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Future of financial services regulation

First Report of Session 2022–23

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Summary

Future overall direction of financial services regulation

1. The EU has reasons to be very prescriptive when setting its financial services rules: it must ensure that all member states are acting together and implementing the same rules consistently across multiple national legal systems. The UK, now that it is outside the EU Single Market, can operate with greater freedom. (Paragraph 20)

2. Given that the UK has historically exercised significant influence in the framing of EU regulations, the UK's exit from the European Union should not in itself be the cause of instant or dramatic changes to financial services regulation in the UK. Nevertheless, there will be opportunities to tailor inherited EU regulations to the UK market, and to seek opportunities for simplification, while being mindful of continued compliance with global standards. The new regulatory framework should aim to enable the regulators to respond more quickly and flexibly to new evidence about the effectiveness of regulation, and developments within financial markets. (Paragraph 21)

3. The Treasury should respect the principle of regulatory independence, and must not pressure the regulators to weaken or water down regulatory standards, or to accept changes to the regulatory framework which could impede the regulators' ability to achieve their primary objectives. The regulators have been made operationally independent for a reason. If regulatory standards were to be changed or substantially weakened so as to increase the risks to financial stability, UK consumers and taxpayers could be harmed. Simplifying financial regulation and tailoring it appropriately to the UK market must be approached with care, and without compromising regulatory independence. (Paragraph 22)

4. We will remain alert for any evidence that regulators are coming under undue pressure from the Treasury to inappropriately weaken regulatory standards. (Paragraph 23)

5. Deregulation or simplification will in themselves impose costs on industry in the short term. Regulators should make every effort to limit the costs of compliance with the rules, for example by communicating planned changes in advance, grouping sets of changes together, and minimising the frequency of changes to those where a compelling need and a significant cost benefit has been articulated. That said, regulators should not let short-term costs, or the views of market participants who have already adapted to existing arrangements, limit the scale of their ambition when finding opportunities to genuinely simplify the regulatory framework without sacrificing resilience. (Paragraph 30)

Ease of access to international financial markets

6. The UK's exit from the European Union has had an impact on the UK's ability to export financial services to the EU. However, it remains the case that the UK

still has many competitive strengths as a global financial services centre. Brexit has served as a catalyst for a renewed focus on the competitiveness of the UK's exports, including financial services. (Paragraph 45)

7. There is a clear view from the financial services sector that co-operation between regulators is more significant than trade deals for ensuring reciprocal market access for financial services. While trade deals can open up new markets for financial services, the Government should strive to make progress on mutual recognition as an element in any free trade agreement. (Paragraph 46)

Proposed growth and competitiveness objective

8. We recommend that there should be a secondary objective for both the Financial Conduct Authority and the Prudential Regulation Authority to promote long-term economic growth. The wording will be crucial: pursuing international competitiveness in the short term is unlikely to lead to economic growth or international competitiveness in the long term if it is achieved by weakening the UK's strong regulatory standards. Weakening standards could reduce the financial resilience of the UK's financial system and undermine international confidence in that system and the firms within it. (Paragraph 72)

9. In designing the new secondary objective, there should also be some consideration for the ways in which financial services serve the 'real economy'. The financial services industry can help deliver economic growth not simply by growing itself but also by facilitating economic growth by providing capital, credit, insurance and other services to firms in the 'real economy'. (Paragraph 73)

10. The Treasury should continue to reject any calls for a growth and/or competitiveness objective to become a primary objective. This would increase any pressure on regulators to trade off competitiveness against resilience, and would undermine the regulators' ability to deliver on their core functions. There is a danger that as memories of the financial crisis fade, its lessons are forgotten. (Paragraph 74)

Financial inclusion

11. The regulations made by the FCA, and the manner in which it supervises and enforces those regulations, could have a significant impact on financial inclusion. However a primary role of the FCA should not be to carry out social policy, or to fill the gaps where it is Government that ought to be stepping in and addressing these issues. Government, community, and individuals all have a role to play in tackling poverty, an issue which is far broader than regulation. (Paragraph 89)

12. The FCA should make every effort to ensure that it is not designing or implementing regulation in a way which could unreasonably limit the provision of financial services to consumers who might benefit from them. When placing new requirements on firms, the FCA should consider not only the impact on consumers and businesses, but also the impact on those who might be prevented from accessing financial services as a result of those new requirements, or who might find themselves

accessing services on inferior terms. **We recommend that the Treasury should require the FCA to have regard for financial inclusion in its rule-making, but not to make changes relating to financial inclusion to the FCA's objectives.** (Paragraph 90)

13. We welcome the clearer acknowledgement that the FCA is working to support financial inclusion, and we would urge the FCA to continue to do so. The FCA should provide an annual report to Parliament on the state of financial inclusion in the UK and the Treasury should consider putting this report on a statutory basis. This report should also include a summary of areas where the FCA's work has supported financial inclusion or future work which could impact on financial inclusion; and any recommended additional measures lying within its area of competence and which could be taken by Government and other public bodies to promote financial inclusion. (Paragraph 91)

The new regulatory framework

14. The Treasury and regulators should publish a forward-looking schedule of approximately when they expect each EU financial regulatory file to move across to the regulatory rulebooks, including timelines for consultation, and when they expect the overall project to conclude. This should give industry a better opportunity to plan for the changes they may need to make, and give the various stakeholders (including industry, consumer groups, academics, and other experts) more time to plan their engagement in the process. (Paragraph 96)

15. Regulatory independence is critical for the competitiveness and effectiveness of UK financial services regulation. The host of new accountability mechanisms proposed by the Treasury must be carefully reviewed in this light, to ensure that regulatory independence is not compromised. These mechanisms largely seem reasonable as individual changes, but there is a risk that the collective impact could be excessive in its impact on regulators' resourcing, as well as their ability to make decisions quickly where needed. (Paragraph 100)

16. The Treasury should be sparing in its use of the proposed power to require regulators to review their rules, and should not use it to implicitly require the regulators to consider a general 'public interest' requirement for rulemaking. Each use of this power is a potential weakening of the independence of the regulators. Regulators should not be expected to reverse or adjust regulation where such regulation is deemed to remain appropriate to carry out the regulators' statutory objectives. That being said, the regulators should not impose costs without being able to show benefits. (Paragraph 105)

17. The Treasury has not set out the expected impact of this new power on regulatory resources. In order to avoid imposing a significant burden on regulatory resources to conduct these reviews, and to safeguard regulatory independence, the Treasury should fund these reviews itself, whether they are conducted by regulators themselves or independent persons. Reviews of regulatory rules which have been imposed by the Treasury should not crowd out the budgets over which regulators have discretion for fulfilling their objectives. The imposition of such costs on the Treasury would also further help it consider whether all such reviews were necessary. (Paragraph 106)

18. We expect the regulators to prioritise changes where the cost for consumers is lowest in comparison to the benefit. Regulators' approaches to assessing the marginal impact of new policies is already well-developed. We therefore believe that the creation of a new statutory panel to advise regulators on cost-benefit analysis—in addition to the panels that regulators already maintain for consulting industry and other stakeholders—would add only marginal, if any, value and could pose some risk to regulatory independence. If such a panel is established, however, it should provide comments on rules changes post-publication, to avoid causing delays to the policymaking process. (Paragraph 111)

19. The information the FCA has made available on how it is performing against its service standards shows a deteriorating picture. The FCA has a reputation for being too slow in its authorisation work, and this will inevitably hold back British fintech companies and crypto firms as well as larger firms. When the FCA publishes its next update on the service standards it should write to us, outlining any areas where it is still not meeting its statutory and voluntary timelines, and setting out its strategy for closing any gaps. (Paragraph 119)

20. The FCA should consider how to improve its engagement with the poorest consumers, including seeking opportunities to improve the availability of data about people who are on the lowest incomes. The FCA must seek data on the issues vulnerable consumers experience directly. Civil society groups and other researchers can provide a valuable input, but they are more constrained than industry in terms of access to funding. (Paragraph 124)

Simplifying requirements for smaller banks

21. We will conduct scrutiny of the Prudential Regulation Authority's 'Strong and Simple Framework' proposals. We will examine the impacts of the proposed reforms on the safety and soundness of smaller firms, and whether the reforms would successfully reduce the burden of regulation for these firms. (Paragraph 136)

Solvency II

22. In their review of Solvency II, the Treasury and Prudential Regulation Authority (PRA) should aim to secure a robust insurance regulatory regime that adequately captures risk and incentivises investment in infrastructure and business, but one that is also appropriately tailored to the UK market. (Paragraph 147)

Use of internal models to quantify capital requirements

23. The Prudential Regulation Authority should consider where there is more that can be done to reduce the advantages from which large banks and insurers benefit through modelling their own capital requirements. The purpose of doing so would be not only to strengthen competition by reducing the barriers faced by smaller or newer firms, but also to assess whether firms modelling their own capital requirements are truly reflecting the levels of risk involved. (Paragraph 154)

Innovation

24. The FCA should investigate whether there are more opportunities to enable larger firms to undertake controlled, supervised experiments with innovative products. For example, it may be desirable to allow firms to be more experimental with the designs of new products, by setting aside additional capital in order to compensate consumers generously if new products being tested out by a limited number of consumers turn out not to benefit those consumers as anticipated. This approach would not be without risks, and would have to be carefully designed to avoid disadvantaging smaller firms, but it is an example of the type of bold approach which the FCA should be prepared to consider. (Paragraph 160)

Payments innovation

25. There is a range of innovations taking place in payments systems and with alternative means of exchange, including crypto-assets, stablecoins, and central bank digital currencies. These innovations could provide opportunities to address weaknesses in international payments systems and potentially to serve consumer needs, and in the case of central bank digital currency to safeguard monetary sovereignty. There are challenges associated with innovations in payments, including consumer protection, preventing crime and financial stability. We will be conducting further work on how these challenges are managed. (Paragraph 175)

1 Introduction and scope

Leaving the EU

1. On 31 December 2020, the Transition Period[1] between the UK and the European Union (EU) came to an end. From that date, competence for those aspects of the regulation of financial services within the UK which had previously rested with the EU transferred to the UK.

2. As part of the UK's legislative framework to support its exit from the EU, the body of regulation that applied to the UK's financial services industry due to of the UK's membership of the EU was 'onshored' into UK legislation, and remains largely applicable at present as 'retained EU law'. However, in a range of areas including the regulation of banks, insurers, and investment firms, the Government and regulators have already begun proposing and implementing changes.[2]

3. In October 2020, the Treasury published a consultation on Phase II of its Financial Services Future Regulatory Framework Review, setting out proposals for redesigning the regulatory framework within which the financial services regulators will operate.[3] In November 2021, the Treasury published a second consultation paper with further details on these proposals.[4] The Treasury proposes that financial services regulators be given responsibility for setting many of the regulatory requirements which are currently set out in primary legislation as part of the retained EU law that has been brought into UK statute.[5]

4. The Government proposes to gradually repeal significant amounts of retained EU law in the field of financial services regulation, with the intention that regulators will replace it with relevant regulatory requirements in their own rulebooks.[6] John Glen MP, Economic Secretary to the Treasury, told us that this work "cannot be done overnight. The complexity involved means that it is going to take some time to deliver."[7] The Treasury said in its November 2021 consultation that during this process, "there will […] be instances where it is appropriate for the regulators to take the opportunity to tailor the rules to reflect the specifics of UK markets, and to make targeted improvements, in line with their objectives."[8]

Our inquiry

5. We announced a wide-ranging inquiry into the Future of Financial Services in November 2020. The first part of the inquiry—covered by our previous report, *The Future*

1 The Transition Period was the period between 31 January 2020 and 31 December 2020, during which the UK was no longer an EU Member State, but nearly all EU rules continued to apply to the UK, and the UK remained part of the EU single market and customs union
2 Financial Services Act 2021
3 HM Treasury, Future Regulatory Framework (FRF) Review: Consultation (19 October 2020)
4 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021)
5 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraph 15
6 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraphs 7.3–7.5
7 Q182
8 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraph 7.6

Framework for Regulation of Financial Services, published in July 2021—largely focussed on the proposed new regulatory framework itself, and Parliament's role in the scrutiny of new financial services rules within the new framework.[9]

6. This second report covers our view on the priorities for regulatory changes, including opportunities for simplification and capital requirements for banks and insurers; international trade and competitiveness, innovation and skills; consumer representation and financial inclusion; and the effectiveness of the regulatory framework and regulators. It also considers some of the issues raised by the Treasury's second consultation in November 2021.

7. In this report, we have not limited ourselves to EU onshored legislation: instead we have looked at the entire financial services industry, including inherited EU legislation, the framework for regulation, and matters already governed by domestic law such as the scope and mandate of the regulators. While the scope of this inquiry was broad, not all of the many topics that were examined within our oral evidence sessions or for which we received written evidence have been covered here.

8. Since the publication of our earlier report on *The Future Framework for Regulation of Financial Services*, we have taken oral evidence from a range of industry experts including financial services firms, industry bodies, academics, regulators, and government ministers. A full list of witnesses is given at the end of this Report. We are grateful to witnesses and to those who submitted written evidence for their time and input.

9 Treasury Committee, Fifth Report of Session 2021–22, The Future Framework for Regulation of Financial Services, HC 147

2 The direction of travel

9. This chapter sets out our overall view of the state of financial regulation in the UK, and the direction of travel proposed by the Government.

Overall view of regulation

The FSMA model

10. The current model of financial regulation was introduced by the Financial Services and Markets Act 2000 (FSMA), and was amended in response to the financial crisis. The FSMA model delegates the setting of regulatory standards to expert, operationally-independent regulators: the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), that work within an overall policy framework set by Government and Parliament. The Bank of England is also responsible for the regulation and supervision of financial markets infrastructure,[10] and the resolution of banks, building societies, certain investment firms, and central counterparties.[11]

11. The Treasury said in its November 2021 consultation that it is not seeking wholesale change to this regulatory design:

> The government believes that [the FSMA] model remains the most appropriate way to regulate financial services in the UK. It ensures that the regulators' real-world, day-to-day experience of supervising financial services firms is central to the regulatory policymaking process. It also provides flexibility for the regulators to update standards efficiently in response to changing market conditions and emerging risks.[12]

12. The Treasury also took the view that, as regulators take on additional responsibility for setting detailed rules, their objectives should reflect wider public policy matters:

> While the UK was a member of the EU, the government was able to ensure that matters of wider public policy, such as growth and international competitiveness, were considered as part of the negotiations to agree regulations at an EU level. As the regulators take on greater responsibility for setting detailed rules across a larger portion of the UK's financial services landscape, the government recognises the need to ensure that their objectives reflect the importance of the financial services sector as an engine of growth for the wider economy and the need to support the future strength and viability of the UK as a global financial centre.[13]

10 Q533
11 The Bank of England, 'Resolution', accessed 16 May 2022
12 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraphs 2–5
13 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraph 9

13. The Treasury proposals provide for a greater focus on the pursuit of economic growth and international competitiveness by introducing new, statutory secondary objectives for the PRA and the FCA.[14] We consider the Treasury's proposals for secondary objectives in Chapter 3.

UK influence on EU and global standards

14. We received evidence that the UK had been very influential in the design of the financial services regulations which the UK had since "onshored" from the EU. For example, Aviva, an insurance company, said that the UK had played a "leading and influential role" in the design of EU insurance regulation,[15] and PwC, an accounting and consultancy firm, made a similar observation regarding the EU's Investment Firms Prudential Regime.[16] Professor David Aikman, Director, Qatar Centre for Global Banking and Finance, and Professor of Finance (Practice), King's College London, told us that:

> UK regulators were incredibly effective in designing regulation 10 years ago. We did actually design a lot of the rules in the way we wanted them. It was the US and the UK that won those battles. It will not surprise you to hear me say that, on day one, I do not think there are going to be really big-ticket items that we would want to change entirely.[17]

15. Sir Douglas Flint, CEO of abrdn (an asset manager, formerly Aberdeen Asset Management), told us that the UK's international financial services industry is much larger than the domestic business, and that the UK plays a significant and influential role internationally:

> We should always remember that there are two aspects to the financial services industry in the UK. There is a domestic business and an international business. The international business is many times the size of the domestic business. The UK has always played a very significant role in the global ecosystem and architecture of supervision, regulation and, indeed, innovation.
>
> One thing that we need to protect above almost everything else is that voice at the table, which is based upon having a dog in the fight, as it were, with businesses that are competing on a global scale, with the scale of businesses and with the intellectual capital in the UK such that people want to copy the ideas and thinking that are coming through, not just in product design but in governance and controls.[18]

16. We also heard that there was no appetite for a 'bonfire of regulation' from the industry.[19] PwC also noted that "many of the current regulations that have been agreed at

14 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraphs 10–11
15 FFS0009
16 FFS0050
17 Q428
18 Q262
19 Q342, see also FFS0050

the EU level derive from international agreements" such as implementation of the Basel standards.[20] They said that, "as a global financial centre, the UK must continue to be at the forefront of developing and implementing internationally consistent regulations."[21]

17. Edwin Schooling Latter, Director of Markets and Wholesale Policy at the FCA, told us that "In the end, our firms need us to be a robust regulator, because having a robust regulator is fundamental to trust in the financial sector, and I think they all know that."[22] John Glen MP, the Economic Secretary to the Treasury, said that high standards of regulation in the UK were "instrumental in our reputation as a global centre for financial services".[23]

18. Professor Aikman warned us that "the pendulum [of regulation] is beginning to swing" away from the tightening of requirements that took place after the global financial crisis in 2007–08:

> I do have some concerns. We are seeing a cycle in financial regulation, and this is not a new thing. It is a common experience after crises that we tighten requirements and then loosen them again. After the last crisis, we obviously tightened requirements quite a lot in the financial system. We recognised that this is a high-risk sector that has the potential to create a lot of economic instability if it is not regulated appropriately.
>
> If we move towards a phase where we are gradually undoing some of those regulations, we are effectively increasing taxpayers' contingent liability if something goes wrong. That is the lesson from 10 years ago. They are not major concerns at this stage, but it feels like the pendulum is beginning to swing.[24]

19. We also heard from PwC, and others, that there are a number of ways in which existing regulatory frameworks could be better tailored to the particular characteristics of the UK financial services market and simplified in order to reduce the burden of regulation.,[25] We heard that there were particular opportunities to simplify rules to enable smaller firms to grow.[26] This is covered in more detail in Chapter 5.

Our views on the future overall direction of financial services regulation

20. **The EU has reasons to be very prescriptive when setting its financial services rules: it must ensure that all member states are acting together and implementing the same rules consistently across multiple national legal systems. The UK, now that it is outside the EU Single Market, can operate with greater freedom.**

21. **Given that the UK has historically exercised significant influence in the framing of EU regulations, the UK's exit from the European Union should not in itself be the cause of instant or dramatic changes to financial services regulation in the UK. Nevertheless, there will be opportunities to tailor inherited EU regulations to the UK**

20 FFS0050
21 FFS0050
22 Q603
23 Q618
24 Q418
25 FFS0050, Q284, FS0022
26 Q284

market, and to seek opportunities for simplification, while being mindful of continued compliance with global standards. The new regulatory framework should aim to enable the regulators to respond more quickly and flexibly to new evidence about the effectiveness of regulation, and developments within financial markets.

22. ***The Treasury should respect the principle of regulatory independence, and must not pressure the regulators to weaken or water down regulatory standards, or to accept changes to the regulatory framework which could impede the regulators' ability to achieve their primary objectives. The regulators have been made operationally independent for a reason. If regulatory standards were to be changed or substantially weakened so as to increase the risks to financial stability, UK consumers and taxpayers could be harmed. Simplifying financial regulation and tailoring it appropriately to the UK market must be approached with care, and without compromising regulatory independence.***

23. **We will remain alert for any evidence that regulators are coming under undue pressure from the Treasury to inappropriately weaken regulatory standards.**

Complexity and change

24. Anne Boden, Chief Executive Officer of Starling Bank, a challenger bank,[27] told us that the priority for Starling Bank was the simplification of rules so that the industry was not required to "spend lots of money […] consulting with lawyers to help us interpret these rules."[28]

25. Vicky Saporta, Executive Director, Prudential Policy Directorate, Prudential Regulation Authority (PRA), acknowledged that overall, regulation is currently "far too complex" for smaller banks and building societies, and told us that there was a need for the PRA "to simplify the regime for these firms […] in order to make them more dynamic and give them lower compliance costs, while maintaining the resilience that they have currently."[29]

26. Professor David Aikman told us that regulatory complexity should be a priority to address:

> We have designed a regime of financial rules that are almost too complex to be understandable by anyone other than perhaps Sam Woods at the PRA.
>
> The way that has happened is that each incremental step has made sense in its own isolated way, but then you take a step back and you realise neither the regulators nor the firms truly understand the system we have built. That is the area that we need to see tackled medium term, but we cannot do that in isolation. You have seen that the PRA has helpfully put out some thoughts on how we might do this for smaller firms, but it needs to be tackled across the board. It is a much bigger issue.[30]

27. There are some signs of a move towards such simplification. Sam Woods, Deputy Governor for Prudential Regulation and Chief Executive Officer of the Prudential

27 A challenger bank is a relatively small retail bank, set up with the intention of competing for business with large, long-established national banks.

28 Q284

29 Q539

30 Q428

Regulation Authority, gave a speech in April 2022 in which he set out an alternative approach to bank capital requirements which he argued would be much simpler.[31] He reiterated that "any capital framework—complex or simple—will only be successful if it is based on strong, common international standards."[32] The PRA also intends to create a new "simpler regime" for the smallest firms:[33] we cover this 'Strong and Simple' initiative in Chapter 5.

28. We received written evidence from Lloyd's of London, a world-leading insurance market, stating that regulatory changes, even deregulation, could still incur significant short-term costs:

> For financial services firms, it is often regulatory/policy changes which necessitate larger scale project work within firms to achieve compliance. As such, any material de-regulation would likely increase costs for UK firms over the short and medium term to assess the changes, amend their approach and ensure compliance on an adjusted ongoing basis. Given also the increasing prevalence of international standards, it would seem unwise for the UK to take such a deregulatory approach as it is possible that any changes would need to be reversed over the longer term to adapt to international standards, generating further costs.[34]

29. Professor David Aikman agreed, telling us that regulators "should not be changing rules too frequently", as there are "adjustment costs", but that that was "not to say [regulators] should not look at [rules] routinely" and that it was important to go back and review how rules were working in practice.[35]

30. ***Deregulation or simplification will in themselves impose costs on industry in the short term. Regulators should make every effort to limit the costs of compliance with the rules, for example by communicating planned changes in advance, grouping sets of changes together, and minimising the frequency of changes to those where a compelling need and a significant cost benefit has been articulated. That said, regulators should not let short-term costs, or the views of market participants who have already adapted to existing arrangements, limit the scale of their ambition when finding opportunities to genuinely simplify the regulatory framework without sacrificing resilience.***

Ease of access to international markets

31. David Livingstone, Chief Executive Officer for Europe, Middle East and Africa, Citi, a US investment bank, set out reasons why the UK has been, and remains, attractive as a centre for the provision of financial services:

> English law is the global commercial law; people choose to have their contracts written under it. It is the time zone. It is an inherently outcomes-based regulatory system. It has been altered by being part of the EU but, in essence, that is the approach taken by the regulators. It is open markets

31 Bank of England, 'Bufferati', speech given by Sam Woods on 26 April 2022
32 Bank of England, 'Bufferati', speech given by Sam Woods on 26 April 2022
33 Prudential Regulation Authority, 'CP5/22 - The Strong and Simple Framework: a definition of a Simpler-regime Firm' (29 April 2022)
34 FFS0047
35 Q436

> and open access to international and domestic players and competition. It is talent, both domestic and international, and the education and university system, technology and many things that contribute to that.[36]

32. The Bank of England told us that the UK already has a very open financial services sector, which attracts a large number of international players, including from outside Europe.[37]

33. Sam Woods, Deputy Governor for Prudential Regulation and Chief Executive Officer of the Prudential Regulation Authority, said in November 2021 that the UK was, "absolutely not in a tit-for-tat game" with the EU on financial services market access and staffing.[38] Stuart Williams, President of ICE Futures Europe, a futures and options exchange, told us that:

> It is right that the UK should approach [financial market access] 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.[39]

34. David Sansom, Chief Risk Officer of Lloyd's of London, a world–leading insurance market, told us that the "free flow of capital across borders" was "particularly important for reinsurance, because it is often supporting very large risks and events" such as natural catastrophes.[40]

35. In its latest Economic and Fiscal Forecast, the Office for Budget Responsibility stated that "there is little in the data to suggest the assumption of a 15 per cent reduction in trade intensity as a result of Brexit is no longer a central estimate." It said that "the UK saw a similar collapse in exports as other countries at the start of the pandemic but has since missed out on much of the recovery in global trade."[41] This reduction in trade has also applied to financial services, according to the Office for National Statistics (ONS), which in November 2021 said that:

> This fall in financial services trade with the EU is partly because of EU exit-related rule changes, with the UK-EU Trade and Co-operation Agreement (TCA) containing limited provision for access in financial services.[42]

36. We heard from representatives of the financial services industry about the impact that Brexit has had on their business models, and that some activity had been moved across to the EU. John Collins, Chief Legal and Regulatory Officer, Santander UK, told us that Santander had migrated "some of the derivative and capital markets activity back to

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36 Q295
37 FFS0080
38 'UK will not engage in 'tit for tat' with EU over financial services', Financial Times, 30 November 2021
39 Q353
40 Q205
41 Office for Budget Responsibility, Economic and Fiscal Outlook – March 2022, 'The latest evidence on the impact of Brexit on UK trade'
42 Office for National Statistics, 'The impacts of EU exit and coronavirus (COVID-19) on UK trade in services: November 2021', accessed 16 May 2022

Madrid", and that "some of that is driven by regulation and some by efficiency."[43] Richard Dudley, CEO, Global Broking Centre at Aon UK, told us that parts of its business had been "significantly affected" by Brexit:

> The bit of the business that I look after has been very significantly affected by Brexit. We provide insurance distribution services, as defined under the insurance distribution directive in the EU, and the model under which we provide those services to clients who are both domiciled and have risk situated in the EU has to be different. We cannot do it in the way we did before, which is where we would work in partnership with our other offices across Europe and/or deal with clients directly across Europe.
>
> […] We have had to set up completely separate branch operations of European companies in the UK to carry out that activity. That has resulted in some bifurcation of resource in terms of how we apply that resource, where it sits and who it is employed by. We have had to set up quite weighty and significant governance operations to manage that business too.[44]

37. The Financial Services Skills Commission, an independent, not-for-profit member organisation that aims to increase and diversify the supply of talent into the UK financial services sector, launched as a result of Government's Financial Services Skills Taskforce,[45] warned us that Brexit was "disrupting" how UK firms access talent.[46]

Equivalence, mutual recognition and free trade agreements

38. We heard from witnesses that mutual recognition (where the UK and the EU would formally agree to mutually recognise each other's financial regulations as sufficient to allow a company based in one to provide services directly into the other's jurisdiction in certain sectors) and equivalence (where the EU would unilaterally agree that the UK's rules were equivalent to the EU's, which in some cases also facilitates cross-border trade in particular financial sectors) relationships could be the most important mechanisms to make it easier for the UK financial services sector to trade internationally.[47] Stuart Williams, President of ICE Futures Europe, a futures and options exchange, said:

> 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 [FTA]. 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 [Moore] 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,

43 Q311
44 Q222
45 FFS0034
46 FFS0034
47 Q350, Q352

> 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 defendable. 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.[48]

39. Witnesses offered views on the relative value of free trade agreements and equivalence between regulatory systems in facilitating an active trading relationship in financial services. Michael Moore, Director General, British Private Equity and Venture Capital Association (BVCA), told us:

> 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.[49]

To this, Stuart Williams added, "I agree that [free trade deals are] a great aspiration, but we have over 80 jurisdictions already accessing our markets in London, so it is not a necessity."[50]

40. Charlotte Clark CBE, Director of Regulation, Association of British Insurers (ABI), said that for insurers, an equivalence agreement with the EU would be "a "nice to have" rather than a "need to have" "because UK consumers tend to buy insurance from UK-based insurers, and "foreign companies tend to have UK subsidiaries" but that it was a "big issue" for reinsurance.[51]

41. When we asked Matthew Conway, Head of Regulation at UK Finance, about the lack of financial services provisions within trade agreements, he said that trade deals were not as important to financial services as having regulatory systems that co-operated with one another:

> We do not regard free trade agreements [FTAs] as the high watermark in financial services. Most of the rules, arrangements and agreements that matter should be behind the scenes. They should be regulator to regulator. What really matters is regulatory co-ordination and co-operation, and appropriate deferment to each other's rules, where that is appropriate.
>
> […] What FTAs can do afterwards is come along, sweep that up, formalise it and make it solid. In the terms of the UK and New Zealand trade agreement that was announced last week, we see commitments about not having unnecessary data localisation, allowing offshoring of back-office functions and things like that. That is a good thing to include in an FTA,

48 Q350
49 Q352
50 Q352
51 Q224

> but it is probably right that the FTA comes along and embeds what has already been agreed and put in place at a more detailed level by financial services regulators.[52]

42. Christian Faes, Chair of Fintech Founders, told us that a survey they had carried out found that "75 per cent of founders said they wanted to pursue international expansion", but "only a small percentage were currently exporting or in other countries", and that a key reason cited for not expanding internationally was "dealing with the regulatory compliance of another jurisdiction."[53]

43. The Government has highlighted the contribution that trade deals can make to financial services access. In the background notes to the 2022 Queen's Speech, the Government said that:

> We have made significant progress delivering the Government's ambitious vision for the financial services sector […] creating jobs, supporting businesses, and powering growth across all parts of the UK. The Government has: continued to negotiate a ground-breaking Mutual Recognition Agreement with Switzerland, incorporated financial services provisions in trade deals with Australia and New Zealand, and reached agreement in principle on a Digital Economy Agreement with Singapore.[54]

44. When we asked John Glen MP, Economic Secretary to the Treasury, about the role of regulators in trade deals, he said:

> Most of what is achieved in trade in financial services is done regulator to regulator. The UK-US Financial Regulatory Working Group meets regularly, with senior officials from the US and the UK. We have a very advanced dialogue with the Swiss to get a Mutual Recognition Agreement, which will be done by the end of the year. We use economic and financial dialogue; we have had those recently with Brazil and India. We have very deep dialogue with the regulators in Singapore […] We have dialogue bilaterally with others, so that we understand the views of different member states within the EU as well.
>
> With respect to your question directly, I am not aware of where regulators come into the trade agreements, because, in financial services, the default is that we have an ongoing regulatory dialogue, jurisdiction to jurisdiction, as per what we can achieve, where we are likeminded. With the Swiss, we have a common ambition, at a wholesale level, to deliver quite a lot.[55]

45. **The UK's exit from the European Union has had an impact on the UK's ability to export financial services to the EU. However, it remains the case that the UK still has many competitive strengths as a global financial services centre. Brexit has served as a catalyst for a renewed focus on the competitiveness of the UK's exports, including financial services.**

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52 Q292
53 Q350
54 HM Government, 2022 Queen's Speech background briefing notes, 10 May 2022
55 Q685

46. ***There is a clear view from the financial services sector that co-operation between regulators is more significant than trade deals for ensuring reciprocal market access for financial services. While trade deals can open up new markets for financial services, the Government should strive to make progress on mutual recognition as an element in any free trade agreement.***

3 Regulatory objectives and priorities

47. This chapter covers the objectives and priorities of regulators, and possible changes in those priorities. This includes the Government's proposals for a secondary "growth and competitiveness objective" for regulators, and consideration of calls for the FCA to be required to "have regard" to financial inclusion.

UK regulators' objectives

48. The Financial Services and Markets Act 2000 (FSMA) sets out the objectives of the Financial Conduct Authority (FCA). It sets the FCA a single strategic objective to ensure that the relevant markets function well, and three operational objectives:

- to secure an appropriate degree of protection for consumers;
- to protect and enhance the integrity of the UK financial system; and
- to promote effective competition in the interests of consumers.[56]

49. Below each of these objectives are a set of issues to which the FCA must have regard. These so-called 'have regards' number eighteen in total.[57] The FCA does not currently have a secondary objective.

50. FSMA similarly sets out the objectives of the Prudential Regulation Authority (PRA). It sets the PRA a single general objective of promoting the safety and soundness of the firms it regulates, through ensuring that firms' business is carried on in a way which avoids any adverse effect on the stability of the UK financial system, and minimising the risk they pose to financial stability.[58] The PRA also has an additional insurance objective of contributing to the securing of an appropriate degree of protection for those who are or who may become policyholders. This insurance objective is also a primary objective.

51. The PRA has a secondary competition objective which requires it, when discharging its general functions in a way that advances its objectives, so far as is reasonably possible, to act in a way which facilitates effective competition in the markets for services provided by the firms it regulates.[59]

52. Section 3B of the FSMA sets out the regulatory principles which both regulators must apply:

- the need to use the resources of regulators in the most efficient and economic way;
- a burden or restriction which is imposed should be proportionate to the benefits;
- the desirability of sustainable growth in the UK economy in the medium or long term;
- consumers should take responsibility for their decisions;

56 Financial Services and Markets Act (2012)
57 Financial Services and Markets Act (2012)
58 HM Treasury, PRC Remit Letter, 23 March 2021
59 HM Treasury, PRC Remit Letter, 23 March 2021

- the responsibilities of the senior management of persons subject to requirements imposed by or under this Act, including those affecting consumers, in relation to compliance with those requirements;
- a recognition of the differences in the nature of, and objectives of, businesses carried on by different persons;
- the desirability of publishing information relating to persons on whom requirements are imposed by or under this Act, or requiring such persons to publish information, as a means of contributing to the advancement by each regulator of its objectives; and
- the principle that the regulators should exercise their functions as transparently as possible.[60]

53. Section 1JA of FSMA (for the FCA) and Section 30B of the Bank of England Act 1998 (for the PRA) allow the Treasury to make recommendations to the regulators about aspects of the Government's economic policy, to which the regulators should have regard. The Treasury exercises this power by writing letters to the regulators setting out its recommendations. In a March 2021 letter, the Chancellor of the Exchequer asked the regulators to have regard to competition, growth, competitiveness, innovation, trade, better outcomes for consumers, and climate change.[61]

54. Vicky Saporta, Executive Director, Prudential Policy Directorate, Prudential Regulation Authority (PRA), told us that regulators follow the objectives which they are given, rather than making judgements about social welfare:

> As a regulator, our objective is not really to make judgments about social choices and what particular activity might promote general usefulness and welfare. We have to do what our objectives tell us to do: to promote financial stability in our case and to ensure that firms are safe and sound and so on, rather than ensuring that each product that firms come up with has a particular usefulness in society. It is just not part of our objectives.[62]

Treasury proposals for changes to the objectives

55. In its *Financial Services Future Regulatory Framework Review: Proposals for Reform* consultation, the Treasury proposed that the regulatory principle relating to sustainable growth should be amended to ensure that sustainable growth should occur in a way that is consistent with the Government's commitment to achieve a net zero economy by 2050.[63]

56. The Treasury also proposes to give the PRA and FCA new secondary objectives for economic growth and competitiveness.[64] We address this proposal in paragraphs 58–74 below.

60 Financial Services and Markets Act (2000)
61 HM Treasury, PRC Remit Letter, 23 March 2021
62 Q560
63 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraph 11
64 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraph 10

57. The Government has also proposed a secondary objective for the Bank of England relating to its regulation of financial market infrastructure, saying in a January 2022 consultation:

> The government proposes giving the Bank a secondary objective so that as it advances its primary objective for financial stability it must, so far as is reasonably possible, facilitate innovation in the clearing and settlement services provided by the CCPs[65] and CSDs[66] regulated by the Bank with a view to improving the quality, efficiency and economy of the services they provide, subject to conforming with relevant international standards such as the PFMIs.[67]

Growth and competitiveness objective

Treasury proposals

58. The Treasury has set out its intention to give the PRA and FCA new secondary objectives for economic growth and competitiveness.[68] It has not yet articulated how these objectives would be formulated, nor how (or if) the PRA's new secondary objective might be traded off against the PRA's existing competition objective, which the new objective would sit alongside.[69]

59. The Treasury set out its rationale for the new objective in its consultation paper:

> While the UK was a member of the EU, the government was able to ensure that matters of wider public policy, such as growth and international competitiveness, were considered as part of the negotiations to agree regulations at an EU level. As the regulators take on greater responsibility for setting detailed rules across a larger portion of the UK's financial services landscape, the government recognises the need to ensure that their objectives reflect the importance of the financial services sector as an engine of growth for the wider economy and the need to support the future strength and viability of the UK as a global financial centre.[70]

60. Edwin Schooling Latter, Director of Markets and Wholesale Policy, Financial Conduct Authority, told us that a new competitiveness objective would give the FCA the ability to make rule changes that would *only* advance competitiveness, which was something that the FCA was not currently able to do. He said:

> When my teams make and propose a rule change, unless it advances one of our primary objectives—consumer protection, market integrity or competition—we cannot make the change. If there were a rule change that was only going to improve the competitiveness or attractiveness of UK

65 Central counterparties

66 Central securities depositories

67 Principles for financial market infrastructures are the international standards for financial market infrastructures. HM Treasury, 'The Future Regulatory Framework Review: Central Counterparties and Central Securities Depositories' (January 2022), paragraph 4.15

68 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraph 10

69 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021)

70 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraph 9

> markets and have no other benefit, we could not do it in the current structure. A secondary competitiveness objective would be quite empowering in that regard.[71]

Opposition to a competitiveness objective

61. Andrew Bailey, Governor of the Bank of England, gave a speech in 2019 whilst Chief Executive of the FCA, in which he said that "before the financial crisis, the Financial Services Authority (FSA) was required to consider the UK's competitiveness, and it didn't end well, for anyone including the FSA."[72] In the same speech, he also noted that a competitiveness objective should, if implemented, be done in a way that did not entrench "particular business models" or "the interests of incumbents."[73]

62. In February 2022, thirty-seven civil society organisations signed a joint statement which included recommendations for changes to the Government's proposals for the regulatory framework.[74] One of their recommendations was: "Do not introduce a statutory objective, not even a secondary one, for regulators to promote the growth of the finance industry or its 'international competitiveness'."[75] They said that introducing an objective of this kind would risk eroding regulatory independence, and could "put UK regulators in a dangerous competition with regulators globally to water down standards."[76]

63. A group of fifty-eight economists has written to the Chancellor setting out concerns that they have about an objective around competitiveness. They described it as "a recipe for excessive risk-taking" and said that it could "harm the real economy"[77] for example by attracting talented people into financial services and away from other industries, and that it could "reduce overall economic growth" and prompt a "race to the bottom" on regulatory standards.[78] These economists said that there should instead be "clear regulatory objectives that promote economy-wide productivity, growth and market integrity, and also protect consumers and taxpayers, advance the fight against climate change, and tackle dirty money to protect our collective security."[79]

64. Professor David Aikman told us that because growth and competitiveness are easier to measure than resilience, there was a danger that, over time, regulators could "focus on the thing that you are being held to account for and that can be measured in a very clear way."[80]

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71 Q550
72 Financial Conduct Authority, 'The Future of Financial Conduct Regulation', speech given by Andrew Bailey on 23 April 2019. Mr Bailey is referring to the fact that the FSA was dismantled after the financial crisis. In the run-up to the financial crisis, the FSA was responsible for the regulation of individual firms.
73 Financial Conduct Authority, 'The Future of Financial Conduct Regulation', speech given by Andrew Bailey on 23 April 2019
74 Finance Innovation Lab, 'Future Regulatory Framework for Finance Civil Society Joint Statement', accessed 16 May 2022
75 Finance Innovation Lab, 'Future Regulatory Framework for Finance Civil Society Joint Statement', accessed 16 May 2022
76 Finance Innovation Lab, 'Future Regulatory Framework for Finance Civil Society Joint Statement', accessed 16 May 2022
77 The 'real economy' is the part of the economy that produces goods and services, other than financial services.
78 Finance Innovation Lab, 'Letter regarding the dangers of a competitiveness objective for financial regulators', accessed 01 June 2022
79 Finance Innovation Lab, 'Letter regarding the dangers of a competitiveness objective for financial regulators', accessed 01 June 2022
80 Q422

65. We note the view that competitiveness may be enhanced by high standards of regulation. Edwin Schooling Latter, Director of Markets and Wholesale Policy at the FCA, told us that:

> There is a very strong conviction and consensus among the regulators that long-term growth and competitiveness is not achieved by having low standards; that belief is reflected in the conversations that I have with my counterparts in the Treasury as well.[81]

The Bank of England expressed the same view in written evidence, saying that "The UK's reputation for strong standards and financial stability increases its attractiveness as a place to do business: predictable and independent regulation is a way of attracting business to the UK, as well as promoting effective competition."[82]

66. We also heard from the financial services industry that strong regulatory standards are important for maintaining international competitiveness and trust in the financial sector. Michael Moore, Director General, British Private Equity and Venture Capital Association (BVCA), told us that, for venture capital, "continuing to be a place where [international investors] can have confidence in the standards really matters".[83] Euroclear UK & Ireland Limited, who operate financial market infrastructure, wrote that "one of the key factors that provides confidence in the UK marketplace are the strong standards."[84]

Focus on the 'real economy'

67. We have heard from some stakeholders that the secondary objective should not focus primarily on competitiveness, but should focus on how the financial system can promote what is sometimes known as the 'real economy'.[85] Positive Money, a think tank focussing on money and the banking system, told us that:

> The 'default' aim should not be to increase the size and competitiveness of the UK's financial sector. The government should not double down on a finance-led growth model, which has failed to deliver on sustainability, productivity and living standards. In addition, any weakening of regulation in service of this aim would rest on the false assumption that the financial sector is no longer vulnerable to the dynamics that led to the 2008 crisis. Instead, Brexit must be viewed as an opportunity to strengthen the statutory objectives of regulators to serve the real economy, as well as the government's wider social and environmental goals. Extending the regulatory horizon to include longer-term issues would help in this regard.[86]

Economic growth

68. There was support in evidence for an objective to support economic growth. The Association of British Insurers (ABI) told us that "regulators need a primary objective that supports economic growth to provide an explicit balance to their other statutory

81 Q543
82 FFS0080
83 Q341
84 FFS0028
85 The 'real economy' is the part of the economy that produces goods and services, other than financial services.
86 FFS0044

objectives."[87] The Association considered that this should be a primary objective and said that "the lack of such an economic growth objective would mean that, for instance, the PRA's main objectives would continue to be focused on removing risk from the system."[88] Huw Evans, at the time Director General of the ABI, said in response to the Treasury proposals:

> It's disappointing to see the consultation published today recommends a new growth and international competitiveness objective that will only be a secondary objective for the PRA and FCA. This does not go far enough as regulators will always put primary objectives above secondary ones.[89]

69. Vicky Saporta, Executive Director, Prudential Policy Directorate, Prudential Regulation Authority (PRA), told us that competitiveness could be nested within an objective for long-term economic growth:

> If one wanted to avoid short-term boosts in financial services exports that might result in busts that are not good for long-term economic growth, one would nest competitiveness into the long-term economic growth objective, and therefore the exact formulation of the statutory objective would be very important.[90]
>
> […] At the moment, the objective does not exist, but if you want to avoid the boom and bust that we have seen in the past with financial crises, where financial services and credit have expanded unsustainably, which has then led to very bad growth outcomes, you would want to take into account what long-term sustainable growth is, rather than focusing on short-term economic outcomes.[91]

70. Sheldon Mills, Executive Director, Consumers and Competition at the Financial Conduct Authority, was in favour of an economic growth objective, telling us:

> It all hangs together very well, a long-term economic growth-type objective for the financial services industry. It is quite clear—for consumer protection, competition, and market integrity—that a stable, confident and prosperous financial services industry makes sense in light of our primary objective.[92]

Our view

71. With regulators being given new powers, it is reasonable to give those regulators additional direction on how they ought to use those powers, including ensuring that regulators take into account the factors that the Treasury would previously have considered when negotiating regulations with other EU Member States. We are sympathetic to the Treasury's focus on growth and competitiveness in this context. However, we note sensitivity towards the idea of "competitiveness" as an explicit part of an objective, and fears that it might be interpreted as an invitation to overly loosen regulatory constraints.

87 FFS0062
88 FFS0062
89 Association of British Insurers, 'ABI response to the Financial Services Future Regulatory Framework Review' (9 November 2021)
90 Q546
91 Q560
92 Q540

72. ***We recommend that there should be a secondary objective for both the Financial Conduct Authority and the Prudential Regulation Authority to promote long-term economic growth. The wording will be crucial: pursuing international competitiveness in the short term is unlikely to lead to economic growth or international competitiveness in the long term if it is achieved by weakening the UK's strong regulatory standards. Weakening standards could reduce the financial resilience of the UK's financial system and undermine international confidence in that system and the firms within it.***

73. ***In designing the new secondary objective, there should also be some consideration for the ways in which financial services serve the 'real economy'. The financial services industry can help deliver economic growth not simply by growing itself but also by facilitating economic growth by providing capital, credit, insurance and other services to firms in the 'real economy'.***

74. ***The Treasury should continue to reject any calls for a growth and/or competitiveness objective to become a primary objective. This would increase any pressure on regulators to trade off competitiveness against resilience, and would undermine the regulators' ability to deliver on their core functions. There is a danger that as memories of the financial crisis fade, its lessons are forgotten.***

Financial inclusion 'have regard'

75. It was suggested to us that the list of factors to which regulators should have regard in pursuit of their objectives should be expanded to include a 'have regard' to financial inclusion, which is defined as individuals, regardless of their background or income, having access to useful and affordable products and services.[93] Martin Coppack, Director of Fair By Design, a charity,[94] advocated this in oral evidence,[95] and he has written along with Chris Pond, the Chair of the Financial Inclusion Commission,[96] and a wide range of other stakeholders and consumer groups, to John Glen MP, Economic Secretary to the Treasury, to present the case for it.[97]

Data on financial inclusion

76. In their letter to the Economic Secretary, Martin Coppack and others also argued that the FCA should have a statutory duty to report to Parliament annually on:

- the state of financial inclusion in the UK;
- measures that the FCA has taken, and is planning to take, in order to advance financial inclusion; and
- recommended additional measures which could be taken by government and other public bodies to promote financial inclusion.[98]

93 Financial Conduct Authority, 'Keeping pace with rising costs – improving financial conclusion for consumers', speech given by Sheldon Mills on 06 June 2022

94 Fair By Design is dedicated to ending the poverty premium, where people living in poverty pay extra costs for essentials such as energy, credit, and insurance. https://fairbydesign.com/

95 Q444

96 The Financial Inclusion Commission is an independent body of experts from financial services, businesses, the charity sector, academia, and parliamentarians. Their mission is to champion financial inclusion. FFS0075

97 Fair By Design, 'Letter on cross-cutting must have regard for the FCA' (14 February 2022)

98 Fair By Design, 'Letter on cross-cutting must have regard for the FCA' (14 February 2022)

77. Mr Coppack told us that if the FCA made more information available publicly on financial inclusion topics, then consumer organisations and Parliament would be better able to identify issues.[99]

78. Some information about financial inclusion is already available publicly: the Government, as a joint endeavour between the Treasury and the Department for Work and Pensions, publishes an annual *Financial Inclusion Report*.[100] The FCA has set out the "Outcomes and Metrics" they are working to, and one of the metrics measured is the "Reduction in the proportion of consumers who, in the last 2 years, have been offered a financial product or service they wanted, but at a price, or with terms and conditions, they felt to be 'completely unreasonable'".[101]

Access to financial advice

79. A further risk to financial inclusion may arise if consumers are unable to access services on 'reasonable' terms. This was highlighted to us in relation to financial advice, where the regulatory requirements for high standards for the provision of advice, and the costs that entails, may mean that many consumers are not in a position to access financial advice at all. We heard from Chris Cummings, CEO of the Investment Association, that:

> Things that perhaps get in the way of investing at the moment include regulations, where ordinary savers are not quite sure if they have had guidance or advice. The retail distribution review reduced the number of advisers and raised standards in the industry, but too many people just do not get financial advice at all these days.[102]

80. Vanguard Asset Management conducted a survey of financial advisers in 2018, and found advisory firms predominantly catered to clients with total investible assets of £100,000 or more. They have linked the affordability barriers faced by potential clients with lower investible assets with the regulatory approach, saying: "The current interpretation and application of the rules around advice do not appear to sufficiently support the development of a wide range of advice services."[103] Vanguard have suggested that the FCA has an opportunity to improve accessibility by flexing the information that an adviser is required to obtain in order to determine whether the specific advice is suitable for the client or not, to allow the development of more mass-market offerings.[104]

The poverty premium

81. Another potential concern around financial inclusion was what Martin Coppack described as 'the poverty premium', which he defined as "the extra cost that poorer people pay for essential services."[105] He told us that people could pay up to £300 extra on their car insurance based on factors they could not control such as where they live.[106]

99 Q447
100 HM Treasury, 'Financial Inclusion Report 2020–21' (December 2021)
101 FCA, 'Outcomes and Metrics', accessed 18 May 2022
102 Q246
103 FFS0024
104 FFS0024
105 Q417
106 Q444

82. Martin Coppack also told us that the greater use of technology to interrogate people's data when providing financial services could have an impact on consumers who are less likely to be profitable to financial services providers:

> We have to think about the fact that open banking and fintechs are still operating in a market where they have to make a return on their investment. The big worry is that we have a creation of two markets, one that works fairly well for people who have the technology and are able to engage, and then another market where people are less engaged and are just not that profitable.
>
> […] The other quite frightening thing is that fintech and open banking want to know more and more about your data. First, there is something about consumer trust with that. As a rule of thumb, the more an organisation knows about your data, the more they know whether you are healthy and wealthy […] That goes back to the whole argument I made earlier about risk-based pricing and insurance. As a rule of thumb, the least wealthy and the least healthy do well in those types of markets. That is where we are at the moment on that.[107]

83. Sheldon Mills, Executive Director, Consumers and Competition at the Financial Conduct Authority, told us that addressing the poverty premium was complex, given the commercial decisions that insurance firms make to charge premiums based on risk. He provided the following example:

> There is complexity in insurance, given the risk-based pooling model and how that works in practice. I will be open and honest: I come from a community where people get very high car insurance quotes, because in that community the risk is much higher. From a commercial perspective, that makes sense; from a poverty premium perspective, it is an issue that needs to be considered.[108]

84. When we asked Mr Mills whether a 'have regard' for financial inclusion would enable the FCA to ensure that the industry could act in a "moral way", he told us that if firms offer customers services or products that aren't profitable, they are in effect using their own funds to support customers. This would raise questions around "what [the FCA]'s relationship with firms would be", but the FCA was keen to "foster the right environment for investors to come in and for firms to tackle some of these challenges and still effectively make a profit."[109]

Impact of a new 'have regard'

85. As we noted in paragraph 60, Edwin Schooling Latter, Director of Markets and Wholesale Policy, Financial Conduct Authority, told us that the FCA can currently only change its rules in order to advance one of its objectives.[110]

107 Q458
108 Q584
109 Q587
110 Q550

86. In practice, this means that a new 'have regard' for financial inclusion would not enable the FCA to take new action solely in order to advance financial inclusion—over and above actions it can already take under its existing objectives. Sheldon Mills, Executive Director, Consumers and Competition, Financial Conduct Authority, recently gave a speech in which he outlined the work the FCA is already doing that would lead to improvements in financial inclusion.[111]

87. When we asked John Glen MP, Economic Secretary to the Treasury, about the suggestion that the FCA be required to 'have regard' for financial inclusion, he said:

> I will look very carefully at that letter [from Martin Coppack and other campaigners] and what they are saying, and what additionality it would really give, but I am very sensitive to loading up another "have regard" where we can say, collectively, as legislators, we have sorted it out, when in fact, in reality, the complexity of delivering solutions for some of these particular problems, access to insurance for the most vulnerable who do not have a certain credit history, or a disinclination to use those sorts of financial services products, needs more than simply a few words on the page for a regulator.[112]

88. The Economic Secretary also told us that the Treasury was responsible for inclusion policy, and told us about the work of the Financial Inclusion Policy Forum.[113] He said:

> The primary objective of banks and financial institutions is to deliver a service for the consumer, and I want them to be able to deliver that efficiently to as wide a number of people as possible. There might be specific instances where cohorts of consumers cannot access it and there is a regulatory issue, or there is an issue where information flows cannot get there, or there is a market failure.[114]

89. **The regulations made by the FCA, and the manner in which it supervises and enforces those regulations, could have a significant impact on financial inclusion. However a primary role of the FCA should not be to carry out social policy, or to fill the gaps where it is Government that ought to be stepping in and addressing these issues. Government, community, and individuals all have a role to play in tackling poverty, an issue which is far broader than regulation.**

90. ***The FCA should make every effort to ensure that it is not designing or implementing regulation in a way which could unreasonably limit the provision of financial services to consumers who might benefit from them. When placing new requirements on firms, the FCA should consider not only the impact on consumers and businesses, but also the impact on those who might be prevented from accessing financial services as a result of those new requirements, or who might find themselves accessing services on inferior terms. We recommend that the Treasury should require the FCA to have regard for financial inclusion in its rule-making, but not to make changes relating to financial inclusion to the FCA's objectives.***

111 Financial Conduct Authority, 'Keeping pace with rising costs – improving financial conclusion for consumers', speech given by Sheldon Mills on 06 June 2022.

112 Q642

113 Q639

114 Q640

91. ***We welcome the clearer acknowledgement that the FCA is working to support financial inclusion, and we would urge the FCA to continue to do so. The FCA should provide an annual report to Parliament on the state of financial inclusion in the UK and the Treasury should consider putting this report on a statutory basis. This report should also include a summary of areas where the FCA's work has supported financial inclusion or future work which could impact on financial inclusion; and any recommended additional measures lying within its area of competence and which could be taken by Government and other public bodies to promote financial inclusion.***

4 The new normal

92. This chapter examines the future regulatory framework for financial services, including the process for transferring rules across to regulatory rulebooks and the new accountability mechanisms proposed by the Treasury to sit alongside the increased responsibility for regulators. In this chapter we also cover the performance of regulators, looking at the speed and quality of their decision-making and their effectiveness at taking on board the views of stakeholders.

The new framework

93. As we outlined in Chapter 1, the Government proposes to gradually repeal significant amounts of retained EU law in the field of financial services regulation, with the intention that regulators would replace it with relevant regulatory requirements in their own rulebooks.[115] We have heard from the Treasury that this work will take some time to deliver,[116] and that there will be opportunities for regulators to tailor the rules to reflect the specifics on UK markets.[117]

94. Vicky Saporta, Executive Director, Prudential Policy Directorate, Prudential Regulation Authority (PRA), told us that while regulations remain on the statute books rather than in regulatory rulebooks, the ability of the financial regulators to respond to new challenges would be slowed:

> If [the various regulatory files] are not transferred through legislation, our job in making changes as circumstances dictate is more complex. It can be done, but it is more complex and time-consuming because it requires Acts of Parliament; it requires the Treasury to issue statutory instruments and then us to do something. That takes time. Therefore, it decreases our ability to respond. […] Unless these files are transferred and the future regulatory framework is well done, there is a medium-term issue about our ability to really respond to new challenges.[118]

95. When we asked John Glen MP, the Economic Secretary to the Treasury, about the timeline for when rules would be transferred across to the regulatory rulebooks, he declined to give us a timeframe for when this work would conclude.[119]

96. ***The Treasury and regulators should publish a forward-looking schedule of approximately when they expect each EU financial regulatory file to move across to the regulatory rulebooks, including timelines for consultation, and when they expect the overall project to conclude. This should give industry a better opportunity to plan for the changes they may need to make, and give the various stakeholders (including industry, consumer groups, academics, and other experts) more time to plan their engagement in the process.***

115 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraph 7.3–7.5

116 See Mr Glen, Q182

117 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraph 7.6

118 Q119

119 Q626

New accountability mechanisms and regulatory independence

97. The Treasury has proposed a series of new accountability mechanisms in its consultation on the Future Regulatory Framework.[120] These include:

- Introducing a new power for the Treasury to require regulators to review their rules. This would allow for an independent person to be appointed to conduct the review[121] (we say more on this in paragraphs 101–106);
- Introducing a new statutory requirement for the Prudential Regulation Committee (PRC), a Committee which makes important decisions for the PRA,[122] and the FCA to respond to the recommendation letters issued by the Treasury;[123]
- Introducing new accountability mechanisms requiring the regulators to consider the impact of exercising their powers on deference arrangements,[124] and to assess compliance with relevant trade agreements. The regulators would be required to consult the Treasury on the generally anticipated impact on these areas.[125]
- Placing the FCA's Listing Authority Advisory Panel (LAAP) and the PRA Practitioner Panel's insurance sub-committee on a statutory footing, similar to existing FSMA statutory panels.[126]
- Establishing a statutory panel to support development of regulators' approach to cost-benefit analysis.[127]
- Introducing new statutory requirements for the PRA and the FCA to:
  - Notify the relevant Parliamentary committee when they publish any consultation;[128]
  - Respond in writing to any formal responses by Parliamentary committees to regulators' statutory consultations;[129]

120 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021),
121 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraphs 4.9–4.25
122 Bank of England, 'Prudential Regulation Committee', accessed 19 May 2022
123 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraphs 4.14–4.18
124 Regulatory deference, including the issuing of equivalence decisions, is a process endorsed by the G20 where jurisdictions and regulators defer to each other when it is justified by the quality of their respective regulatory, supervisory and enforcement regimes. Footnote 6, Future Regulatory Framework (FRF) Review: Proposals for Reform
125 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraphs 4.32–4.33
126 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraphs 6.8–6.9
127 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraphs 6.25–6.30
128 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraph 5.14
129 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraph 5.15

- provide information in their annual reports on their engagement with statutory panels over the reporting period, and to provide, as part of public consultation, information on pre-consultation engagement with panels;[130]
- maintain a statement on appointment processes for statutory panels, which should be approved by the Treasury before publication;[131]
- publish and maintain a public version of their framework for conducting cost-benefit analysis (CBA), including when to conduct a CBA and the methodology involved; and publish and maintain a framework for how they conduct reviews of their rules[132] (we return to this in paragraphs 107–111).

Regulatory independence

98. David Livingstone, Chief Executive Officer for Europe, Middle East and Africa, Citi, told us that regulatory independence is crucial to maintaining the UK's competitiveness:

> The trust that goes with the fact that UK regulators have the freedom within their mandate and within the law to set some of their priorities and the regulations that they oversee is what attracts international business and capital to this country.
>
> If I look around the world, the best regulators in the world copy that model, and some of those that do not copy it suffer, because they do have that lack of trust in the independence of the regulatory regime from Government and from politics.[133]

99. In contrast, we also heard from industry participants that they wanted to see a clear direction from the Government, for the regulators to take account of the Government's policy objectives. Chris Cummings, CEO of the Investment Association, told us:

> It is hugely important that Government set the context for the type of economy that they want to run, based on their manifesto commitments, and that that is then communicated to all regulatory and public authorities, but particularly in financial services, because it is such an important role. That is not a plea to politicise the regulator, but just being very clear on what Government policy is and what parliamentary oversight of that is, and then how that gets translated into the actions of the regulator.[134]

100. ***Regulatory independence is critical for the competitiveness and effectiveness of UK financial services regulation. The host of new accountability mechanisms proposed by the Treasury must be carefully reviewed in this light, to ensure that regulatory independence is not compromised. These mechanisms largely seem reasonable as***

130 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraph 6.10

131 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraphs 6.12–6.16

132 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraphs 6.20–6.24

133 Q328

134 Q275

individual changes, but there is a risk that the collective impact could be excessive in its impact on regulators' resourcing, as well as their ability to make decisions quickly where needed.

Review of regulatory rules

101. The Government has said that it intends to introduce a new power for the Treasury to be able to require the FCA and PRA, or an independent person, to review FCA or PRA rules where the Treasury considers that it is in the public interest.[135]

102. Sheldon Mills, Executive Director, Consumers and Competition at the Financial Conduct Authority, told us that if this power was used too often, it could challenge the FCA's independence and its ability to do day-to-day work:

> We would want to see when the trigger would be, and how often it would be likely to be used. If it were to be used on a weekly or monthly basis, that could challenge not only our independence, but our ability to do our day-to-day work, as that would be quite an extensive amount of work for us to do. If there were sensible triggers, and a sensible description that recognised implicitly our independence, it could work. Naturally, there are many people who have different views. I think they have been reflected in our consultation process, but there are different views about the impact of different aspects of our rules and the regime. In a democratic society, it is important to have mechanisms to be held to scrutiny as a regulator.[136]

103. Edwin Schooling Latter, Director of Markets and Wholesale Policy at the FCA, said that if the Government used this power it could have an impact on the FCA capacity to carry out other pieces of work:

> With relatively small teams of people who are specialist in any particular bit of the rulebook, if someone comes along and says, "We now want you to do this," we would probably have to give up on various other promises or streams of work that we had undertaken in that area, because we would run out of people to do the work in the short time period.[137]

104. John Glen MP, Economic Secretary to the Treasury, assured us in a letter that the proposed power would only be used "in exceptional circumstances", for example "where there has been a significant change in market conditions, or other evidence suggests that the relevant rules are no longer acting as intended."[138]

105. ***The Treasury should be sparing in its use of the proposed power to require regulators to review their rules, and should not use it to implicitly require the regulators to consider a general 'public interest' requirement for rulemaking. Each use of this power is a potential weakening of the independence of the regulators. Regulators should not be expected to***

135 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraph 22

136 Q598

137 Q599

138 Letter from John Glen MP, 'Future of Financial Services session follow-up' (01 April 2022)

reverse or adjust regulation where such regulation is deemed to remain appropriate to carry out the regulators' statutory objectives. That being said, the regulators should not impose costs without being able to show benefits.

106. ***The Treasury has not set out the expected impact of this new power on regulatory resources. In order to avoid imposing a significant burden on regulatory resources to conduct these reviews, and to safeguard regulatory independence, the Treasury should fund these reviews itself, whether they are conducted by regulators themselves or independent persons. Reviews of regulatory rules which have been imposed by the Treasury should not crowd out the budgets over which regulators have discretion for fulfilling their objectives. The imposition of such costs on the Treasury would also further help it consider whether all such reviews were necessary.***

Cost-benefit analysis

107. The Financial Services and Markets Act 2000 (FSMA), specifies that before making rules, the regulators must publish a draft of the proposed rules. Alongside these draft rules, the regulators may be required, among other things, to include a cost-benefit analysis. This is an analysis of the costs together with an analysis of the benefits that will arise if the proposed rules are made.[139]

108. The Treasury has proposed to formalise this process. It proposes a new statutory requirement for the regulators to publish and maintain a public version of their framework for conducting cost-benefit analysis.[140] The FCA already publishes its framework.[141] The Treasury also proposes to establish a statutory panel dedicated to supporting the development of regulators' approaches to cost-benefit analysis (CBA) and assessing individual CBAs.[142]

109. Edwin Schooling Latter, Director of Markets and Wholesale Policy at the FCA, told us that he was nervous about duplication from adding more requirements for cost-benefit analysis:

> I do think it is right and proper that we should be completely transparent about the way in which we approach CBA analysis. It is obviously incredibly important that we get that bit of our rule-making responsibility right. I am a bit nervous about potential duplication. We already put a lot of time and resource into CBA work. The core part of that is, of course, the CBA requirements in FSMA, the Financial Services and Markets Act 2000. We have to publish our CBA assessment as part of proposing a rule change. It gets challenged, and we have to then justify our position in light of the evidence we receive. That is the core.
>
> We have to persuade the independent members of our own board that we have got that right. We have six existing panels that can and do take an

139 Financial Services and Markets Act (2000)

140 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraph 6.20

141 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraph 6.21

142 HM Treasury, Future Regulatory Framework (FRF) Review: Proposals for Reform (9 November 2021), paragraph 6.25 - 6.30

> interest in the cost-benefit elements of our rule proposals. My teams have to spend quite a lot of time doing enterprise impact assessments of the costs imposed by any rule changes that they make, and of course there is already an ability for external parties who think that we have got it wrong to challenge us through judicial review. It is rare for them to do so, but we certainly take that possibility incredibly seriously in terms of getting the CBA work right at the beginning. If we can make sure that whatever we come up with does not duplicate but adds to the mix of existing mechanisms, that would be in the best interests of our stakeholders.[143]

110. Professor David Aikman told us:

> Regulators do ex-ante cost-benefit analyses of their rules, which are extremely heroic exercises and in my view we are unlikely to get these right. It is really important that, after the fact, we go back and look at how all these things are actually working.[144]

111. ***We expect the regulators to prioritise changes where the cost for consumers is lowest in comparison to the benefit. Regulators' approaches to assessing the marginal impact of new policies is already well-developed. We therefore believe that the creation of a new statutory panel to advise regulators on cost-benefit analysis—in addition to the panels that regulators already maintain for consulting industry and other stakeholders—would add only marginal, if any, value and could pose some risk to regulatory independence. If such a panel is established, however, it should provide comments on rules changes post-publication, to avoid causing delays to the policymaking process.***

Speed and quality of regulators

112. We heard evidence that high turnover at the regulators could be having an impact on their ability to maintain their expertise over time. Professor David Aikman told us:

> The Bank has an excellent staff of people working for it, but there is this high turnover in the institution. The business model is typically to hire the very best economists coming out of universities. These people stay for four or five years and then move on to the private sector. It has been a long-running concern: do we have a sufficient depth of expertise within the staff to implement the rules as they have been written?[145]

113. Philip Reed, General Counsel at Independent Franchise Partners LLP, an investment firm, told us that UK regulators have built "a reputation for technical excellence, which should be maintained by attracting and remunerating the right people".[146]

114. Alongside the positive comments on the expertise of the regulators, we also heard from witnesses that the speed of regulatory decision-making is critical for competitiveness and innovation. Michael Moore, Director General at British Private Equity & Venture Capital Association (BVCA) said "in a whole range of areas, whether it is resource or new systems, getting quicker decisions would make a massive difference to the attractiveness

143 Q600
144 Q436
145 Q421
146 Q271

of the UK on an ongoing basis."[147] In written evidence, Fintech Founders told us that the UK "cannot retain its status as a global Fintech hub if entrepreneurs are continually being held back by obstacles of bureaucracy."[148]

115. Christian Faes, Chair of Fintech Founders, told us that the length of time it took for companies to be approved was acting as a barrier to entry for new firms:

> 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 [Key Performance Indicators] 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.[149]

116. The FCA Service Standards, which largely relate to timeliness in a range of areas,[150] show a similar picture: in 2020–21, fifteen (25 per cent) of the FCA's sixty standards were reporting worse outcomes than the minimum targets, compared to seven standards being reported worse than the minimum targets in 2019–20.[151]

117. Taking one example: in 2020–21, the FCA received a total of 12,672 applications for Approved Person status.[152] It assessed 10,860 (85.7 per cent) within the three-month statutory timeframe and 2,413 (19 per cent) within the voluntary standard.[153] In the previous year, the FCA assessed 96.9 per cent of its applications within the statutory timeline, and 56.6 per cent within the voluntary standard. The FCA has said that this was due to higher than expected volumes of solo-regulated firm applications as a result of the Senior Managers and Certification Regime (SM&CR) being extended to solo-regulated firms. The FCA has also said that recruitment is under way to address the issue, and that it "expects to be meeting the statutory and voluntary target for these standards within the current financial year 2021–22."[154]

118. Charles Randell, Chair of the FCA until 31 May 2022, explained to us that he thought that the FCA leadership was responding to the issues raised on authorisations:

> [The FCA's Board has] been asking for regular monthly updates on these backlogs in authorisations. As you can imagine, I get exactly the same feedback that you get whenever I talk to firms. We have been very pleased to see the executive respond with an action programme to invest more in our authorisations work and bring on 100 additional colleagues.[155]

147 Q350
148 FFS0041
149 Q343
150 Financial Conduct Authority, 'Service Standards 2020/21', accessed 18 May 2022
151 Financial Conduct Authority, 'Service Standards 2020/21', accessed 18 May 2022
152 An 'approved person' is an individual who the FCA has approved to do one or more activities for an authorised firm. Financial Conduct Authority, 'Approved Persons', accessed 19 May 2022
153 The FCA's voluntary standard is to respond in 5 days for 'controlled functions' and 10 days for 'significant-influence functions'. Financial Conduct Authority, 'Service Standards 2020/21', accessed 18 May 2022
154 Financial Conduct Authority, 'Service Standards 2020/21', accessed 18 May 2022
155 Oral evidence taken on 8 December 2021, HC (2021–22) 146, Q234 [Charles Randell]

119. ***The information the FCA has made available on how it is performing against its service standards shows a deteriorating picture. The FCA has a reputation for being too slow in its authorisation work, and this will inevitably hold back British fintech companies and crypto firms as well as larger firms. When the FCA publishes its next update on the service standards it should write to us, outlining any areas where it is still not meeting its statutory and voluntary timelines, and setting out its strategy for closing any gaps.***

Consumer representation

120. Martin Coppack, Director, Fair By Design, told us that consumer groups were disadvantaged in engaging with regulators, compared to industry representatives:

> The balance between industry and consumer representation is absolutely woeful. When I started at the FSA/FCA, I was responsible for consumer engagement and the liaison with civil society. I cannot get over to you how small the resource is and how little impact, in comparison, within financial regulation, the consumer voice has […] If you, first, are not in touch with people who are not like you and, secondly, have hardly any engagement with consumer organisations, because they do not have the money or ability, it is natural that policies will be skewed towards industry.[156]

Mr Coppack also told us that at the FCA, "there is a lack of resource placed into building up the consumer issues."[157]

121. Sheldon Mills, Executive Director, Consumers and Competition at the Financial Conduct Authority, agreed that consumer groups have fewer resources, but noted the FCA's work with the Consumer Panel and the Financial Inclusion Policy Forum:

> I recognise the difference in means. Sadly, it will be the case that they [consumer groups] have fewer resources than some others, but we have our consumer panel and we sit on the [Financial Inclusion Policy Forum], which John Glen the EST chairs. Many consumer groups refer to that.[158]
>
> […] One thing that I would like to see is stronger communication and engagement with certain groups—from firms, from ourselves and from the regulatory family, such as MaPS [the Money and Pensions Service] and others—and that we speak in a language that meets those communities' needs and that they can understand. There is a poverty premium, but sometimes access is not about the poverty premium; it is about fear, and trust in financial services. It is about understanding what sort of financial services and things are available to people. We have a task as the FCA of ensuring that financial services as they stand are accessible to everybody.
>
> […] There is a potential imbalance in terms of the means and ability of people who represent consumers or small businesses versus those firms. It is right and proper that we have the consumer panel, that we also have a consumer network that meets regularly, and that we are always open to

156 Q511
157 Q520
158 Q586

> correspondence from representatives of people who support and validly try to protect or deal with the interests of those people. I think that is what we do: we seek a fair and even balance between those two constituent parts.[159]

122. The Financial Services Consumer Panel, to which Mr Mills referred, is a statutory body set up under FSMA with a mandate to represent the interests of all financial services consumers, including both individuals and small businesses. Its main role is to advise the FCA.[160]

123. Since 2018, the Government has convened the Financial Inclusion Policy Forum, which brings together key leaders from industry, charities and consumer groups, as well as government ministers and the regulators. The forum is co-chaired by John Glen MP, in his capacity as Economic Secretary to the Treasury, and Guy Opperman MP, as the Minister for Pensions and Financial Inclusion.[161]

124. ***The FCA should consider how to improve its engagement with the poorest consumers, including seeking opportunities to improve the availability of data about people who are on the lowest incomes. The FCA must seek data on the issues vulnerable consumers experience directly. Civil society groups and other researchers can provide a valuable input, but they are more constrained than industry in terms of access to funding.***

159 Q602
160 Financial Services Consumer Panel, 'Annual Report 2020/21' (July 2021)
161 HM Treasury, 'Summary of Financial Inclusion Policy Forum meeting December 2021', accessed 19 May 2022

5 Specific areas of regulation

125. This chapter covers specific areas of regulation where there is potential for significant change. We have focused on capital requirements for banks and insurers, measures to support innovation at both start-ups and more established firms, and innovative developments in payments systems. We have not considered aspects relating to the Government's Wholesale Markets Review, where the Government has set out its conclusions.[162]

Capital requirements

Bank capital models

Overall capitalisation of the banking system

126. A firm's capital is its financial resources that can act as a cushion or shock-absorber against unexpected losses.[163] Having enough capital of sufficiently high quality reduces the risk of a firm becoming unable to meet the claims of its creditors, and is therefore crucial for maintaining creditor confidence.[164] Bank capital requirements were increased significantly in response to the 2007–08 financial crisis.[165] Analysis by the Financial Policy Committee suggests that even small decreases in the probability of a financial crisis can have a significant impact for the UK economy: one economic model estimated that a permanent 1 percentage point reduction in the probability of crises (if starting from a higher probability) would lead to an increase in the net present value of GDP, equivalent to £4.5 billion per annum.[166]

127. For all banking firms, the PRA determines a minimum regulatory capital level and buffers on top of this, as applicable, expressed in terms of the Basel and EU risk-weighted framework.[167] Banking supervision by the PRA covers many other areas,[168] including limits on how leveraged banks can be,[169] and requirements about liquidity and operational resilience, while the Bank of England (rather than the PRA) also examines banks' ability to be 'resolved' in a crisis.[170]

162 HM Treasury, 'Wholesale Markets Review: Consultation Response' (1 March 2022)
163 Bank of England, 'What is Capital', accessed 17 May 2022
164 Prudential Regulation Authority, 'The Prudential Regulation Authority's approach to banking supervision' (October 2018)
165 Bank of England, 'The financial crisis 10 years on: what's been done to make the system safer?', accessed 17 May 2022
166 Bank of England, 'Consultations by the FPC and PRA on changes to the UK leverage ratio framework' (June 2021)
167 Prudential Regulation Authority, 'The Prudential Regulation Authority's approach to banking supervision' (October 2018)
168 Prudential Regulation Authority, 'The Prudential Regulation Authority's approach to banking supervision' (October 2018)
169 The leverage ratio is a relatively simple indicator of a firm's solvency that relates a firm's capital resources to the nominal value of its exposures, as opposed to a measure of the riskiness of its portfolio. Bank of England, 'The UK leverage ratio framework', October 2021
170 Resolution ensures that banks can be allowed to fail in an orderly way. The Bank of England conducts resolution planning for all banks, building societies and certain investment firms operating in the United Kingdom and works with firms to increase their resolvability. Bank of England, 'The Bank of England's approach to resolution' (October 2017)

128. In 2021, the Bank of England published the results of its 'solvency stress test' (SST) and concluded that the stress test showed that "the major UK banks are resilient to a severe path for the economy in 2021–25 on top of the economic shock associated with the Covid-19 (Covid) pandemic that occurred in 2020."[171] The Financial Policy Committee found that major banks finished 2020 with strong capital positions, "in part due to the build-up of capital since the global financial crisis, reflecting post-crisis reforms including higher capital requirements", and partly due to actions taken in 2020 such as the cancellation of final 2019 dividends.[172]

129. In its December 2020 *Financial Stability Report*, the Bank of England said that "Capital buffers allow banks to continue to support the economy in downturns while also weathering losses. In doing that, the UK banking system can be a source of strength for the economy, helping to absorb rather than amplify the economic shock caused by Covid."[173]

130. However, Professor David Aikman told us that we could not take too much comfort from the banking system's performance during the Covid crisis, because of the Government's actions to support the economy. When asked if the financial system had performed well during the period of stress, he told us:

> It did. I am sure it did a lot better than it would have, had we not put these rules in place. There is a sense in which it was not really a stress test, because the Government ensured a lot of credit. The Bank of England pumped financial markets full of liquidity, which meant asset prices did not fall anywhere near the amount that you think they would have done otherwise. I do not think we should read too much of a conclusion into the fact that the banking system happened to do okay in this episode.[174]

Simplifying requirements for smaller banks

131. We heard from Nigel Terrington, CEO of Paragon Banking Group, that smaller banks were competing against each other, rather than against the largest banks:

> The PRA has been very successful in authorising 28 new banks since the financial crisis, which are small banks, but they are competing very much against themselves. As you then progress, expand and grow, you move into this mid-tier, where the threat is that you have a much-increased burden of regulation.[175]

132. Professor David Aikman told us that there was "plenty of scope to simplify" the bank capital rules for smaller banks "without watering down the standards". He warned us that "the regime will then be less risk sensitive […] there is in an inherent trade-off there."[176]

133. The PRA's new 'Strong and Simple' initiative is seeking to mitigate the 'complexity problem' that can arise when the same potentially complex prudential requirements are

171 Bank of England, 'Stress testing the UK banking system: 2021 Solvency Stress Test results' (13 December 2021)
172 Bank of England, 'Stress testing the UK banking system: 2021 Solvency Stress Test results' (13 December 2021)
173 Bank of England, 'Financial Stability Report', December 2020
174 Q523
175 Q293
176 Q439

applied to all firms irrespective of their size or risk to overall financial market stability.[177] The PRA has also identified the 'proportionality problem': in a November 2020 speech, Sam Woods, Deputy Governor for Prudential Regulation and Chief Executive Officer of the Prudential Regulation Authority, said:

> The costs of understanding, interpreting and operationalising prudential requirements, which have become more complex since the 2007–08 crisis, may exceed the associated social benefit for small firms (but not large ones). On the cost side, a fixed element of these costs may mean that average costs will be higher for small firms. And on benefits, these may be relatively higher for large firms whose resilience the Basel Committee has had mainly in mind when designing regulation–indeed research by our PRA team suggests that some Basel metrics are more effective for large firms than small ones, whereas supervision of their governance seems to be even more important for small firms than for large ones.[178]

134. In the same speech, Mr Woods raised the 'barriers to growth' problem, saying, "If we strip parts of the regime away for small firms this will create new barriers for those firms as they grow out of the "small" category and need to take on additional regulation."[179]

135. Through the new initiative of 'Strong and Simple', the PRA first intends to create a 'simpler regime' for the smallest firms.[180] Vicky Saporta, Executive Director, Prudential Policy Directorate, Prudential Regulation Authority (PRA), told us that the reforms could help small firms to be "more dynamic and give them lower compliance costs, while maintaining the resilience that they have currently."[181]

136. **We will conduct scrutiny of the Prudential Regulation Authority's 'Strong and Simple Framework' proposals. We will examine the impacts of the proposed reforms on the safety and soundness of smaller firms, and whether the reforms would successfully reduce the burden of regulation for these firms.**

Solvency II

137. Solvency II is the EU's insurance markets directive, designed to unify insurance regulation and reporting across each Member State. The UK is still applying regulations derived from Solvency II, the European framework for insurance regulation.[182] It was criticised for creating large compliance costs for insurance companies. The UK insurance sector has consistently lobbied for changes in how Solvency II is designed, and how its regulatory implementation is interpreted. The Treasury and regulators have already begun work on reforms to the onshored UK insurance regulation. The European Union itself has begun a process of reforming its own Solvency II directive.[183]

177 Prudential Regulation Authority, 'CP5/22 – The Strong and Simple Framework: a definition of a Simpler-regime Firm' (29 April 2022)
178 Bank of England, 'Strong and Simple', speech given by Sam Woods on 12 November 2020
179 Bank of England, 'Strong and Simple', speech given by Sam Woods on 12 November 2020
180 Prudential Regulation Authority, 'CP5/22 – The Strong and Simple Framework: a definition of a Simpler-regime Firm' (29 April 2022)
181 Q539
182 HM Treasury, 'Speech by John Glen MP, Economic Secretary to the Treasury, to the Association of British Insurers Annual Dinner' (21 February 2022)
183 European Commission, 'Reviewing EU insurance rules: encouraging insurers to invest in Europe's future' (22 September 2021)

138. In its written evidence Aviva explained that the UK insurance market is sufficiently large that it should have rules that are tailored to the UK market itself:

> The nature and scale of the UK financial system requires tailored rules and local oversight, while rule-taking could leave the UK open to financial stability risks. For example, in the insurance field, changes to Solvency II capital rules on the matching adjustment,[184] on the grounds that very few countries other than the UK make use of it would be competitively detrimental to UK firms. […] The regulatory system should be calibrated to allow the sector to make its full contribution to the UK economy. […] This is not to suggest a deregulatory agenda or a wholesale shift from the general direction of EU rules—in which the UK has played a leading and influential role. It is a question of calibration and tailoring for the UK market and its products.[185]

139. One technical element of Solvency II that has been a feature of repeated discussions is the 'risk margin'. The risk margin is a calculation applied to an insurer's held liabilities, and increases the amount of financial resources that an insurer has to hold in respect of those liabilities. A reduction in the size of the risk margin would—all else being equal—reduce the insurance liabilities on an insurer's balance sheet and therefore allow insurers to reduce how much capital they were required to hold, which would allow them to operate more profitably, but could also make them less financially secure.

140. Vicky Saporta, Executive Director, Prudential Policy Directorate, Prudential Regulation Authority (PRA), and Charlotte Clark, Director of Regulation at the Association of British Insurers (ABI), both told us that the risk margin was too high and too volatile,[186] and Vicky Saporta told us that the PRA expected the proposed reforms to the risk margin "to lead to a reduction for life insurers—particularly those that offer long-term products."[187] In a speech, John Glen MP, the Economic Secretary to the Treasury, has said that the Treasury intends to cut the risk margin by "60–70 per cent for long term life insurers."[188]

141. A second technical element of Solvency II that has been under repeated discussion is the 'matching adjustment'. The 'matching adjustment' is a calculation applied to the amount of financial resources an insurance firm is required to hold against the liabilities it holds. Matching adjustments can only be applied when certain specific liabilities are matched with assets that meet specific criteria.[189]

142. The PRA has said, in an article in October 2021, that the purpose of the matching adjustment is to recognise that "insurance firms that meet certain conditions—including close 'matching' of long-term assets and liabilities—are less exposed to price movements related to liquidity and allows them to value their liabilities at a higher than risk-free rate." This gives "high balance sheet stability but low risk sensitivity" and "the current design is insensitive to market signals from changes in credit spreads, and might miss some of the risks that insurers face, which in turn could lead to lower policyholder protection."[190]

184 See a fuller explanation of the matching adjustment in paragraphs 141–143.
185 FFS0009
186 Q590, Q199
187 Q590
188 HM Treasury, 'Speech by John Glen MP, Economic Secretary to the Treasury, to the Association of British Insurers Annual Dinner' (21 February 2022)
189 PRA: Supervisory Statement | SS7/18 Solvency II: Matching adjustment July 2018, Paragraph 2.2
190 Bank of England, 'Why is the PRA revisiting the Solvency II matching adjustment' (18 October 2021)

143. The higher the matching adjustment that is used, and the wider the range of asset risks that the matching adjustment is allowed to absorb, the less capital that an insurance company will have to hold against its liabilities. Therefore, the more a firm is able to take advantage of the matching adjustment, the less financially prudent it will be, but the more profitable it will be able to be.

144. When the Economic Secretary announced the proposed changes to Solvency II, he stated that their combined impact could release "possibly as much as 10% or even 15% of the capital currently held by life insurers allowing them to put tens of billions of pounds into long-term productive assets, with multiple benefits country-wide."[191]

145. Charlotte Clark, Head of Regulation at the Association of British Insurers, told us that the matching adjustment should be expanded to include more kinds of illiquid assets.[192] She told us that this would enable insurers to invest in illiquid assets with "predictable returns", such as housing and green infrastructure, more quickly and more easily.[193]

146. However, Vicky Saporta, Executive Director, Prudential Policy Directorate, Prudential Regulation Authority (PRA), told us that making such changes was not without risk. The benefit that the insurance industry as a whole was gaining from its use of the matching adjustment enabling it to reduce the capital it was holding, was greater than the total capital requirement for the life insurance industry. She explained:

> We are concerned that currently the matching adjustment benefit itself—by the way, that stands at a staggering £81 billion as at the end of the year 2020, above the total capital requirement for the life industry, which is £76 billion—might be too high. […] We would like to see an adjustment to the matching adjustment benefit for the sake of protecting the annuitants and the policyholders.[194]

147. ***In their review of Solvency II, the Treasury and Prudential Regulation Authority (PRA) should aim to secure a robust insurance regulatory regime that adequately captures risk and incentivises investment in infrastructure and business, but one that is also appropriately tailored to the UK market.***

Use of internal models

148. Firms that have obtained the appropriate permissions may use internal models to help to quantify their capital requirements for the types of risks and exposures covered by those permissions.[195] Firms that do not have the appropriate permission to use such an internal model approach are required to use the standardised approach to setting their capital. We heard from smaller firms that obtaining these permissions is difficult, time-consuming, and requires access to historic data which new banks will not have.

149. Anne Boden, CEO of Starling Bank, told us that the use of internal ratings-based models to set capital requirements meant that:

191 HM Treasury, 'Speech by John Glen MP, Economic Secretary to the Treasury, to the Association of British Insurers Annual Dinner' (21 February 2022)

192 Q206

193 Q206

194 Q590

195 Prudential Regulation Authority, 'The Prudential Regulation Authority's approach to banking supervision' (October 2018)

> Banks [without the models] need to go after and lend in areas that are peripheral rather than core, because they do not have their own models, and those models take years to develop. The regulator is very strict on getting you through that process. We all talk among ourselves about how long it takes, how difficult it is and the obstacles that are put in the way of getting your own models, but until you get those models you cannot compete head on with the big banks. You cannot lend in prime residential, because you do not have those things in place. Until you change that, you are going to have the new and the so-called second-tier banks. I hate being called a second-tier bank, but we are on the periphery rather than being able to change and give a better service to consumers.[196]

We also received written evidence from Aldermore Bank, a smaller bank, that drew our attention to the competitive disadvantage which it faced by not being able to use an internal ratings-based (IRB) approach, and why the lack of historical data made it more difficult for them to get approvals for an IRB:

> [Aldermore Bank] are at a relative disadvantage to those institutions, typically the larger banks, which have IRB approval, meaning they are permitted to utilise their internal models for the assessment of how much credit risk capital is required to be held. Although the final Basel III reforms look to bridge this gap somewhat through the implementation of a "floor", which will restrict the IRB benefit, there will nonetheless remain a differential between IRB and non-IRB firms in terms of capital requirements for the same customer.
>
> […] However, one of the biggest impediments for obtaining IRB is the body of evidence required to demonstrate how a bank's lending book performs during an economic cycle. The data requirements for IRB are extensive and in the case of mortgages linked to the 1990s recession.
>
> We believe that the IRB process should be a phased/gated implementation application process with benefits released during the period. Where a challenger/specialist bank is stable and has over a decade of operational data, it should be sufficient to be able to kick-start the beginning of the IRB process. If the IRB application process becomes embedded in current models, with decisions made at board level, training given within organisations, and if the regulator feels confident enough to embed a small team into the bank as part of the process, then there should be confidence about the Bank's IRB capabilities earlier than is currently the case. This would mean that when the application and approval process comes to an end, banks would have transitioned through to gaining the full benefit.[197]

150. Vicky Saporta admitted that banks using internal models faced substantially lower capital requirements:

> […] It is true, particularly in the mortgage market, that for low-risk mortgages, […] if you are a bank and you have an internal model that has

196 Q302
197 FFS0007

> been approved, you can receive substantially lower capital than you would under the current, standardised regulations, which apply if you don't have the model.[198]

However, she noted that the PRA had taken action to ensure that smaller banks were able to use internal models:

> There used to be a perception that small, medium and challenger banks could not get approval from the PRA to use their internal models to calculate capital charges. That is not the case, and over time we have approved more internal models for those mid tiers. We have also made changes.[199]
>
> […] What have we done about this? First, we have streamlined—we have basically made it easier for firms that want to adopt internal models to understand what we need from them. So we work much closer, if you like, to the challenger bank than before in trying to see what they need.[200]

She also outlined action the PRA took to offset the capital requirement under the standard approach, by using another part of the capital framework:

> The second thing, which was in 2016 or 2017, was that we reduced, effectively, the capital requirement. If you are a challenger bank or smaller bank in good standing and you have these mortgages and don't have this internal model, and if we consider that the risk under the standardised approach, which we actually couldn't change at the time, because it was part of the EU regulations and it was hard-wired—we would lower it through another component of the capital system, called Pillar 2; Pillar 1 is what is hard-wired in the statute book.
>
> That has led to a reduction, on average, across the market of about 140 basis points in capital. And we have done an evaluation exercise, an impact analysis, that suggests that after we introduced it, which was a few years ago, the smaller banks that were subject to this measure actually did get more into this market than before.[201]

151. Vicky Saporta also told us that the PRA "cannot just wave in internal models", because of the importance of capital in ensuring "safety, soundness and policyholder protection for insurers".[202]

152. Insurers also benefit from the use of internal models. David Sansom, Chief Risk Officer at Lloyd's of London, a world–leading insurance market, told us that "the ability to set capital using our own bespoke internal model is a particular advantage."[203]

153. The PRA has set out publicly the risks of relying on internal models to measure risk. The PRA says in its document outlining its approach to Banking Supervision that:

198 Q613
199 Q595
200 Q613
201 Q614
202 Q614
203 Q204

> We are generally sceptical that [internal models alone] can provide appropriate basis to calculate capital requirements. There are inherent difficulties in measuring risk using models, including limitations from their structure and complexity, the quality and availability of data used as inputs and the underpinning assumptions.[204]

In its document outlining the approach to Insurance Supervision, the PRA says that it monitors "'model drift'—the risk that capital requirements calculated using an internal model drift lower over time—as one of the tools to help ensure that capital requirements continue to reflect the risk to which insurers are exposed."[205]

154. ***The Prudential Regulation Authority should consider where there is more that can be done to reduce the advantages from which large banks and insurers benefit through modelling their own capital requirements. The purpose of doing so would be not only to strengthen competition by reducing the barriers faced by smaller or newer firms, but also to assess whether firms modelling their own capital requirements are truly reflecting the levels of risk involved.***

Innovation

155. The Government has set out its intention to prioritise innovation. The Rt Hon. Rishi Sunak MP, Chancellor of the Exchequer, said in March 2022 that his highest priority for improving growth and productivity was "to ensure the UK economy is the most innovative in the world".[206] The Government has also set up its Taskforce on Innovation, Growth and Regulatory Reform, to "scope out and propose options for how the UK can take advantage of our newfound regulatory freedoms."[207]

156. In a strategy document in July 2021, the Treasury described its ambition for the UK's financial services sector to be "at the forefront of technology and innovation".[208] Professor David Aikman told us that "We have seen good examples of how the FCA and the PRA have worked with fintech companies to promote innovation. London seems to be leading the world in this space."[209]

Supporting innovation at existing firms

157. We nonetheless heard from witnesses that the FCA could do more to support innovation at existing firms, as well as tailoring support to start-up fintech firms. Richard Dudley, CEO, Global Broking Centre at Aon UK, told us that:

> We have noticed that it [the FCA sandbox[210]] tends to focus on fintech, which probably ignores some of the innovation that is going on with the

204 Prudential Regulation Authority, 'The Prudential Regulation Authority's approach to banking supervision' (October 2018)
205 Prudential Regulation Authority, 'The Prudential Regulation Authority's approach to insurance supervision' (October 2018)
206 HM Treasury, 'Chancellor Rishi Sunak's Mais Lecture 2022' (24 February 2022)
207 Prime Minister's Office, 10 Downing Street, 'Taskforce on Innovation, Growth and Regulatory Reform (TIGRR) Terms of Reference' (2 February 2021)
208 HM Treasury, 'A new chapter for financial services' (July 2021)
209 Q463
210 The Regulatory Sandbox is an FCA initiative which gives firms the ability to test innovative products and services in a controlled environment. Financial Conduct Authority, 'Regulatory Sandbox', accessed 22 May 2022

> existing members of the marketplace, particularly in the international marketplace, where I spend most of my time. That is one element that it should probably try to factor in.
>
> In our international marketplace, the vast majority of clients that we deal with around the world are quite large, sophisticated, professional buyers of the products and services that we are supplying. Finding a way to recognise that in the regulatory framework would mean that you would not necessarily need a new innovation framework. You could achieve the same goal by trying to be a little more nuanced about how it regulates different areas or subsectors of the market, perhaps.[211]

158. When asked if there was a danger that relaxing regulations to enable more innovation could affect international perceptions of the UK market, Richard Dudley told us "We are already seeing demand for products and services that do not exist right now, so I would see more upside to that than downside, in direct response to your question."[212]

159. Aon, a professional services firm and insurance broker headquartered in London, made the argument that the FCA's "high standard" for product development expectations, particularly in the insurance industry under PROD 4 (the FCA Handbook chapter covering the manufacture and distribution of insurance products) is costly in terms of time, capital, and the potential to stifle innovation. It said:

> The detailed Regulations, by requiring levels of governance to launch a new product, exceed those in the wider economy for launching a new business. While they seek to minimise the risk of failure and potential harm to consumers, they emphasise governance and regulation where other methods of protection, such as capital, would be equally if not more appropriate.
>
> […] there are other safeguards to consumers as mentioned above in the protection afforded by the policy and the guarantee funds available to compensate consumers. We believe that a lower, or at least equivalent, threshold to a simple product should be accorded to new and innovative products being developed and that the governance and oversight should scale up as sales and customer numbers, and hence risk, grows.[213]

160. ***The FCA should investigate whether there are more opportunities to enable larger firms to undertake controlled, supervised experiments with innovative products. For example, it may be desirable to allow firms to be more experimental with the designs of new products, by setting aside additional capital in order to compensate consumers generously if new products being tested out by a limited number of consumers turn out not to benefit those consumers as anticipated. This approach would not be without risks, and would have to be carefully designed to avoid disadvantaging smaller firms, but it is an example of the type of bold approach which the FCA should be prepared to consider.***

211 Q213
212 Q203
213 FFS0035

Payments innovation

161. During this inquiry, we heard from witnesses about the possible benefits and risks associated with new forms of payment.

Crypto-assets

162. In a speech on 27 April 2022, John Glen MP, Economic Secretary to the Treasury, said that "we want the UK to be a global hub for cryptoassets… and a top global location for starting and scaling crypto-companies."[214] Meanwhile, Andrew Bailey, Governor of the Bank of England, has warned that crypto-assets, "have no inherent value",[215] and the Bank of England has said in its December 2021 *Financial Stability Report* that any future regulation of crypto-assets should aim to "balance risk mitigation with supporting innovation and competition."[216]

163. We have also heard evidence about how criminals use crypto-assets. John Collins, Chief Legal and Regulatory Officer, Santander UK, told us about the connections between crypto-assets and crime.[217] Anne Boden, Chief Executive Officer of Starling Bank, a challenger bank, told us that crypto-assets were commonly used in fraud.[218]

164. A Freedom of Information (FOI) Act request by the Guardian to regional police forces revealed that "half of the forces that responded seized crypto-assets during 2021, confiscating or restricting access to 22 different types of digital currency".[219] Phil Ariss, cryptocurrency lead at the National Police Chiefs' Council's Cybercrime Programme, told the Guardian that cryptocurrencies played a role in, "terrorism financing, […] child abuse images, money laundering."[220]

165. In the face of the use of crypto-assets in crime, the FCA explains that:

> In January 2020, new regulatory powers were introduced to allow us to supervise how cryptoasset businesses manage the risk of money laundering and counter-terrorist financing. Now, UK cryptoasset businesses must comply with the Money Laundering Regulations (MLRs) and register with us.[221]

166. We heard from Christian Faes that crypto-assets offered a "huge opportunity" to challenge incumbent providers, but that the FCA had been "unwelcoming" and this was driving crypto-asset business out of the UK:

> 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

214 HM Treasury, 'Keynote Speech by John Glen MP, Economic Secretary to the Treasury, at a German Economic Council event in Berlin' (27 April 2022)
215 Bank of England, 'Innovation to serve the public interest - speech by Andrew Bailey' (15 June 2021)
216 Bank of England, 'Financial Stability Report', December 2021
217 Q298
218 Q298
219 Crypto-crimewave forces police online to pursue ill-gotten assets, The Guardian, 30 April 2022
220 Crypto-crimewave forces police online to pursue ill-gotten assets, The Guardian, 30 April 2022
221 Financial Conduct Authority, 'Cryptoassets', accessed 23 May 2022

> 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. […] The reality is that people are withdrawing their applications to do business here and are just going elsewhere. It is a global marketplace.[222]

167. When Nikhil Rathi, Chief Executive of the FCA, was asked about these delays, he told us:

> In the area of fintech, we see a whole range of firms. Some are genuinely innovative and competitive, and we want to support them to grow. The others are more challenging. If I look at the work we are doing with crypto exchanges, when they come to us for money laundering registration, the reality is that nearly 90% of those have either withdrawn or been refused, because we see a serious link to money laundering and serious organised crime being propagated through crypto exchanges and a culture in many of those organisations that does not respond to the level of systems and controls we would need from those firms as they are growing. We have allowed 17 through, but it has been a very challenging set of conversations. That is consistent with the posture we are adopting in the gateway.[223]

168. When asked about crypto-asset firms facing long wait times for FCA decisions on anti-money laundering registration, John Glen MP, Economic Secretary to the Treasury, told us:

> I do want to be clear that it is a matter for the FCA. We have put cryptocurrencies into the financial promotions regime and it is really important that we have done that. There are legitimate questions around anti-money laundering and issues like that, which everyone needs to go through, and I want us to have high standards.
>
> When people talk about other jurisdictions doing it more quickly, it is often used as a device to say, "Minister, you had better get on with it; otherwise they will all clear off to another jurisdiction". I will say, "We also want soundness of our regulators". Yes, we have to speed it up, but we have to do it right, and I respect their need to get that right.[224]

Stablecoins

169. Stablecoins are a particular form of crypto-asset. Professor David Aikman set out for us how stablecoins work, and how they can impact on financial stability:

222 Q361
223 Oral evidence taken on 8 December 2021, HC (2021–22) 146, Q231 [Charles Randell]
224 Q710

> For stablecoins, the idea is that these are an attempt to make something like bitcoin have a more stable par value, basically. The idea is that they will be backed with US dollars or some other hard currency to prevent wild fluctuations in their value. In principle, that sounds like a good idea.
>
> The issues are around transparency and what we know about the collateral that is backing these assets. The experience seems to be that they are not at all transparent. In some cases, they are marketed as being backed entirely by US dollars. Then you look into it and realise that it is a lot of commercial paper that is backing these assets, or other inside assets from within the financial system.
>
> That creates straightforward run risk type problems, akin to a bank run. People become worried about the value of these assets. They pull their money and the entity is forced to fire sell the underlying collateral, which could create a financial stability problem.[225]

170. In recent weeks, popular stablecoins such as TerraUSD and Tether have seen falling prices and investors exiting.[226]

Central bank digital currency

171. The Bank of England and the Treasury are considering the potential introduction of a central bank digital currency (CBDC) in the UK: an electronic form of central bank money that could be used by households and businesses to make payments.[227] The Bank of England told us in written evidence that:

> CBDC could bring a number of benefits (e.g. continued access to and utility of central bank money as cash declines, and support resilience, innovation, and competition in payments) but also risks (e.g. impact on commercial bank business models and credit provision).[228]

172. Anne Boden, Chief Executive Officer of Starling Bank, told us that central bank digital currencies would challenge banks' sources of revenue:

> The central bank digital currency initiative could result in all the balances disappearing from the current accounts of high street banks and moving across to the Bank of England, where individuals would have an account. In that scenario, I very much hope that banks like Starling would be providing the digital wallets and technology to go along with that.
>
> However, it would be a big change in business model. It would challenge the current revenue streams of most banks and I am not certain whether the outcome would be better for consumers.[229]

225 Q465
226 BBC News, 'Crypto crash: Stablecoin collapse sends tokens tumbling', 12 May 2022 Financial Times, 'Investors pull $7bn from Tether as stablecoin jitters intensify', 17 May 2022
227 FFS0080
228 FFS0080
229 Q297

David Livingstone, Chief Executive Officer for Europe, Middle East and Africa, Citi, told us that he wasn't sure what problem CBDC would solve:

> In the UK, payments reform, access to speed, safety and certainty, and immediate crediting to accounts exist already. Exactly what is the problem or the lack of access in the banking system that the central bank-issued digital currency, retail or wholesale, is trying to solve? It would be more beneficial to spend time on evaluating that.[230]

173. Sir Jon Cunliffe, Deputy Governor for Financial Stability at the Bank of England, told the House of Lords Economic Affairs Committee that:

> At the moment, cross-border payments are slow, unreliable and expensive. They are stuck somewhere between the 1960s and the 1950s; I am not sure exactly where. There are different parts to that. One is the correspondent banking system, which is the oldest part and is doing a lot of the wholesale. […] We can improve a lot without a central bank digital currency, but a central bank digital currency used between participants might well improve that.[231]

174. Professor David Aikman explained that he thought the primary reason for central banks exploring central bank digital currency was a "defensive point" against the risk that a global stablecoin "could take off very quickly" and "impair the monetary sovereignty of the UK and other jurisdictions."[232]

175. **There is a range of innovations taking place in payments systems and with alternative means of exchange, including crypto-assets, stablecoins, and central bank digital currencies. These innovations could provide opportunities to address weaknesses in international payments systems and potentially to serve consumer needs, and in the case of central bank digital currency to safeguard monetary sovereignty. There are challenges associated with innovations in payments, including consumer protection, preventing crime and financial stability. We will be conducting further work on how these challenges are managed.**

230 Q299
231 Oral evidence taken on 23 November 2021, HL (2021–22) 10, Q98
232 Q469

Conclusions and recommendations

The direction of travel

1. The EU has reasons to be very prescriptive when setting its financial services rules: it must ensure that all member states are acting together and implementing the same rules consistently across multiple national legal systems. The UK, now that it is outside the EU Single Market, can operate with greater freedom. (Paragraph 20)

2. Given that the UK has historically exercised significant influence in the framing of EU regulations, the UK's exit from the European Union should not in itself be the cause of instant or dramatic changes to financial services regulation in the UK. Nevertheless, there will be opportunities to tailor inherited EU regulations to the UK market, and to seek opportunities for simplification, while being mindful of continued compliance with global standards. The new regulatory framework should aim to enable the regulators to respond more quickly and flexibly to new evidence about the effectiveness of regulation, and developments within financial markets. (Paragraph 21)

3. *The Treasury should respect the principle of regulatory independence, and must not pressure the regulators to weaken or water down regulatory standards, or to accept changes to the regulatory framework which could impede the regulators' ability to achieve their primary objectives. The regulators have been made operationally independent for a reason. If regulatory standards were to be changed or substantially weakened so as to increase the risks to financial stability, UK consumers and taxpayers could be harmed. Simplifying financial regulation and tailoring it appropriately to the UK market must be approached with care, and without compromising regulatory independence.* (Paragraph 22)

4. We will remain alert for any evidence that regulators are coming under undue pressure from the Treasury to inappropriately weaken regulatory standards. (Paragraph 23)

5. *Deregulation or simplification will in themselves impose costs on industry in the short term. Regulators should make every effort to limit the costs of compliance with the rules, for example by communicating planned changes in advance, grouping sets of changes together, and minimising the frequency of changes to those where a compelling need and a significant cost benefit has been articulated. That said, regulators should not let short-term costs, or the views of market participants who have already adapted to existing arrangements, limit the scale of their ambition when finding opportunities to genuinely simplify the regulatory framework without sacrificing resilience.* (Paragraph 30)

6. The UK's exit from the European Union has had an impact on the UK's ability to export financial services to the EU. However, it remains the case that the UK still has many competitive strengths as a global financial services centre. Brexit has served as a catalyst for a renewed focus on the competitiveness of the UK's exports, including financial services. (Paragraph 45)

7. *There is a clear view from the financial services sector that co-operation between regulators is more significant than trade deals for ensuring reciprocal market access for financial services. While trade deals can open up new markets for financial services, the Government should strive to make progress on mutual recognition as an element in any free trade agreement.* (Paragraph 46)

Regulatory objectives and priorities

8. *We recommend that there should be a secondary objective for both the Financial Conduct Authority and the Prudential Regulation Authority to promote long-term economic growth. The wording will be crucial: pursuing international competitiveness in the short term is unlikely to lead to economic growth or international competitiveness in the long term if it is achieved by weakening the UK's strong regulatory standards. Weakening standards could reduce the financial resilience of the UK's financial system and undermine international confidence in that system and the firms within it.* (Paragraph 72)

9. *In designing the new secondary objective, there should also be some consideration for the ways in which financial services serve the 'real economy'. The financial services industry can help deliver economic growth not simply by growing itself but also by facilitating economic growth by providing capital, credit, insurance and other services to firms in the 'real economy'.* (Paragraph 73)

10. *The Treasury should continue to reject any calls for a growth and/or competitiveness objective to become a primary objective. This would increase any pressure on regulators to trade off competitiveness against resilience, and would undermine the regulators' ability to deliver on their core functions. There is a danger that as memories of the financial crisis fade, its lessons are forgotten.* (Paragraph 74)

11. The regulations made by the FCA, and the manner in which it supervises and enforces those regulations, could have a significant impact on financial inclusion. However a primary role of the FCA should not be to carry out social policy, or to fill the gaps where it is Government that ought to be stepping in and addressing these issues. Government, community, and individuals all have a role to play in tackling poverty, an issue which is far broader than regulation. (Paragraph 89)

12. *The FCA should make every effort to ensure that it is not designing or implementing regulation in a way which could unreasonably limit the provision of financial services to consumers who might benefit from them. When placing new requirements on firms, the FCA should consider not only the impact on consumers and businesses, but also the impact on those who might be prevented from accessing financial services as a result of those new requirements, or who might find themselves accessing services on inferior terms. We recommend that the Treasury should require the FCA to have regard for financial inclusion in its rule-making, but not to make changes relating to financial inclusion to the FCA's objectives.* (Paragraph 90)

13. *We welcome the clearer acknowledgement that the FCA is working to support financial inclusion, and we would urge the FCA to continue to do so. The FCA should provide an annual report to Parliament on the state of financial inclusion in the UK and the Treasury should consider putting this report on a statutory basis. This*

report should also include a summary of areas where the FCA's work has supported financial inclusion or future work which could impact on financial inclusion; and any recommended additional measures lying within its area of competence and which could be taken by Government and other public bodies to promote financial inclusion. (Paragraph 91)

The new normal

14. *The Treasury and regulators should publish a forward-looking schedule of approximately when they expect each EU financial regulatory file to move across to the regulatory rulebooks, including timelines for consultation, and when they expect the overall project to conclude. This should give industry a better opportunity to plan for the changes they may need to make, and give the various stakeholders (including industry, consumer groups, academics, and other experts) more time to plan their engagement in the process.* (Paragraph 96)

15. *Regulatory independence is critical for the competitiveness and effectiveness of UK financial services regulation. The host of new accountability mechanisms proposed by the Treasury must be carefully reviewed in this light, to ensure that regulatory independence is not compromised. These mechanisms largely seem reasonable as individual changes, but there is a risk that the collective impact could be excessive in its impact on regulators' resourcing, as well as their ability to make decisions quickly where needed.* (Paragraph 100)

16. *The Treasury should be sparing in its use of the proposed power to require regulators to review their rules, and should not use it to implicitly require the regulators to consider a general 'public interest' requirement for rulemaking. Each use of this power is a potential weakening of the independence of the regulators. Regulators should not be expected to reverse or adjust regulation where such regulation is deemed to remain appropriate to carry out the regulators' statutory objectives. That being said, the regulators should not impose costs without being able to show benefits.* (Paragraph 105)

17. *The Treasury has not set out the expected impact of this new power on regulatory resources. In order to avoid imposing a significant burden on regulatory resources to conduct these reviews, and to safeguard regulatory independence, the Treasury should fund these reviews itself, whether they are conducted by regulators themselves or independent persons. Reviews of regulatory rules which have been imposed by the Treasury should not crowd out the budgets over which regulators have discretion for fulfilling their objectives. The imposition of such costs on the Treasury would also further help it consider whether all such reviews were necessary.* (Paragraph 106)

18. *We expect the regulators to prioritise changes where the cost for consumers is lowest in comparison to the benefit. Regulators' approaches to assessing the marginal impact of new policies is already well-developed. We therefore believe that the creation of a new statutory panel to advise regulators on cost-benefit analysis—in addition to the panels that regulators already maintain for consulting industry and other stakeholders—would add only marginal, if any, value and could pose some risk to regulatory independence. If such a panel is established, however, it should provide comments on rules changes post-publication, to avoid causing delays to the policymaking process.* (Paragraph 111)

19. *The information the FCA has made available on how it is performing against its service standards shows a deteriorating picture. The FCA has a reputation for being too slow in its authorisation work, and this will inevitably hold back British fintech companies and crypto firms as well as larger firms. When the FCA publishes its next update on the service standards it should write to us, outlining any areas where it is still not meeting its statutory and voluntary timelines, and setting out its strategy for closing any gaps.* (Paragraph 119)

20. *The FCA should consider how to improve its engagement with the poorest consumers, including seeking opportunities to improve the availability of data about people who are on the lowest incomes. The FCA must seek data on the issues vulnerable consumers experience directly. Civil society groups and other researchers can provide a valuable input, but they are more constrained than industry in terms of access to funding.* (Paragraph 124)

Specific areas of regulation

21. We will conduct scrutiny of the Prudential Regulation Authority's 'Strong and Simple Framework' proposals. We will examine the impacts of the proposed reforms on the safety and soundness of smaller firms, and whether the reforms would successfully reduce the burden of regulation for these firms. (Paragraph 136)

22. *In their review of Solvency II, the Treasury and Prudential Regulation Authority (PRA) should aim to secure a robust insurance regulatory regime that adequately captures risk and incentivises investment in infrastructure and business, but one that is also appropriately tailored to the UK market.* (Paragraph 147)

23. *The Prudential Regulation Authority should consider where there is more that can be done to reduce the advantages from which large banks and insurers benefit through modelling their own capital requirements. The purpose of doing so would be not only to strengthen competition by reducing the barriers faced by smaller or newer firms, but also to assess whether firms modelling their own capital requirements are truly reflecting the levels of risk involved.* (Paragraph 154)

24. *The FCA should investigate whether there are more opportunities to enable larger firms to undertake controlled, supervised experiments with innovative products. For example, it may be desirable to allow firms to be more experimental with the designs of new products, by setting aside additional capital in order to compensate consumers generously if new products being tested out by a limited number of consumers turn out not to benefit those consumers as anticipated. This approach would not be without risks, and would have to be carefully designed to avoid disadvantaging smaller firms, but it is an example of the type of bold approach which the FCA should be prepared to consider.* (Paragraph 160)

25. There is a range of innovations taking place in payments systems and with alternative means of exchange, including crypto-assets, stablecoins, and central bank digital currencies. These innovations could provide opportunities to address weaknesses in international payments systems and potentially to serve consumer needs, and in the case of central bank digital currency to safeguard monetary sovereignty.

There are challenges associated with innovations in payments, including consumer protection, preventing crime and financial stability. We will be conducting further work on how these challenges are managed. (Paragraph 175)

Formal minutes

Monday 13 June 2022

Members present:

Mel Stride, in the Chair

Rushanara Ali

Harriett Baldwin

Anthony Browne

Gareth Davies

Emma Hardy

Kevin Hollinrake

Julie Marson

Alison Thewliss

Future of financial services regulation

Draft Report (*Future of financial services regulation*) proposed by the Chair, brought up and read.

Ordered, That the Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 175 read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the First Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Adjournment

Adjourned until Wednesday 15 June 2022 at 2.00 pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Wednesday 27 January 2021

Lord Hill of Oareford, Former EU Commissioner for financial services, European Commission; **Baroness Bowles of Berkhamsted**, Former Chair of ECON Committee, European Parliament; **Dr Kay Swinburne**, Former Member of ECON Committee, European Parliament, Vice Chair of Financial Services, KPMG Q1–55

Monday 26 April 2021

Edwin Schooling Latter, Director of Markets and Wholesale Policy & Supervision, Financial Conduct Authority; **Vicky Saporta**, Executive Director of the Prudential Policy Directorate, Prudential Regulation Authority Q56–121

Wednesday 26 May 2021

John Glen MP, Economic Secretary to the Treasury, HM Treasury; **Gwyneth Nurse**, Director of Financial Services, HM Treasury Q122–196

Monday 13 September 2021

Richard Dudley, CEO Global Broking Centre, Aon UK; **David Sansom**, Chief Risk Officer, Lloyd's of London; **Charlotte Clark CBE**, Director of Regulation, Association of British Insurers (ABI) Q197–244

Chris Cummings, CEO, Investment Association; **Sir Douglas Flint CBE**, Chairman, abrdn; **Philip Reed**, General Counsel, Independent Franchise Partners LLP Q245–282

Monday 25 October 2021

Anne Boden, Chief Executive Officer, Starling Bank; **John Collins**, Chief Legal and Regulatory Officer, Santander UK; **Matthew Conway**, Director for Strategy and Policy, UK Finance; **David Livingstone**, Chief Executive Officer, Europe, Middle East and Africa, Citi; **Nigel Terrington**, Chief Executive Officer, Paragon Banking Group Q283–339

Monday 6 December 2021

Christian Faes, Chair, Fintech Founders, Executive Chairman and co-founder, LendInvest; **Michael Moore**, Director General, British Private Equity and Venture Capital Association (BVCA); **Stuart Williams**, President, ICE Futures Europe Q340–416

Monday 17 January 2022

Martin Coppack, Director, Fair By Design; **Claire Tunley**, Chief Executive, Financial Services Skills Commission; **Professor David Aikman**, Director, Qatar Centre for Global Banking and Finance, Professor of Finance (Practice), King's College London Q417–532

Monday 21 February 2022

Vicky Saporta, Executive Director, Prudential Policy Directorate, Prudential Regulation Authority; **Sheldon Mills**, Executive Director, Consumers and Competition, Financial Conduct Authority; **Edwin Schooling Latter**, Director of Wholesale Markets, Financial Conduct Authority; **Christina Segal-Knowles**, Executive Director for Financial Markets Infrastructure, Bank of England Q533–616

Wednesday 02 March 2022

John Glen MP, Economic Secretary, HM Treasury; **Gwyneth Nurse**, Director General, Financial Services, HM Treasury; **Guy Opperman MP**, Minister for Pensions and Financial Inclusion, Department for Work and Pensions Q617–724

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

FFS numbers are generated by the evidence processing system and so may not be complete.

1 Aikman, Professor David (Director, Qatar Centre for Global Banking and Finance; and Professor of Finance (Practice), King's College London) (FFS0094)

2 Aldermore Bank (FFS0007)

3 Amigo Loans (FFS0060)

4 Anonymised (FFS0001)

5 Aon UK (FFS0035)

6 Association of British Insurers (FFS0062)

7 Association of Investment Companies (FFS0010)

8 Aviva (FFS0049)

9 Aviva (FFS0009)

10 BVCA (FFS0072)

11 Bank of England (FFS0080)

12 Barclays (FFS0066)

13 Bavoso, Dr Vincenzo (Senior Lecturer in Commercial Law, Law School, University of Manchester) (FFS0023)

14 ClientEarth (FFS0077)

15 Confederation of British Industry (FFS0025)

16 Consumer Credit Trade Association (CCTA) (FFS0029)

17 Coppack, Martin (Director, Fair By Design) (FFS0093)

18 Credit Suisse (FFS0091)

19 Cummings, Chris (Chief Executive, The Investment Association) (FFS0087)

20 Envestnet Yodlee (FFS0011)

21 Euroclear UK & Ireland Limited (FFS0028)

22 FCA Practitioner Panel (FFS0037)

23 Federated Hermes Inc. (FFS0003)

24 Finance & Leasing Association (FFS0002)

25 Finance Innovation Lab (FFS0031)

26 Financial Conduct Authority (FFS0096)

27 Financial Conduct Authority (FFS0027)

28 Financial Inclusion Centre (FFS0073)

29 Financial Inclusion Commission (FFS0075)

30 Financial Services Skills Commission (FFS0034)

31 Finanical Services Consumer Panel (FFS0064)

32 Fintech Founders (FFS0092)

33 Fintech Founders (FFS0041)

34 Funding Circle (FFS0059)

35 Hall, Professor Sarah (Professor of Economic Geography and Senior Fellow, University of Nottingham and UK in a Changing Europe); and Dr Martin Heneghan (Research Fellow, University of Nottingham) (FFS0032)

36 Group of mid-sized banks (FFS0083)

37 Hannaford Associates Ltd (FFS0019)

38 Independent Franchise Partners LLP (FFS0085)

39 Innovate Finance (FFS0052)

40 Intercontinental Exchange (FFS0058)

41 International Regulatory Strategy Group (FFS0048)

42 Investment & Life Assurance Group (FFS0054)

43 Lane Clark and Peacock (FFS0012)

44 Legal & General Group (FFS0020)

45 Lloyd’s (FFS0086)

46 Lloyd’s (FFS0047)

47 Loan Market Association (FFS0021)

48 London Market Group (FFS0084)

49 London and International Insurance Brokers’ Association (LIIBA) (FFS0042)

50 Lyddon Consulting Services Limited (FFS0017)

51 New City Initiative (FFS0014)

52 Office of the City Remembrancer, City of London Corporation (FFS0069)

53 Office of the City Remembrancer, City of London Corporation (FFS0045)

54 Paragon Banking Group (FFS0088)

55 Pension Insurance Corporation plc; and New Financial LLP (FFS0036)

56 Positive Money (FFS0044)

57 PwC (FFS0050)

58 Quoted Companies Alliance (FFS0022)

59 Quoted Companies Alliance (FFS0015)

60 Saporta, Vicky (Executive Director, Prudential Policy Directorate, Prudential Regulation Authority) (FFS0095)

61 ShareAction (FFS0061)

62 Spotlight on Corruption (FFS0079)

63 Swiss Euro Clearing Bank (FFS0016)

64 The Consumer Council (FFS0030)

65 The Investment Association (FFS0081)

66 The Money Charity (FFS0038)

67 The True and Fair Campaign (FFS0074)

68 TheCityUK (FFS0068)

69 Third Generation Environmentalism (E3G) (FFS0063)
70 Turnbull, Dr Shann (Principal, International Institute for Self-governance) (FFS0043)
71 Tyfield, Sam (FFS0013)
72 UK Finance (FFS0055)
73 UK Sustainable Investment and Finance Association (UKSIF) (FFS0051)
74 United Kingdom Shareholders’ Association (UKSA); and UK Individual Shareholders Society (ShareSoc) (FFS0067)
75 Vanguard Asset Management, Limited (FFS0024)
76 White, Martin (Director, United Kingdom Shareholders’ Association (UKSA)) (FFS0082)
77 Zurich Insurance (FFS0078)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2022–23

Number	Title	Reference
1st Special Report	Defeating Putin: the development,implementation and impact of economic sanctions on Russia: Government Response to the Committee's Twelfth Report of Session 2021–22	HC 321

Session 2021–22

Number	Title	Reference
1st	Tax after coronavirus: the Government's response	HC 144
2nd	The appointment of Tanya Castell to the Prudential Regulation Committee	HC 308
3rd	The appointment of Carolyn Wilkins to the Financial Policy Committee	HC 307
4th	The Financial Conduct Authority's Regulation of London Capital & Finance plc	HC 149
5th	The Future Framework for Regulation of Financial Services	HC 147
6th	Lessons from Greensill Capital	HC 151
7th	Appointment of Sarah Breeden to the Financial Policy Committee	HC 571
8th	The appointment of Dr Catherine L. Mann to the Monetary Policy Committee	HC 572
9th	The appointment of Professor David Miles to the Budget Responsibility Committee of the Office for Budget Responsibility	HC 966
10th	Autumn Budget and Spending Review 2021	HC 825
11th	Economic crime	HC 145
12th	Defeating Putin: the development, implementation and impact of economic sanctions on Russia	HC 1186
1st Special	Net Zero and the Future of Green Finance: Responses to the Committee's Thirteenth Report of Session 2019–21	HC 576
2nd Special	The Financial Conduct Authority's Regulation of London Capital & Finance plc: responses to the Committee's Fourth Report of Session 2021–22	HC 700
3rd Special	Tax after coronavirus: response to the Committee's First Report of Session 2021–22	HC 701

Number	Title	Reference
4th Special	The Future Framework for Regulation of Financial Services: Responses to the Committee's Fifth Report	HC 709
5th Special	Lessons from Greensill Capital: Responses to the Committee's Sixth Report of Session 2021–22	HC 723
6th Special	The appointment of Professor David Miles to the Budget Responsibility Committee of the Office for Budget Responsibility: Government response to the Committee's Ninth Report	HC 1184
7th Special	Autumn Budget and Spending Review 2021: Government Response to the Committee's Tenth Report	HC 1175
8th Special	Economic Crime: responses to the Committee's Eleventh Report	HC 1261

Session 2019–21

Number	Title	Reference
1st	Appointment of Andrew Bailey as Governor of the Bank of England	HC 122
2nd	Economic impact of coronavirus: Gaps in support	HC 454
3rd	Appointment of Richard Hughes as the Chair of the Office for Budget Responsibility	HC 618
4th	Appointment of Jonathan Hall to the Financial Policy Committee	HC 621
5th	Reappointment of Andy Haldane to the Monetary Policy Committee	HC 620
6th	Reappointment of Professor Silvana Tenreyro to the Monetary Policy Committee	HC 619
7th	Appointment of Nikhil Rathi as Chief Executive of the Financial Conduct Authority	HC 622
8th	Economic impact of coronavirus: the challenges of recovery	HC 271
9th	The appointment of John Taylor to the Prudential Regulation Committee	HC 1132
10th	The appointment of Antony Jenkins to the Prudential Regulation Committee	HC 1157
11th	Economic impact of coronavirus: gaps in support and economic analysis	HC 882
12th	Tax after coronavirus	HC 664
13th	Net zero and the Future of Green Finance	HC 147
1st Special	IT failures in the financial services sector: Government and Regulators Responses to the Committee's Second Report of Session 2019	HC 114
2nd Special	Economic Crime: Consumer View: Government and Regulators' Responses to Committee's Third Report of Session 2019	HC 91

Number	Title	Reference
3rd Special	Economic impact of coronavirus: Gaps in support: Government Response to the Committee's Second Report	HC 662
4th Special	Economic impact of coronavirus: Gaps in support: Further Government Response	HC 749
5th Special	Economic impact of coronavirus: the challenges of recovery: Government Response to the Committee's Eighth Report	HC 999
6th Special	Economic impact of coronavirus: gaps in support and economic analysis: Government Response to the Committee's Eleventh Report	HC 1383