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Harriett Baldwin MP
Chair
Treasury Select Committee
House of Commons
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20 April 2023

Our ref: 230329A

Dear Harriett,

Re: Work of the Financial Conduct Authority session on 8 March 2023

Thank you for your letter dated 28 March following up on our evidence session with you in which you ask a number of follow up and additional questions about the session and our work. I have addressed those questions in order below.

Colleague Voice

1. *Has the FCA decided to publish in full the findings from Colleague Voice? [Q437*]

We shared an extensive information pack on the outcome of our Colleague Voice exercise, including key findings, with all colleagues in December last year. Since then, we have provided regular updates to colleagues, including last week sharing with colleagues additional material provided to the Executive Committee and Board. The exercise was launched to consider the appropriate mechanisms for all colleagues' voices to be heard at the FCA following the decision by the independent Central Arbitration Committee in May 2022 that Unite's application for collective bargaining was not admissible as it did not meet the thresholds in terms of support of the workforce. I made clear after that decision that this would not be the end of the conversation on staff representation. In December, we invited Unite and the FDA to each take a seat on our Staff Consultative Committee (SCC). Through this approach we hope to ensure the broadest range of views are reflected in our staff engagement mechanisms, including those who do not wish to be represented by a union, those who would like to be represented by Unite and those who would like to be represented by an alternative union to Unite. We are working with our SCC and the two unions on these enhanced arrangements and look forward to establishing them later this year.

Outsourcing of insurance claims

2. *What has the FCA found in terms of insurers' practices regarding the outsourcing of claims handling? Please could you include in your response any findings you have made as to whether the incentive structures involved are leading to poor consumer outcomes? Please could you also outline the information you have been getting as to the extent of consumers' problems in this area? [Q449 to 453]*

The FCA expects firms to have controls in place and equip staff to handle insurance claims promptly and fairly. This expectation applies regardless of whether claims are handled by firms directly or by an outsourced third party. Our new Consumer Duty coming into effect in July, will set higher and clearer standards of consumer protection across financial services, and will require firms to put their customers' needs first.[1]

In December 2022 we issued a warning[2], in direct response to evidence we had seen about firms issuing claims settlements for cars declared a 'total loss' below the car's fair market value. We advised firms to make sure they have adequate systems and controls in place around claims handling and not to incentivise staff to undertake potentially harmful claims settlement practices. This applies both to insurers and to the third parties they use to fulfil claims.

Firms cannot delegate any part of their regulatory responsibilities, even if they outsource or use a third party. Where insurers engage a third party to fulfil claims, clear instructions, regular communication and quality auditing controls are important tools in ensuring customers' claims are handled appropriately. Poor management of third-party outsourcing would be no excuse for breaches of our rules or failure to meet expectations.

Against the backdrop of cost of living pressures, we are conscious that inflation-linked increases in the cost of materials - such as replacement car parts - staffing and energy prices are all likely to impact how insurers handle claims. However, some of the ways insurers may look to reduce these costs could be harmful to consumers. For instance, attempts to control claims costs by making cash offers lower than the customer is entitled to under the policy are unfair, likely to disproportionately affect consumers in vulnerable circumstances and risk regulatory action.

In September 2022 we issued a Dear CEO letter outlining our expectations on firms in relation to the cost of living and insurance.[3] We acknowledged the financial pressures firms might be facing but emphasised our expectation on firms not to allow the situation to impact service levels or their ability to handle claims promptly and fairly. We have recently written in more detail to the Treasury Sub-Committee on Financial Regulation on this topic.

We are monitoring claims outcomes and regularly discuss claims handling processes and outcomes with firms and take action where we believe firms' practices may be leading to poor outcomes. We analyse firms' regulatory returns, including on complaint handling, and look for trends in the Financial Ombudsman Service's (FOS) published data[4]. We meet regularly discuss with the FOS emerging issues and trends and follow up with firms when appropriate.

We have recently gathered data from a sample of insurers to assess whether they were meeting our expectations in terms of support provided to customers, including how they were handling claims. We gathered firm-level data around claims settlement times and claims complaints and engaged with individual firms where issues were identified. We are currently reviewing this data and expect to publish our findings shortly.

Greenwashing

3. *Has the FCA done any work looking at claims by those who manage funds and investment trusts about their sustainability, and how that compares to how they use their voting rights for the companies they hold equity in? [Q496 to 497]*

Under our rules (COBS 2.2B),[5] asset managers must explain the most significant votes that they have made during the year and how they have cast votes. The exceptions are where those votes

[1] https://www.fca.org.uk/firms/consumer-duty
[2] Insurance providers warned not to undervalue cars or other insured items when settling claims | FCA
[3] Dear CEO letter: Our expectations on cost of living and insurance (fca.org.uk)
[4] https://www.financial-ombudsman.org.uk/data-insight/half-yearly-complaints-data
[5] COBS 2.2B SRD requirements - FCA Handbook

are deemed insignificant or where they can provide a clear and reasoned explanation of why they are not disclosing how they have cast votes.

Our current work programme on ESG and sustainable investing is broader than the use of voting rights and voting transparency. It has 3 main strands:

- Using the Guiding Principles we introduced in July 2021,[6] we are conducting a multi-firm review of funds marketed with ESG credentials. This review seeks to test whether firms deliver on the claims made in their communications with investors. As part of this review we are considering asset managers' engagement strategies and whether the contribution of stewardship and voting to products' ESG related aims and objectives is fairly reflected in the product specific disclosures.
- A wide supervisory focus on governance structures that oversee ESG and stewardship considerations. We will test whether firms deliver on the claims made in their communications with investors. We outlined this work in our February 2023 Asset Management portfolio letter.[7]
- Establishing the Vote Reporting Group, an industry working group to support the sector to introduce a set of comparable, consistent and comprehensive vote disclosures to enhance the transparency of asset manager voting activity.[8] This work follows recommendations made by the Taskforce on Pension Scheme Voting Implementation. Improving transparency of how asset managers vote on behalf of their clients means investors can better hold them to account on their stewardship. The Group intend to consult on the voluntary proposals in the first half of this year.

Mortgages

4. *Please can you provide the Committee with the revised forecast figures and statistics on mortgage holders who may be, or are, in financial difficulty? [Q467]*

We recently published our most up to date data on the mortgage market based on our Mortgage Lending and Administration Return (MLAR). The full data can be found here,[9] but the headline statistics show that the outstanding value of all residential mortgage loans was £1,675.8 billion at the end of 2022 Q4, 3.9% higher than a year earlier.

On 10 March, we published a research note[10] estimating the potential future impact of macroeconomic developments on mortgage borrowers based on expectations as of 2 February 2023 (our previous round of analysis had used base rate expectations from 23rd September 2022). Our estimates suggest that:

- As of June 2022, approximately 200,000 mortgages were in payment shortfall (by any amount) and a further 45,000 mortgages were associated with "financial stretch" (which we define as a situation where the borrowing household faces monthly mortgage payments exceeding 30% of gross income);
- By the end of June 2024, the number of mortgages with "financial stretch" could potentially increase to 356,000, with monthly payments rising by 50% or more for 67,000 of these mortgages, and a median rise of £340 for fixed term mortgages with "financial stretch";
- The biggest increase in the number of "financially stretched" is expected in Q3 (July – September) 2023;
- Younger borrowers aged 18-34 may be more likely to be stretched than the rest of the working age population;

[6] https://www.fca.org.uk/news/news-stories/guiding-principles-on-design-delivery-disclosure-esg-sustainable-investment-funds
[7] Portfolio letter: Our Asset Management Supervision Strategy (fca.org.uk)
[8] Vote Reporting Group | FCA
[9] Commentary on Mortgage lending statistics Q4 2022 | FCA
[10] Research Note: Mortgage borrowers and macroeconomic developments 2023 (fca.org.uk)

- The share of mortgages with "financial stretch" varies from 2.3% to 5.9% across UK regions.

While any element of financial stretch is a concern, the majority of mortgages (around 90%) that are exposed to interest rate rises before the end of June 2024 are not expected to become "financially stretched", despite increased borrowing levels (due to the rise in house prices) and higher interest rates. This highlights the importance and effectiveness of prudent affordability checks conducted by lenders.

Recent banking failures

5. *What role did the FCA play in the resolution and sale of SVB UK? Please could you include a timeline of your involvement?*

In all, over 60 FCA colleagues worked overnight and through the weekend with partner authorities in support of a positive outcome in relation to SVB UK and to assess the potential impact of and prepare for other scenarios.

Silicon Valley Bank UK (SVB UK) is regulated by both the PRA and the FCA. It was authorised on 20 June 2022 and, until recent events, was a wholly owned subsidiary of Silicon Valley Bank, a US bank. The Bank of England was resolution authority for SVB UK. The FCA is resolution authority for a range of other firms, including a range of FCA-regulated customers of SVB UK who may have been severely impacted by a potential failure or insolvency.

On the morning of 10 March 2023, there were media reports regarding material deposit outflows at Silicon Valley Bank and we started to update information regarding SVB UK and its depositors for contingency planning purposes. This included using data submitted by firms on their regulatory returns to identify where regulated firms were holding client money with SVB UK.

On the afternoon of 10 March 2023, we spoke to SVB UK's Chief Risk Officer. Immediately thereafter, we were contacted by the PRA and the Bank of England (the Bank), who confirmed that SVB UK was experiencing a material run on its deposits. The Bank advised that their "preferred resolution strategy" for SVB UK was a Bank Insolvency Procedure and, accordingly, the Bank would be required to consult with the FCA before making an application to Court for a Bank Insolvency Order, in accordance with sections 7 and 96 of the Banking Act 2009. That consultation was completed by exchange of letters on the evening of 10 March, with the FCA noting in its response that at that time it was not aware of any information unknown to the Bank which was likely to impact its conclusion to its assessment.

Over the next 24 to 48 hours, we sought and analysed a wide range of information regarding SVB UK's depositors in order to understand the degree to which a bank insolvency of SVB UK would cause harm to consumers and markets. During this work, we identified that SVB UK held deposits for over 130 firms regulated by the FCA, including some firms who were safeguarding funds for their own clients and others holding their operational capital with SVB UK. We also drew on recently improved data analytics capabilities at the FCA to understand wholesale market derivatives exposures of SVB UK.

Following the Bank's public statement on 10 March that, absent any meaningful further information, it intended to place SVB UK into a Bank Insolvency, there was a significant customer reaction. We also proactively contacted relevant regulated firms to alert them to the situation and to understand the impact of a failure of SVB UK on their financial and operational resilience as well as their plans to engage their customers should SVB UK enter insolvency proceedings. From our supervisory interactions, it was clear that a number of FCA solo regulated firms would have faced operational and liquidity problems if SVB UK went into administration, potentially causing them to fail. In such an eventuality, the FCA would have been the resolution authority

for the FCA solo regulated firms. Our analysis was also shared with the Bank to support their decision making and ongoing consideration of the resolution options.

Separately, through the course of the weekend we worked to expedite, with HM Treasury (HMT) and the PRA, the making of changes to the PRA's depositor protection rules. These rules had been consulted on in September 2022 – the changes were made to clarify that the Financial Services Compensation Scheme (FSCS) covers FSCS eligible customers of e-money institutions, authorised payment institutions, small payment institutions, and credit unions (in respect of e-money) should a credit institution holding such firms' safeguarded funds fail. This rule change came into force over the weekend on 13 March 2023[11]and was an important action to ensure that, if SVB UK went into bank insolvency, the customers of the firms of this type which were safeguarding customers' funds with SVB UK would benefit from FSCS protection.

We also liaised with the FSCS in relation to the steps they would need to take and information they would need to help ensure the FSCS could be comfortable that it could achieve a fast pay-out to insured depositors if SVB UK had gone into a bank insolvency procedure.

Prior to the sale to HSBC being agreed, a range of other scenarios were being worked on. During 11 and 12 March, we worked closely with HMT and UK Finance to engage with a number of banks who, following discussions with HMT, were prepared to consider opening accounts on an emergency basis for SVB UK's customers to minimise any disruption arising from a bank insolvency of SVB UK. In order to enable these banks to do this in a way that would have provided SVB UK's customers with a transactional account on the morning of 13 March, the banks required comfort from the FCA that they would not be subject to any action arising from being unable to complete the required anti-money laundering checks before onboarding those customers. In recognition of the exceptional circumstances, we confirmed that we had no significant financial crime concerns relating to SVB UK and that we were content (and would confirm in writing if required) that any banks onboarding SVB UK customers could rely on SVB UK due diligence, with an extended period of time to enable them to complete their own due diligence checks.

During the course of the weekend we were advised that there were some parties interested in purchasing the shares of SVB UK. During 12 March, we were advised that the Bank was minded to change the resolution strategy for SVB UK to a private sector purchase because a sale of the shares in SVB UK to HSBC UK Bank PLC (HSBC) was considered achievable. This outcome was desirable because it would provide continuity of access to banking services to SVB UK's customers, which would better promote public confidence in the UK financial system versus entry of the firm into the Bank Insolvency Procedure.

In order for the sale to be completed, a change in control application by the firm and HSBC to the PRA was required, and we were required to confirm to the PRA we had no objections to that change in control application. We confirmed our non-objection following receipt of a formal application during the evening of 12 March. Through the course of the evening and overnight into 13 March the FCA also engaged directly with HSBC to confirm that we would permit them to rely on SVB UK's client onboarding and to provide an appropriate timeframe for financial crime due diligence in the event that HSBC onboarded SVB UK clients directly and to provide other information to support their due diligence process. In addition, prior to the Bank taking the decision to complete the transfer of the shares in SVB UK, the Bank was also required to undertake a further consultation with the FCA, in accordance with section 7 of the Banking Act 2009. This consultation was completed at a meeting held at approximately 5.15am on 13 March. The Bank then took the formal decision to adopt the sale to HSBC as the updated resolution strategy for SVB UK, and the sale was completed at 7am by the Silicon Valley Bank UK Limited Mandatory Reduction and Share Transfer Instrument 2023. The sale was announced by HSBC shortly thereafter.

During the period we were in touch with international counterparts and also put in place a communications plan for each potential scenario. This was co-ordinated across the PRA, Bank,

[11] https://www.bankofengland.co.uk/prudential-regulation/publication/2023/march/depositor-protection

FSCS and HMT, with the Bank's and FCA's statements published shortly after the announcement of HSBC's purchase of shares.

By virtue of our remit, FCA teams are engaged in resolutions or interventions of banks and other financial services firms of all sizes, with a differing role depending on the nature of the firm. The FCA's work on SVB UK came a week after completion of a period of intensive activity to ensure a smooth sale of the UK regulated entity of the firm Railsr and a week before our engagement with Swiss authorities and other UK authorities in relation to Credit Suisse. I am grateful for the dedication and professionalism of FCA colleagues through this exceptional period.

6. *What are the FCA's current concerns, given its regulatory responsibilities, arising from recent events in the banking system?*

During a banking stress event, the FCA will work with the PRA (the prudential supervisor) and we will focus on assessing the potential impact on banks' customers (which will likely include FCA regulated firms), including, for example, banks' engagement and communications with their customers, special consideration of vulnerable customer groups, and the application of the Client Assets and Safeguarding regimes. We will also consider any potential impact to the orderliness of the operation of financial markets, including working with our international counterparts as appropriate. Where securities impacted by a banking stress are traded or listed in UK markets, we will also want to be satisfied with the disclosures in relation to those securities.

I would summarise our current concerns arising from recent events and their relationship with our regulatory responsibilities as follows.

Market fragility and adjustment to higher interest rates

The speed and scale of interest rate movements in multiple jurisdictions have contributed to severe stress in some banks, other financial entities and to broader market fragility. This can contribute to significant market volatility and events, such as the failure of SVB in the US, which can develop at significant speed. This can also manifest itself in a more challenging liquidity environment in core funding markets around the world.

The Financial Policy Committee's (FPC) 2023 Q1 Record noted that the global financial system was continuing to adjust to higher interest rates in Q1, which have contributed to severe stress in some banks.[12] However, the FPC judged the UK banking system was well placed to withstand a period of higher interest rates. Financial markets, including non-banks, are adjusting as well, perhaps in unexpected ways. Consideration is underway in international regulatory fora as to whether any adjustments are needed to any elements of the banking prudential regulatory framework and we continue also to prioritise international cooperation on reforms to regulation of non-bank financial institutions such as money market funds.

We will continue to monitor closely a range of data, including in relation to liquidity and leverage in different parts of the financial system under our supervision. We also need to be mindful of potentially heightened risks of abusive behaviour in markets during periods of heightened volatility.

Market participants should update their view of what constitutes stress scenarios, and pay extra attention to exposures to leverage, concentrated counterparty exposures, concentrated market positions, and any liquidity mismatches in their business models and products. Firms should test their assumptions around their ability to liquidate assets at speed.

In this context, our supervisory strategy focuses on ensuring continued vigilance by banks' senior management on effectively controlling their core wholesale markets business. Regardless of trading conditions, firms must manage inherent conduct risks, such as market abuse, conflicts of interest and financial crime. The challenging operating environment will also test the skill and competence of senior management, increasing the chances of poor decision-making and

[12] https://www.bankofengland.co.uk/financial-policy-summary-and-record/2023/march-2023

execution errors. We meet frequently with wholesale banks' senior management to mitigate this risk by understanding what they are doing and challenging their approach whilst gathering market intelligence. Finally, precedent shows that market stresses can impact banks' operational resilience, for example when elevated transaction volumes negatively impact on banks' post-trade processes, and we are continuing to prioritise this issue in our strategy.

More generally, we view the recent stress in the banking system in the context of a number of other challenging market dynamics over the last 18 months and the more difficult macroenvironment set out above. This includes stresses within commodity and energy markets, and more recently UK government debt. We observe that in times of stress there is a strong connection between conduct, reputational or operational risks on the one hand, and prudential risk on the other, the combined effect of which can challenge firms' viability.

We are also working with international partners to understand whether any improvements should be made to market disclosures made by banks and other financial entities.

Recent events in the banking sector also add to existing economic headwinds that are contributing to the cost-of-living pressures on consumers. We remain focused on ensuring firms provide appropriate support to those consumers who are at risk of experiencing financial difficulty. While the Consumer Duty is not yet in force, we have told firms they should be stepping up now to support customers as they face into economic challenges.

Resolution frameworks

Banking resolution frameworks were a key component of the post global financial crisis reforms. Questions have arisen in light of recent events about the appropriate size and scope of deposit insurance. It was fortunate in the case of SVB UK that a credible private sector purchaser came forward and that it was possible to facilitate the sale of shares using resolution powers; this served to protect retail and business depositors and support wider financial stability. As noted above, alternative resolution strategies such as a bank insolvency procedure could have been challenging for a number of FCA regulated firms that held large amounts of uninsured deposits with SVB UK and there would also have potentially been issues with the speed with which funds would be returned to clients of certain payment and e-money firms- (notwithstanding the additional rules adopted by the PRA on 13 March 2023). We look forward to contributing to further examination of these issues and the consideration of any reforms which may be required.

These issues are also being considered in global regulatory fora, alongside lessons learned from recent Swiss interventions in relation to Credit Suisse.

Speed of market developments

The failure of SVB in the United States and contagion to the UK subsidiary happened at unprecedented speed, with a run using digital channels. Social media can also play an amplifying role in accelerating the speed of a bank run and loss of depositor confidence. This poses significant questions for the regulatory community as to the appropriate stress scenarios to plan for, regulatory standards and tools. It also places an imperative on clear and timely external communications and strong mechanisms for real time cooperation and data sharing by all relevant authorities during a stress scenario. Further work is needed in all these areas to bolster resilience in such scenarios.

Cryptoassets and the digital pound

7. *The FCA will assume responsibility for regulating non-systemically important stablecoins (with the Bank of England regulating those that are systemic). Can you describe the scale of this task, including an estimate of the number of stablecoin firms you will need to regulate? How many additional staff will you need specifically for this task, and how is that recruitment is going?*

In its consultation paper on the *Future financial services regulatory regime for cryptoassets* (February 2023),[13] HMT confirmed that it intends for the Financial Services and Markets Bill 2022 to introduce a regime that will allow for the regulation of fiat-backed stablecoins, acknowledging that these have the potential to become widely used as a form of payment. While legislation defining the scope of this new regime is yet to be laid, we anticipate the need to consult on rules for issuers and custodians in a range of areas, including prudential and organisational requirements, standards for holding and safeguarding backing assets and clear expectations in regard to redemption and preparedness for wind-down. Once legislation is in force, we will need to be prepared to authorise, supervise and enforce against this new regime. The FCA will authorise all stablecoin issuers. Systemically important stablecoin issuers will be dual regulated by the FCA and the Bank, with the Bank becoming the lead prudential regulator for these firms

We have also begun to seek information from different types of firms (such as e-money institutions, overseas stablecoin issuers, custodian banks and those cryptoasset firms for which we are the anti-money laundering and counter-terrorist financing (AML/CTF) supervisor) about their plans. We anticipate that only a relatively small number of firms may wish to apply for FCA authorisation to issue, or provide custody services in relation to, fiat-backed stablecoins, but we will be able to collect clearer information and consult fully, once further detail on the regime is known. (Please also see our answer to Question 9 about our preparations for regulating stablecoins and cryptoassets.)

While resourcing and recruitment are similarly dependent upon the details of the regime, our working assumption is that the recruitment that is currently being undertaken, which is expected to result in sufficient resource in place this summer to begin to assess applications from international firms in response to changes in the Financial Promotions Order (FPO), will also satisfy the resource requirements of the Stablecoins gateway. There are more details on this recruitment below and we will keep this resourcing plan under review as we gather more information and feedback.

8. *The perimeter of the financial promotion rules will be expanded to capture qualifying cryptoasset firms. How much will this add to the FCA's workload?*

The expansion of the regulatory perimeter to include financial promotions for qualifying cryptoassets will have a material impact for the FCA. We are recruiting approximately 50 new colleagues to support this, and future, regulatory change. We have previously provided evidence to the Committee[14] about the poor quality of crypotasset platform applications and we have published feedback on some of the issues we identified in those applications to support future applicants.[15]

This year, we are expecting a significant increase in our annual crypto asset registration applications from businesses looking to register with the FCA under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLRs). This is because the FPO exemption announced by HMT on 1 February 2023 will enable MLR registered cryptoasset firms to sign off their own financial promotions once the regime goes live. This will encourage or require international firms to register in the UK if they wish to continue to promote to UK customers. Some of those firms are likely to have complex regulatory histories.

Financial promotions in the sector are often of poor quality – the Advertising Standards Authority has issued over 50 Enforcement Notices to firms due to concerns about misleading crypto promotions. We will take robust action where we see firms promoting cryptoassets to UK consumers in breach of the requirements of the new regime.

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[13] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1133404/TR_Privacy_edits_Future_financial_services_regulatory_regime_for_cryptoassets_vP.pdf
[14] https://committees.parliament.uk/publications/33650/documents/183917/default/
[15] https://www.fca.org.uk/firms/cryptoassets-aml-ctf-regime/cryptoasset-aml-ctf-regime-feedback-good-and-poor-quality-applications

We expect to see a material increase in work for the teams that monitor our perimeter. Only cryptoasset promotions made by authorised or MLR registered firms or approved by Financial Services and Markets Act (FSMA) authorised firms, or legitimately using FPO exemptions will be legal. All other promotions of unauthorised/unregistered firms capable of having an effect in the UK (whether they originate domestically or internationally) will potentially be in breach of Section 21 of FSMA (a criminal offence).

This will apply regardless of where the firm making the promotion is based or what technology they use for the promotion (e.g. social media). There are currently potentially hundreds if not thousands of unregistered crypto firms targeting UK consumers via promotions and we envisage a significant number of these will not be able to access the legal routes to market.

- *The financial promotion rules are intended to cover products and services promoted in the UK even if the provider is based overseas. What powers will the FCA have to enforce changes to (or blocks on) promotions from overseas companies that breach the rules? Will these be as effective as the powers that can be applied to firms based within the UK?*

We do not have legal powers to suspend websites and other harmful content promoted online from overseas, such as social media posts and/or adverts, in breach of our rules and legislation. The challenges of regulating crypto firms based overseas that promote products and services in the UK is not a unique one, most jurisdictions have the same problem.

Where we identify fraudulent websites and/or online harm, we are proactive and take prompt action by publishing an alert on our website and requesting that the website host or social media platform disables or takes down the content. The suspensions are done on a voluntary basis in agreement with the website's web hosts and/or platform. We have built relationships with the webhosts and platforms and many of them have updated their policies to reflect our concerns about financial promotions. However, illegal content can sometimes remain visible to consumers even after we have issued an alert. Importantly, material taken down usually emerges elsewhere, sometimes in amended form, quickly. That is why we believe prevention is so important.

We further believe that the Online Safety Bill and its provisions on fraudulent advertising will be helpful in tackling harmful advertising distributed through a number of platforms and are grateful to the Treasury Committee for your support for this legislation.

Our ScamSmart campaign aims to empower consumers with the knowledge and tools to help prevent them falling victim to scams, with over 2 million people visiting the ScamSmart website since 2014, and more than 40,000 seeing our warnings about specific unauthorised firms. Takedowns for non-UK domains can be more difficult and many fraudulent websites will be based overseas. We recognise that fraud and scams frequently have an international angle, with fraudsters operating in other jurisdictions but targeting UK consumers or vice versa. The cross-border nature of fraud, particularly online-based fraud, demonstrates the importance of international collaboration. We actively engage with overseas regulators, both bilaterally and through multilateral forums such as IOSCO, to improve international collaboration and cooperation. This includes taking a leading role in the IOSCO Fintech Task Force, chairing the cryptoassets working group looking at market integrity and consumer protection.

9. *In addition to your expanded responsibilities for regulating stablecoins and cryptoasset financial promotions, the Government's plans for the wider regulation of cryptoassets would see you take on responsibility for regulation in a host of other areas. How concerned are you about the FCA's ability to cope with such a substantial increase in its responsibilities? Do you have an estimate for the number of additional staff you might*

need to regulate cryptoassets as proposed in the Government's February consultation paper?

Bringing crypto into wider regulation has challenges, but the FCA has experience of dealing with complex financial issues and we have significant experience on distributed ledger technology (DLT) and crypto due to our work to date.

There is a broad range of expertise required to regulate cryptoassets in the UK. At the FCA we have teams from across a range of functions: policy, authorisations, supervision, competition, legal, data and technology and enforcement and other specialist areas, working together to develop and implement a future regime.

We established a dedicated Payments and Digital Assets directorate in 2022. This brings together policy and supervision for digital assets and payments. This is not only limited to Anti Money Laundering and Counter Terrorist Financing, but looks at the whole sector, including the future regulatory regime.

We are further building out our capacity to develop the regulatory regime by drawing on expertise from across the FCA in specific policy areas (including, but not limited to wholesale markets policy, client assets and resolution policy, and prudential policy).

10. *The Bank of England and HM Treasury recently launched a consultation on a UK retail central bank digital currency – the digital pound. The proposed 'platform model' for the digital pound would see the creation of new 'Payment Interface Providers' (PIPs) and 'External Service Interface Providers' (ESIPs) that would interact with consumers and hold their digital pound wallets. What role do you envisage the FCA would play in the regulation of these new types of companies?*

We welcome HMT and the Bank of England's consultation paper on central bank digital currencies (CBDCs). We see the potential benefits that a UK CBDC could bring to consumers and businesses, and we look forward to further engaging with HM Treasury and the Bank of England on a possible future development of a UK CBDC. This includes sharing our knowledge and expertise and working closely with them in relation to the relevant regulatory framework for new types of firms such as Payment Interface Providers (PIPs) and External Service Interface Providers (ESIPs).

Yours sincerely,

Nikhil Rathi
Chief Executive