HOUSE OF COMMONS

Treasury Committee

Oral evidence: Appointment of Charles Randell as Chair of the Financial Conduct Authority, HC 838

Tuesday 20 February 2018

Ordered by the House of Commons to be published on 20 February 2018

Watch the meeting

Members present: Nicky Morgan (Chair); Charlie Elphicke; Stephen Hammond; Mr Alister Jack; Catherine McKinnell; Wes Streeting.

Questions 1-62

Witness

I: Charles Randell, appointed Chair, Financial Conduct Authority.

Written evidence from witnesses:

– Charles Randell CV

– Charles Randell Appointment Questionnaire

Examination of Witness

Witness: Charles Randell.

Q1 **Chair:** Good afternoon, Mr Randell. Thank you very much indeed for coming before the Committee today. I am sorry to have kept you waiting, but you will probably be aware we have been discussing something that may very well become pertinent to you in your new role. I am going to start off with some questions on the relationship between the FCA and this Committee. I think in your questionnaire you put the sometimes difficult relationship between the Committee and the FCA down to a gap between what the Committee expects and what the FCA is able to deliver. You concluded that your work as chairman should focus on reducing this expectations gap. Do you think it is just a matter of communications or is there something more in the gap in the expectations between the Committee and the Financial Conduct Authority?

Charles Randell: My view at this stage is that I should keep a completely open mind about that. There are two sides to it. One is how well the FCA communicates what it can and cannot do, and the timetables for doing what it does. That does not mean that we should not look at some of the experiences that have caused tension between the Committee and the FCA and ask ourselves if things can be done differently. I would like to keep a very open mind about that, at this stage.

Q2 **Chair:** You will be aware there has been a lot of press coverage about the publication of the FCA's section 166 report into the RBS GRG issues. One of the things we were quizzing the FCA's chief executive Andrew Bailey about, before the recess, was a failure to respond to the request made by the Committee in September of last year to request RBS's consent to the publication of that report. Would you agree that that sort of failure, the problem that has been created, is not the consequence of an expectation gap, but more a failure to act in response to a reasonable request made by this Committee?

Charles Randell: My view at this stage is that the RBS GRG report and its handling by the FCA is a matter for the FCA and its board under its current chair. I do not think it would be right for me—I am still a month and a half away from taking up the role and do not even have an office pass yet—to start making specific comments about the handling of this matter. It must be my first priority when I arrive at the FCA to conduct my own assessment of not just the RBS GRG report, but the background to all the cases where there has been this very obvious tension between public expectations, the expectations of the Committee and what the FCA has felt able to deliver.

In deciding how to do that assessment, I need to be mindful of the fact that some of those cases will have their own processes. There will be a review into the handling of the interest rate hedging product redress scheme, and there are focused investigations taking place in a number of other cases. Once I can get in there and make sure that what I am doing does not trip over those other processes, I want to conduct my own assessment of this as urgently as I can.

Q3 **Chair:** The Treasury Select Committee is the way in which the FCA is held accountable to Parliament. How do you see that relationship playing out under your chairmanship?

Charles Randell: First of all, it has been a difficult relationship at times, but it has obviously been beneficial from the point of view of transparency and accountability. The current Committee, and if I may say so also under your predecessor, from what I have seen, has really upped the game of the way that the Committee held the regulators to account. I would like to feel that my role as chair would not be to come here and defend the FCA, but to come here and account for what the FCA does. That may include coming here and saying, "We can do better", so I want to go into it with that mind set.

Q4 **Chair:** I agree with that. One of the frustrations has been about how long it can sometimes take from the FCA identifying correctly that there is some change that needs to be made in regulation. For example, I am just thinking about widening access to the Financial Ombudsman Service. You will be aware that we are about to start an inquiry into SME finance, and one of the things that people are saying is that there should be a separate tribunal for SMEs. The FCA promised to consult on widening access to the ombudsman in 2014; the consultation paper finally appeared last month, in January 2018. Do you have a view on how long it can take to get from heralding consultation to actually seeing it, and how frustrating that can be for the public?

Charles Randell: Yes, I understand the frustration that the public feel, particularly in these cases where it is manifest that there is significant harm and distress happening to individuals and small businesses. They feel that justice delayed is justice denied, so I quite understand that. It would be wrong for me to comment on the specific case you give, because I do not know the background to the timeline. I want, as part of the assessment that I am proposing to make when I arrive in role, to ask some questions about why things take as long as they do and if things can be done to significantly change timetables and outcomes. It may be that there is no single silver bullet. It may be that a series of changes in procedure could improve matters, but I have an open mind on that at this stage.

Q5 **Chair:** One of the other cases was that the FCA spent the last two years investigating the conduct of certain former HBOS managers. We understand it has got halfway through and the conduct in question occurred in the mid-2000s. Again, the point you made that justice delayed is justice denied is very frustrating to people outside. It might be that you do not want to comment on individual cases, which I understand at this stage, but would you agree that delays in these sorts of investigations can seem very unreasonable to people looking in from the outside?

Charles Randell: Yes, I would agree with that. On the HBOS case I have some personal knowledge, because in the latter part of the handling of that investigation I joined the joint FCA/PRA steering group that was trying to push the thing finally over the line into publication. I saw in that context this issue of timelines, and it has helped me to begin to form some views on how things might be done.

Q6 **Chair:** Thank you very much indeed for the questionnaire that you have filled in for the Committee. Obviously the FCA, in looking for a new chair, sets out a candidate profile. Various extraordinary skills are required, including intellectual strength, undisputed integrity, political sensitivity and sound judgment. One of the areas that the Committee wants to ask you about this afternoon is in relation to the correspondence that we swapped relating to the Ingenious Film partnership. For the benefit of those who might be watching this session, I want to summarise briefly what that is about.

On 15 January, I wrote to the Treasury Permanent Secretary regarding your involvement in Ingenious Film Partners 2 LLP, which at least in the view of HMRC is a tax-avoidance scheme. I asked Sir Tom what bearing this had on the decision-making of the assessment panel that had interviewed you for the role of the FCA chair. I got two letters back, one from Sir Tom and one from you. Both of those are now published on the Committee's website, so I just wanted to raise that. In your letter, you noted that you invested in the scheme after it was promoted to you by your financial adviser and on the basis of third-party assurances that HMRC was content with the scheme. I take it you have worked in the City for a long time and you are a very experienced solicitor, but it would be helpful to understand if you could tell the Committee about the efforts you made to understand how the scheme worked in practice when you decided to invest in it.

Charles Randell: I also said in the letter that I regarded the fact that I had not made sufficient investigations into the assurances I was given to be an error of judgment. I need to be careful here, because anything I say will sound like an excuse, whereas I take responsibility for the decision that I took. I was reassured to hear that this partnership had been discussed with senior policy officials at HMRC, who had indicated that they approved of it. It is clear to me now that, far from taking any comfort from that, I should have seen it as a warning signal, because the mere fact that an informal assurance was seen to be necessary should have told me that this was an investment for which there was no specific statutory framework; there was no binding approval mechanism; and, if HMRC did approve it in 2005, which I have repeatedly been told is the case, it was always open to it to change its mind, which it obviously did.

Q7 **Chair:** The scheme provided investors in the first year an amount of tax relief equal to the value of the investment. Did that strike you as odd or troubling at the time that you made the investment?

Charles Randell: It did not strike me as odd at the time I made the investment, because of the factors I have outlined. I was given to understand that HMRC regarded this as a conservatively structured partnership that it thought was within the spirit of its tax legislation. That is what I was told.

Q8 **Chair:** Can you see how to ordinary people—I mean those who are not seeking to be FCA chair—on being told how the scheme works, it could well look like some rather clever tax wheeze, so that people are paying less tax, and the sort of scheme that is not open to many of the consumers who invest in businesses regulated by the FCA?

Charles Randell: Yes, I can.

Q9 **Chair:** Had you given particular instructions to your adviser that would lead him or her to recommend this particular scheme to you?

Charles Randell: No.

Q10 **Chair:** You have stated that you have made a letter of judgment in your letter to Tom Scholar, and you wrote that you regret "failing to independently investigate the assurances I received that HMRC were content with the partnership arrangements". Is the error of judgment that you failed to predict that HMRC would take a dislike to the scheme?

Charles Randell: As I say, the error of judgment was relying on an assurance that HMRC had approved the arrangement. Another way of putting that is that the film partnership was not benefiting from any specific statutory relief. Therefore, it was in an area where HMRC, even if it had given approval in 2005, as I believed it had, could subsequently, by reason of changes in circumstances or changes of opinion, change its approach. It is entitled to do that. It has to enforce the tax law as it sees it at any given point in time, and that is what it did. The failure to see that point was an error of judgment.

Q11 **Chair:** In his letter to me, Tom Scholar wrote that the assessment panel was content that you had taken appropriate action in relation to your investment with the scheme. Could you tell us what action was taken? I understand that you withdrew from the scheme around the time that many other people did as well. Then there was an offer in 2013 by HMRC, which wrote to members—I do not know if this included you—with an offer to settle affairs for those who had invested. Can you tell us how you responded to that letter? Did you receive that letter or subsequent letters?

Charles Randell: I did receive that letter. Around about that time, I dispensed with the services of my financial adviser. I then conducted, as best I could, my own personal assessment of the situation, because I had decided I would handle this myself rather than through an adviser. Then

I contacted HMRC and said that I would like it to give me the terms of settlement that would apply to me personally.

Chair: You were settled. You paid an amount to HMRC in 2013.

Charles Randell: From the point when I contacted it to the point when I obtained from it a definitive statement of the tax payable and a definite settlement document, the process was about 15 months. I actually received a final tax statement and paid the tax in early 2015.

Q12 **Chair:** Before we move on to more general matters of the FCA, is there anything else on this particular incident? Is there anything else akin to this that the Committee should be aware of, in respect of your appointment?

Charles Randell: No, not at all. This is something that, as I said in the letter, I brought to the attention of the assessment panel for exactly the reason that, when I look back, it stands out.

Q13 **Wes Streeting:** Good afternoon. Section 348 of the Financial Services and Markets Act prohibits the FCA from publicly disclosing information about firms and individuals acquired during the course of its work, unless their consent is given. What do you think the merits are of this position and what problems may it have given rise to, if any?

Charles Randell: The problem that it has given rise to is that, in cases where the FCA wants to publish a report, such as the GRG report, it is not able to do so lawfully without obtaining consent from individuals. That puts the FCA in the position of either having to be drawn into a negotiation with individuals and their advisers about the tenor of the report or publishing a report that has redactions, without really being able to say what has been redacted or why. That can undermine public confidence that the FCA is proceeding in a transparent way and is holding people to account. The reason for section 348, I am afraid, I am less familiar with, other than that there are some commitments in European legislation to respect the professional secrecy of regulatory information. Whether section 348 goes further than necessary to implement those commitments, I am afraid I do not know.

Q14 **Wes Streeting:** Given what you have said, do you think there should be a public interest exception to obligations to confidentiality?

Charles Randell: I would need to take advice on the obligations we have by virtue of the Capital Requirements Directive and the Markets in Financial Instruments Directive, which both contain these provisions about the professional secrecy of regulatory information. If we had an exception to publish in the public interest, it would not necessarily be the end of the weighing-up exercise that the FCA would have to do, because the FCA would also have to consider, as a public authority, its duties to respect the private lives of individuals and to ensure that they are entitled to a fair hearing. It is an area where we are clearly going to have a discussion but, at the moment, I am not sure exactly how you would frame any exception or how in practice it would change behaviour.

Q15 **Wes Streeting:** This is something you would like the FCA to look at fairly early on in your term.

Charles Randell: I am not sure it is for the FCA to look at. The FCA can provide advice on the matter, but it would require legislative action and I do not think the FCA would normally promote legislation.

Q16 **Wes Streeting:** Without drawing on individual cases, for the reasons that you outlined at the very beginning of the session in answer to the chair, and as you have acknowledged in your answer to me, there is a reputational risk to the FCA in this kind of area, if people feel that there is undue secrecy or the FCA is not doing its job properly. The FCA may well be doing its job well, but feels hamstrung because it is not able to publish. You are right that this is the responsibility of Parliament, but it is also an area where legislators seek views and advice. Perhaps this is something that you might want to look at in order to inform any parliamentary considerations. I am sure the process surrounding the RBS and GRG report will lead to a debate about this whole process and whether this Committee has acted in the proper way as well, so it is something for you to reflect on.

Charles Randell: It is a very complex and difficult area, which is currently the subject of quite high emotions. I hope you will excuse me for proceeding cautiously on it. I can see that there is a very difficult issue here. It is the sort of thing in which this Committee has a huge role to play and I would like to confer with colleagues at the FCA about. I do not have a proposal for you.

Q17 **Wes Streeting:** That is reasonable. We would probably be worried if you had a cavalier approach to something quite so difficult and not necessarily straightforward. Can I come back to the process of Maxwellisation then? Do you think that the procedure as it currently stands allows individuals to effectively hold the FCA to ransom by preventing publication?

Charles Randell: In most of these cases, there is a requirement to go through Maxwellisation, which as you will know is the process of informing people who are subject to this sort of procedure of criticisms that may be made about them, so they can be given an opportunity to tell their side of the story; then there is the separate question of consent under section 348, which in some ways is more absolute and gives the subject more ability to control publication. I do not believe that Maxwellisation, properly run, of itself is a bar to producing a timely and high-quality report. This Committee did an inquiry into Maxwellisation. It was a very thorough inquiry, which as I recall included advice from Andrew Green QC, which the Committee benefited from. That was full of all sorts of useful pointers, as to how to run an efficient and timely Maxwellisation process, so I do not think Maxwellisation is the problem.

The real flashpoint here has been around the consent requirement under section 348.

Q18 **Wes Streeting:** You led neatly on. I wanted to ask you about Andrew Green's review. One of the things that he pointed out was that, if a person is already been given a fair opportunity to respond to the substance of a proposed criticism in a draft report, there is no need to give that person further opportunity. You agree with that, presumably.

Charles Randell: Correct. From my experience on the latter part of the HBOS investigation, when I joined the committee and we were trying to get it out, that was one of the points I was very clear on. You do not have to keep going back to somebody who knows what the criticism is that may be made of them. They do not have a right to approve wording; they have a right to know what criticism may be made of them and to make representations.

Q19 **Wes Streeting:** Do you think that the process might be aided if, in future, the regulator or skilled person engages individuals earlier on in the process about any remarks that may be made about them in a report?

Charles Randell: To be efficient, as soon as you know that criticisms are going to be made of an individual in the report, it is important to tell them the tenor of those criticisms, so that you can start the Maxwellisation process. If you are also going to need their consent under section 348, they are likely to say, "I will wait until you come back to me and ask for my consent under section 348", so that is the difficulty.

Q20 **Wes Streeting:** If the FCA followed Mr Green's approach, could the delays in publications be offset and could we help to mitigate this problem?

Charles Randell: Again, it comes back to this section 348 point. If you are always going to bump up against that at the end and if individuals are going to use it as a means of negotiating, particularly if they think they may be subject to enforcement action, it is a very difficult discussion. It may be that the right approach at that stage will be to go ahead and publish without the information relating to that individual. That may be the best way forward. It is not entirely satisfactory, but it does at least produce a timely report.

Q21 **Catherine McKinnell:** Good afternoon. What in your opinion would signal that a financial market is working well for consumers?

Charles Randell: There are two aspects. The first is that consumers are offered a choice of products that appear to be suitable to them, but equally important is that they are actually exercising those choices.

Q22 **Catherine McKinnell:** How do you think the FCA is performing in terms of ensuring those two factors apply, but also the other imperatives that the FCA has: market integrity—you have already referenced competition—and consumer protection?

Charles Randell: You kindly sent me a questionnaire ahead of this hearing, and I highlighted that one of the challenges for the FCA is this question of consumer engagement, because we see a number of markets where there are better deals available to consumers, but they are not taking them. That is troubling. Although in one narrow sense there may be competition in terms of the number of providers that are offering alternative products, in another sense the FCA's operational objective of protecting consumers does not really appear to be delivering. Going forward, there are a number of things the FCA can do with its competition powers to restructure markets or to introduce more competition in markets. But, as we have seen for example in energy utilities, there comes a point at which it is troubling if consumers are not making choices that appear to the right choices for themselves. One of the difficult areas over my tenure as chair is trying to work out how the FCA deals with that situation.

Q23 **Catherine McKinnell:** Do you think the FCA is proactive enough on these issues? There are a number of examples that have been brought to attention recently, where the FCA has been criticised for not being proactive enough. We have already touched on the GRG RBS Promontory report. I have previously raised concerns about the duty of care to people with serious illnesses and a report that was not forthcoming, but fortunately is now, I believe. Also, there have been criticisms of the failure to protect British steelworkers, in terms of their pensions and their pensions advice. Is there more that the FCA could do to be more proactive, rather than waiting for problems to present themselves, but stepping in to prevent these problems from arising?

Charles Randell: I have seen good evidence of the FCA taking actions that are quite innovative and ground-breaking in the area of consumer behaviour, and using things like behavioural science insights to prompt firms to get their customers to think about things like insurance renewals and so on. That should not be lost: the FCA is leading the way in some of these areas. But undoubtedly, when it comes to intervening to prevent consumer harm, there will be high public expectations of the speed with which the FCA acts. The use of data, the use of intelligence, the speed of response, the demands of the public and the demands of this Committee will only get higher over time.

We can take comfort, but not a huge amount of comfort, from the fact that behind customer detriment lies the Financial Ombudsman Scheme and behind that lies the Financial Services Compensation Scheme, when we are talking about individual consumers, so there is a safety net for those who suffer poor treatment at the hands of firms. I do not see public expectations of the speed of response from the FCA getting any less than they are at the moment. In fact, it is quite predictable that people will expect more over time.

Q24 **Catherine McKinnell:** You talk about speed of response, but the other factor is being able to predict and foresee where problems may arise. Are you confident that the FCA can protect consumers? Does it have the capacity and does it have the resources it needs to adequately meet those expectations that you have set out?

Charles Randell: One of the important developments after Andrew Bailey arrived at the FCA was the development of what the FCA calls its mission, which is how it approaches what it does, and then a series of documents nested under that, which, for example, cover the approach to consumers. The reason why that document is so important is that the FCA has to acknowledge that it cannot be everywhere all the time. It is not resourced in the way that some US regulators are resourced to have dozens of people sitting in firms watching what is happening in real time. For the vast majority of its 56,000 authorised firms, it has to supervise them on a portfolio basis, so a number of those firms do not have an assigned full-time supervisor.

That has to be seen, together with the Financial Ombudsman Service and the Financial Services Compensation Scheme, because of the choice that has been made—and I believe this is probably Parliament's choice as much as it is the FCA's choice—as the model of regulation and supervision that should apply. It will always be the case, therefore, that some harm occurs to consumers that the FCA does not prevent in advance. The key thing is that, when the harm occurs, firms put it right and, if they do not put it right, there is a speedy process for resolving the dispute and for paying out appropriate compensation.

Catherine McKinnell: You mentioned the US regulators and the level of regulation, capacity and resource that they have. I am really sorry, Chair; I am going to have to bring in Brexit.

Chair: We survived for at least 40 minutes.

Catherine McKinnell: We are in the process of transition. I do not want to use any loaded terms.

Chair: We have not got there yet. We are in negotiation.

Q25 **Catherine McKinnell:** In terms of a potential reorganisation in UK financial services and their interaction internationally, given that we do not know the outcome of those negotiations yet nor what the future holds, in terms of when we Brexit or if we Brexit, might that capacity and resource need to align itself more with the US, in the event that our relationship with our EU and US counterparts changes in the new world? Is that something that you have given any thought to up to now?

Charles Randell: To be honest, I have not. The top of my mind in relation to the UK's withdrawal from the European Union is the huge, largely technocratic task of making sure that, on 30 March 2019, financial markets, financial services firms and financial services consumers can all go about their lives in the same way as they did on 29 March 2019. Although it is a largely technocratic and very detailed task, it is a huge task and will be quite dominating over a lot of the resource demands in the FCA over the period between now and then.

Therefore, my plea would be that the FCA is allowed a period of stability once it has achieved that task and has breathed out a loud sigh of relief, before suggestions are made that very major changes in the regulatory structure should follow. We just need to get this ball over the line.

Q26 **Catherine McKinnell:** That is very helpful, because one thing that nobody wants is for that task to take over all the resource that the FCA needs to ensure consumer protection and to be proactive on these consumer issues. In terms of your particular experience and background, what can you bring to the FCA in terms of that remit to be proactive, but also to deal with some of the issues that we know already exist and need to be addressed?

Charles Randell: It is clear that this huge technocratic task associated with exiting the European Union will not stand me in good stead if I come to the Committee in future appearances and say, "We have not done this or this other very important thing because of the EU withdrawal". I am not expecting to get a lot of sympathy. We need to ensure that the internal governance of the FCA is equal to the task of both running business as usual and running this project of exiting the European Union, to some extent therefore ensuring that there is a separation of focus, but to some extent also ensuring that that does not create two unconnected activities, where lessons from the one are not informing the other. That is the governance challenge over the next couple of years.

Q27 **Stephen Hammond:** Good afternoon. Thank you for coming. I read in your questionnaire, talking about two areas of difficulty related to the FCA, "There has sometimes been a gap between stakeholder expectations and the authority's approach in the light of its own powers and duties". I have obviously seen the example you have given, but that was very much aimed at the personal or the retail end of the market. Do you have any view on that in terms of the wholesale end of the market?

Charles Randell: No, I do not think so. In the questionnaire I was focusing on a different set of issues, which are the very many cases where this Committee has found itself perhaps frustrated by the time that the FCA feels it needs to take over things or the response that the FCA gives. In the wholesale area, with some exceptions, the approach to regulation at the FCA has largely been implementing technically what is agreed at the European level. Then there is the question of how it goes about doing the supervision task. The way that it has gone about wholesale supervision is less affected by these resource constraints that I have referred to, so most of the large wholesale firms have obviously assigned supervisors.

Q28 **Stephen Hammond:** Indeed, but just referring to what you have said in that answer, there have been a number of instances. Notwithstanding the fact that you expect people who are regulated and regulators to have moments of tension, there have been some quite severe issues over the last three years in terms of the wholesale market's view of the FCA and how it has conducted itself, particularly going further than European language and ESMA requirements. Given that you have said that it cannot be everywhere, all the time, in response to Ms McKinnell, how do you feel the balance inside the FCA works between regulation and supervision of wholesale and retail markets?

Charles Randell: I do not have an answer to that at the moment. What I see is that large firms and firms that can have a large impact in terms of the harm that they cause to consumers are largely those that are assigned supervisors. Other firms are supervised on a portfolio basis. Obviously one of the things that I will need to understand as chair is exactly how the decisions are made in the allocation of supervisory resources, because there is always some danger with a regulator of an anchoring effect, which is that, however many supervisors firm X had last year, it has the same number this year or maybe one more. It is right that we stand back and ask if we have the right number of people in the right place. That is going to be an even more pressing set of questions in the light of the EU withdrawal work, because resources will have to be very efficiently allocated.

Q29 **Stephen Hammond:** In that answer you talked about technocratic implementation. There have been a number of instances, more recently over the last two or three years, where the FCA has chosen to take a different interpretation from ESMA, in terms of pure technocratic implementation. How do you think that sits with the competitiveness recommendation made by the Chancellor?

Charles Randell: The process of having a letter from the Chancellor that sets out the Government's objectives is a really helpful one, because it makes transparent what the Government are asking the regulator to do. The regulator of course is an independent regulator, has regard to that and then has to implement it in the light of its statutory objectives. I would just note that, from my knowledge, the cases where the UK regulators have taken options around European implementation have not all gone one way. For example, in relation to the application of the bonus caps to some smaller firms, the regulator has chosen in the past to try to make a more proportional implementation than was prescribed by European regulation, so it is not all one way.

Q30 **Stephen Hammond:** No, it is not, but I was thinking of the asset management review, commission sharing and CFDs, which have all gone the other way more recently. In your response to our questionnaire, where we referred to the letter from the Chancellor and Andrew Bailey's response in March last year, you talked about securing the right balance between a financial sector that is globally competitive and is secure over the long term. Could you just say a little bit more about what you perceive as that right balance and how you will contribute to ensuring it is there in the future, particularly over the likely potential divergence in financial regulation?

Charles Randell: One of the most formative experiences of my life was to become involved in the consequences of the financial crisis, from 2007 for a number of years after that. That had quite a profound effect on me. It has had quite a profound effect on the way I view the world and some of the things I did before 2007. It had a profound effect on my career choice, because I concluded I could not go on working at that intensity and maintaining my health, so it is something I have thought about a lot. Why did that happen? Why was that financial crisis caused?

My conclusion was that part of the problem was that too many objectives were given to the FSA. It had an enormous list of objectives and it had to balance them, so it ended up trading off safety and soundness against competitiveness, for example, and we ended up with a system that was called light-touch regulation. I know it is 10 years ago, but I am absolutely determined that we do not repeat that mistake. It is my view that, for UK financial services to be competitive in a sustainable way in the long term, the FCA needs to pursue its existing objectives of making sure that markets work well, of protecting consumers' market integrity and competition. If it does those in the right way, competitiveness will be a result, but it should not be an objective that the FCA has to balance against those other requirements.

I have worked for nearly all of my adult life in the City of London, in a world in which the international competitiveness of my firm and my clients was paramount. I believe that there is a future for an internationally competitive, strong financial sector in this country, but it must be a well-regulated one.

Q31 **Stephen Hammond:** I absolutely concur with that. What I was trying to get to is that, as you are well aware, there may well be competing pressures between full alignment with European regulation, what element of materiality and diversity will be allowed, and potential regulatory arbitrage against the US, which is an issue that will confront you in your time as chair.

Charles Randell: To an extent, those are political choices that the FCA will take from the political decision-makers and will then implement. I do not think it will be for us to decide what extent of divergence, convergence or alignment there is going to be or how we transition to the new arrangements. In the short term, we are focused on the technocratic task of getting beyond 29 March 2019, but a lot of the decisions after that are political.

Q32 **Stephen Hammond:** Can we just move from competitiveness to your competition objective? In terms of the tools available to the FCA, it would be helpful to know if you thought there were any tools that would be helpful to have that the FCA does not have, and how some of the tools that you currently have could be more effectively used than they are at the moment for that particular objective.

Charles Randell: Again, you will excuse me; I have not formed a concluded view on that. I would just note that we have a number of different tools in our toolkit. Competition is one of them, but we also have enforcement and the ability not to authorise firms. We have our supervisory activities and we have the ability to change policy within our rule-making powers.

The question in any particular case is: are we taking the right tools out of the toolbox? Are we using them in the right combination to prevent consumer harm? Now, competition tools are very powerful, but they can take quite a long time. They require a market study; they require a full process of analysis; then they require remedies that are consulted on. The really important thing is to make sure that we look at the right combination of tools in any given case to try to prevent harm as quickly as possible, and then create a stable market sector going forward. I am sorry it is a rather general answer to your question.

Q33 **Stephen Hammond:** I will have no doubt that we will have the opportunity to pursue that on other occasions. I have one last question. You will have noted our questioning of Mr Griffith-Jones in his role as Payment Systems Regulator. You will have noted the comments that we made about transparency, publication of board minutes, the length of time that has sometimes taken and the frustration from that. I wonder if you have noted those and if there will be a commitment to perhaps be more timely with the publication of those minutes and comments.

Charles Randell: I noted them, and I watched the hearing and read the transcript. As chair, my intention would be to publish the minutes in as timely a manner as possible.

Q34 **Charlie Elphicke:** Moving on from board effectiveness, which Mr Hammond just raised in his last question, which I hope you will oversee in both of your organisations, I am going to turn to consumers. Before I do, just as a follow-up on the chair's opening questions on the tax schemes, a couple of questions came to mind. Would the panel have known if you had not told it about the tax scheme?

Charles Randell: No, I do not believe it would have done, because people's tax affairs are protected information. Does that help?

Q35 **Chair:** As I understand it, the name came up in a Companies House search, as part of the LLP.

Charles Randell: I do not know if the panel would have known that.

Q36 **Charlie Elphicke:** You brought it forward.

Charles Randell: The process was that, ahead of the interview, I spoke to the headhunters and said, "This is something that I will be mentioning in my interview, and I would like you to tell the panel about it in advance", because it did not seem to me the sort of thing that should be bowled at them across the table. I then brought it up in the interview.

Q37 **Charlie Elphicke:** I should say that colleagues around this table will know and it is a matter of public record that I have been highly critical of industrial-scale tax avoidance, particularly by multinationals. It is important that you have brought this forward. Also, for many years you were a leading corporate finance partner at Slaughter and May. Was it your practice in those times to do your own tax work or would you go and consult your tax colleague, say Stephen Edge, and ask him to look into tax matters and deal with the tax matters in your transactions?

Charles Randell: No, not in my transactions, as I was not a tax lawyer. We had a tax department, but I would not have consulted colleagues about my personal affairs.

Q38 **Charlie Elphicke:** Was it your personal culture and practice to trust your tax colleagues' advice and to act on what you would have thought, in good faith, was the right thing?

Charles Randell: Yes, it was.

Q39 **Charlie Elphicke:** Was your motivation in this more that you trusted the advice and guidance you received, rather than that you were doing something that you thought was not approved and was wrong?

Charles Randell: As I said in the letter, this was an investment that was recommended to me by my financial adviser. I asked some questions about it, but probably not the right questions, and I was assured that senior HMRC policy officials had been consulted about this and had approved it. Does that answer your question?

Q40 **Charlie Elphicke:** It does, thank you. Moving on, after your work, by the looks of it, helping Gordon Brown save the world, as colleagues across the table might put it, you then went on to chair the Department for Business ARC for four years. What experience did you have in that role that you would bring to these current roles?

Charles Randell: First of all, it was a chair role, so that gave me several years' experience of chairing, but it is also a role in which you hold the senior management of the department to account and set them tasks to improve the control environment of the department and to explain things. Finding the right balance between supporting and advising, but also challenging and holding to account, was really the skillset that it helped me develop.

Q41 **Charlie Elphicke:** You said earlier that the whole financial crisis and events where you were fighting to stabilise the banking system had a profound effect on you. Can you tell the Committee more about what that effect was and is, and whether as the chair you will be a champion of consumers and consumer interests?

Charles Randell: It is fair to say that my practice as a corporate finance lawyer until 2007 had been very much focused on large corporate clients and on financial services sector clients, as well as big assignments in the public sector. I did not really have much direct experience of the impact that something like the financial crisis could have on people's lives. It certainly had an impact on my life, but I am a very, very fortunate person in the way that my life has played out. I am very aware that the impact on a lot of other people's lives has been nothing short of disastrous, and we cannot go there again.

Although Andrew Bailey sometimes talks about there being two crises, a financial crisis and a conduct crisis, in reality they are one and the same crisis. They are a crisis that resulted from a financial system that, up until 2007, had lost sight of what it was there for and where financialisation had become an end in itself, rather than supporting the real economy. It has very much changed my view of the necessity of sound prudential and conduct regulation. I hope that I will bring determination in that area to bear on my role at the FCA.

Q42 **Charlie Elphicke:** It is almost an inevitable question, but you dealt with the grandest of corporate finance, the largest transactions, the biggest privatisations and the most amazing event of our times. You were at the heart of those. Some will say, "That is all very well, but what does he know about the challenges of a person approaching retirement with a £20,000 pension pot?" What would your answer to that be?

Charles Randell: As it happens, quite a bit, because I have friends and relatives who fall into that category. One of the other advantages of retiring from full-time work has been that I have been able to spend some time getting out and about a bit more into what might be described as the real world. I am doing voluntary work as well for people who are in a vulnerable situation, and I would say that that has also helped to change my view, but I do not want to pretend that I think I know what vulnerable consumers' experience is. The first thing I have to do is to recognise that I do not know. The second thing is to work out how I ensure that I as an individual, the board and the organisation as a whole are well informed about the needs and experiences of consumers and, in particular, vulnerable consumers. I do not want to claim that I can provide a personal insight on that.

Q43 **Charlie Elphicke:** There has been a historic tendency of the conduct regulator to be seen as a middle-class regulator for middle-class consumers. Many of my constituents in Dover are extremely poor, vulnerable and preyed upon whether by a rent-to-own person or a payday lender. How will you ensure that you do not have this narrow view of consumer protection and that the most vulnerable will be protected under your watch?

Charles Randell: A lot of the way I see the world is inevitably determined by the people I meet, what they tell me and what I choose to listen to. For that reason, I have said to the staff of the chairman's office at the FCA that I do not want to have any meetings arranged by them with firms until they have arranged meetings for me with Citizens Advice, Which? and StepChange. I need to engage with them. I need to talk to them about how they can help to give me continued insight into their work. I need to look at the programme of chairman's stakeholder meetings to make sure it is balanced in the right way, to give the chairman a view of the world that reflects exactly the consumer interests that you have outlined, but also the interests of small businesses, which are all too easily lost in a world in which they do not always have representative bodies that speak for all of them.

Q44 **Charlie Elphicke:** Looking at the capping of short-term credit, do you think it should be kept at the current level when the FCA reviews the cap again in three years' time? What factors would you use to determine whether the cap has been set at an appropriate level? One thing I ask Mr Bailey about when he comes along here is about the BrightHouses of this world, the rent-to-own market. Will action be taken on them under your watch and will you see that through?

Charles Randell: They are great questions. I need to get in the job first. Regulatory decisions of the kind you are taking and policy decisions of the kind you are suggesting need to go through the governance process of the FCA. I do not want to sit here and prejudge those.

Q45 **Charlie Elphicke:** You mentioned Which? It raises this with me quite frequently. Payday lenders are one thing, but the banks have a whole culture going on of unauthorised overdraft charging, which is frankly excessive. Do you agree that action should be taken on that and will you press the board to consider it carefully?

Charles Randell: As you know, the FCA is in the process of considering what action to take about unauthorised overdrafts and Andrew Bailey has questioned whether unauthorised overdrafts have any role at all and are a product that should be available. It is not clear to me at the moment why unauthorised overdrafts need to exist in the technical world in which we live, but this is something the FCA is considering at the moment. It is an example of an area, along with payday lending, where there is evidence that the FCA is acting.

Q46 **Charlie Elphicke:** How do you manage, on the one hand, protecting people and particularly the most vulnerable but, on the other hand, giving banks the space to innovate, grow and be effective as successful businesses? How does one strike a balance there?

Charles Randell: You are right: that is one of the most fundamental questions of the way we approach our mission. We have a regulatory principle that consumers should take responsibility for their own decisions. There is this business of how we interpret that and how we approach that in an area where banks are offering them products and may be offering them innovative products, and they are choosing them for reasons that we cannot quite understand or what we consider not to be the best reasons. How we strike that balance and intervene is one of the areas of greatest difficulty. You are right that the entire system of regulation is built on the assumption that, in a competitive market that offers choice to consumers, they will benefit. As I said at the beginning, it is a question of consumer engagement and the quality of consumer choice is one of the big challenges for my term.

Q47 **Charlie Elphicke:** The FCA is undertaking a review of retail banks' business models. What are the issues that you expect it to cover most and what are you going to be personally looking out for on that?

Charles Randell: A big question that is pervasive across the totality of consumer products, including retail banking, is the treatment of existing customers versus new customers or, to put it another way, front-book pricing versus back-book pricing. That is inevitably an area that will need to be considered in looking at retail banking models. Again, it goes to this question of consumer choice. If consumers are not choosing better products that are available to them and may even think they are being rewarded for loyalty, they may be in for a nasty surprise. The question is whether the regulator should be doing more about that than it is doing at the moment.

Q48 **Charlie Elphicke:** If I may, turning to the Payment Systems Regulator, we took evidence recently, as has been referred to. I personally was not entirely satisfied with that evidence session. I hope that, as chair of the PSR, you will look at how things are. In particular, I am concerned about authorised push-payment fraud. How big a problem is it, and do you think that the victims of this fraud are treated fairly by the banks?

Charles Randell: As you know, the Payment Systems Regulator is working to produce a contingent reimbursement arrangement, where customers can get their money back when firms have not treated them properly. I watched the evidence session and the point that troubled me most was the impression that seemed to arise at one point that the PSR is going to let UK Finance write the rules. Can I just dispel that impression, so far as it relates to any period for which I am chair? I have no intention of letting UK Finance write the rules. I am quite happy to let UK Finance make proposals, but I am sure that I and indeed Hannah Nixon, as managing director of the PSR, will expect any proposal from the industry to be subject to rigorous challenge. You have my assurance of that.

Q49 **Charlie Elphicke:** I welcome that very much. From your experience as a long-term banking lawyer, if the answer that I canvassed in the last session is that banks are simply made liable for this and that it is their risk, not the consumer risk, what do you think would happen to the incidence of this type of fraudulent activity and do you think that banks might put practices in place to stop it rather more quickly than they have done?

Charles Randell: Compared to the status quo, if banks were made strictly liable for all authorised push payments, I am sure they would invest an enormous amount of additional resource in preventing them. The question that is more pertinent is the comparison to the contingent reimbursement scheme when it is developed. Which of those two systems will produce the best result for consumers, and would any additional cost that fell under the banks if you made them strictly liable be justified, particularly in the light of our regulatory principle that consumers are supposed to bear some responsibility for their own decisions? I am going to see the current process through and then, after a period of time, will need to reassess the scale of the authorised push-payment problem.

Q50 **Charlie Elphicke:** In which case, what criteria do you think you would most use to assess the appropriateness of a contingent reimbursement model versus seeking a change in law, probably in primary legislation, to have a credit card system?

Charles Randell: I have to be completely honest with you. This is a very complex area for a job that I have not started yet and will not start until 1 April. It would be a mistake for me to be drawn into designing the contingent reimbursement model or telling you how we are going to test it.

Q51 **Charlie Elphicke:** That is a fair point. Could I simply give you an injunction to look into the area and see what could be done?

Charles Randell: I am expecting you to be on my case.

Q52 **Mr Jack:** Can I turn to the future of ATMs? Do you think there are too many ATMs in the UK?

Charles Randell: I do not have a view of that. All I know is that, personally, there is not always one where I want it to be.

Q53 **Mr Jack:** No, I agree with that. I will come to that in a minute. Do you agree with LINK that a reduction in the interchange fee is required to maintain the sustainability of the ATM network?

Charles Randell: Again, I am sorry; that is something on which I do not have a concluded view.

Q54 **Mr Jack:** It recently announced it would be reducing the interchange fee paid to the ATM deployers by 20% over the next four years, so it is 5% per annum, starting in July. I was going to ask you what you expect the impact of this measure to be.

Charles Randell: I saw the evidence that Hannah Nixon gave: that the Payment Systems Regulator's current assessment is that a competitive market should nevertheless provide ATMs, but that the PSR is keeping the position under close review and is willing to use powers in cases where there is underprovision of ATMs. I am not in a position to second-guess that judgment at this stage.

Q55 **Mr Jack:** I will come on to the PSR. My constituency is over 2,500 square miles and we have had a lot of rural bank closures. The post offices have moved from being post offices into garages, local convenience stores and one thing and another. Part of what I draw your attention to is that the ATMs that are one kilometre or more apart are exempt from any change to the interchange rate, whereas there are an awful lot in towns and cities, as you can imagine, that are 300 metres apart that are not exempt. I think 80% of them are 300 metres apart. My concern going forward is the PSR's statutory objective and how you would judge that, when it should intervene and, if it does not intervene or change things quickly enough, whether it ends up being too late and we possibly end up with a desert of ATMs. What is your thinking on that? I have made it quite broad-ranging, but you brought in the PSR early, so I am bringing everything together.

Charles Randell: As I say, I watched the evidence session that you took from Hannah Nixon and John Griffith-Jones, when you discussed ATMs and the effects of a reduction in the interchange fee. As I understood the evidence that Hannah Nixon gave, she said that in the first instance the PSR's expectation was that competition might well produce a network of ATMs that was satisfactory, but that the PSR would need to keep it under close review and, if necessary, could give orders to LINK to ensure that the coverage was satisfactory. The question that you are asking is whether that is going to be too late. Will we see an erosion of the ATM network in particular areas, which the PSR wakes up to too late? I do not know the answer to that question, I am afraid. That is obviously something that, when I take over as chair, I will need to discuss with Hannah, but I saw her evidence and, if I understood it correctly, it was largely saying what I have just said.

Q56 **Mr Jack:** The PSR welcomed LINK's announcement, but other organisations such as Which? and MoneyWeek are very concerned about the possible impact of the proposal on consumers. Given that the PSR does not consider that there is a risk, should it have done more to publicly reassure consumers?

Charles Randell: Before I have even arrived at the PSR, it would be ill advised of me to start criticising or commenting on decisions that it has made. I see no reason to do that at the moment. It is clear to me that the PSR's ability to connect to the experience that consumers are having, including consumers in rural areas, as you highlight, is going to be critical. The PSR will need to balance its approach as an economic regulator with an understanding of what people are experiencing on the ground, because it is not just the reduction of the interchange fee that is affecting some people.

There is also the question of the ban on interchange charges on cards, which has meant that, in some areas, small shops will not take cards. If you have a combination of small shops that will not take cards and areas where cash machines are not available, it can have quite a big impact on everybody. These are things where it is important to understand the impact on the customer, on the consumer, and to be willing to respond using the full range of powers that the PSR has.

Mr Jack: With that, you have answered my last question. You are absolutely right about the shops and the cards compounding the problem in rural areas, and I am pleased that you have it on your radar. Thank you.

Q57 **Chair:** That leads neatly on to the last set of questions, which is about your own personal approach to the role. What Alister was getting at there and what Charlie was also asking earlier was about whether, given your experience of working for a large City firm and being the non-executive of departmental boards, you are prepared to go through the process that we have all been through. When you become a public figure, you potentially become inundated with emails and letters, particularly when you are chair of a body that regulates around 60,000 different firms. On things like ATMs, plus the issues around RBS GRG, you have a lot of individuals and small businesses that are very affected by what the FCA does on a daily basis. It would be helpful to hear your approach to learning about that, dealing with that and engaging with the public, in a way that I strongly suspect, but tell me if I am wrong, your previous jobs—and I say this as somebody who has moved from corporate finance in the City of London into public life—do not actually prepare you for.

Charles Randell: I have had that experience as well. I am fortunate in that it is not a change that started yesterday for me. I retired from private practice in 2013 and I have had five years of reconnecting with civilisation, if you like. I am acutely aware of this, and I hope it has come out in the evidence I have already given you. I am acutely aware of the challenge that I face, first of all of obtaining the appropriate perspective on the challenges that consumers and small businesses face when they are interacting with the financial services industry and, secondly and equally importantly, convincing them that I care. In a way, I see that as one of my biggest challenges.

As I said to you earlier, my views are going to be very shaped by the people I see and the things I listen to and read, so I need to make sure that my programme of engagement is fit for the task. I am talking to the FCA at the moment about how I go about doing that, but I intend to continue to get out and about to meet consumer groups, small business groups and consumers as often as I can, and to ensure that the organisation is doing that, in all the places where it should be. I probably cannot say more.

Q58 **Chair:** You are going to be chair of a board as well. In your questionnaire you noted that you had not occupied a chair role that is comparable to the one of the FCA or the PSR. In this new chair role, how are you going to assess the effectiveness of the FCA board and how will you encourage the non-execs to challenge what the executives are up to?

Charles Randell: The effectiveness of the FCA board comes from having diversity. I do not mean just gender or ethnic diversity; I mean diversity of thought, which is the hallmark of a well-functioning board. I plan to ask myself whether that is in evidence, whether there are diverse challenges and diverse insights being given to the management team by the boards. If not, I will consider whether that is because I am not chairing the board in the right way or whether, in fact, we need different people. That is not necessarily within my gift to produce but, as people renew, I would need to talk to the Treasury and ensure the board is diverse. Everything I have seen about the boards so far, and I have read the board effectiveness reviews that have been published recently, suggests that they are functioning well and there are strong board members who are providing challenge. I need to get into the role and see that for myself.

Q59 **Chair:** Is there anything else about the corporate governance or the balance between executives and non-executives that you have thought perhaps needs to be addressed or is something you want to pursue further, at any point?

Charles Randell: The issue is different for the two organisations. The Payment Systems Regulator has quite a focused task compared to the FCA. If you look at the FCA, the thing that strikes you is the size of its mandate, and the challenge therefore for the FCA board is ensuring that the right things are being discussed at the board, that the board is focusing on things that are strategic and really important, and that board meetings are not filled with what I might describe as transactional business. That is probably going to be one of the biggest challenges for the FCA board role, just making sure that the board has the big issues facing the organisation at front of mind.

Q60 **Chair:** I do not know if you have seen. We did not get on to it last time, as we had plenty of other things to ask the FCA about, when the chair and chief executive were in front of us, but we had evidence on the staff engagement survey from both organisations. I just wondered what your assessment was of those most recent results and your reading of the culture of the FCA and the PSR.

Charles Randell: In this respect, I would probably ask for a bit of support from the Committee, if I may. We have seen the FCA's first five years as having been quite difficult in one or two episodes. The culture I want to ensure exists in the FCA, and I have seen lots of good signs of it already, is a culture where people, as I have done today, feel that they can speak up about mistakes and feel that they can learn lessons. That may need a bit of support from this Committee, because it is easy for public service organisations to become defensive under intense scrutiny. Andrew has done a great job with John to move the culture continually in that direction, but it is a tough job and that is the area that I would focus on most of all. There are other things that come out of the staff surveys, quite a lot of other things, which I will be looking into.

Chair: You have the move to Stratford as well.

Charles Randell: We have the move to Stratford as well.

Q61 **Charlie Elphicke:** Something that occurred to me is why the FCA and the PSR are separate. Would it be a heresy to combine them into one organisation?

Charles Randell: As to why they are separate, it must have been Parliament's choice. As to the consequences of combining them or running them differently, please ask me again when you see me in the future and I have got my feet under the desk.

Q62 **Charlie Elphicke:** Could you consider it? I think it might be more efficient if both organisations were one.

Mr Jack: Wait and see.

Chair: I think we are inviting Mr Randell back for future inquiries.

Charles Randell: I am keen not to overstep my remit as chair of both bodies, given that this is a choice that Parliament has made.

Chair: Thank you very much indeed for your evidence this afternoon and for being so open with the Committee. We will be considering this afternoon the findings of the evidence session and your appointment, so we look forward to seeing you in the future.