



HOUSE OF COMMONS

# Treasury Committee

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

Monday 6 December 2021

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[Watch the meeting](#)

Members present: Mel Stride (Chair); Rushanara Ali; Harriett Baldwin, Anthony Browne; Dame Angela Eagle; Julie Marson; Alison Thewliss.

Questions 340 - 416

## Witnesses

I: Christian Faes, Chair, Fintech Founders, and Executive Chairman and co-founder, LendInvest; Rt Hon. Michael Moore, Director-General, British Private Equity and Venture Capital Association (BVCA); Stuart Williams, President, ICE Futures Europe.

Written evidence from witnesses:

[FFS0041 – Fintech Founders](#)

[FFS0072 – British Private Equity and Venture Capital Association \(BVCA\)](#)



## Examination of Witnesses

Witnesses: Christian Faes, Rt Hon. Michael Moore and Stuart Williams.

Q340 **Chair:** Good afternoon and welcome to this Treasury Committee session on the future of financial services. I am very pleased to be joined by three witnesses this afternoon. I would just each of them to very briefly introduce themselves to the Committee.

**Christian Faes:** Good afternoon, everyone. I am Christian Faes. I founded and chair the Fintech Founders group. We have about 250 founders in our group, ranging from early-stage through to large-growth companies. I am also a founder myself. I co-founded a company called LendInvest, which is a technology-driven asset management platform and one of the largest non-bank mortgage lenders in the country. We recently IPO'd as well, so a founder having taken a company from start-up through to IPO.

**Michael Moore:** Good afternoon. I am Michael Moore, director-general of the British Private Equity and Venture Capital Association, which is the trade body for the bit of the economy that is investing at pace in everything from the smallest of start-ups to large companies all over the United Kingdom. We represent 700 member firms from small, emerging venture capital managers through to the largest global buyout firms. We raise money from global sources and invest it from the UK in a variety of places—of course, substantial sums of it here in the UK—from small businesses that are up and coming in the green economy through to some of the largest players in the market.

**Chair:** Michael, welcome back—a former Member of this House and a former Cabinet Minister, no less.

**Stuart Williams:** I am Stuart Williams, president of ICE Futures Europe. We operate a range of networks across three main segments. The first is our exchanges segment, where we run 13 exchanges and six clearing houses globally. That includes the New York Stock Exchange in the US and ICE Futures Europe, which happens to be our biggest exchange, here in London. We also operate in the fixed income and market data space. Finally, we recently got into automating the workflow in the mortgage space in the US.

Q341 **Chair:** Welcome to all three of you and thank you for appearing before us. Can I start with an open question to you all? The Government are looking at our regulators, the FCA and the PRA, and are looking at secondary objectives for them, potentially, around growth and competitiveness. In your areas, what are the big drivers going forward? What are the things that the Government could do in that area that would improve competitiveness and growth? What should they be looking at?

**Michael Moore:** Let me have a stab, if I may. For us, global competitiveness is absolutely essential to the existence of the industry in the UK. We are the second largest hub of private equity and venture



capital firms in the world, outside the United States. We have enjoyed global regulatory standards here in the UK in our previous existence, when we were part of the European Union, and we are very keen to support the Government's objective, which we believe is shared across parties, that we should continue to maintain that competitiveness in the years ahead, because we believe not just that the firms themselves add a lot to the economy but that the investments they make power the real economy that is represented in each of your constituencies and elsewhere.

We are keen to see that we maintain global standards, so we are not interested per se in a "Singapore-on-Thames" model that is sometimes thrown out as an attractive new opportunity. Depending on the year, 80% to 90% of funds raised for venture capital and private equity businesses that come into the UK are from international investors rather than from here in the UK, so continuing to be a place where they can have confidence in the standards really matters.

Alongside that, we now have a new relationship with the European Union. We do not have to mimic every last thing that is done in the European Union and we are, I hope—and this may be one of the themes of the inquiry—able to resist the temptation, to use that dreadful cliché this early in the proceedings, to goldplate everything that comes along. We have a very proud track record in the United Kingdom, in different guises over the years, of taking a regulation or a directive and then turning it into something a lot more detailed here in the UK.

**Q342 Chair:** As you look at venture capital, what sort of areas might you be thinking of in particular? Where could we take the gold plating off or make changes that would help while maintaining standards?

**Michael Moore:** It is more a question of what we do. We are not into a bonfire of the regulations. We are not suggesting setting a taskforce loose in lots of different parts of the Treasury, the FCA or the PRA, and getting rid of a whole suite of things. In fact, on that level, the familiarity with what is there already can be a strength. We can point to things and say that 99% of what existed pre-Brexit still exists on the statute book here in the UK, if you simply measure it crudely in terms of the number of pages and so forth.

Where we are filling in the details and colouring in what is coming to us in the future, be it prudential regimes or the like, the level of detail of the requirements really matters. We take a view that we will now always ensure that they are proportionate and they achieve the regulatory objective, rather than add unnecessary detail.

One of the big new areas, of course, is going to be in terms of sustainability disclosure. We are going down a distinctive path, because we are no longer going to be part of the European Union's SDFR framework. We have chosen TCFD as the template on that, and that is immediately just a good signal of where there will be differences in what



happens. To give an example there, it would be great to ensure that the principles and the details of what we are asked to collect look the same here in the UK as they might do on the continent. We might debate the disclosure requirements and how they are presented, but the substance and the metrics being measured, and the requirements being placed on businesses, would, we hope, remain on a level playing field with others as this whole area develops going forward.

**Q343 Chair:** There may be a more efficient or lighter-touch way of arriving at the same point in terms of the metrics.

**Michael Moore:** Everybody understands, particularly in that area, that this is an emerging area of regulation. Lots of people are starting from what are no longer blank pieces of paper, but they are building up principles and approaches to regulation that are novel in every part of the world. The direction of travel of those different areas is reasonably clear. Our hope, given the nature of our members raising and then deploying capital globally, is that we can keep the principles and the boundaries of what has been done pretty similar and, when we get into the detail, not overdo it.

**Christian Faes:** From a fintech perspective, a lot of work needs to be done. In years past, the UK prided itself as being a leader in fintech and we had legitimate claim to being the world leader. We were very advanced in bringing about crowdfunding and peer-to-peer legislation and pioneering that asset class. We had the regulatory sandbox, where the regulator really welcomed start-ups with open arms and welcomed innovation in the financial services sector.

If we look to where we are now, we have run a summer survey with our Fintech Founders group in each of the last three years. We ask the question: "Do you think the UK is a world-leader in fintech?" Over the course of the last three years, we have slowly got worse in terms of the responses to that. Three years ago it was about 65%, and now about half of our members think that the UK is a world-leader.

There is a feeling that the Government are complacent around fintech. In some respects, the Government potentially recognised that when they commissioned the Kalifa review at the beginning of last year. We find ourselves in a bit of an unfortunate position because the Kalifa review was great. Ron Kalifa did a great job; he consulted widely with the industry. Fintech founders and the banks were able to contribute; everyone was able to contribute.

He delivered a very ambitious roadmap for the future of fintech, yet we are almost a year on—it was published in February this year, so not quite a year—and next to nothing has been done. There have some announcements and there are some things around visas. These are positive things—visas that can come into place in spring of next year, as well as the Centre for Finance, Innovation and Technology—but nothing really substantive to hang our hat on.



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In terms of specific interaction with the regulator, the Committee would be quite surprised at how hard it is for start-ups now to get regulated. In years past, it would be a couple of months to go through that regulation process. Now, it can be up to 12 to 18 months. In a financially regulated industry, start-ups cannot start their business until they get regulated. They have had to go and raise capital, and they are employing people, but they cannot start business until they get authorised. It would be really interesting to have public KPIs around the FCA and how long it takes, not just from the completed application for authorisation through to authorisation, but from the first interaction from a start-up.

Q344 **Chair:** What is driving that delay there?

**Christian Faes:** I do not know, but there needs to be an element of proportionality. If I look at our business, LendInvest, we have had pretty good interaction with the regulator, but we have a compliance team and a legal team. We are a profitable business. We are at a different stage, so we can commit resources to interacting with the FCA, as can the big banks and established financial services players. If you are a start-up, it is hugely expensive.

**Chair:** But you are saying it has got worse in that respect for start-ups.

**Christian Faes:** It has got worse, yes.

Q345 **Chair:** Is it that there are different hoops that these businesses are having to jump through, which takes longer, or is it that the FCA is not being as responsive as it has been in the past in getting these companies through the process?

**Christian Faes:** What I hear empirically is that it is a bit of a revolving door, where it can take two to three months to get a case manager now. Instead of being fully authorised in that time, you are only getting a case manager. You may have multiple case managers through the course of that authorisation process, because the case manager leaves, you have to be appointed a new one and you go through starting that process again. This is just what I hear from fintech founders. The stats may show that not to be the case, but it would be interesting to see KPIs and understand what is going on there.

**Chair:** If there are, on reflection, any further thoughts on that that you want to share with the Committee after this session, do please write to us.

**Christian Faes:** Absolutely.

**Chair:** We would be quite interested in looking at that with the FCA.

**Stuart Williams:** From an ICE perspective, we have been very positive about the direction of travel that the Chancellor set out for UK financial services. It is clear that UK financial services has a lot of natural fitness and natural advantages around language, law and time zone. But, in the last five years of European regulatory development, we have seen a lot of



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detail built around the likes of MiFID, EMIR and other pieces of legislation that are really designed to handle internal EU market issues that are no longer relevant to the UK. That level of detail is, frankly, unhelpful for a global financial centre.

There are three principles—and then I will give you a couple of more detailed examples—that we see as being very important for wholesale markets that are hosted here in the UK. The first principle is ensuring, on the one hand, alignment with international standards, which Michael referred to earlier, but keeping the right balance between that and an acknowledgment that UK financial services are competing on a global scale. Increasingly, that natural fitness that has stood us in good stead up until now needs to be added to in a more strategic and thoughtful way.

We have seen some examples where—and the term “gold plating” has already been used—the regime around SM&CR has been helpful for lenders, but in a recent perimeter report it is proposed to extend to market infrastructure and, indeed, has been rolled out to some benchmark administrators, for which it does not really have an easily defensible purpose. That is one area where we have seen some unnecessary gold plating.

The second principle is openness to cross-border business. Of course, a lot of the benefit that we have here in the City of London has been the relative ease with which international wholesale companies can come and do business in the UK. Regimes like the overseas person exclusion and the recognised overseas investment exchange regime have been very beneficial to that. Those are regimes that the regulator is consulting on at the moment and, of course, we strongly encourage the FCA and the Treasury to ensure to that those regimes remain in place and that it continues to be easy for wholesale participants globally to conduct business here in the UK.

The third principle is a clear retail and wholesale market split. Of course, we are starting to see some acknowledgment of that through Nikhil Rathi’s retuning of the FCA, where there has been an acknowledgment that is what good for retail markets locally here in the UK is not necessarily good for wholesale markets hosted in the UK. It is important to keep that acknowledgment in play and, in particular, to ensure that wholesale market regulations are at the principle level. The level of detail that we have seen in the European implementation, for example, in MiFID—and I will give two examples now—is very unhelpful in a world where you are trying to innovate and launch new markets, because the level of detail has to be rewritten every time a new market type is developed.

There are two examples, and we have seen both of these coming up in the wholesale markets review, which is encouraging. The first is position limits, which, on the one hand, was designed pre-Brexit as part of the MiFID legislation at a level of detail that made it virtually impossible to



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host fast-growing energy markets here in the UK. In fact, in February 2018 I moved 246 markets to the US for that very reason.

The second thing is the pre-trade transparency regime. Because of the way it was designed, it is rather counterintuitive in the sense that it does exactly the opposite of what it sets out to achieve.

Both of those areas can be resolved if we just take the legislation out of the detail and leave the market operators, together with the regulator, to define what the right calibration for those regimes is. We are seeing signs that that is already in train.

**Q346 Chair:** In your written evidence, you said that, with regard to MiFID regulations, they “should be reversed as a matter of priority”. Those are the two areas where you think that change is badly needed.

**Stuart Williams:** Correct. What we have seen as part of a quick fix in continental Europe is a similar acknowledgment. We are seeing an acknowledgment across the board that those need to be revisited, but that is the immediate priority.

**Q347 Chair:** Is any member of the panel feeling that the Government might go too far with deregulation and that we might cross that line where international confidence is dented, or is everything that you are hearing at the moment reassuring you that we are going to get the balance right? It is not a leading question. You might all be thinking, “No, it seems fine.”

**Stuart Williams:** There is little risk of us going too far. The greater risk is that we do not implement quickly enough the aspirations of getting it back to the right sort of level and the right balance. I do not see a particular risk of us going too far the other way.

**Michael Moore:** I do not think that, at the moment, you could say that, but it has been such a short period of time and they have such a lot on their plate that you would find that quite a difficult argument to stand up. There has been a flurry of consultations and a lot of work going on across all the different bits of Government and the regulators. We reserve judgment on where that will go.

I would like to pick up one of the points. The cross-border co-operation point is going to be really important on an ongoing basis, certainly in our industry. Funds may have a global sponsor firm, which may or may not be here in the UK. It will have a UK affiliate that does a lot of business on its behalf, in terms of marketing to investors and then managing and overseeing the portfolio companies that are in each of the funds. The fund may be somewhere else as well. There is an awful lot of cross-border activity, so the relationship between the UK and the European Union at a regulatory level will matter hugely in the years ahead.

With the best will in the world, different people facing the different dynamics in their own markets will decide to regulate on a different basis. The question for us is how you keep the principles as closely aligned as possible. Where this issue of equivalence is to be pursued, if there is any



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productive future in that, to get an understanding between us and the European Union that that could continue at some point in the future, we certainly think that that is worthwhile.

The danger is if we do not keep the co-operation going, not so much that there will be difficult decisions taken in Europe that go against us but just that we will end up with a regulatory cost in the UK and elsewhere, which then goes to the competitiveness point.

**Christian Faes:** Generally speaking, deregulation is good and we are not at any risk of the UK being recognised other than as a very robust financial services sector.

**Chair:** You cannot go too far.

Q348 **Rushanara Ali:** Good afternoon. My questions are focused on international trade and equivalence. Before I come on to that, you mentioned the FCA. It would be good to get some evidence on the point you are making about the amount of time it takes to get approval. Is it because the FCA has a lot on its plate? What would be the things that it would need in order to make life easier for companies that, as you mentioned, are having trouble?

**Christian Faes:** Through the period of Covid, I imagine that the regulator has had all sorts of new issues to deal with and a new way of working, as a lot of companies and organisations have. I am just coming from the perspective of trying to represent fintech founders, and hearing again and again how long and time consuming that process is. I am happy to come back to the Committee with specific examples, and we can ask our group for that. The general feeling from the group is that there is just a change in feel and attitude from the regulator. Where, before, it was very pro-innovation, and trying to encourage competition and have new start-ups come into the sector, the feeling is that it is less encouraging now.

Q349 **Rushanara Ali:** Could it be because of some high-profile concerns—for instance, we have been looking at advertising, fraudulent activity and so on—that they are erring on the side of caution? Could your sector do more to make sure that that basic work is done, so that, by the time it gets to the regulator, some of its work is already done? Could your sector be helping itself a bit more?

**Christian Faes:** Yes, it could. We talk a lot within our group about trying to sell fintech. Sometimes, there is too much talk about unicorns and funds raised, which is nice for people to hear, but the reality is that it is about trying to use technology to provide financial services to consumers, to benefit their lives and to do a good job in that regard. It just comes back to the proportionality point in terms of early-stage start-ups trying to get in and started, which can be very difficult.

Q350 **Rushanara Ali:** That is some food for thought for our next session with the FCA later this week. Just going on to international trade and



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equivalence, how reliant are each of your sectors or the financial services industry more widely on trade agreements to be able to export services to third countries?

**Stuart Williams:** In the exchanges world, cross-border trade has been a feature of those markets for many decades. We have, within the series of equivalence we have with the US or other jurisdictions, the tools that are necessary for that cross-border business to take place. That is the right mechanism to facilitate that business, rather than in a free trade agreement. It is fine to codify certain elements of that within an FTA, and maybe that is around data sharing and all those sorts of aspects, but the regulator-to-regulator dialogue is the key one for that cross-border business.

I would say, though, slightly counter to what Michael was saying, or maybe just embellishing it a little, that the general mood among global regulators, at least at the principle level, is pulling in the same direction. While the details around local implementation must be different—and, therefore, the UK must be different as well for our local markets or what we need here—equivalence at the principle level is very easily defensible. It is quite political at the moment with the EU, but I see that, once the politics comes out of it, moving in a much more helpful direction again.

To cut to the chase, it really is around the equivalence relationships that we have regulator to regulator, rather than FTAs.

**Michael Moore:** I would echo the broad principle there. Notwithstanding the lack of free trade agreements over the years, beyond the huge area we were part of in the European Union, that international capital flow through London has been significant as a global city in its own right. Financial services, as I know other witnesses have highlighted, is an industry that is strong across the whole of the UK, and we would echo that. Two thirds of our investment in the last year was in places outside London, and the firms themselves are spread all over the UK.

The regulator-to-regulator piece really matters. On equivalence, I do not want to get drawn into too sensitive an area but, if we could take the politics out of it, that would be brilliant. At that level, recognising the robustness of UK vis-à-vis European or other regulation, we can be very proud of all of what would stand up to scrutiny there.

If I may, just drawing you back to a point you were making before, I would just like to echo the stuff about the FCA. Beyond the regulations, much of what makes us competitive and attractive is about the speed of decision making and the efficiency of regulation. We have seen some great innovations and speedy decisions around the fintech sandbox idea, but in a whole range of areas, whether it is resource or new systems, getting quicker decisions would make a massive difference to the attractiveness of the UK on an ongoing basis.



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**Christian Faes:** In terms of international ambitions, when we last surveyed our group, 75% of founders said they wanted to pursue international expansion as a route to growth for their businesses to export UK fintech. Only a small percentage were currently exporting or in other countries. The No. 1 reason cited by them beyond the day-to-day management of growing their business in the home market was dealing with the regulatory compliance of another jurisdiction. If free trade agreements could smooth that path, it certainly would be welcomed.

Q351 **Rushanara Ali:** That would be a preference as opposed to where we are now.

**Michael Moore:** I am pretty pragmatic about that.

Q352 **Rushanara Ali:** Why do you not just tell us what you would really like to see happen? Leave out the politics; tell us what you really need.

**Michael Moore:** If free trade agreements could deliver us the straightforward cross-border regulatory recognition, equivalence and things like that, that would be brilliant, because that would lock it in at the firm level. The challenge with free trade agreements, as we all understand, is the trade-offs that are made within them and what is sacrificed in the name of some other part of industry. If we do not get them, it still really matters to us that the regulators can talk to each other and recognise one another's work.

**Rushanara Ali:** Thank you. That is really helpful. I am sorry to push you.

**Stuart Williams:** I agree that it is a great aspiration, but we have over 80 jurisdictions already accessing our markets in London, so it is not a necessity.

Q353 **Rushanara Ali:** Just going a bit further into this, Sam Woods, the chief executive of the Bank of England's Prudential Regulatory Authority, recently said that the UK was "absolutely not in a tit-for-tat game" on financial services market access and staffing. What do you make of that approach?

**Stuart Williams:** I am happy to start again. It is right that the UK should approach this from the perspective of openness. That has always been the UK's stance and it has worked well, so we are supporters of that. Over time, certainly in the wholesale markets side, it is, in the end, the EU end user that stands to lose the most from tit for tat on the EU side. Ultimately, that pressure will come to bear, and we are seeing some of that with the extension of clearing equivalence coming out of the Commission recently.

Q354 **Rushanara Ali:** You have already said that you would like to see that continue.

**Stuart Williams:** Correct.



**Michael Moore:** It is in nobody's interest to have tit for tat or frictions. Trying to be as optimistic as possible, whatever people's motives in having these discussions, we cannot escape the reality that we are now in a separate state to our European friends and how they will move forward. The alternative investment fund managers directive, which has been the bedrock of how our member firms have been regulated as entities for a decade or more now, is under review, and it will matter whether, for European Union AIFMs, delegation of investment activities and the like back to the UK will continue to be tolerated. On the first reading of the plans, it seems that it is all fine, but it seems an ever so slightly fragile state to be in when it depends on further technical or political thinking veering us away.

Q355 **Rushanara Ali:** Could you just elaborate more on what your business would do if equivalence was removed? What would be the implications of equivalence being removed?

**Michael Moore:** The mainstay of the industry here in the UK at the moment is the people who are doing fundraising and then deploying the capital into funds, advising on what businesses should be purchased, how they are managed and then when they are disposed of. At the moment, if you have a fund that is based in the European Union, you are able to run that range of advisory services from here in the UK under the continuation of existing arrangements. That works fine. If, in the future, those arrangements were changed or obstacles put in their way, the attractiveness of the UK as a place to be based would change.

Q356 **Rushanara Ali:** What would that mean in disruption and monetary terms? Has anyone looked at that recently?

**Michael Moore:** Being careful not to wish for this particular outcome, in the last year, just to give some high-level figures, £26.5 billion was invested by firms here in the UK. Of that, £9.5 billion was into UK businesses, so a substantial chunk of the money. The total raised here in the UK was £44 billion. It shows you that a big chunk of what has been raised is already being allocated and, within that allocation, quite a big chunk comes to the UK. That proximity of fund managers and experts in those fields to the investment possibilities here in the UK is significant to where they choose to invest.

Q357 **Rushanara Ali:** Especially given that the investment numbers in the UK have been so low over recent years. We need the investment, do we not?

**Michael Moore:** We do. Our industry has consistently invested billions in the real economy, or the last mile economy, whether it be a start-up in the East End of London or taking the forgotten heroes of middle Britain—family businesses that move on to a whole new level thanks to the ability of private equity to provide them with the growth capital and the expertise that goes with it. More broadly, getting investment into the economy is a challenge, but we regard ourselves as being at the front end of all that is good about that.



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Q358 **Rushanara Ali:** In summary, if we did not have equivalence, life would be made more difficult for your sector and, thereby, for the real economy in terms of attracting large amounts of investment into the UK. Would that be a fair summary?

**Michael Moore:** Yes. If we cannot live with our neighbours in a way that recognises one another's regulatory systems and allows activities to be taking place in different parts, that will be problematic.

Q359 **Chair:** On this issue raised by Michael and Christian of responsiveness of the FCA, if it is possible to give some thought to that and drop us a little note, that would be good. There are often very good reasons why the FCA cannot respond as quickly as it might like to, but it would be useful to have your perspective. We have them before us on Wednesday, which I know is a very quick turnaround, but if you are able to come up with something in the next 24 hours that would be great.

**Michael Moore:** I could give you three or four examples now, if that would be helpful.

**Chair:** Let us go for it.

**Michael Moore:** One that we have already touched on is approving individuals as senior managers or approved persons. Another is the AIFMD new fund under management applications. A third is the material change notices that go with alternative investment fund managers, and change in control applications, which can hit businesses that have, say, a consumer credit part to their business. It can be a tiny part of the overall economic entity, but it matters that they are deemed to be appropriate people to continue to have that licence. We understand why it is necessary, but the speed with which some of that is able to be done is a bit frustrating, it has to be said.

We assume that it is a resource issue, given everything else that is going on. To the point I made before, the speed, efficiency and effectiveness of regulators is a critical benchmark to any international investor, as much as the regulatory system and rules themselves, because people will adapt. They might think that they are more complex than they would like, or they might wish to get rid of some of the stuff. If they understand what it is, and it is consistent and well understood, that is fine. If the speed with which you can move through the system is not at all attractive, you will look to go elsewhere.

**Chair:** I totally get the point you made at the end. If there is anything you want to add in writing to what you have just said there, that would be really helpful.

Q360 **Dame Angela Eagle:** I just wanted to follow up on the FCA point as well, given that we have them before us on Wednesday. I get the idea from what you have said collectively that there has been a deterioration and that, without wanting to put words in your mouths, you are worried that they are not as responsive and are slower than they were. They are



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somehow not keeping on top of things. Is that a fair summary? None of you wants to criticise. It is like complaining about the teacher.

**Stuart Williams:** Let me come in on that. I would nuance it slightly differently. Right now, we are at a point in time where we are asking our policymakers and our regulators to review a huge amount of regulation. At the same time, there is quite a structural change within the FCA going on, which is the right thing, but it is tough to do that, and all the policy changes and the day job of the approvals, all at the same time.

I have some sympathy with that. Business does not have sympathy in the sense that, if we cannot get it done here, we will go and do it elsewhere, so it is not that everyone will stay in the queue because they are sympathetic. It is just that, at this point in time, there is such a huge amount going on that, certainly in my experience—and I am sure the guys will have their own views on this—that the funnel just cannot get it through quickly enough, because of those key factors.

Q361 **Dame Angela Eagle:** I suspect, but maybe you will tell me I am wrong, Christian, that, in the innovation neck of the woods, it is new structures, software and novel ways of doing things that are holding you up. Is that making the FCA slower than you would like?

**Christian Faes:** That probably is partly contributing to it. One area that I was going to elaborate further on, just generally, is the pace of innovation, which is continuing to get very fast on a global scale. If I look at the cryptocurrency space, for example, I know that there is often some eyerolling around that sector, but the reality is that it potentially offers a huge opportunity to challenge incumbent financial services providers. Whatever people think of blockchain, distributed ledger technology or crypto, there is a huge opportunity there.

There is definitely a big sector being built, with huge amounts of money being raised by some of these businesses, but the FCA has been very unwelcoming, I would say, to crypto businesses here in the UK. I do not know the exact stats, but I understand that about 250 companies have tried to get registered through the FCA process; only 10 have managed to get regulated. Maybe a large number did not deserve to be regulated, but you would expect that more than 10 could or should be getting through. They have just recently extended the period. Everyone was meant to be through by July this year, but it has now been extended to March next year. The reality is that people are withdrawing their applications to do business here and are just going elsewhere. It is a global marketplace.

Q362 **Dame Angela Eagle:** Are they being encouraged to do that by the FCA?

**Christian Faes:** I do not know if they are being encouraged to do that, but they are seemingly not being discouraged from doing that, in the sense of not being welcomed through that registration process, I would suggest.



Q363 **Dame Angela Eagle:** There are questions about cryptocurrency later, but is the issue that the FCA does not like the blockchain open ledger structure itself?

**Christian Faes:** Not that I am aware of. I am not an expert in the space. It is very technical. I am fascinated by it and I am aware of some of the businesses being built in the space. The feedback that we get from founders is that it is very difficult to interact with the FCA in relation to cryptocurrencies. It plays into this broader feeling of being a bit closed to innovation and keeping up with the pace of the sector.

Q364 **Dame Angela Eagle:** Do you get the idea that, somehow, they want other regulators to do all of that and they do not want to touch it with a bargepole because it is a bit risky?

**Christian Faes:** Maybe that is the case but we miss the opportunity then. In the US, for example, it is difficult to get regulated there because of all the states and the setup there, but the SEC chair, Gary Gensler, taught blockchain at MIT and is an expert in the subject. They are engaging with the sector and there are very large businesses attracting huge amounts of capital to that sector in the US. In the UK, that opportunity is passing by.

Q365 **Dame Angela Eagle:** I want to ask some questions about the split that we have now experienced from the EU. Those who sold the idea of Brexit said that it would be better for us as a country if we could make our own regulations and not be tied to European regulations, and yet you are, effectively, saying that you would quite like equivalence, or there or thereabouts. Are there things that we could do differently that would not compromise your capacity to do business with the European Union?

**Stuart Williams:** In terms of the way you describe, in summary, what we have said about Brexit, we think differently. The style of regulation in the EU just does not suit the operating of wholesale markets, full stop.

Q366 **Dame Angela Eagle:** That is because it puts too much detail in the primary legislation.

**Stuart Williams:** That is correct.

**Dame Angela Eagle:** This was what those of us who dealt with the Commission always had to deal with when we were members of the European Union.

**Stuart Williams:** It is, in a way, necessary to get 27—formerly 28—people to agree to the same thing. The only way you can do it is to write it down in that level of detail, but that means that, every time you bring a new market or idea, you have to rewrite it. That is just not how you can host an innovation wholesale market centre. There is a big advantage, which outweighs equivalence. If the cost of equivalence is, line by line, the same, it is better to not have that but to have the ability to innovate and host wholesale markets. At least from our perspective, the old level of detail just did not support the business being done here.



Q367 **Dame Angela Eagle:** Is that the same, Michael Moore, for the venture capitalists you represent?

**Michael Moore:** I do not know a single businessperson, now or at any point in my career, who has not craved less regulation, but there is a big challenge when you are asked what it is that you would remove. Our wariness at the moment is that you strip away stuff that changes the perception of the UK as meeting the international standards, which the European Union, the United States and others have set the standards for over the years. As I said earlier, we are not attracted to a bonfire of particular regulations or otherwise.

Our main concern is a recognition of the dynamism of regulatory processes. That is not meant to be an ideological observation; it is about the fact that you now have different thinkers and decisionmakers deciding different priorities and solutions to the same problems. Therefore, you get an unintended drift. Where you might start as, essentially, equivalent—whether you use the technical term and you can measure a checklist to say that we definitely are—but you are not looking to keep abreast of what is going on elsewhere and deciding, issue by issue, whether you go down the same route or take the advantage of the new realities to plough your own furrow, that is where we would see the dangers. It is almost unintentional drift that creates a problem for us, rather than any great desire at the moment to change the basis of the regulation.

Q368 **Dame Angela Eagle:** The more different regulators there are in the world, the more that drift is likely to be. Once you are out of the EU, the EU will carry on doing things the way it always did—i.e. putting very specific stuff in the regulations—and we will, by definition, not be doing that, so there will be drift there, will there not?

**Michael Moore:** There will. One of the decision points is between a striving for very detailed, formal recognition of each other's standards and the equivalence arrangements that way, and something more pragmatic and principles-based: "We understand what your regulatory objectives are here. We see that you are holding these institutions and entities to the same standards and, therefore, we will continue to allow the cross-border work that really matters." It certainly matters in our industry, because people are not simply all located in one place. It may be different in some of the markets. We are talking about an industry that can have funds, sponsors, investors and portfolio investments in multiple parts of Europe, in many different jurisdictions.

Q369 **Dame Angela Eagle:** But, surely, the more these things drift apart, the less equivalence you have. So far, there seems to be a reluctance on the part of both the EU and us to argue for equivalence. The Governor of the Bank and various other people have virtually given up on it, given that the EU is really not engaging. What are the potential effects of this? Are they good or bad, from your point of view, Mr Williams? Christian, with fintech, it may be slightly different.



**Christian Faes:** It probably is slightly different but, if I look at it from an earlier-stage company's perspective, with regard to Brexit we are where we are. That provides the UK the opportunity to have less prescriptive regulation over time when we talk about things like MiFID II and GDPR. Generally, regulation is going to be a barrier to entry for new entrants, very often.

Q370 **Dame Angela Eagle:** Although you do not have the legacy systems that some of the existing people have, so that might be positive.

**Christian Faes:** Yes, exactly, but as an extension of that, if you have a jurisdiction where there is less prescriptive regulation, which perhaps the UK can become, that would be the place where I would go to start a business. When you go to selling into Europe and international expansion, that may become an issue as equivalence drifts apart but, in terms of tracking capital and start-ups, we have an opportunity now.

**Dame Angela Eagle:** So long as we speed up the FCA.

**Stuart Williams:** When we talk about equivalence, we often settle back into thinking that it is relevant only to UK-EU relationships. We forget that, in 2016, Europe—with the UK at the time—and the US, were deemed equivalent. Below the principle level, everything is different, and it still is. The same thing is true between the UK and Asia. This is a global standard already, where global standards are driven through IOSCO and other global institutions like that, and where the FCA plays a very active role, in many cases, in leading that conversation. That is the level where equivalence operates.

At the detail level, we are already in a world where it is different. The problem right now is that, because the equivalence discussions are driven politically, they have been done at that detailed level, because one or the other side knows that it is difficult for the other to agree to that. When we get back to how every other jurisdiction interacts, it is back to the principle levels. As you rightly point out, the EU is going to carry on going down its path, so if we did nothing we would diverge.

Q371 **Julie Marson:** Good afternoon. I have some questions about innovation, so I would like to turn to you, Christian. You mentioned authorisations for start-ups in fintech being a potential barrier that is slowing you down. What about scale-ups? What are the biggest challenges facing fintechs in terms of scaling up?

**Christian Faes:** In our summer survey, the No. 1 thing that founders say, across the piece, from early stage through to scale-ups, is access to capital. The Kalifa review pointed out that, in the last five years, the majority of capital into UK fintech start-ups across the piece has come from overseas, so access to capital remains a key issue for businesses. There are some wins that the Government could have. There was a roadmap in the Kalifa review around a fintech growth fund, not requiring Government money but perhaps like the pension charge cap—and I know



that that is a work in progress of the Government—to attract more capital from pension funds into scale-ups, but also at the early stage.

The enterprise investment scheme is a very successful scheme for early-stage start-ups, and about £2 billion a year is raised through it. You may be surprised to learn that you can use the EIS only if you are a qualifying trade, which explicitly excludes financial services businesses, so we have a position where the UK wants to be a global leader in fintech, but even at the early stage, we have a great scheme to encourage investment but it excludes financial services businesses. That is probably one of the most often cited things to me that gives mixed messaging, and I have never heard anyone explain why that is the case. Access to capital is clearly a big issue.

**Q372 Julie Marson:** If you look at, for instance, skills, how does regulation fit into that list of challenges?

**Christian Faes:** Regulation is up there as well. It is probably less of an issue for scale-ups, I would say, because, by the time you have become a scale-up, you probably have a relationship with the FCA, you have a compliance team and you have the infrastructure in your business to interact with the FCA. It may be an easier way, so it is probably both. We have talked about problems with the FCA, and it probably is on both sides. The FCA probably has frustrations dealing with early-stage businesses that are perhaps not familiar with the regulations or the requirements on their part.

Access to talent is a key issue. Again, the Kalifa review outlined some proposals around that. The Government have those in motion, and we understand that, in spring next year, three new visa schemes will be launched, which are welcome. We look forward to seeing the detail on those. We wish that they had come more quickly, but they are on their way, which is positive.

**Q373 Julie Marson:** In your written evidence, you mentioned the interaction with banks in terms of fintech start-ups and that it can “discourage real, transformational innovation”. Can you unpack that a little bit? You mentioned access to capital. Are there other elements of the interaction with banks, such as current accounts or lending?

**Christian Faes:** Yes, I can think of two. You may be surprised to hear that a lot of start-ups struggle to get a bank account in the UK. If you are a business that needs to go and become regulated, you may have a 12 to 18-month process to get regulated and, in the process, you need to raise capital to go through that authorisation process. Most banks want to bank a start-up that needs to be regulated but is not yet regulated, so it is a Catch-22.

The other thing that I would point to is innovation. We should not underestimate the dominant, entrenched position that banks have. Open banking is something that we really need to continue to evolve. I know



that you recently had someone from a bank before the Committee calling it not a success. Banks should be called out when they make comments like that, because open banking is a way to be able to challenge the incumbents. We are talking about customers being able to access their data with a bank, allowing competition and people providing services in a better way than they otherwise would.

In terms of figures, about 2.5 million payments a month are transacted through the use of open banking, whereas, in 2018, there were about 300,000 through the course of the whole year. It is unquestionable that there is huge momentum behind open banking and a lot of start-ups have been built off the back of that innovation. We need to go further. We need to be ambitious and to look at other countries. I hate to say it, as an Australian from Australia, but Australia is really ambitious around its roadmap for open banking, and it becomes open finance, where we look at the credit reference agencies, which have a lot of data on customers that start-ups and utility providers may be able to access in order to provide better services to their customers.

That narrative around the things not being successful when they are challenging the status quo should be called out.

Q374 **Julie Marson:** When we are talking about banks, can you assess how much comes from regulation? How much would you say is entrenched banking mindsets and risk aversity?

**Christian Faes:** They may be interlinked in some respects. Being cynical, I would say that it is banks protecting their turf to some extent, and there probably is an element of that. There are regulatory pressures and, clearly, we have just been through a very difficult period with Covid. Fintechs were very well set up to work in an online world out of the office. Look at the example of LendInvest. When Covid happened, we worked from home. Everyone picked up their laptops and went home. Banks are dealing with physical computers and servers, and infrastructure that is not necessarily cut out for that. It has been a challenging period, but we should not allow that to be an excuse for not continuing to innovate.

Q375 **Julie Marson:** How useful has the FCA sandbox been in developing innovation, and new products and services?

**Christian Faes:** The true answer is that I do not know. Certainly in the early days, it was very encouraging, because at least there was a feeling that the regulator was welcoming new ideas and start-ups, and that people could engage with the regulator very early on. Often, people think that they have an innovative idea but it fits within existing regulation, so it is also useful for people to get guidance on that. I am sure that the FCA would have stats around success stories that have come through the sandbox.

Q376 **Julie Marson:** I would like to open up the question about potential



labour and skills shortages in your areas. How obvious has that been in your particular field, Stuart?

**Stuart Williams:** There is a real global challenge right now for certain types of skills. We have not seen this a particularly acute issue in the UK compared to other locations, but I can tell you that compliance and risk resources globally are in high demand, in our US offices as well as in the UK and Europe. We are seeing that on a global scale but we have not really seen a pinch outside of that that is particular to the UK.

Q377 **Harriett Baldwin:** Given the importance of the theme that has been coming through about how regulation can affect our international standing and competitiveness, I just wanted to ask a couple of quick questions to Christian first around fintech specifically and the fintech bridges that the Treasury has been very proactive in establishing. Is that something that your industry has welcomed, and is it working for the industry?

**Christian Faes:** I should have made mention of them before when we were talking about what we wished for in trade agreements. The fintech bridges have been good. They clearly do not go as far as providing equivalence or help in terms of passporting into other jurisdictions, but I do hear from founders that they have been useful as a launchpad into other territories and in terms of the practical issues that businesses may deal with when entering those other countries. It is definitely welcome.

Q378 **Harriett Baldwin:** Are you aware that there is any ongoing negotiation with the EU about a fintech bridge?

**Christian Faes:** I probably should be aware, but I am not.

Q379 **Harriett Baldwin:** With the US?

**Christian Faes:** I am not sure exactly which ones.

Q380 **Harriett Baldwin:** Is the EU taking a meaningfully different approach on fintech to the UK?

**Christian Faes:** With more prescriptive legislation, Europe is probably a harder place to go and start a fintech business, but there are places like Paris that have been very welcome to entrepreneurialism and have a number of accelerators and groups that are trying to attract new businesses. I feel like the UK is probably ahead of Europe when it comes to fintech.

Q381 **Harriett Baldwin:** That is across the board in terms of regulation.

**Christian Faes:** Yes.

Q382 **Harriett Baldwin:** Has the EU implemented any of Ron Kalifa's recommendations ahead of the UK?

**Christian Faes:** Not that I am aware.

Q383 **Harriett Baldwin:** Has the US?



**Christian Faes:** No. The US is a very different market. I would point to things like crypto, where they are cautiously welcoming a whole sector there, where the UK clearly is not. It is a big market and you can raise capital in the US more easily than you can in the UK.

Q384 **Harriett Baldwin:** I wanted to move on to digital currencies and to ask for your assessment of the Bank of England and Treasury consultation on the central bank digital currency. Is that something that you would welcome in your industry?

**Christian Faes:** We do welcome it, for sure. It is probably fair to say that every western central bank around the world is looking at central bank digital currencies, so I do not think that the Bank of England is necessarily at the forefront there, but it is, nonetheless, positive that it is looking at it. There is mixed messaging in some respects, in that it is a review that is being looked at, but there are then comments that it is many years away, so I am not entirely sure where that ends up. Ultimately, it is talking about the digitalisation of finance at the central bank level. It probably represents a threat to the banks as well. It has the potential to be disruptive, for sure, so it is something that would be welcome.

Q385 **Harriett Baldwin:** Would you like to see all central banks move simultaneously? I know that China has started a digital currency experiment at a local level.

**Christian Faes:** I am not sure that I would be saying, "Let us follow China" in much. Its motives around the digital currency might be a bit different than those of western countries in terms of information on currency movements and things like that, so we will see how it goes. I do not think we should do it all the same. China has it now, so it will definitely move more quickly than we will, but it needs to be for the right reasons.

Q386 **Harriett Baldwin:** I am surprised that you are not nibbling more on these questions around digital currencies, so I am going to turn to Stuart instead and ask about the market for crypto exchanges. Could you tell us a little bit about that?

**Stuart Williams:** In about 2018, we took the view that, for these markets to grow in any meaningful way in liquidity, there would need to be greater regulation around them. We built a regulated market out in the US, with an institutional grade wallet and a physically delivered future, and all these things that, technically, are sound. We have not seen liquidity dash towards regulation just yet—it may come—but we are seeing increasing acknowledgment, largely led by Gensler at the SEC, that more regulation and definition is required around these markets. We do end up seeing the global community come up with some sort of standards, with the SEC and FCA no doubt contributing to that, which provide better rails around that market.



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I am very sympathetic to some of the concerns that the FCA has for consumers, because there are many examples where that has gone the wrong way. We operate a crypto-futures market in the US, which is fully regulated, but the broader adoption of regulation is still coming.

**Q387 Harriett Baldwin:** If you then compare that to what we have here in the UK, is there a stark difference between the exchanges like the one you have just described in the US and the ones on the FCA's list of unregulated crypto firms?

**Stuart Williams:** Certainly the one that we operate is very different to the ones that are on the list of the unregulated crypto firms. The broader environment in the UK is a little different, in the sense that the FCA has largely taken a wait-and-see approach for now. Policy is developing. I do not see any other major jurisdiction having made significant strides in this space either, so we are at that stage now where there is at least the acknowledgment that there is a need for greater regulation, and the global community will start moving towards that.

**Q388 Harriett Baldwin:** In terms of some of the comments that the FCA has made about this, it has seen a significantly high number of crypto-asset businesses that are not meeting the required standards in terms of the money laundering regulations. On the other side of that, consumers using central bank digital currencies could find that it protected them a bit more from some of the fraud that we hear about in the sector. I just wondered what your thoughts are on how worried we should be about the use of crypto-assets for money laundering or for criminal activities.

**Stuart Williams:** When it comes here in a few weeks' time, the FCA will be better placed to answer that question. It is clearly concerning them, though, and it is an area where the regulatory community is needing to get its arms around that space.

**Q389 Harriett Baldwin:** Moving on more generally to the financial services regulatory framework, the Government's latest future of financial services consultation proposes the introduction of a host of new statutory requirements for the PRA and the FCA. There is such a plethora of have-regards and box-ticking exercises at the moment. Do they just add pressure to the regulators' resources or are they performing a really valuable function for the financial services sector?

**Stuart Williams:** They are performing a really important function and the proposed addition of a competitiveness objective is very important to that. By the way, it needs to be across the UK authorities, including the Bank of England, when it comes to FMIs.

It is important to have objectives that may, on the face of it, appear to be at a tension. We all make decisions when there are tensions between two potentially conflicting objectives, and that is important. That is necessary to help ensure that policy development is looking for not just the removal of risk but the appropriate mitigation of risk, and balancing



that appropriately with the competitiveness objectives and the ability of the UK to compete, so we are supportive of those.

We are supportive of thoughtful application of regulation. It is also relevant to say that, if the regulatory construct is appropriately at the principle level, it does not add too much weight on the regulator's resources, because, in the end, you can deal with situations as they come in an appropriate way, within the construct of these objectives.

**Q390 Harriett Baldwin:** Michael, I would like to pick your brains as a former parliamentarian in terms of the Treasury's proposals for a new designated activities regime. It would enable the regulators to make rules for activities that are covered by retained EU law but not by FSMA, and which do not require FCA authorisation. Would you like to see more parliamentary scrutiny in any of that or are you happy about those moves? Is there some move towards an activities-based regime? Is that a good thing? Do you want to see us being more careful in terms of line-by-line scrutiny?

**Michael Moore:** I may have to preface this by saying "speaking in a personal capacity", and to draw on previous experience here. It really matters that Parliament, whether this Committee or some new formulation of Standing Committees, is able to look at this area in particular. I am sure that there are lots of other areas that people would say require that scrutiny. Parliament's contribution is not only to scrutinise but to contribute to the debate over these things. To the points we were all making before, we now shape our own destiny in terms of that regulatory future, but there is also a requirement to keep some idea of what is happening elsewhere. I do not think that that should be done in a vacuum, and it would be very good for Parliament to have a role there.

There were very strong bits of the old European institutional arrangements that still continue for the EU, where people became highly specialist in those areas. In the past, we had the standing committees that looked at the different areas of European reform, with big debates about how much attention they got or otherwise, but they were a fact of life. It would be good to have that here as well, because there will be opportunities. With the best will in the world, regulators will not always spot those or have the confidence to know that Parliament has their back, and there is something to explore here.

To the earlier point on competitiveness and growth objectives, if I may add an extra bit on the end, I absolutely endorse the point that Stuart made. It is a really important signal. It tells investors that this is part of the mindset of the regulatory environment here in the United Kingdom. It is also very important for the practitioners—whichever bit of financial services we are talking about—to be able to have that as part of the debate that they have with the FCA, or to say to people, "This is where you should be focused. If you are serious about competitiveness, it is this, not that"—on proportionality or whatever it might be. If there is a



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competitiveness or growth requirement, you get more airtime or more oxygen for those considerations, which are going to be hugely important going forward.

**Q391 Harriett Baldwin:** Arguably, it also adds to the cost of regulation. Are you happy with the current system of funding the financial regulator? Is the financial services compensation scheme appropriate?

**Michael Moore:** It is not one that directly affects us. We are institutional investors rather than looking more at the retail end of things, but these are great, important public policy debates. We need an FCA and a PRA that are fit for purpose. It is a changed world. You have to say, with the best will in the world, that they are in transition, because they are digesting huge chunks of material at the moment. The Government are asking us for opinions on a whole range of areas, and that will affect how they structure and shape themselves going forward.

That is a big task. In the meantime, all the practical day-to-day stuff has to be fulfilled. Otherwise, to my point before, you could have a fabulous, wonderful, really competitive regulatory environment, but if the practice day to day is that you cannot get decisions, or you get decisions that do not reflect the principles that are meant to influence the system, you are in trouble.

**Q392 Harriett Baldwin:** As Fintech Founders, do you get a lot of pushback on the cost of regulation?

**Christian Faes:** Yes, we do. It is continuing to increase. Just to the point before, having competition as a core part of the regulator's remit is really important. That should be encouraged and, with that, the evolution and innovation of financial services. Parliament should be responsible for putting the perimeter around what the FCA is responsible for. As you described earlier, perhaps the FCA could make findings beyond its regulated businesses within its remit, and that feels like that is going too far into an area where people are not really sure what the regulation is or whether they are at risk of falling into the remit of the FCA, which would be troubling.

**Q393 Alison Thewliss:** I have some further questions around the effectiveness of regulators. You have touched on some of these things but, to give somebody the opportunity to expand on what they have said already, it would be useful to do that in this section. If I could start with Stuart Williams: your organisation operates all around the world. How would you rate the UK regulatory framework and the performance of UK regulators compared to other countries in which you operate?

**Stuart Williams:** Historically, we always found the UK our default position to invest in new markets, which is why we operate quite a lot of infrastructure in the UK. With the advent of a lot of the European regulation, it has become more and more difficult and complicated. Where we are right now is that a lot of the things we have been talking about are key to getting us back to that position, where doing business in



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the UK is easier or better than in other jurisdictions, but we still have to go through a lot of these changes to the policy that we have been talking about in order to get there.

**Q394 Alison Thewliss:** What further changes would you feel are required to get to that point?

**Stuart Williams:** It is some of the detail that we talked about, like position limits or pre-trade transparency. It is the moving of the regulatory requirements back up to the principle level. As a practical matter, one area that we are very keen to invest more in is around the risk models within a CCP. The review that is required to get that through is a challenge. I appreciate it is a big and important effort, so we are not trying to detract from that at all, but that is challenging.

**Q395 Alison Thewliss:** Do you feel that the regulators you deal with, both here in other countries, have knowledgeable enough staff? Do they understand what your needs are?

**Stuart Williams:** We are in the dedicated regulator space, so we have a dedicated team at the FCA and at the Bank of England, which oversees our business. We spend a lot of time with that team in making sure that any gaps are plugged in terms of the understanding. When new staff come in, that is an important investment. From our end of the business, we do have knowledgeable regulators. A lot of the challenge comes in further down, where you do not have those dedicated teams, and you have a lot of churn or individuals who deal with hundreds of firms. That is where it becomes more difficult.

**Q396 Alison Thewliss:** It must be difficult when somebody you have been dealing with moves on. In the oral evidence session we had on asset management, we heard from witnesses that it is important to attract the right people into regulation, and that remuneration is part of that. There have been press reports about the FCA, with pay cuts and staff seeking union recognition. Is there a risk that drives for cost efficiencies among regulators could have an impact on the quality of the staff who work there and stay there?

**Stuart Williams:** That could be the case. The other thing that has worked well, and continues to, is allowing secondments between the regulator and industry. That, if encouraged more, could have two benefits. It gives the regulatory staff the opportunity to get a bit more insight into how businesses operate and upskill that way, and you could go in the other direction and have the opportunity for specialist skills from industry being imported into the regulator for a period of time.

To your specific question, that could well be the outcome, and pay is an element of that. There are other things, though, that could be offered to staff, particularly in terms of the opportunity to work within industry, which could help offset a bit of that.

**Q397 Alison Thewliss:** I can appreciate what you are saying about learning



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and skills. If there is a risk also that, if it were too close, you would be a bit too cosy to the people you were regulating, if you were being seconded in and then going back into the business?

**Stuart Williams:** The way that it works in practice is that people tend to not go back into the team that regulates the business that they have just spent some time with, so that is mitigable. It is a balance that can be maintained. I do not see that as beyond the wit of man to resolve.

Q398 **Alison Thewliss:** Christian, if I could ask you about expertise, you are looking at areas that are just emerging, and at brand new ideas and concepts. Do you feel that the regulators can have the staff who keep pace with that in terms of what is coming out?

**Christian Faes:** It is going to be a challenge for the regulator, as it is for any organisation that is required to keep up with new innovation and concepts. Maybe I should not say this, but I would say that a lot of fintech is overdressed. It is really tech enablement of financial services. There are things like crypto and areas that are really cutting edge and quite technical, but in truth a lot of fintechs and members of our group are lending businesses that are doing it in a digital way or perhaps using a different data source. There are different ways in which they are able to use technology to deliver what is, effectively, an old-school financial services product.

I have some sympathy with the regulator in terms of technology and things that are evolving but, when we scale it back, it is just entrepreneurial financial services. They are new financial services businesses. You cannot imagine setting up a new business these days without having technology as a core part of it. By virtue of that, almost every financial services start-up is a fintech. I have some sympathy with it but, at its core, it is still financial services.

Q399 **Alison Thewliss:** When we had Greensill in front of us, it tried to claim to be a fintech in some ways. Does that cause reputational issues for your sector?

**Christian Faes:** Yes, it does. Not to speak specifically about Greensill, everyone wants to be a fintech these days, with the perception about what that could do for your valuation or the attractiveness for VC investors and so on. Sophisticated investors can see through that and understand what real technology is. Yes, it does cause reputation issues, but that is part of any new sector.

Q400 **Alison Thewliss:** Michael, you mentioned the speed and efficiency part of the regulators. Is there a risk, on the flipside of that, that things move too quickly and that the regulators might miss things that are crucial?

**Michael Moore:** Logically, of course, that is a risk, but I do not think that we are, if I maybe say it carefully, in any danger of it moving too quickly. One issue that is routinely heard among our members—the compliance teams, the lawyers or the principals in the firms—is getting



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the knowhow in the regulators such that they understand what is being regulated. You need a crypto specialist if you are going to look at crypto. In the same way as investors have to spend a lot of time understanding what they are going to back in businesses, so the regulator needs to understand that very clearly.

There are increasing pressures on all the regulators to have that knowhow in house. The other feature, which is age old and has nothing to do with new types of financial services or new post-Brexit realities for us, is just the turnover and churn in teams. With the best will in the world, the regulation of venture capital and private equity is highly complex, and it will take the desk officers and the teams there quite some considerable time, so you end up with the pressure to bring in the seconded expertise or otherwise.

The classic thing, which the civil service has all the time, as we have all seen, is that someone has just become an expert and then moves off somewhere else. I am not sure that there is an easy solution, or we would have found it already, but, if somebody has an answer to that, getting some more continuity would then probably fundamentally alter the ability to do things speedily and appropriately.

Q401 **Alison Thewliss:** Is remuneration a part of that?

**Michael Moore:** I am sure that it is.

**Alison Thewliss:** You can make more money in the private sector than you ever would do working for a regulator.

**Michael Moore:** That is an age-old challenge as well. It depends on which stage of the economy we are in and where the skills shortages are. There is no question that, at the moment, law and accountancy firms all over the country are under severe stress just to get and keep people, and to keep focused on their activities, because there is an awful lot of activity going on. If that is what is happening in the private sector, it doubles down as a problem in the public sector, which, for obvious reasons, cannot—and should not, frankly—compete on a pound-for-pound basis with those who are elsewhere.

Q402 **Alison Thewliss:** You said earlier that there was a resource issue as well in terms of the delays.

**Michael Moore:** I am afraid that I do not have any snappy statistics for you, but if they exist I will get them to the Committee pronto. There is a range of issues. Things that you would hope would involve a case officer being appointed pretty quickly are being taken right to the edge of the allowed time, and then, because of the caseload and the backlog, it then takes some time to get round to doing that. We are enormously sympathetic to the people on the receiving end of all the applications, but there is clearly a problem.



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**Christian Faes:** I would add more specifically in terms of the regulator. It is about trying to have an environment where innovation is encouraged and we are trying to create global-leading sectors. One example that is specific to our industry is in relation to the Competition and Markets Authority.

The UK was a leader in crowdfunding and we recently had two pioneers in crowdfunding—Seedrs and Crowdcube, both world-leading UK companies—that were set to merge, but the CMA blocked that merger. There was a lot of head-scratching. “If we want to create a global champion, that would be a great way to do it. Let these two companies join together and they could be a global leader”. The CMA blocked it and now, just in the last week or so, we see Seedrs is being sold to an American company. That is, again, an example of a missed opportunity.

The next Amazon or Google is out there being built somewhere, and it is more around the messaging of being supportive to companies that want to have those global ambitions and to build big businesses. That was one where people felt like the regulator definitely got in the way of progress for the sector.

**Alison Thewliss:** That is a really interesting point. Thank you.

Q403 **Anthony Browne:** I have two sets of questions, first about the regulation of wholesale markets and retail, which Stuart touched on, and some follow-up questions about open banking, which Christian touched on.

On the first bit, we have heard in previous evidence from insurers and asset managers that they think that regulations designed to protect retail customers are being used in wholesale markets. Stuart, in your oral evidence, you picked up on this point. I am just wondering how big an issue it is. Is it happening? I thought that the two were always meant to be discrete.

**Stuart Williams:** One example that is live at the moment is PRIIPs, which was designed as a consumer protection piece of legislation and captures a number of wholesale markets. As a wholesale market operator, we have to issue KIDs—key information documents—that are translated into 28 different languages and used by precisely none of our customers. They add no value to anybody, but additional cost for us and for those who have to consume these things. That is one example of a great idea designed for retail that, by its definition, captured—

Q404 **Anthony Browne:** A retail customer can buy PRIIPs, but you are selling them on wholesale markets.

**Stuart Williams:** PRIIPs is the regulation that requires the sellers of retail-focused financial instruments to provide information. Wholesale markets like Brent oil and gas were never designed and neither are they used by retail in any way, shape or form, and yet, by definition, it gets captured, so we end up issuing these documents. That is one example. It



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has been acknowledged and is part of the wholesale markets review as something that needs to be looked at.

Similarly, if you look at the consumer protection consultations that are out at the moment, again it is all about how one defines what that regulation applies to and making sure that it does not inadvertently draw wholesale markets into the definition, because that just layers on extra cost for no additional value.

Q405 **Anthony Browne:** For the record, do you have any other examples?

**Stuart Williams:** PRIIPs is the main live example. We are looking at some of the consumer protection rules that are being consulted on at the moment.

Q406 **Anthony Browne:** Is that by accident, as it were?

**Stuart Williams:** Yes.

Q407 **Anthony Browne:** I am not expecting you speak on behalf of the regulators, but normally the presumption is that, in retail markets, you have consumer protection and, in wholesale markets, they are all professional investors who know what they are doing, so you do not need that consumer protection.

**Stuart Williams:** I certainly do not think that it is was by some grand design that wholesale markets got captured. It was more just as a function of how it got drafted, and that, somehow feedback along those lines was not taken into account.

**Michael Moore:** Perhaps in the new world, there will be an ability, whether here in Parliament or elsewhere, to begin to spot or be responsive to distinctions between what is designed for sophisticated investors through complex fund arrangements, or complex markets in Stuart's case, and where we understand that consumer protection must remain a very strong part of the remit, but not applied to the wrong bits of financial services.

**Stuart Williams:** I agree 100% with that. When you have 28 around a table, by the time you get something out at the end of that, you really are loth to go and make any changes to it. If it is just one, it is a lot easier to say, "That was a mistake. We will go and revise it".

Q408 **Anthony Browne:** Christian, in the fintech world, do you have any issues in terms of retail regulation being used for wholesale markets?

**Christian Faes:** Not that I am aware of, no.

**Anthony Browne:** Following up on open banking, that was really only an issue for you, but if others have any thoughts on it do come in.

**Michael Moore:** Unless we are investing in it.

Q409 **Anthony Browne:** Anne Boden, CEO of Starling Bank, who described



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herself as a fintech, so she thought she was allowed to make these points, said that open banking had not been a success. One thing that has often been complained about is the rule whereby users have to re-give their permission after 90 days. I understand that that has now been dropped.

**Christian Faes:** That is correct.

Q410 **Anthony Browne:** What are the other things that are problematic for open banking? What needs to happen to make it a success?

**Christian Faes:** As I described before, the numbers should speak for themselves. There is huge momentum behind open banking. Previously, one of the biggest frustrations with its implementation was that it required to reauthenticate every 90 days. Only a few days ago, the FCA came out with guidance to revise that, and that was celebrated by a number of fintechs that were very happy to have seen that the FCA has listened to that, and that it has evolved. It still requires consent, so there is some uncertainty around what the banks will require for consent to be maintained for the customer's bank account to be connected to. It is not a reauthentication process but it still requires a reaffirmation of the customer's consent, as I understand it. It is not a total abolition of that requirement.

Q411 **Anthony Browne:** You would need to have consent at some point. If a bank is going to give customers' data to a third party, the bank clearly needs to get permission from the customer to do that.

**Christian Faes:** Sorry if I have misdescribed that. There is still the authentication process, where you have to go through and connect your customer account to your bank account, but, instead of a 90-day reauthentication, you now have to reconfirm your consent every 90 days, almost like a cookie bar on a website, I imagine, where everyone just clicks and says it is okay.

**Anthony Browne:** I did not realise that they are two separate things.

**Christian Faes:** That is how I understand it will now be implemented, yes.

Q412 **Anthony Browne:** Are there are any other areas of open banking where the regulations need to be reviewed?

**Christian Faes:** I would just urge for it to be evolved further. Let us try to bring other data sources into it. We have the banks largely on board now, despite comments to the contrary, so let us try to get utility providers and other ways for customers to be able to access data. It is a good thing, and some of the comments that we were referring to before were talking about open banking really being just about customer account switching. That is not the case.

If you look at our business at LendInvest, we were the first mortgage lender, as I understand it, to use open banking. If you contrast the



customer experience using open banking to not using open banking, it is dramatically better. Typically, when you go through the process of getting a mortgage, you will be asked for a number of months' bank statements, which will typically be pdf-d, emailed, faxed or taken into a branch. You can imagine someone sitting there with a highlighter and trying to figure out what a borrower's circumstance is. It is time consuming and frustrating for the customer. It is an old-school way of doing things.

When a borrower comes to LendInvest, they will get a link. We will be able to interact with their bank account and pull all of their relevant data to make a very sophisticated, quick decision. It is just a better experience, which is ultimately what open banking is about. It is about trying to evolve financial services for the benefit of the consumer.

**Q413 Anthony Browne:** Just widening it out a bit more to competition policy in general, because open banking is about promoting competition, the FCA and the PRA both have objectives relating to competition. The PRA has set up a unit to set up new banks and has now issued 50 different licences, which is extraordinary, given that there was a 150-year period when it did not issue one new licence. I am just wondering how you see this competition in banking working more generally outside of open banking. Does more need to be done? Are these regulators' remits playing through in some way?

**Christian Faes:** Just generally, the example you described is positive, with more banks coming to market. They use technology as financial services businesses. They create ways of serving the customer better, which necessarily puts pressure on the larger incumbents to innovate and evolve their services as well. That is encouraging. You do still see the dominant position for the big banks. They are very profitable and very entrenched in the system, so it is going to take some time for new banks to be legitimate challengers to the larger ones. The trend is the correct one, I would say.

**Q414 Anthony Browne:** Do you see the FCA's duty to promote competition in wholesale markets at all, or in capital markets?

**Stuart Williams:** Yes, we do. The challenge with our end of the industry is that competition is global. The risk is always that the regulator views competition on a local, UK basis, or that the definition of the market that they are looking at is the wrong definition. From our perspective, the CMA and the rest of the UK's competition law worked very effectively. We would not necessarily need the regulator to also have a look at that. That might be different in the retail space, which is fine, but in wholesale markets it is that definition of what the market is. We compete for mobile global liquidity with the US and Asia and, to an extent, with Europe.

**Q415 Anthony Browne:** There is a distinction there between competitiveness, which is the global aspect—



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**Stuart Williams:** Correct. The competitiveness one is critical, and the competition one a bit less so.

Q416 **Anthony Browne:** While the PRA is part of the Bank of England, the Bank of England itself does not have competition objective. Should the Bank of England pay more attention to competition issues in the retail or wholesale markets, or does it just blithely stand above all of that?

**Stuart Williams:** I do not think that it does, because the Bank of England directly regulates FMIs, or financial market infrastructures, such as CCPs and payment infrastructure. There is a big overlap with fintech on that, so it is important on the competitiveness side that the Bank of England, alongside the other UK authorities, gets a competitiveness objective and operates on the same set of objectives for that part where it is a financial regulator in the same way that the PRA and the FCA are.

**Christian Faes:** What has just been described is very sensible. Clearly, more competition and bodies like the Bank of England being mindful of competition is a positive thing.

**Chair:** That brings us to the end of this session. Can I thank all three of our witnesses for some very valuable evidence? We have covered a lot of ground and some very important issues around regulation and the future of the financial services framework. It is particularly useful to get the specific focuses that each of you have on different parts of the financial services sector, and very timely also, given that we have the FCA before us the day after tomorrow. In terms of the letters that you might follow up, do not hesitate to be brisk and send something through to us. We will be happy to consider that. That concludes this session.