set of rules that is operationalised quickly by firms and trusted by consumers. That is at the heart of the approach that we have taken in this really detailed policy sprint that we ran through April. We brought firms in, they built apps and were testing them with the consumers and seeing how the consumer journey works so that, by the time that we consult on the rules—which we are now accelerating on an eight-week timescale—they have in a sense helped us co-design them. We had the Financial Ombudsman Service and the Information Commissioner's Office in the room.

We surfaced in that not just the importance of having the authorisations gateway open quickly, on which I am working very closely with Sheree and colleagues, but a question around risk appetite within firms and that the way that the risk disclosures are positioned to consumers—risks before benefits and some of the language used—is in the way of that journey that we are seeking to achieve through targeted support. We have identified that that is not set through our rules; that is industry custom and practice that has arisen over time. So we are saying: “Let us take this opportunity, working with industry alongside the other reforms that we are making to retail disclosure, to see how we can change that”.

We have also surfaced concerns relevant to those that want to provide targeted support to people in pensions around the inability to communicate with their customers because of GDPR regulations set through the privacy and electronic communication regulations. We have worked really hard and deep-dived on that, and we think that needs legislation. This is where the culture change and the execution and operationalisation focus in not just our rules but the outcomes is really front and centre.

Lord Grabiner: When you use the word “surfaced”, are you saying that particular issues have been the subject of research and you have commissioned research to investigate the possibilities of producing a good outcome?

Sarah Pritchard: On targeted support, we heard concerns from certain firms that they would not be able to write to the majority of their customers. We did a joint piece of work with the Information Commissioner’s Office and we wrote a joint statement to give as much comfort as we could within the regulations. We had our lawyers, our teams and their teams working to say: “Can we do what the firms want to do without breaching the legislation?” We decided that that was not possible, so we have raised that with the Government and the Treasury to see whether the legislative change can be achieved.

On the retail disclosure point, that came up very clearly through the targeted support sprint that we ran. Some firms found their consumer journeys much smoother than others and some of that depended on the way in which retail disclosures were positioned. Again, we got our teams to look at what the rules say and where this was coming from. This is a great opportunity. We are at this real moment where we want to execute and press fast in the areas of regulatory reform, where we believe it is needed to facilitate growth and competitiveness, guided by our statutory objectives, as Nikhil has said. We are not in a default rule-making environment, unless that is the case. Sometimes that will need to be the case and our perimeter will change, but we are looking to not just surface but identify the solution and then put the solution with those that can solve it, and that will not always be us.

Nikhil Rathi: Let me share a myth with you: the myth that the FCA requires a retail disclosure to, say, capital at risk. It is not true. You asked about research. We put a research note out in 2021-22 where we

had done some behavioural studies and had actually published that this might not be the best way of dealing with it. We put it out to the market and industry. The practice of using that language is industry practice. To Sarah's point, we have been saying to the industry: "Come on. You don't have to do this. You can think about balancing the benefits and risk differently. We're not making you do this". There are some high-risk products such as crypto where we do have some prescribed warnings but, for a lot of this other stuff, people say it is regulation and the FCA but we have been very clear that it is not. To your specific question, we put a research note out explicitly setting out the evidence as to why people should move away from that language.

- Q12 Lord Lilley:** Could I first ask a question that you may best be able to reply to when you reply to our report on the secondary objective? Today and previously, you have made the perfectly legitimate point that having a market whose integrity and credibility is recognised by everybody is a necessary precondition for growth, and so meeting your primary objective is a necessary precondition of growth. No one is disputing that. But in your own annual or secondary objective report you list a bewildering array of measures that you have taken which are going to help you meet your secondary objective. I would just like you to report back to us on which you would not have taken had you not had the secondary objective, so that we can single them out from those that you would have done anyway because of your primary objective. That would be quite useful. You may have the answer at the back of your head if you are much cleverer than I am in similar circumstances.

Totally differently, we have been talking about risk appetite. Nobody here wants to encourage an appetite for being defrauded or allowing crime and money laundering to take place. When we talk about risk appetite in a positive sense, we are talking about measures that will encourage or not discourage investment in commercial business risks that are legitimate in themselves but risky, for new companies, growth companies and even equities vis-à-vis holding money.

We are not talking about encouraging people to take undue risks when buying a house by being too geared up. That is the one risk you have repeatedly mentioned. I do not think any of us has ever suggested that we want to encourage an appetite of going back to the things that lay behind all those strange financial instruments that triggered the 2008 thing. I am puzzled that you thought that was the sort of risk we were all trying to encourage. It just means that a person taking a risk may get a house and someone else does not get it; it does not increase the number of houses or of first-time buyers. It is commercial risks that we want to see encouraged.

Is there anything that you think you should be doing that will increase the flow of money into start-ups and growth companies in the real economy and anything that you think you should do less of? At the moment, to avoid a risk to yourselves of being held responsible for financial companies going belly up, you just stop lots of potential financial companies being formed. Regulators have no appetite for being blamed

for things, and so they are too risk averse in terms of letting financial companies start up by doing new, innovative things and letting existing companies do new, innovative things. Could you respond to those two kinds of risk?

Nikhil Rathi: I am conscious that you are challenging me on mentioning the mortgage work, but that is important. I do not think any of us is talking of going back to the 2008 model with 125% mortgages and complex securitisations. It is not something that we would have pushed at the pace and breadth we have done without the secondary objective. It is not just our secondary objective; the Bank of England and the PRA had one too and we are subject to FPC recommendations on mortgage lending, which adjusted. We are part of a system here; they adjust and we can adjust as well.

Lord Lilley: Are you saying encouraging people to take risky mortgages encourages the growth of the economy?

Nikhil Rathi: It is not that encouraging people to take risky mortgages encourages the growth of the economy. What I am saying is that we have some social problems. In many cities around the country, we have people paying very high rents who are unable to get on to the housing ladder but have demonstrably shown they can manage their finances to pay those high rents. If we change the affordability test such that they can do so, when landlords depart the market—as has been happening—there may be first-time buyers who can get on the housing ladder.

I talked about later life lending: people who are retired and have very large amounts of equity in their homes but not very much cash savings other than a DC pension, which does not give them the income they need. It is about finding ways for them to access their housing wealth so they can get the living standard they want. It has to be done in a sensible way that recognises the chequered history of equity release and other such products in our country and supports their consumption patterns as well. There are potential linkages here. What we hear from housebuilders is that, if they have confidence that first-time buyers will be there to borrow, that gives them confidence to deliver housing starts and to lay down capital for development. I would not say it is a panacea, but it is not completely divorced from economic activity either.

On unlocking capital and flows of businesses, Sarah can talk about the immense amount of work we have done right across public and private markets. On creation of new businesses, I might turn to Sheree to talk about the provisional authorisations that the Chancellor announced yesterday—the name changed a few times. That is a new approach we are taking precisely to support new businesses coming in.

Sheree Howard: I am going to cover a few things, all of which were mentioned yesterday and which we have been working on. The first one is what has been labelled the concierge service—for example, as Nikhil has already mentioned, leveraging our director in Asia-Pacific but actually working with the OfI, DBT, HMT, PRA and City of London, and forming a

unit within the Office for Investment specifically focused on financial services and importing financial services investment from overseas into the UK. That is a unit to be set up and it will be established by October. We are seconding some people into it—as are the PRA and the City of London—in order to set that unit up and progress that work.

A key point here for me is that, up until now, that flow may have happened—obviously the DBT and OfI have people all over the world—but it has not had a consistent flow into the organisation, so how do we make that streamlined, clear and open? Something that has come through in the work we have been doing is that our front door—if you want to call it that—to the FCA has not been clear. We offer a huge amount of services to help firms start up and innovate, but it is not well known, so a core part of this is how we put that internationally.

Separately, you will have seen a second announcement around the initiative more for UK scale-up firms, and that will be working across the PRA and us on how we have a more streamlined process for that. Picking up on your points about unlocking investment, the City of London is working to drive that investment cohort. Obviously we cannot match potential financial services firms with money, but the City of London can do that because it has the expertise and can work with us. That will be unlocking the investment, while at the same time giving them access and a more streamlined flow through our front door.

Lastly, picking up on “L plates”, as we are calling it, in our innovation services we have a regulatory sandbox, which was the first sandbox that was ever implemented. We were the first regulator to have a regulatory sandbox to enable firms to test in the market but they need to be authorised. That requires them to meet threshold conditions and we have to be comfortable that they can meet those conditions in the foreseeable future, so they have to pass a very high hurdle.

What we are seeking to explore with government is whether there is a way of having the ability, a bit like the new bank and insurer mobilisation unit that you will all be familiar with, to do that on a wider scale. They will come in and test in a very controlled environment, and if they do not meet all our requirements—we are not necessarily saying we can see a capital runway for five years or whatever—but prove the test and concepts, can get the capital funding and go, then they can reach for authorisation. But if they do not, how do we exit them from the market safely? That is a key initiative we are working through with government at the moment to make that process work, just as we have seen for banks.

Sarah Pritchard: I would highlight three things that we are doing differently that I would particularly call out and one thing that we have deliberately decided not to do, because it is a sign of what we stop doing as much as what we do that relates to our secondary objective.

On the capital markets front, we have taken real confidence from our ability to conclude the listings reforms and I hope you have seen us act at

real pace. We have Prospectus and PISCES and are also now looking at advice guidance targeted support. We are really working at pace. We are taking that whole system view, so when we look at targeted support and see a problem with retail disclosures, we are not saying, "Well, we'll get to that in 12 months' time"; we are saying, "Let's solve that problem now". We have really dialled up that execution focus through our secondary international competitiveness and growth objective.

I do not think you would have seen us as a regulator perhaps being as experimental as we are with placing colleagues overseas. Nikhil referred to one of our really senior directors who was a senior member of my team, our director of buy-side. It is a big experiment for us. Camille will be based in Australia, speaking to UK firms that want to consider expansion in the Asia-Pacific region, and speaking to firms in that region as well. I do not think you would have necessarily seen us experiment with different ways of working. We also have a colleague in the US for the first time. I was in New York speaking to firms and getting their perspective on the regulatory system and the reforms that we are driving through.

Thirdly, Nikhil has touched extensively on how markets are changing and the risks associated with that but also the opportunities of AI. Asset management is a really important industry for us in the UK but there is a real recognition that this is a significant moment in time. You might have heard the Investment Association talk about Investment Fund 3.0. We are working really closely with the Investment Association and international partners as we think about the tokenisation use cases in relation to funds. We are joint members of Project Guardian with the Monetary Authority of Singapore and bodies in Japan and Switzerland. Again, we are really dialling that up because we recognise the importance of not just how we operate in the UK but how we connect with global regulators.

We are also deciding not to do things. I hope it is clear in our strategy that we are not rushing to new rules on the consumer front; we are going to rely on the consumer duty. We will clearly need some new rules in some areas—buy now, pay later is a good example—but we are not going to rush to new rules. There are examples of work we have stopped quite deliberately so that we can concentrate on those measures I was talking about that we are working on to execute quickly.

Q13 **Baroness Bowles of Berkhamsted:** I declare my interests as a director of the London Stock Exchange, which is regulated and supervised by the FCA. I have two questions that are very different but I will give them up-front so you can do it all in one stream. The first is a bit of a follow-up about the concierge unit and so forth. Will the assistance that is given through that unit or a comparable one also assist, for example, a UK company that is choosing to acquire a business from overseas that then is going to establish in the UK? I am assuming that, just because it is being acquired by a UK company, it would not be shut out from help that it would have had if it had stayed stand-alone overseas. I can give you a

moment to think about that. I can think of an instance or two.

My main question is about trying to join up the messaging that we have around risk and the acceptance of more risk in certain areas in order to stimulate growth. Connected with that is the key point of your five-year strategy—which is a very good one—about helping consumers to navigate their financial lives. You have done well on the inclusion side and talk about insurance and access and all those kinds of things. But now this must surely include how to navigate investments when consumers are being asked to invest in shares and now have LTAFs. How are you going to educate them around the potential gating and liquidity risks that are there?

Nikhil, you have already said today that it is important that consumers understand that they can lose all their money. But that kind of strapline in market testing is shown to be the biggest deterrent to ordinary consumers to make investments when the first thing they see is, “You’re going to lose everything”, which is highly improbable most of the time.

You have all these conflicting things going on. How are you going to educate if there is still this desire to present things to consumers oversimplistically, with risk scores in boxes of one to seven where they have no idea what number four means or, one of my favourite topics, a single figure for cost disclosures when you cannot do that for different types of investment that are fundamentally different? How are you going to begin to treat consumers with the level of sophistication that they are going to need to navigate this new environment?

Nikhil Rathi: If I start at the end, Sheree can come in on the concierge. I was waiting to see if you were going to get cost disclosures into your question.

Baroness Bowles of Berkhamsted: I could not resist.

The Chair: No meeting takes place without that being raised.

Nikhil Rathi: I had the pleasure of seeing you at Mansion House last night and we had a good conversation about where we are on cost disclosures. On the point I was making around consumers losing all their money, in terms of our dedicated risk warnings, they offer the highest-risk investments. If you are investing in crypto or some very exotic things, some people make an enormous amount of money, but a very large number of people lose quite a lot of their money and we are very clear about it. With those products, our and the Bank of England’s assessment is that there is no underlying value. We are allowing them into the system but you just need to know what you are going into.

The broader point around risk warnings is that we absolutely want to be quite innovative and open the door to giving firms a degree of flexibility around it, using the best behavioural testing. The warnings will be different for different channels because obviously it is different if you have a human interaction with an adviser versus if you are doing it on social media or a digital app. There are also different questions for

different cohorts. You will hopefully see some significant evolution in that direction.

Financial education features in your report. We would dearly love to do more on financial education and we are playing a role. We are always very mindful, though, that when the FCA was established financial education was deliberately taken out of our remit by Parliament and given to another body. The Money and Pensions Service and the Department for Education are doing it. So we have to be respectful of the institutional boundaries that have been determined, but we recognise that we cannot achieve our outcomes without leaning in properly.

Sarah Pritchard: I might just give one example which goes back to the coherence of the system, which Lord Hill mentioned before. LTAFs are a good example, which are illiquid and subject to our high-risk marketing rules. Our labels apply only to those that we typically call high-risk investments, and there are no prescriptive risk warnings at other levels of the investment chain. When we were consulting on extending retail access to LTAFs, we said: "Okay, should they be subject to FSCS protection? There is an argument that actually some of these investments will fail, likely at significant cost given the type of infrastructure projects that might be involved. Is that okay in relation to the impact on the levy?" We heard very clearly, "Yes, we do think that they need to be subject to FSCS because retail confidence in access to LTAFs as a product is important". So we listened and took feedback. That was an early indication before the very lively risk appetite conversation that we are having on a daily basis. It was a very good example from a couple of years ago of how we were trying to surface that question and take a deliberate decision about how to treat LTAFs in the investment environment.

On targeted support, we really hope this will be game-changing. We are also looking at proposals for simplified advice and thinking about how the consumer can best be helped; 9% of adults receive regulated financial advice and nearly one in five people turns to social media. If that is not a good example of where the advice gap is, I do not know what is. We are hoping that we will see a really thriving, regulated, full-fat financial advice system operating. We want to do work on simplified advice too because we hear that there will be circumstances where people will want regulated financial advice from a financial adviser in a narrower set of circumstances.

Of course we are also doing targeted support, which will enable firms to tap people on the shoulder, give them nudges and push them to consider different products and rates of saving based upon cohorts of people. It is important in that context that people recognise this is targeted support, not fully individualised, optimised advice. So we are really looking at the system as a whole to drive a greater culture of investment. We talk about opportunity cost as well as risk, but it is important to give the example of how we have been trying to surface this question around risk warnings,

consumer protection and the FSCS levy from way back, LTAFs being a good example.

Sheree Howard: On your question around UK firms seeking to invest, were you talking about UK firms seeking to invest in an international firm or a UK firm?

Baroness Bowles of Berkhamsted: An overseas company that might have wanted to come to the UK would get the concierge service. If its route into the UK is that it is being acquired into a group of a UK company—which may not be that big—would it still get the concierge help?

Sheree Howard: I do not think it would through this unit because it is focused on international inward investment. Having said that, to go back to what I was saying, our work has identified that our services were not well understood, including within government generally. I am now much more confident that if it ended up in the OfI or DBT, it would know where to come. We have revamped our website and would be very open to having a pre-application meeting with any firm seeking to help smooth that journey.

From that perspective, as I said, we revamped our website yesterday in this area in light of the fact that all the meetings I have had with industry in recent periods have identified a lack of understanding of the services we provide. I am not saying we have completely nailed that, and we will continue to iterate based on the feedback and understanding we gain. The key point here is that we are looking to make the journey smoother for all.

Q14 **Lord Hollick:** I have investments in three FCA-regulated companies, listed in the register. Going back to the point that the Chair mentioned about the target to reduce administrative costs by 25%, is this at all realistic? When you have £700 million more in costs, taking out £180 million and more than 1,000 people is a very radical restructuring of the organisation. Can you contemplate meeting that target and continuing to fulfil the responsibilities you have in your remit?

Nikhil Rathi: As I understand it, it is ultimately for the Government to set it out. The target is not about headcount and the cost of the regulator but the administrative cost to the industry of the entire regulatory system, of which our fees are one component. But it is also the cost of all our regulation, the compliance costs and all those things; that is what they are targeting. They are looking at how they size that and get a baseline, which they will come to us with once they have done that and then we will work through the right delivery plan.

I do not think I am the right person to ask whether it is deliverable because we have not seen the details from the Government yet. They are doing some work in DBT and the Treasury across all the regulators. Financial services is just one part of it; they are doing work across

planning, energy and everything, and they are going to come to us with a clearer proposition.

In our business plan, we are staying flat in terms of our headcount. We are investing in technology, which will enable us to take on new responsibilities without growing further. It is not our intention to grow particularly significantly, unless something very dramatic happens in terms of the scope of responsibilities that we are given. There are areas where we have managed to reduce cost quite materially. I gave you the FSCS levy as one area earlier, which was £700 million a few years ago and is now £275 million to £300 million. That was a direct saving to financial services businesses that have to pay that levy.

Lord Hollick: Do you think it is at all realistic that you can take that amount of cost out on efficiency benefits and things like that, or does it require a fundamental rethink of the span of responsibility that you have?

Nikhil Rathi: It is clearly very demanding, and we will have to see how it is scoped. It depends on how ambitious we want to be on the use of technology and digitalisation. In my letter to the Prime Minister, I talked about some of the roadblocks and both he and the Chancellor were very generous. They said, "Tell us what you think we should do. We're asking you regulators to come up with ideas, but also tell us what the Government could do differently".

When you look around the world at who has overtaken us in certain areas, they have moved faster on and executed better large digital innovation. We have struggled to really land where we are going on digital identity, which has been fundamental to the development in India of not just the payment system but e-commerce and other public services. It has dramatically changed financial inclusion in not just India but Brazil, the Middle East and Sweden; I can give you lots of examples. I know it is a vexing political issue here in the UK, and there is a long history around it, but look at what is going on around the world and how much cost it takes out of the system.

We were having this debate earlier about financial crime. Of course, none of us wants to have a system that has financial crime in it. Something like that can make an enormous difference to help reduce the cost of money laundering checks and know your customer checks. For a long time, banks have asked for a digital database on Companies House that they can use and have greater reliance on but it has struggled with investment. Other ways are digitising our land registry system and making it possible to verify death electronically so life insurance can be paid out much quicker. Twenty per cent of money mules are not reported to our National Fraud Database, so that adds cost to the system.

If we are willing to be bold and really invest in the skills we need to drive some of this change, some of that is achievable. The Prime Minister has talked about rewiring the state, and that is really what this is about.

Lord Hollick: As an independent regulator, it is probably very important

that you spell out some of the ways that you can reduce costs, and point out to the Treasury that you may not be able to fully meet the remit if the costs are slashed dramatically.

Nikhil Rathi: I take note of that.

Lord Hollick: We will leave that there, but it would be interesting to follow this debate that you were having with the Treasury.

Nikhil Rathi: I am not sure how the Treasury would respond if I said that, but let us see.

- Q15 **Lord Hollick:** A year ago, you made the point that you were not convinced that private equity posed a significant risk, and you also pointed out that better transparency and data sharing were required because there was not enough information to really draw a conclusion at that stage. As you know, we have made a call for evidence about private finance. From the evidence that we have taken so far, it is clear that the liquidity in the private finance market has tightened significantly over the last year. We have also had the interconnected nature of the primary banking market and the private finance market explained to us. Given your quite understandable reservations a year ago, do you feel that private equity and private finance generally represent a systemic risk, or are we still in a position where we need a lot more data to really understand the interconnected and potentially systemic risks?

Nikhil Rathi: I have been reluctant to declare it a systemic risk. Once you get into that territory, you get into a whole panoply of regulatory, bank-like intervention, which I worry may not be proportionate. I also worry that we are in a bit of a sterile debate about public versus private. What we care about is that businesses of all sizes are able to access the debt and equity capital they need in the form they would like to invest and grow their businesses. For some, that will be public markets, for some it will be private, for some it will be bank lending, and for some it will be a combination of all of those. We want a full, healthy, functioning financing spectrum, and private equity has an important role to play in that.

Since we had that discussion a year ago, we have published detailed work that we have done on private markets—including on valuations—where we have said, “Look, we’re not coming in to try to throttle what you are doing. It’s important we understand what you’re doing, precisely so we understand whether the risks are systemic or not”. What we found was actually an awful lot of good practice, which we wrote about. We also found there were some issues with some of the valuation processes, for example valuation committees having the managers of the funds on their committee who had a performance fee linked to the valuation. You can see the immediate conflict of interest problem there. There were very differential practices around ad hoc valuations.

When there is a big market event—which we are seeing many more of—some firms would revalue quite quickly. Others would try to play it as

long as possible and report last year's valuation to their investors, even though there had been some dramatic market event in the interim, and they were not giving them an updated valuation. Those practices we want to see fixed. If those kinds of things are not fixed, then you start to see the potential for serious systemic risks and I am hoping that we do not get there.

The PRA has similarly done work—which you alluded to—to understand from the banks what their exposure is, not just through direct lending but derivatives, swaps and secondary financing so they get that view and perspective as well. When we think about our next system-wide exercise, I am sure this will be one area that the FPC will want to pay particular attention to.

The Chair: We have been going for quite a while. I have been very impressed by your request that the committee should work with you to deliver what we all want to see, which is a more competitive, successful financial services industry. I think the committee would be unanimous in that view, as we were in our report.

On behalf of the committee, can I thank you, Nikhil, Sarah and Sheree, for answering our questions and exposing some of the considerable challenges and how things are never quite as simple as they seem when you look at the detail. Thank you very much indeed, and we look forward to your response to our committee report and then having you before the committee again to discuss that. On that basis, this public session is now closed.