<u>Questions from the Treasury Committee on the appointment of Nikhil Rathi as FCA CEO</u>

A. Personal /general questions

Personal

1. **Do you have any business or financial connections, or other commitments, which might give rise to a conflict of interest in carrying out your duties as Chief Executive of the FCA?**

I am a customer of FCA-authorised firms for various financial products, such as current accounts, savings accounts, mortgages, insurance, pension and investment products. Any decisions in relation to these products will be made in accordance with the FCA Code.

I have been an employee of London Stock Exchange Group plc ("LSEG") companies since May 2014. It has been agreed with the FCA Board that I will not be involved in supervisory or enforcement decisions relating to LSEG until 22 June 2021 and that LSEG shares awarded to me over the course of my employment, whether through long-term incentive plans or otherwise, will be sold prior to 1 October 2020, such that I will have no remaining interests in LSEG shares at the point I join the FCA. The net proceeds of the share sales will be released to me by 22 June 2021. In line with good regulatory practice, as reflected in the FCA Remuneration Code, certain awards remain subject to time-limited clawback in the event of my being subsequently identified as personally responsible for negligence, fraud or serious misconduct during my time of employment at LSEG. I believe these steps, agreed with the FCA Board, will appropriately manage any conflict of interest in relation to my previous employer.

2. **Please explain how your experience to date has equipped you to fulfil your responsibilities as Chief Executive of the FCA?**

I have had leadership roles in UK financial services and stability for over a decade.

I was a Private Secretary to the Prime Minister and then Head of the Financial Stability Unit in HM Treasury between 2007 and 2009 and I was closely involved in measures to address the global financial crisis. This included building and leading a multidisciplinary team of officials and advisers that developed and implemented bank resolutions and other interventions, with the objectives of protecting financial stability, depositors and taxpayers. I worked closely with supervisory and other colleagues at the Financial Services Authority and at the Bank of England. My role included involvement in international coordination.

From the end of 2009 to early 2014, as a Director in HM Treasury, I worked on the post-crisis regulatory framework. This included the development of an updated microprudential and macroprudential framework for the UK banking and financial system. I led official level negotiations on the EU financial regulatory framework, representing the UK on the EU Financial Services Committee and other fora. These negotiations covered a wide range of sectors in financial services as well as wholesale markets and consumer issues.

Since mid-2014 I have worked at LSEG as Director of International Development and since late 2015 as CEO, London Stock Exchange (LSE) plc, significantly deepening my knowledge of capital markets. I was a member of the LSE Group Executive Committee for six years, directly involved in the leadership and executive management of a fast growing and rapidly changing FTSE 100 global business. I have gained significant leadership, commercial, operational and managerial experience during this period, including the implementation of major regulatory change and other organisational restructuring. I am familiar with Board and wider UK corporate governance. I have developed international relationships, including regulatory relationships, particularly in emerging markets. My supervisory and regulatory expertise has deepened as LSE plc is classified as a fixed firm, subject to supervision by a dedicated FCA team, as well as being licensed in various jurisdictions outside the UK. LSE plc also exercises its own statutory regulatory functions in relation to markets it operates.

I have been an active member of the FCA Practitioner Panel (PP) and Markets Practitioner Panel (MPP) since 2015 and have chaired the MPP since August 2019. These panels have a statutory footing and my participation on them has given me significant insights into the workings of the FCA, its people and culture and delivery against its objectives.

3. Do you intend to serve your full five-year term and apply for another once it has ended?

I intend to serve the full five-year term. It is too early to comment on any subsequent term of appointment.

B. Financial Conduct Authority

4. What will be your priorities as Chief Executive of the FCA?

My highest priority as Chief Executive of the FCA over the coming five years will be to deliver the transformation of the FCA with the FCA Executive and Leadership team under the oversight of the Board. This is an essential way in which the FCA will successfully and consistently fulfil its objectives and mission as well as improve public confidence. The FCA is a relatively young institution, established just over seven years ago, with significant expansion of responsibilities during this period amidst close parliamentary and public scrutiny. There have been successes alongside well publicised challenges, from which lessons should be learnt and discussed openly. I see the transformation agenda as:

- Shaping and embedding a culture of excellence, openness, pace and proactivity, much of which has been on display in the FCA's response to the pandemic.
- Building a significantly more diverse organisation, reflecting the society we serve in all its dimensions and nurturing diversity of thought to ensure better decisions.
- Attracting top talent from public and private sectors, including from across the UK, and ensuring bench strength and depth of succession.
- Driving best in class use of technology, data and analytics and operational agility.
- Strengthening collaboration across the FCA's multiple functions with better sharing and use of information and intelligence.

Through the delivery of the transformation agenda, I see the FCA delivering against its objectives, and specifically:

- a more preventative approach for consumer harms, learning lessons of the past to continuously improve without resorting to a blame culture or excessive risk aversion;
- a continued focus on innovation and competition in the interests of consumers, building on the FCA's established position as an international leader in this field;
- the benefits of the recent expansion of the Senior Managers' regime embedding personal responsibility across the industry and maintaining the focus on non-financial misconduct as part of strengthening culture;
- strong and prompt enforcement;
- leadership in domestic and international regulatory policymaking on the future of regulation (including the sector's role in tackling climate change), consistent with the FCA's remit and breadth, sophistication, dynamism and global reach of UK markets;
- supporting the recovery of the UK economy and providing value for money as a public institution with appropriate allocation of resources.

In the short-term, priorities include implementation of further special measures as the UK manages through the pandemic as well as working in collaboration with the Treasury, Bank of England and other institutions on the exit path from special measures as appropriate. It will be critical this is done in a way in which consumers, particularly vulnerable consumers, as well as small businesses are treated fairly with clear communication. The pandemic has accelerated the digitisation of financial services, so the FCA will need to mitigate the risk of consumers being left behind. At the same time as addressing these considerable challenges, the FCA will need to play its full role in navigating the outcome of the Brexit negotiations and manage the LIBOR transition. I will also seek to ensure that the FCA takes an open-minded and proactive approach to addressing the findings of the three independent reviews that are due to report in the coming months, including the review by Dame Elizabeth Gloster into the failure of London Capital and Finance.

5. What criteria should be used to judge your performance as Chief Executive of the FCA over the next five years?

I believe the answer to this question is closely intertwined with the answer to Question 7. I will be held accountable for the performance of the FCA during my tenure and part of this is ensuring a strong leadership team that is empowered and also collectively accountable for decisions, execution and manner of delivery of the FCA's objectives. Some of the key success criteria for the next five years include:

- Fair treatment of consumers and small business by financial services providers, enhanced through further progress in ensuring vulnerable and digitally excluded consumers have access to the benefits of innovation in financial services. The FCA should be active throughout the UK, recognising the strength and importance of the financial services industry in Scotland, Wales, Northern Ireland and English regions.
- Strong cooperative relationships with international regulatory partners; these underpin delivery of many FCA objectives. The FCA must successfully fulfil its responsibility to deliver a post-Brexit model of UK regulation and supervision within the parameters negotiated by the Government and ratified by Parliament.

- Many challenges the FCA is dealing with require solutions that extend to the remits of many public and private sector institutions. I would like to see the FCA play a constructive role in contributing to solutions and discussions – examples include the FCA's role in tackling climate change, issues relating to education and child and adult numeracy, inequalities in access to financial services (including for vulnerable groups and those with protected characteristics), ethics and the use of personal data, the appropriate level of risk to support investment and growth in the economy and the implications of different regulatory choices for different generations of citizens.

6. Are there any skills or areas of knowledge that you feel that you have to refresh or bring up-to-date to carry out your duties as chief executive of the Financial Conduct Authority? If so, what are they and how do you intend to increase these skills/areas of knowledge?

In recent weeks since my appointment was announced, I have engaged with consumer organisations and charities, particularly in the domain of debt advice so that I can deepen my understanding of their work and the challenges they and their clients are facing. These include the Money Advice Trust, Christians Against Poverty, the England Illegal Money Lending Team and StepChange. When social distancing rules permit, I will spend time work shadowing in some of these organisations. The FCA's consumer protection objective requires that I continually engage with consumer groups so that the FCA's approach reflects needs and experiences of consumers, particularly those excluded or otherwise vulnerable.

7. What criteria should be used to judge the performance of the FCA as a whole over your term?

I have covered the key points in response to Question 5. As I transition into the new role, I will have further discussions with the FCA Board and this Committee on the metrics against which objectives can be measured. In particular, successful delivery of the transformation agenda will require setting clear outcomes and measuring their achievement, providing greater transparency in the delivery of public value, including to the Treasury Committee.

8. What do you regard as the most important risks to each of the FCA's statutory objectives?

Due to the pandemic the FCA is working in an environment of exceptional operational, economic and political uncertainty. There is further uncertainty associated with the outcome of the negotiations with respect to the UK's future relationship with the EU, at a time of heightened geopolitical tension, which may in certain scenarios have an impact on market functioning and firms' business models. These external factors pose some risk to all of the FCA's statutory objectives in the short-term. With continued careful planning and prioritisation, many of these risks can be managed or partly mitigated.

Exceptional measures have been taken in the short-term to ensure markets function well and to support consumers. It is unlikely to be sustainable for all these measures to continue over the medium- and long-term and therefore exiting from some measures will be necessary and the path to do so will be challenging. It will not be possible to shield all consumers and small businesses from the economic hardship resulting from recent events and ongoing volatility. Furthermore, it is possible that some of the measures taken and the distress in parts of the industry may impact healthy competition over the medium- and long-term and the FCA will need to be vigilant with respect to such risks.

In the current environment, it is inevitable that some FCA authorised firms will face distress or fail; the FCA has to manage these risks so that any failures minimise consumer harm.

9. What are the biggest consumer issues facing the FCA?

Measures have been taken in recent months to support consumers and small businesses. These include payment holidays and other forbearance measures for mortgages, credit cards, motor finance and other finance products for consumers, and the relaxation of upfront affordability checks for the Government-backed small business Bounce Back Loan Scheme. The exit path from these measures will have a significant impact on consumers and small businesses and the FCA will need to stay focused on ensuring fair treatment.

There are a number of issues, for example with respect to travel insurance and other insurance products, as well as business interruption insurance where the verdict of the Court is awaited.

The FCA has invested significant resources to tackle scams and illegal actors that exploit consumers, particularly vulnerable consumers. The crisis may encourage more unlawful activity. This will require action by the FCA and proactivity, particularly where firms are operating on the margins of the FCA perimeter.

Significant action has been taken in recent years to intervene in the market for high cost credit. This is an area which will need continued close monitoring, particularly as economic distress increases and more consumers need access to credit or face unsustainable credit situations. As the economic impact of the crisis is felt, it is anticipated that demand for services such as debt advice will increase and those organisations providing important such services will need support to manage this demand. The FCA will need to continue to focus on longstanding issues of concern, such as in relation to “mortgage prisoners”.

As asset values have declined this year, individuals’ savings have been affected and this will be exacerbated by a low interest rate environment. Consumer awareness will be needed during this period to avoid precipitate decision-making or falling for scams whose promised returns are too good to be true as they search for yield. Continued focus will also be required to ensure that consumers can exercise freedom of choice which has increased in recent years in an appropriately informed manner and in a way that represents good value.

There are considerable financial and other resources demands on the FSCS and FOS and it will be critical to work in partnership with them.

It will be important to ensure that new technology, which can bring considerable benefits, is deployed in a way that is operationally resilient and protects consumer interests and works for those not yet online. The FCA will need to continue work on access to cash and the evolving role of branches. Cryptoassets and the manner in which they are marketed has been the subject of considerable FCA work and this focus will need to remain in the future.

Finally, as there is a greater focus on how capital is allocated to tackle climate change, it will be important that consumers are properly informed about investment and other financial products and their managers' approach to these issues.

10. What do you consider to have been the main successes and failures of the FCA? What will you do to address the failures?

The FCA has seen many successes over the last seven years.

Most recently, FCA colleagues have successfully delivered a number of highly impactful interventions in partnership with other institutions to support consumers and well-functioning markets during the coronavirus pandemic. The FCA has demonstrated an ability to work with pace and agility and with strong internal collaboration, listening closely to stakeholder views. Furthermore, UK markets across a range of asset classes and types of venue operated with resilience in the face of record volumes serving a global customer base; the FCA has worked proactively over a number of years to ensure this.

During my meetings in recent weeks with a number of consumer groups, they have welcomed a number of FCA interventions to support vulnerable consumers, particularly measures to tackle high cost credit and payday lending.

The rollout of the Senior Managers Regime, including to the overwhelming majority of FCA-authorised firms by the end of 2019, will play a significant role in strengthening conduct and should encourage conversations within firms that contribute to improvements in culture.

Internationally, the FCA has shown thought leadership in a number of areas, including on LIBOR transition and engaging with fintech innovation.

Inevitably, since its inception, and with a rapidly expanding mandate now encompassing nearly 60,000 firms and a difficult technology legacy to address, the FCA has faced a number of challenges. These have included an error in public communications on a sensitive topic, at times a lack of pace in acting decisively in certain areas where there has been consumer detriment, insufficient bandwidth to focus on transformation and development of a stronger intelligence, data and analytics capability. To address a number of these issues, the FCA established two independent lessons learned reviews (Connaught and IRHP) and asked HM Treasury to put in place a formal regulatory failure review in respect of LCF. I will engage constructively with the findings of independent reviews and ensure that the FCA learns lessons, with energy channelled to take a more preventative approach in the future.

However, whilst the FCA must learn the lessons of any shortcomings, the FCA will never operate a zero-failure regime for firms, which is both practically impossible and also inconsistent with a well-functioning and competitive market. Investment products also carry inherent risk and an appropriate level of risk-taking is important to support growth, innovation and job creation in the economy. I will welcome engagement with the Treasury Committee on these issues in the months and years ahead.

11. How will you protect and enhance your personal independence and the institutional independence of the FCA over your term as Chief Executive? What role can Parliamentary scrutiny play in this?

The five year term for the CEO is an important pillar of independence. I will work through this term to deliver transformation of the FCA as a priority. As part of this, I would hope that the FCA becomes even better equipped with a strong evidence base to articulate where regulatory or supervisory problems may be emerging, including on the margins of the FCA's perimeter. I will not hesitate to draw attention to such issues to the Treasury and other partner institutions, and also will engage transparently with this Committee. Parliamentary scrutiny is an essential part of the framework underpinning the FCA and has been important, for example in the past on issues of the perimeter and in encouraging the Senior Managers Regime to be applied to the FCA itself (an approach I will continue). I welcome ongoing and regular scrutiny by this Committee and in Parliament.

12. How do you assess the relationship between the FCA and the institutions it regulates? Do you think that the FCA has been too tough on the financial sector or not tough enough? What could the FCA do to make supervision of firms more effective?

Given that the FCA regulates nearly 60,000 firms, I do not believe there is a single means of assessing its relationship with all institutions. There is a vast array of different types of firm with varying intensity of relationship with the FCA.

I would avoid generalisations such as whether the FCA is being too tough or not tough enough. The FCA needs to be clear in its expectations and communications and appropriately accessible. The Senior Managers Regime will assist for the vast majority of firms in building personal responsibility and strengthening conduct.

There are areas where more assertive supervision will be required, bolstered by stronger use of data and analytics, speedier enforcement and even greater vigilance around the perimeter. Critically, a stronger culture of collaboration across the different parts of the FCA should support deeper and more holistic conversations about how to use the multiple tools available to the FCA across supervision, enforcement, competition and policy domains.

13. How do you assess the public profile and reputation of the FCA? Is it important that the public understands the role of the FCA? What are your views on the Mission of the FCA, and where would you like to see it change?

The FCA has a high profile and it is the nature of its remit that its challenges often garner more attention than its successes. It is important that the FCA commands public confidence and that there is a good understanding on the part of members of the public and wider stakeholders of the role of the FCA, its limits and their own responsibilities.

I will engage in regular meetings with external stakeholders, including consumer groups and the FCA's statutory panels to ensure an open channel for feedback.

I also believe it will be important for the FCA to ensure a strong public profile internationally as the UK reshapes its regulatory framework.

I consider that the Mission is broadly well constructed and would not look to be making dramatic change, instead placing a greater degree of emphasis on areas as described above. In particular, my focus will be on how the organisation adapts through transformation and cultural renewal to deliver the Mission.

14. What view do you currently have of the culture of the FCA, and what would you like to change? How would you drive this change?

The FCA response during the COVID19 pandemic shows the commitment and dedication of colleagues to delivering in the interests of consumers and supporting well-functioning markets. The FCA has shown that it can work in a collaborative manner with pace and agility. As set out above, I will be seeking to embed greater pace, agility and collaboration with a clear focus on transformation. It will be important to ensure these points are part of Board and leadership objectives. I will look to tackle any excessive risk aversion in FCA processes and culture, which may in the past have discouraged assertive or speedy action.

The FCA has made considerable progress in recent years on diversity and inclusion objectives and is a signatory of the Women in Finance Charter; there is nevertheless significantly more work to do to ensure diversity within the FCA and as part of cultural change across the financial services industry in general. This is an area in which I will lead and place renewed energy and impetus in FCA consideration of its implementation of the public sector equality duty across the full spectrum of its activities.

15. What areas of the Financial Policy Committee's work do you believe you will make a particular contribution to?

I have considerable experience of dealing with matters in relation to financial stability as well as international regulatory discussions. I would hope to bring that experience to bear as a member of the FPC as well as ensuring that the FCA perspective on systemic risk issues and recommendations is well reflected in FPC conversations.

16. Are there any skills or areas of knowledge that you feel that you have to refresh or bring up-to-date to carry out your duties as a member of the FPC? If so, what are they and how do you intend to increase these skills/areas of knowledge?

There will no doubt be a number of technical areas, in which I will need to get up to speed and I will participate in regular briefings as required.

17. How do you think the FCA has so far responded to the current coronavirus crisis, and how do you think it might change the work of the FCA in the future?

As noted in answers to Questions 10 and 14, I consider that the FCA has reacted well, proactively and quickly during the current crisis. There has been ample evidence of deeper cross-divisional working and flatter decision making structures.

The crisis inevitably changes the FCA's future activities, with a major programme of work to consider the exit path from special measures and to consider the long-term consequences. A number of pieces of work were reprioritised to enable focus on crisis activity and the FCA will need to constantly assess relative prioritisation of tasks as the situation normalises.

As with all institutions, the FCA will need to consider how the experience of remote working may change its own ways of working permanently. This will include consideration of the role that flexible work and ability to work from home can play in the operational model in the future, including the ability to recruit more widely from different parts of the UK.

18. What is your view on how the FCA should balance its consumer protection objective with the promotion of choice and innovation in financial services?

Choice and innovation play an important role in protecting consumers, including by reducing the cost of financial services products. But they should not come at the expense of core protections or risks that consumers do not or cannot properly understand. These are the tests that the FCA should consider as it supports choice and innovation in the system. It will also be important to draw lessons from previous experiences, including the speed of implementation of reforms such as pension freedoms, to ensure that the consumer journey is appropriately designed to deliver the information consumers need, in a way that they can interact with. This will require both firms and the FCA to focus much more, and more promptly, on the outcomes for consumers.