

Treasury Committee

Oral evidence: [Future of Financial Services](#), HC 147

Wednesday 26 May 2021

Ordered by the House of Commons to be published on 26 May 2021.

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Members present: Mel Stride (Chair); Rushanara Ali; Mr Steve Baker; Harriett Baldwin; Anthony Browne; Felicity Buchan; Dame Angela Eagle; Emma Hardy; Julie Marson; Alison Thewliss.

Questions 122 - 196

Witnesses

I: John Glen MP, Economic Secretary to the Treasury, HM Treasury; Gwyneth Nurse, Director of Financial Services, HM Treasury.



Examination of Witnesses

Witnesses: John Glen and Gwyneth Nurse.

Q122 **Chair:** Good afternoon and welcome to the Treasury Select Committee evidence session on the future of financial services. We are very pleased to be joined today by two witnesses from the Treasury, one Minister and one official. I am going to ask them to very briefly introduce themselves to the Committee now.

John Glen: I am John Glen, Member of Parliament for Salisbury. I am the Economic Secretary to the Treasury and the City Minister. I have been in that role since January 2018.

Gwyneth Nurse: My name is Gwyneth Nurse and I am the director of the financial services group at HM Treasury.

Q123 **Chair:** John, could I start with a question to you? You have had the consultation, which has now closed, and you are due to respond to that in the second half of this year. I do not want, in any way, to draw you into prejudging where you are going to come out on it. Specifically on the Treasury Select Committee, what do you see as the strengths that it would have in playing perhaps a central role in the oversight of regulations going forward?

John Glen: You have it right that we will come forward with a second stage. We always planned to do this in two stages, so we will bring something forward in the autumn and would aim to legislate in the subsequent session.

The first thing I would say is that it should not be for me to determine the role of parliamentary Select Committees. What I can do is refer to the matter of the regulators and what they should be accountable for, but the Treasury Select Committee is a very respected part of our infrastructure in the House of Commons to scrutinise financial services and all matters of the Treasury.

There is a degree of expertise there and an understanding of matters, but the real challenge is to work out the issue of the regulators and what they should be accountable for. That is something that they are accountable for now, and the Treasury Select Committee can bring them in, in the course of its work and through consultations at different points. They report to and issue accounts to Parliament. They are subject to the National Audit Office and engage a great deal with parliamentarians in the Commons and the Lords.

Q124 **Chair:** Gwyneth, did you want to add anything to that?

Gwyneth Nurse: No, not particularly. That was a very good explanation of how the system fits together and where the Treasury Select Committee comes in.

Q125 **Chair:** Depending on how this is all set up, there could be quite a volume



of regulation to scrutinise, particularly in the first wave of new regulation coming down to the regulators, and thereafter, perhaps, still quite a volume of business as usual. How do you see that as a challenge? Is this such a huge volume that it would be very difficult for, say, a Committee such as ours, in its current form, to handle that challenge? What thoughts do you have on the issue of the volume of scrutiny?

John Glen: This is an interesting one. What is important is that Parliament sets primary legislation and the rules, and the principle that we worked on is the FSMA one, where the regulators then have delegated authority to develop technical rules. Then there will be an interaction with Parliament about extra, activity-specific considerations that will be added, as they were in the recent Financial Services Act, with certain activities.

I guess it will then be a judgment for Parliament around what is then appropriate. For example, the PRA has a live review of a page of guidance in one of its handbooks. Whether the Committee wants to scrutinise that is a matter for the Committee, but there is a level of aggregation and a degree of likelihood of interest, if you like. What is important is that its fulfilment of Parliament's objectives in primary legislation needs to be scrutinised, but the extent of that and the mechanism by which that is done will be a matter for Parliament to determine.

There are lots of different views on this. The TSC has made observations around it. The APPG for Financial Markets and Services has views on it. We had 120 responses before the first phase closed in February, and we are looking at those now. What is important is that we keep that degree of transparency clear, but we respect the fact that the regulators are technical experts and need to do their firm-facing work and be able to update things. Financial services is not a static body of regulation, and they will need to adapt and update things. Perhaps we might come on to talk about how that process works.

Q126 **Chair:** When we move to whatever this new process of scrutiny is going to be, what are the particular challenges that you will have at the forefront of your mind when you look at what you feel would be the best solution? Part of it might be the sheer volume of technical stuff that has to be looked at closely, but are there other aspects that you are particularly thinking about at the moment, in coming to the best possible model to handle these new arrangements?

John Glen: One of the significant challenges now is that, post-Brexit, we have responsibility in Parliament for primary legislation. We work as a very well-respected jurisdiction for financial services, with world-class regulators that have a strong reputation. We also need to take account of the wider environment that is evolving in financial services across our friends, neighbours and competing jurisdictions, from Switzerland to Singapore, as well as, of course, the EU. The challenge will be to allow the regulators to adapt and update rules and regulations, but for Parliament to be able to guide with primary legislation.



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It also relates to the broader landscape. Think of the Financial Services Act that we have just put through, where we have given the regulators responsibility to implement some of the outstanding Basel rules in terms of investment firms. We then have regard to things on top of that. There is not a single, simple solution. We saw this through the passage of legislation on consumer matters, and members of this Committee and others in the House were instrumental in declaring the challenge with "buy now, pay later". Parliament had a role in informing me and my officials around the regulation of funeral plans.

There will be occasions where new matters will want to be given to the regulator, but we have to try to preserve a dynamic where the regulators have that authority to develop the appropriate market-facing rules, almost always in consultation with industry and stakeholders such as the Treasury Select Committee and Parliament. We have to try to keep this as clear and straightforward as possible, but to allow for that evolution of what they are looking at and how they take account of the wider environment.

Q127 Chair: However the Treasury Select Committee ends up emerging within this new approach, how important is the fact that we have a fairly holistic oversight of Treasury, the regulators and others, as an asset to us in playing our part in the scrutiny that we are going to need in the future?

John Glen: It is critically important. I have been on Select Committees previously, before I was a Minister. Even as a Government Minister, I recognise the limitations that we all have in our roles, and the need of support that we have. If we look at the EU, the ECON Committee, which Baroness Bowles has made representations on and was, indeed, a distinguished chair of, has a significant staff of 60 people and is a very different model to how our Select Committees work.

The question will have to be: what is the appropriate level of resourcing, insight and expertise needed to do a meaningful job of scrutinising technical regulations and to demonstrate scrutiny of how well they have met the primary legislative obligation? That is the crux of it. As for how that is done, we are going to work through some options, and that will be the basis for this second consultation leading to legislation in the autumn.

Q128 Anthony Browne: My questions are about your broad approach to regulation and the political philosophy behind it. In England, common law has historically been the basis of our legislation, and the EU is based a lot more on rules supposedly derived from the Napoleonic code, although there is some debate about that. As we transpose the regulatory system here, what is your underlying approach? Do you want to have a more English law/common law approach or a more rules-based system, like the EU?

John Glen: We have always done things slightly differently. FSMA 2000 delegates to our independent expert regulators the responsibility for developing firm-facing rules, rather than directing, across the rest of the



27 EU countries, specific, heavily detailed and technical instructions to those national regulators. That delegation of responsibility is consistent with the powers of FSMA. We are looking at an outcome-based approach, so that has guided us and been a principle that we operate on, and that will continue to be how we operate.

I guess the issue is around these "have regards", and I noted in some of the evidence that Vicky Saporta from the PRA submitted that that can be quite challenging, because we in Parliament impose these "have regards" and different priorities. She cited, for example, the challenge of no clear hierarchy on that, and the risk around diluting effectiveness. We have to find a way of accommodating the will of Parliament without creating ambiguities in the obligations and mandate that we give our expert regulators, so that they can be clear about what we are asking them and, therefore, how they need to go and deliver it.

Q129 Anthony Browne: Some of the questions later on will be following up on that and the prioritisation of it. In your consultation, you praise FSMA but you point out shortcomings when you say, "It did not provide for Government and Parliament to set the policy approach for specific areas of financial-services regulation". This has been seen as moving towards a slightly more activities-based regulation. Is that the case? What exactly is the gap there that you are identifying and wanting to solve?

John Glen: The issue is around getting this balance between specific duties of the regulator and what will be seasonal or evolving "have regards". The regulators have to have clear instructions and detailed responsibilities, but we have to be able to influence that at a strategic level through legislation and through things that evolve. I guess there is that tension in, essentially, how much direction we give while respecting their autonomy and discrete specialist, professional knowledge to develop rules that are effective in a market.

Q130 Anthony Browne: So you are not moving towards a more activities-based approach.

John Glen: Not really, no. We will need to give ourselves some flexibility, but what is most effective is that we have regulators that can do what they need to do as the market evolves. I have come across things week in, week out, where the regulators are looking at things. They take input from me and from the market, and then develop their position. We would be in a very concerning position if it was a situation where Parliament or a Treasury Minister was seasonally mandating regulators to change things based on political pressure in the very short term. We need some checks and balances to ensure that we have the right way of influencing and making known concerns that they should have regard for.

Q131 Anthony Browne: Yes, you definitely need the checks and balances. With regulation, talking about it in the abstract can seem very arcane. I was just wondering whether there are any concrete examples that you can bring to light of where the Treasury wanted to direct regulators



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specifically on areas of activity, but felt it did not have the powers to do so.

John Glen: We have done what we wanted to do. We place duties on how they would implement the investment firms regime to take account of the international standing, and they must consider those when they make rules. I am happy to defer to Gwyneth, who has great experience and may have something useful to say.

Anthony Browne: Gwyneth, we have worked together in the past, and you are very good at the detail.

Gwyneth Nurse: We have. I would just build on what the Minister was saying. The particular areas of focus that we were considering really came through the Financial Services Act 2021 in the sense of Basel and the investment firms prudential review, where you saw that the Government added the specific “have regard” there, particularly to “as a place for internationally active investment”. That allowed us, in a sense, to build on the overarching principles and objectives, and to bring a spotlight to the areas in those files that Parliament wanted the regulators to consider. If you look at that approach and extrapolate it outwards, that is the kind of thing that we are driving at in the future regulatory framework.

Q132 **Anthony Browne:** Coming back to my first question about the difference between a common law approach and the civil code/EU approach, do you see a shift back to a common law approach? Where does that leave the role of the courts in interpreting not specific rules, but the general principles of regulation and whether it applies to one instance or not? Is that the shift that you see, back to traditional English common law?

John Glen: What I see is continuing to give our regulators the responsibility for detailed rules and to have an outcomes-based approach to that. That is consistent with FSMA and something that we want to continue to embed. I want to make clear to consumers where the accountability for the regulators’ actions lie as well. I also want to be clear that we have transparent consultation with Parliament and with industry on how these things evolve. There is a public expectation post-Brexit for us to be able to make and execute decisions in Parliament and to see those followed through, but what we cannot have is a situation where technical rules are manipulated by short-term political considerations, because that would undermine our reputation.

Q133 **Harriett Baldwin:** I want to explore a bit more the Treasury consultation on ringfencing. You mentioned that it has constrained the PRA. When we spoke to Vicky Saporta from the Bank of England, she told us that the Bank did not feel constrained by ringfencing legislation and was not requesting that it be taken out of statute. Were you surprised by that?

John Glen: Ringfencing is something that we did in UK law separate to the EU, and there was no international norm around how that ringfencing was done. We did it in reaction to the Vickers report in 2014. It was



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implemented in January 2019. Indeed, I have just initiated a committee to review that ringfencing regime to see how effective it has been. We will do whatever we need to do domestically, and that discretion is now more in focus. Ringfencing was a domestic innovation that we took after the crisis.

Q134 **Harriett Baldwin:** I was the one who put it on the statute books, which is why I was wondering what you are finding problematic about it.

John Glen: It is a very solid piece of legislation, I must say, Harriett.

Q135 **Harriett Baldwin:** Seriously, do you have concerns about the way that it has been legislated for?

John Glen: No. We are doing a review, as you would expect, because there are concerns over what that has done to banking with respect to the separation of day-to-day banking and investment banking. I have appointed Keith Skeoch and a committee of very experienced people to look at that, and that is in line with the obligations of the legislation that you took through.

Q136 **Harriett Baldwin:** But you do intend to take it out of statute.

John Glen: No. We would seasonally review fundamental legislation like that. We will look at how it is operating and then draw conclusions from that.

Q137 **Harriett Baldwin:** Did you consult with the Bank when you were drafting the consultation or have you heard its views subsequent to that?

John Glen: I would anticipate that the work the Committee is doing into this will consult widely, because it is very important that their views are understood. That is the way that we approach this generally. This may be something that Gwyneth wishes to add some more detail on, but it is important to correct any risk of misunderstanding around the dynamic between the Bank, the FCA and the Treasury. We have frequent interaction. Virtually every day, I have some sort of interaction with one of the deputy governors or somebody from the FCA, and they are embedded into a lot of our decision-making. May I bring in Gwyneth here, who might be able to add something?

Q138 **Harriett Baldwin:** Yes, I would be very grateful, because the consultation that the Treasury put out contains this assertion that the Bank feels that it is constrained by legislation on ringfencing. I wondered, Gwyneth, if you could clear up that detail.

Gwyneth Nurse: It is very pleasing to hear Vicky Saporta say that the Bank does not feel constrained by that legislation. There was an active debate when we put the ringfencing into place about exactly how we did it. The review is underway now, five years on, just to take a look at how it is operating. It is clear that the Bank does not feel constrained by it, which is very positive. We will see what the review turns up. In terms of the relationship between the ringfencing and the future regulatory



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framework, the framework is very much directed at the onshored EU law in the first instance, and that is very much where we all start. There is no intention to disrupt the ringfencing legislation as it stands today.

Q139 Harriett Baldwin: To that detailed point about how the assertion that the Bank is constrained by legislation has been left in your consultation, and then we find out that the Bank does not agree with the assertion, what are your thoughts?

Gwyneth Nurse: We will deal with that in our response documents. It is perhaps a view that we had heard as we put together the consultation, but I am pleased to hear that it is not the case.

Q140 Harriett Baldwin: The FCA, in its evidence to us, told us that it had no problem with the senior managers regime being defined in statute. Were you surprised about that as well?

Gwyneth Nurse: The senior managers regime has worked really well. It works well as a piece of legislation, so I was not surprised. I was pleased to hear it.

John Glen: I do not really have anything to add to that. To your earlier point about what we cited in the consultation, we use these consultations to elicit responses. We hear things. We want to make sure that we are as broad as possible. Our conclusions from that will determine what the views are, how nuanced they are, and what we should do about it.

Q141 Harriett Baldwin: What, in your mind, does or does not need to be in statute out of these pieces of non-EU-led legislation?

John Glen: I do not have a fixed view about every single piece of legislation. We have a legislative reality at the moment. Different pieces of legislation, on an ongoing basis, will be reviewed for their effectiveness and how they need to be adapted. What I did just prior to 2019 is onshore all the EU caucus of legislation into the UK statute book, and we now need to work out how we move forward in updating that and the framework for doing that. The second stage of this consultation will establish the premises of how that will work.

Q142 Alison Thewliss: I have some questions about the form of scrutiny that Parliament may have going forward. First of all, does the Treasury have in mind that Parliament would perform any kind of ex ante or before-the-fact scrutiny of regulatory proposals?

John Glen: What I would say to that is that it would be at the discretion of Parliament. There will be times when you may determine to look proactively at something that has not yet happened, and other times when regulations have developed and you will scrutinise how effective that has been, taking evidence on that.

I would go back to the point I made. There are things, from changing a single definitional correction in a rulebook to charging fees, or things that the PRA have out for consultation at the moment, that may not be



important, but you might want to say, "On a particular area of live discussion around 'buy now, pay later', how do you get that right?"

I am not telling Parliament how to do its job. It is very important that you organise yourselves and that Parliament decides how to do that scrutiny. There is no suggestion that the Treasury would wish to inhibit how and when Parliament would wish to review legislation or the process of rulemaking by regulators.

Q143 Alison Thewliss: Surely, the Treasury has to allow Parliament to have its place within the timescales of things that it wants to do. If that were the case, it is not entirely in Parliament's hands to decide its role there, because the timescales do not allow Parliament to have that scrutiny, for example, and it becomes more difficult. You and I have gone backwards and forwards, long and weary, on issues of scrutiny and issues of regulations going through. We both know that there have been cases where statutory instruments, for example, have been brought forward and passed through the Delegated Legislation Committees, and then you have had to come back and make corrections later on. That is even despite other experts having looked at this, and rank amateurs such as me looking at it and asking questions as well. Ought there to be more of a role and more of an opportunity to get it right before these things come in, rather than fixing it afterwards?

John Glen: Parliament should be involved in as much as it needs or wants to be involved in, and its scrutiny of regulators should be based on the judgment of Parliament and individual Members of Parliament. What you were referring to there were some of the examples of where, across 60 statutory instruments that we did together in committee, there were minor drafting changes, for which I apologise. Very rarely were they of a deep functional outcome, but they were legally significant and would have damaged the effectiveness of the legislation.

In terms of the role that Parliament should have, it should be full and, indeed, it does inform how I operate. Through the passage of the recent Financial Services Bill, now Act, it was Parliament that influenced the development of the legislation, and I would expect that to continue. I would expect the input of Parliament, and probably this Committee in some form, with the observations that it makes about regulations, to also be very significant in influencing the way things evolved.

Q144 Alison Thewliss: The FCA took a view that any ex ante scrutiny might slow down the ability of regulators to react to fast-moving events, which could result in detriment to consumers. Do they have a point there?

John Glen: There has to be some balance. We cannot have a situation where we have something so rigid that that does happen, but I am also sensitive to the concern others will have that, if we give too much freedom without accountability, nobody gets everything right all the time and there need to be checks and balances. I note that observation, and we will have to consider that when we bring forward another iteration of



our thinking for consultation before legislation is laid, if PBL agrees, early in the next session.

Q145 **Alison Thewliss:** I can see Gwyneth nodding there. I do not know if there is anything in particular you want to bring in.

John Glen: That is reassuring.

Gwyneth Nurse: I was definitely nodding in agreement there. I was just thinking about what the Minister was saying about needing to have the flexibility of approach. On the vast majority of issues on which the regulators are taking things forward, there is a detailed consultation process set out for them, which they follow. It includes the ability of the Treasury Select Committee to input, if it so wishes. I was thinking about other examples, for instance, in the Covid crisis, where there needed to be rules for mortgage payment holidays and the like. There was just a need to move at speed. Having the flexibility to fit the right things to the right circumstances is probably what we would be aiming for, but with a strong preference for full consultation, where it is possible.

John Glen: Can I just take the opportunity to pay tribute to Gwyneth and her team for the work they did on that? Bounce back loans and other interventions were done at pace by officials in the Treasury, and that was facilitated by lots of consultation with industry and regulators. It was a combined effort. Gwyneth makes the point very well.

Q146 **Alison Thewliss:** I would agree that, for things to have moved quite as quickly as they did, it would have been quite a job of work to make that happen. The Bank gave evidence to the Committee and said that ex ante regulation could infringe on its independence as a regulator. Is that a legitimate concern, given its role?

John Glen: There is going to be a creative tension in the construction of these proposals. There is no doubt about that. We have to look at it in the context of specific activities that it has to do, and to make sure that we have enough flexibility. I take your point. It is a fair one and one that we have to accommodate as we design this. It is a delicate piece of work to get it right. We will do our best to bring forward something that pays attention to it but also takes account of the wider flexibilities needed.

Q147 **Alison Thewliss:** You have talked about the consultation process that the regulators go through, and the ways in which Parliament currently does its job. Can you think of any particular examples where flaws in proposals or draft rules have been picked up either by consultation or by Parliament, either Commons or Lords?

John Glen: No, not offhand. I do not think so. Most of what is done is done through an iterative process of consultation, where the industry's views are taken account of and draft proposals are come up with, and they are put out and developed. Very rarely do we have regulators coming up with outputs that are not tested with industry. Often, there are



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legal risks associated with some of the changes that they are making, and it is quite technical, and so those consultations are pretty thorough.

Both we and the regulators have a large number of live consultations right now. Attributing responsibility for changes is difficult, because multiple parties often bring things to our attention. We are doing stuff at the moment with respect to the synthetic LIBOR rate, which is an incredibly complex piece of work. We are taking lots of input to get that right, and there will be a range of views over that, as well as over most of the things that we do.

Q148 Alison Thewliss: Lastly, are you satisfied that the consultations that are carried out are wide enough in their scope and listen to the right people? You gave the example of “buy now, pay later”. You could listen very much to the industry on that or you could listen very much to consumers and those affected. How do you make sure that the balance is correct, once the regulators go and do these things themselves?

John Glen: I always have to work hard to get that right. I have had just over 100 meetings since January with representatives of different organisations. They will be CEOs of financial institutions but also consumer groups. I met yesterday with the new chief executive of Citizens Advice, and it is really important. I meet with the Financial Inclusion Forum and with a whole range of stakeholders. I am very sensitive to that concern. Many of the “buy now, pay later” firms want regulation. I have met with a number of them, but they are one set of views. The views of consumers and parliamentarians are critically important as well, and I speak to APPGs on a regular basis, which act as a very useful convening point to get that legislation right.

We do need the technical expertise of regulators and Treasury officials, because, on that particular one, getting it right and giving people the right to use what is, essentially, a deferred payment mechanism, while not allowing multiple deferred payments to get people into bad debt, was quite a complex thing. How do you have a proportionate regulatory intervention across that transaction?

Q149 Rushanara Ali: Good afternoon. I wanted to ask you some questions about independence of the regulators and influence of the Treasury, and to dig more deeply and pick up on some of your answers to Anthony. Your future framework consultation states, “HM Treasury should be consulted early in the regulators’ policy development process, before proposals reach the public consultation stage”. Do you intend to change aspects of FSMA to legally give Treasury Ministers the right to see policy proposals before they go public?

John Glen: Not really, no. The wrong conclusion could easily be drawn from that, because what it does not say is that Treasury Ministers should have some sort of veto. What is sometimes helpful is for Ministers to be able to take account of the broader public policy landscape. Sometimes, if a piece of consultation from a regulator is going deeply into one very



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narrow piece of work, it would be useful for us to see that, because we can then say, "There are a lot of things happening here. I have spoken to 30 bank CEOs since Christmas. How is it relating to this? Do you want to frame this in a way that takes account of that?" That is the principle behind that, not that I have some sort of right of veto or somehow can trump everyone else.

Q150 **Rushanara Ali:** On the specific question, you do not anticipate any legal changes, so that Treasury Ministers can change policy proposals.

John Glen: No.

Rushanara Ali: You want to be able to influence but you are not going to make any changes to FSMA to give you legal powers.

John Glen: No, I do not want to do that. I would want to ensure that Ministers have appropriate oversight and input across early stages of things, so that those consultations can be framed appropriately.

Q151 **Rushanara Ali:** I see why you would want to do that, but can you just talk us through what being consulted early would mean, what timeframe and at what stage, and what you would expect from the regulator? I will come on to why I am probing on that.

John Glen: It could be that there is a consultation planned in a few weeks and we would be made aware of it. We would be able to give input into some of the representations that we have had on something, and feed that back in, but we would not then have the right, and nor should we, to change when it was coming out or anything like that. We would want to see an appropriate level of co-ordination. May I bring Gwyneth in here? She is a veteran of a lot of these consultations and will perhaps give you more specific insight into that interaction.

Q152 **Rushanara Ali:** I am going to bring Gwyneth in shortly. Just for you, John, we are clear that there will not be a power to veto. Indeed, when we had the FCA, the response to that question was that that would fundamentally encroach on the independence that the FCA currently enjoys, so we have an assurance from you that that will not happen. In your earlier answer, I appreciate that you were giving an example, because you are lobbied by MPs, like me and others, to take into account some of the gaps around regulation.

You mentioned X number of banks. At the back of many people's minds will be that, post-Brexit, with a rush to try to incorporate legislation domestically—while there have not been big changes, this is the opportunity to do so—the power balance might shift in the direction of deregulation. There were reports earlier in the year of where the Chancellor and the Prime Minister were suggesting that, but where people in the City were saying "We do not need to make massive, radical changes".

There are quite a lot of tensions here, so what we want is a very independent regulator, but one that takes on board perspectives, input



and legitimate concerns from Treasury and parliamentarians. Is that an impossible thing to achieve? There is clearly a tension. Are you able to assure us that there will not be a particular sector that rides roughshod over regulation, because it has the ear of Ministers? In the last week, we had hearings about lobbying, for instance. Some people are more powerful. City banks have much more power and influence than consumers, for instance. Are we going to be able to strike the right balance, so that we have the independence that is needed?

John Glen: I take the responsibility to get that balance right very seriously. Our reputation is based on having strong independent regulators and regulations. When we do reviews, like the Kalifa review or the independent listing review by Jonathan Hill, they come up with suggestions for Government, and we work with the regulators to work out the best way of implementing them.

Those are based on deep consultations and a settled will. We do not just dial up the Minister, so that the Minister can ring the regulator and things can be changed. We look deeply and seriously at changes in the market and at whether our configuration is optimally served by the regulations or whether they need to change. That is not done by me asking the regulator, and nor should it be, but they are aware of what market and consumer sentiment is. Consumers have driven some of the concerns that we have acted on, and Members of Parliament, with respect to some of the consumer credit changes over the last decade, have been instrumental in that.

Gwyneth Nurse: I just wanted to come in on the point that the Minister was making about the regulator consulting with the Treasury prior to making a consultation. The consultation leaves open the possibility of making a legal change, just by way of systematising what might happen in terms of a conversation. As the Minister said, in terms of the Minister being able to feed in the wider public policy perspective, that is really what that is looking to get at. I just wanted to add that point.

Q153 **Rushanara Ali:** So there will be scope for a legal change.

Gwyneth Nurse: The consultation leaves it open. We are thinking about it and there will be a second full consultation later in the year. It is a point that was left open after the first consultation.

Q154 **Rushanara Ali:** Effectively, you want to keep your options open about that.

John Glen: What I want to make clear is that I do not have any aspirations as a Minister to grab power for myself.

Q155 **Rushanara Ali:** You took the words out of my mouth there. I was about to ask you if you had aspirations for a power grab.

John Glen: No. I agree with what Gwyneth said. We need to make sure that the wider public policy imperatives are fed in appropriately.



Q156 **Rushanara Ali:** You are not the kind of Minister or colleague who would necessarily go for a power grab, but what is the view among your colleagues in the Treasury? Is there a collective view among the Chancellor and other Ministers? You are in this role but you might be moved to an even bigger one, perhaps in a different Department. What is the general feeling in Government about that? I know it is your responsibility at the moment.

John Glen: This is a future regulatory framework for financial services, and that is what I am equipped to speak on in detail. Here, there is a complex equation with the regulators and the configuration of accountability to Parliament and to industry. We have to get that right. It is difficult for me to speak on matters outside of my area, because each of them has a different dynamic. It would be inappropriate in this context for me to be taking more authority. The regulators need to be able to do what they do well, but they need to be aware of the broader public policy concerns and landscape.

Q157 **Rushanara Ali:** That is something that we will get to later on in the year, because you have said in these responses that the door is being left alone to my first question. I was trying to establish whether, while I know that it is your remit and responsibility, the Chancellor, for instance, is of the same mind and position as you are and whether there is a collective view here. You are leaving the door open but you probably will not go down the route of a legal change.

John Glen: We have a consultation. We will have a second round of consultation. We will look at what comes from that and come to a collective view. Treasury Ministers do not act separately, and we will come to a view after considering it very carefully and then publish legislation. You will be able to ask the Chancellor tomorrow what he thinks, but I doubt very much that it will differ from what I have said.

Q158 **Rushanara Ali:** That is good. I wanted to ask if you could reflect on this point about the balance. A piece was written in March in the *FT* by Helen Thomas. I will quote it: "There is a sense in the City that, thanks to Brexit or perhaps just the passage of time, the regulatory pendulum is starting to swing back in its favour; that there is a chance to undo some of the so-called gold plating that finance feels has been slowing it down in recent years".

I have mentioned a different perspective that was given—that some in the City do not necessarily want to go down that route. How would you intend to approach this? Given the financial crisis and the gold plating that was needed, if "gold plating" is the right phrase, and given that we have talked about the senior managers regime and ringfencing in earlier questioning, what is your take on this particular analysis?

John Glen: It does vary from issue to issue. Are you talking about Solvency II, MREL, wholesale capital markets generally, cryptocurrency or blockchain? On all of those, there are discrete pieces of work together with regulators and the Bank or individual inquiries. I would not



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characterise it in a broad sweep way. There are people in the insurance industry who feel very strongly about the suitability of the Solvency II regime. We are doing a consultation and looking very carefully at that with the Bank of England. The same is going on with MREL. I will see representations, and so does the Bank of England. It is very difficult to give you a sweeping single quote on that, because it does not do justice to the complexity of what we are dealing with.

Q159 Rushanara Ali: But we should not expect this to become something that leads to deregulation and less protection.

John Glen: No, absolutely not. Our reputation is not built on deregulation. It is built on high standards that reflect the complex needs in an evolving market.

Q160 Rushanara Ali: That is really helpful. I have one final thing that I would like you to take away, which is unrelated to this topic. I have just had Nationwide Building Society write to me, saying that it is going to close one of its branches in my constituency. In the last year, because of lockdown, people were not visiting branches so much. This issue has been live for a lot of us over a number of years, and we continue to get branch closures. I would appreciate it if you and your colleagues could perhaps look at this issue of branch closures. There will probably be another round, given that I am already receiving notices of branch closures that especially affect vulnerable constituents. I would be really grateful, while I have you, if you could take that away.

John Glen: Absolutely, and there is a massive evolution in the landscape of branches, but there is also a commitment that we expressed in the Budget on access to cash. We have more coming imminently in terms of how we are going to deal with that, and this is something that Gwyneth and I spend a lot of time working on. It is a very live issue that I will totally take on board, and we will continue to work on it.

Rushanara Ali: I will write to you, John. Thank you so much.

Q161 Dame Angela Eagle: I want to ask more generally before I go into specifics. Is there an elephant in the room with all this technical talk about regulation and complex products? We are in a situation where online scamming is massively increasing, people are being defrauded, often of their life savings, the FCA is not staying on top of some of this, and market integrity is being increasingly threatened, and yet we are not talking about it. All we get on this Committee, when we try to see how enforcement of the rules can be strengthened, are excuses from a very fragmented system for why nobody ever goes to jail when they nick their customers' money. Minister, do we have the balance wrong? Is the elephant in the room market integrity?

John Glen: It is a challenge to improve the way that we regulate and the incisiveness of the regulator. That is why the FCA and its new CEO, Nikhil Rathi, who has been there for seven months and whom you have met a number of times recently, are rapidly undertaking this transformation



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programme to empower decision-making of the over 60,000 firms. Indeed, if you look at London Capital & Finance, which was a significant failure, we got a report done. We have activated the recommendations of that report and we will be bringing legislation forward imminently to get those pay-outs made. Financial services is a fast-moving industry, and we are looking all the time at how we can improve the way that we deal with consumer risks.

On the point that you made about online scams, the online safety Bill is coming forward in the next few months. Through the legislative scrutiny of that, we will look at the issue of fraud and how that can be dealt with. It is also very important that the online advertising review takes account of some of the unresolved matters there. You have rightly said that this is a massively growing problem that hits consumers, and I am working with colleagues across Government, in DCMS and the Home Office, and with the industry to try to fix it. I will be meeting with some firms on that imminently.

Q162 Dame Angela Eagle: It is too fragmented, though. Don't you think that sending some scammers and fraudsters to jail might discourage this kind of behaviour? We do not seem to be very good at doing that, do we?

John Glen: There is a live criminal investigation with the Serious Fraud Office with respect to London Capital & Finance, and I hope that we will be able to apprehend and bring people who perpetrated crimes to justice. Of course, I am in favour of that, and we would want to co-operate to make that as easy as possible.

Q163 Dame Angela Eagle: We look forward to your openness to amendments to the online harms Bill, because the FCA made it quite clear, when it gave us evidence, that it wants more powers, so that it can deal with some of the stuff put in the online harms Bill. I assume from your answer to me today that you agree with that.

John Glen: It is a serious issue. The question is: what is the appropriate legislative intervention that is going to deal with it? That is what the pre-legislative scrutiny and the subsequent legislation will need to deal with.

Q164 Dame Angela Eagle: So you are giving us an indication in the Committee today that you are open to extending the scope of this kind of legislation, so that we can pick up some of these new and increasing threats, many of which have grown exponentially during the lockdown.

John Glen: I am very pleased that fraud is going to be considered in this regard in this legislation, and I want to see effective outcomes.

Q165 Dame Angela Eagle: I look forward to having you back when we have some effective outcomes and some scammers behind bars. Will you extend the Compensation (London Capital & Finance plc and Fraud Compensation Fund) Bill to the victims of other proven regulatory failures or are you determined just to have this compensation Bill that is coming along very narrowly based? If so, although LCF was a big problem, why



they should they be the only ones who are compensated?

John Glen: If you read the Gloster report, you will see the unique and specific circumstances of an FCA-regulated firm that, in this case, did not deal with the unregulated activities over two years, which led to some very specific outcomes that are different to all the others. We have had three significant compensation schemes in the last 35 years: Barlow Clowes, which was a Ponzi scheme in the late 1980s; the Equitable Life compensation scheme that the coalition Government brought in; and this one. I am, of course, aware of a number of other claims, but they are different. That is a matter that I would be very happy to address in the passage of the Bill in a few weeks' time.

Q166 **Dame Angela Eagle:** Are you worried that the regulators are, essentially, captured by the technocrats in the industry because everything is so complicated, and that the consumer voice is not being properly heard?

John Glen: No. There are new and evolving behaviours and market offers, and the regulator has to work hard, with Government, to ensure that it is alive to them. Over the course of my tenure, we have seen significant changes in consumer credit regulation, following the report by the FCA in May 2018. We saw Chris Woolard's work that led to the "buy now, pay later" regulations coming in. We will continue to develop a market response to where we see abuses. As an example, with funeral plans, that was a response to bad things that we saw happening in the market.

Q167 **Dame Angela Eagle:** Should there be a more rigid method of licensing people: taking them out of licensing and, therefore, not allowing them to participate in the market if they have a history of bad behaviour?

John Glen: You will know from the legislation you scrutinise that we have given powers for the FCA to take firms off its list of companies. What Nikhil is doing at the FCA is using data to analyse risk more thoroughly, so that he can use the resources he has to oversee the higher risk across the profile of those nearly 60,000 firms and make swifter interventions. I welcome that, and that processing of data to highlight risks is critically important to improving the effectiveness of the FCA's work.

Q168 **Dame Angela Eagle:** Would you be in favour of a system that struck people off?

John Glen: Clearly, if there is persistent wrongdoing, that is an option that must be available. What we have to do, which the FCA understands, is improve the application of its limited resources to where the risks exist in the market. Improving that is critical to finding and dealing with negligent behaviour across the marketplace.

Q169 **Dame Angela Eagle:** The FCA has three objectives, eight principles and seven "have regards", and that is having regard to Government policy,



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some of which do not obviously seem to mesh together well, such as climate change with trade, or competition and competitiveness with innovation. How on earth are the regulators meant to pick their way through that ever-increasing list of things that they have to have regard to and principles that they have to follow?

John Glen: As Vicky Saporta said, they need a clear hierarchy and there is a risk that those “have regards” can dilute effectiveness, so we need to put together something that is clearly understood in terms of the priorities that exist within that.

The Opposition brought forward “have regards” in this recent Financial Services Act with respect to some of the climate change concerns. That reflects the will of Parliament and public prioritisations, which evolve over time. The question is how that is codified in a way that then is actionable, such that, when they come before the Treasury Select Committee and they are asked to justify eight simultaneous “have regards”, they can demonstrate how they have prioritised them. That is where the future regulatory framework outcome needs to give some clarity to them.

Q170 **Dame Angela Eagle:** How would you react as the Minister responsible if you decided that they were not having regard enough, so to speak, to these seven different things? Do you get them on the phone and send them a memo? How would you deal with it?

John Glen: When you do reports into the regulators and you take account of that, that is something that they will need to respond to and something that I will observe very closely. Yes, I have conversations with them on a very regular basis and that will be part of the journey of refining, so that we actually see that they are delivering the strategic goals that primary legislation and Parliament wants them to.

Q171 **Dame Angela Eagle:** Given the hierarchies, is better outcomes for consumers higher up than competition or innovation?

John Glen: It depends in what context. It is not a question of giving you a list in an order now. It is a question of a framework and an understanding that allows them to take appropriate action and deliver regulations that market actors and firms can understand.

Q172 **Dame Angela Eagle:** It is really the Treasury that comes up with the framework, isn't it, within which the regulators have to operate?

John Glen: Parliament determines through legislation the overarching framework. If we look at the “have regards” with respect to Basel and the investment firms, we delegate to them the responsibility to develop the market rules with some considerations that they must have when they do those rules, so that is how it flows.

Q173 **Dame Angela Eagle:** There are philosophies of regulation if we go even higher. How can we have a meaningful debate about those if we are going to evolve them, rather than the philosophies of regulation being



stuck in tired old economics theocracy, if I could put it that way?

John Glen: I am not really quite clear what you mean.

Q174 **Dame Angela Eagle:** Let us take, for example, neoliberal philosophy, which would say, "The more competition you have, the better outcome there is for consumers". That is not necessarily true if you do not have any fraud protection, for example. I am trying to get at how we could change the general approach that was taken, if that is what Parliament wished to do. How could one do it? The regulator may just say, "I am here to make sure that competition happens. Go away".

John Glen: If Parliament passes legislation with "have regards" that express a different philosophy, that is going to influence the way the regulator operates. I hope Parliament have regard to the concept that it is adding to, so that it would be a meaningful and useful addition to an established and often technical set of obligations that they need to operationalise.

Q175 **Dame Angela Eagle:** You know as well as I do, Minister, that while Parliament passes these things, really the initiative is taken in Government and in your department. Are there any changes in this general regulatory approach? Rushanara was talking about deregulation. You have ruled that out. Are there any other changes that you are considering, if I could put it this way, in regulatory philosophical approaches that you want to put into effect?

John Glen: I am not a philosopher. I am trying to develop effective legislation and regulation in consultation with the regulator that suits where the risk and issues are in the market. At the moment, we have several consultations on live matters with respect to Solvency II, conversations on MREL, "buy now, pay later", access to cash and the wholesale market reform agenda. All of these are informed by conversations with consumers, trade bodies, individual firms and the regulator. Through those consultations, we refine and develop the regulatory outcomes.

Dame Angela Eagle: Chair, it sounds to me like that is technical rather than wholesale change, but I am sure we will come back to this. Thank you very much.

John Glen: Financial services is technical.

Dame Angela Eagle: I know.

Julie Marson: Afternoon, John. I would like to focus on the proposals that HMT has made on activity-specific principles. I will just put to you some of the opposing views that the regulators have given us in previous evidence.

John Glen: It was all good natured, I am sure.

Q176 **Julie Marson:** It was said in a very complimentary way. The FCA told us



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that the proposals to regulate on activity-specific principles would artificially split the sectors that it works on, and do not really reflect the reality on the ground and the way that firms and markets operate. What is your response to that?

John Glen: What we are getting at here is this issue of the level of autonomy that they have, using their expert knowledge, to develop appropriate regulations in our market, alongside additional specific seasonal “have regard to” duties that we would wish to put alongside them. It goes back to some of the early answers I have given about that challenge of the interaction between short-term concerns and a need for enduring consistency in the evolution of the rulebook.

We hope in the next stage of the consultation to come to terms with those contradictions, recognising that we need to give clarity and avoid a situation where regulators are left without either the right level of discretion or the right level of direction from Parliament and from the Treasury.

Q177 **Julie Marson:** You are going ahead, I assume, on the basis of the activity-related proposals, from what you are saying, despite that potential conflict and complexity.

John Glen: There is a creative tension in the relationship between Treasury Ministers and regulators, but one that reflects the fact that I have an obligation to Parliament and the electorate to reflect the concerns that exist and evolve. They are not static. While the regulator is sensitised to that, it is through that conversation that we get to the right place. We can get in danger here of having a philosophical discussion when what we need to be able to do is deliver a practical framework that works for the regulator and works for Parliament.

Q178 **Julie Marson:** Do you feel that, in trying to manage that tension, there is a danger of micromanaging them and maybe not trusting their own expertise? You called them the technical experts earlier. Do you think there is a danger of that going down this route?

John Glen: There is a danger of that, but it is totally manageable. As I say, we have very strong relationships and we work hard to understand where they are coming from. For example, let me take the financial services levy. People come to me and say, “This levy is not working. There is an asymmetry between risk and contribution”. I will talk to the regulators about that. Sheldon Mills had a recent roundtable with asset managers on that. He is responsible for it, but there will be a conversation about how that can be improved.

There is always going to be a constructive dialogue, but one where they respond to what the market and Government are saying. They also do it in a way that takes account of the wider consistency that is needed. If I may, I would like to bring in Gwyneth here, because she might be able to give some useful insight into how this dynamic works that would perhaps



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shed some light on what is behind your question about the risk of distorting how they operate.

Gwyneth Nurse: I thought it was just useful to comment perhaps on that comment from the FCA, and the worry about the activities-based approach and the “have regards” causing problems for them. There is not a one-size-fits-all approach here. We will in developing proposals be very careful to think about the areas where that might make sense and the areas where you might not need it.

A useful way to move it out of the theoretical into the real is looking at the Financial Services Act we just passed. If you look at the section on the investment firms and the section on Basel, there are these “have regards”, which we worked together with the regulators on, and neither regulator has expressed any concerns or problems about those. The debate in Parliament was a positive debate about it. There are ways in which it can work, but we need to tread carefully, decide what those areas are and work with the regulators to make sure that they work.

Q179 **Julie Marson:** John, another concern that they have mentioned is about creating a regulatory arbitrage between firms. Some might find it easier to conduct activities than others, and complexity and confusion might arise from that. How would you respond to that particular concern that they have raised?

John Glen: We need to avoid it. We need to bring as much certainty and clarity to how they operate and who their rules apply to. That is an imperative of this consultation to make sure we get it right.

Q180 **Julie Marson:** You are talking to them specifically on that subject as we go through the process.

John Glen: Yes. What the regulators say is very important to the effectiveness of this exercise, and the outcome of it has to work for all of us. We have received 120 representations so far. We are looking at those. They will inform how we move forward, but we do not have a conflict relationship. We have a constructive working relationship with regulators, which is wholly appropriate because we both want the same thing, which is an effective and clear regulatory landscape that enables innovation in financial services, protects consumers and delivers improved outcomes for society. That is what I want to end up with in this process. I want nimble change where that is needed, and I want that to be underpinned by proper scrutiny in Parliament.

Q181 **Julie Marson:** To sum up, are you concerned that activity-specific principles add to the fragmentation of different regulation? You have Parliament, Treasury and the regulators, and the rulebook is ever more fragmented than it was before.

John Glen: We must not confuse complexity and coherence. It is complex, but there is a coherence to it and we have to make sure that we continue to keep that coherence. As Gwyneth Nurse just pointed out, with



the recent legislation, those “have regard to” activity-based principles did not cause concern, but I listened to what Vicky Saporta said. We have to have a clear hierarchy and framework, so that these considerations can be effectively translated into action.

Q182 Felicity Buchan: It is good to see you both, John and Gwyneth. My questions are on moving the EU onshored rules from the statute book over to the regulators’ books, and the process and rationale for that. John, is it your intention to move 100% of the EU onshored rules over to the regulators?

John Glen: Much has been done to move that legislation on to the statute book through the onshoring project, through all the statutory instruments that we did. We now have to work out, recognising that this is not a static single action, how those evolving rulebooks of the regulator work going forward.

My preference would be for us to have framework legislation that would then allow for those transfers through secondary legislation. What we did with the recent Financial Services Act was a case in point, with the investment firms prudential regime and the Basel changes, where we set those “have regard to” rules and then we delegated that to the regulators to deliver. That cannot be done overnight. The complexity involved means that it is going to take some time to deliver, but I hope it will allow us to get it right and ensure that the responsibilities lie in the right place.

Q183 Felicity Buchan: The FCA in its written submission to us said, “It will require a significant legislative programme”—as you have said—“supported by the regulators, which will likely take several years”. Do you agree with that timeframe?

John Glen: That is realistic, yes, not because there is any lack of prioritisation or desire, but just because of the complexity. If you think about what we are trying to do, it is complex, but that does not mean it will not be effective.

Q184 Felicity Buchan: Is your intention to review all of that legislation and potentially change it, in either a minor or a substantive way, or is it simply to transfer it on?

John Glen: What we did in the onshoring project is transfer everything as it was, but even now, as you will know from your deep experience in financial services, it evolves all the time. We will have to take account of these evolutions elsewhere in other jurisdictions, and take account of our new trading relationships and dialogues with different jurisdictions. What I do not have is a broad universal imperative around deregulation, or a single principle or small number of principles that would apply over everything. Some things will need to continue as they are and some will evolve. That is the story of financial services regulation through generations.



Q185 **Felicity Buchan:** How are you going to prioritise what you do first? As you have said, this will take a period of time and it is very complex.

John Glen: That is also related to the priorities that exist in the market, and consumer and parliamentary concerns, but what we are doing here is creating an enabling environment for regulators. That framework legislation would then set out how those responsibilities would work, and we would bring changes through statutory instruments.

Q186 **Felicity Buchan:** We have received some evidence that has recommended that we keep some of these rules on the statute book, so that Parliament has powers to review going forward. Do you agree with that or do you want to see this wholesale move?

John Glen: We are looking very carefully at that. Where legislation exists that is outside of this framework, it is important that in many cases that will need to continue. It is very difficult to again answer with a single phrase on this, because it depends what we are talking about. We have to have the mechanisms for flexibility, but we also have to be able to create a degree of certainty. One of the things in our country's reputation for financial services is that people do not feel there is volatility to our regulatory environment. There is an enduring stability to it and that is a really important consideration in whatever we bring forward.

Q187 **Felicity Buchan:** To the extent that we keep some things on the statute book, would I be right in thinking that that is more likely to be the macro policy agenda as opposed to the detail?

John Glen: We have pieces of legislation, like the Credit Unions Act or Building Societies Act, that are enduring and distinct elements of our setup. We have domestic legislation, which we discussed earlier with Harriett, around ringfencing, which would be outside of the scope. We will reflect and consider carefully before we bring forward the second phase of this consultation in the autumn.

Q188 **Felicity Buchan:** Do you see any risks in this process? I am thinking potentially uncertainty or lack of clarity, given the fact that it is going to take several years.

John Glen: We first announced this FRF in July 2019. We launched the call for evidence. It is purposefully iterative and thorough, so that we do get this right. That is why I welcome the input of this Committee and the wide range of industry views, so that when we bring this forward that consultation will inform legislation that will get it right. There is significant risk. There always is to land something as complex as this in the right way. I am determined to do everything I can to take account of these complementary views, and sometimes conflicting views, to make sure that we land in such a way that our financial services industry, which is so important to the UK economy, continues to function at a very high level.

Q189 **Felicity Buchan:** We have talked loosely about this process taking



several years. Do you have a date in mind that you want to see this completed by?

John Glen: I do not specifically, no. It will depend on co-operation and co-ordination with other bodies and I would not want to prescribe a date in this hearing.

Q190 **Emma Hardy:** Thank you, Minister. Before I move on to my questions, which are about the role the Treasury Committee carries in scrutiny of regulators, while I have you there, I just want to ask a couple of quick questions regarding loans being given out during the pandemic, if I may. Thank you for replying to my written question on 16 December. Under the recovery loan scheme, I just wondered how you are going to make sure banks do not limit their lending through cherry-picking only the most profitable loan applications.

John Glen: We have had a range of interventions. The bounce back loans, which were 100% guaranteed, were universally accessible with simplified criteria at the Chancellor's direction. Then we had CBILS, CLBILS and the Bank of England facility, reflecting the diverse needs across the economy. In terms of the products and the loan system that we have and how those operate, there is a degree of flexibility around the commercial appetite for risk, which will be different across the economy.

In an environment where we are not offering a 100% guarantee, we do not have 100% control, but we do need to keep monitoring. We have done this throughout, from trade credit insurance to different guarantees that we have given to the financial services sector. We want to see the recovery enabled by this. It is not a matter of me prescribing lending decisions. It is about us coming up with a framework and interventions that are proportionate to the market's conditions.

Q191 **Emma Hardy:** Thank you. That is really helpful. I just have one other quick question before I move on to the main body of what I want to ask you about. I have been told by companies that banks are significantly undervaluing companies' assets when assessing their creditworthiness, for example valuing a coach at one fifth of its market value. I just wonder what assurances you can give that lenders have been instructed not to undervalue company assets.

John Glen: I cannot instruct banks, but what I can do, when I hear of widespread practices, is challenge them and ask them about what they are doing. What we have seen through different crises are different behaviours and different risk appetites. What usually happens is that we see an evolution in that risk appetite as confidence is brought back into the economy, and that is what I expect to see in this case.

It is very difficult for me to comment on specific examples, but I do look hard to try to find patterns that I then take through UK Finance. That is why we worked with them during the heat of the crisis last year, so that there was a mechanism by which MPs could bring decisions that were not



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favourable to their constituents to UK Finance and have some sort of challenge mechanism.

I am not passively saying we do not do anything, but we do not have right of direction. We will have right of influencing the way this evolves, so I am very happy to take representations. We listen very carefully to the FSB, CBI and other industry groups to ensure that we are close to where their concerns are and raise them with the sector.

Emma Hardy: Thank you for that kind offer. Hopefully, outside of this meeting, I can take you up on that.

John Glen: You can write to me as well. I will reply.

Q192 **Emma Hardy:** I will add it to the list of letters I have already sent, but thank you. On to the main points that I would like to make, we have received many written submissions that wish to see a new committee set up to scrutinise financial services or actually the expansion of this Committee. Why do you think there is such an appetite in industry for greater parliamentary oversight of the regulators?

John Glen: Again, that will be a matter for Parliament. This is a complex area where lots of people have very clear and strong views, and they want to make them into Parliament, because we are now in the driving seat. There is no auto download from an EU directive. It is our responsibility, so we have to get that balance right.

As I said at the outset, it will be for Parliament to determine how that is configured. It is for me to look at how the regulators in law are accountable to Parliament, but we need to ensure that, when we get to the end of this, we have something that is effective in scrutinising but also in challenging on origination of new interventions that are enabling and protecting our interests in the industry, as well as consumers' interests.

Q193 **Emma Hardy:** Did you get the impression that there is a dissatisfaction within the industry about how the regulators are carrying out their duties?

John Glen: I hear lots of different views from different people in the market. If I look at things like fintechs and the world-leading work they have done in terms of having fintech bridges, scale boxes and sandboxes that enable new concepts to develop and get to market quickly, there are lots of positives that are said, but there are challenges as well and that is why the FCA has undertaken this significant and urgent piece of work to transform the way that it operates in order to respond to the concerns that exist.

Some of the constraints that they put on market access can be very frustrating for individual firms, but they are related to the risks that we see for the economy and for conduct. Whether it is the PRA or the FCA,



they have to intervene because of risks that they can see exist from their balance sheet and from their oversight.

Q194 **Emma Hardy:** What do you think the industry's motivation is for wanting additional parliamentary input into how financial service rules are written?

John Glen: It is difficult, again, to draw a broad sweeping conclusion, but there will be some who want a more interventionist approach from Government to reflect consumer detriment and concerns, for example, and there will be some who will believe that that is the way to try to develop and induce changes that are less restrictive on activity. The key point is that, where previously directives from the EU were then permeated down into the regulators, and the policy discussion was primarily done through that EU committee and scrutiny process, in which we had a very leading role, those decisions will now be made in Westminster and our regulators. I would imagine that is where the roots of that desire come from.

Q195 **Emma Hardy:** Do you think industry sees parliamentarians as being more amenable to lobbying than, say, regulators?

John Glen: I do not know—perhaps. What I want to do is to ensure that, at the end of this, we have a clear and transparent process that prizes parliamentary scrutiny, which is the key outcome that people overall wanted from the outcome of the decision we made of Brexit. At the same time, I want one where the expertise of the regulators and their professional detachment from politics to do what is technically required remains an important part of our system, because our regulation and the quality of our regulation underpins our reputation and trading success in financial services.

Q196 **Emma Hardy:** We have had several written submissions in asking for an independent body to be created, as I have mentioned, to scrutinise various regulators. Do you have a view on that?

John Glen: The regulators are scrutinised in various ways. They have the NAO, which can do value-for-money assessments. They produce reports and consultations. They come before the Treasury Select Committee on individual and overall matters and at a strategic level. That is very thorough. There is room for evolution in this, but we have to get that balance between appropriate scrutiny and allowing them to get on with the job that they do for us.

Emma Hardy: Thank you, Minister. I look forward to continuing the dialogue about loan and lending criteria.

Chair: That brings us to the end of this session, so could I thank you both, John and Gwyneth, for appearing before us? This session has been a very good example of how having a Minister and a senior official appear before us has added to the answers that we have received, so thank you both for your input this afternoon.



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Some may say that the future scrutiny of financial regulations is a rather dry subject. Perhaps compared to some of the topics that we have been investing our time in recently, it probably is. However, that is not to say that it is not extraordinarily important; we on this Committee all believe that it is. We are very grateful to you both for appearing before us today. We look forward to further answers to questions that we may have and your response to the initial consultation in due course. That brings us to the end of this session.