

The Lord Pitt-Watson
Parliamentary Secretary
HM Treasury
1 Horse Guards Rd
London
SW1A 2HQ

2 September 2026

Dear Lord Pitt-Watson,

Financial Services and Markets Bill 2026: FCA proportionality, accountability, and scrutiny

We have been following the debates in the House of Lords on the Financial Services and Markets Bill closely, including the points raised about accountability, scrutiny and proportionality.

We agree that effective accountability and parliamentary scrutiny are fundamental to the legitimacy and success of the regulatory system. We take these matters seriously and remain committed to working with Parliament and its Committees to ensure the accountability framework works effectively.

This letter sets out the current framework under which we operate, as significantly strengthened by the Financial Services and Markets Act 2023 (FSMA 2023). It also sets out our commitments to strengthen direct engagement with Parliament, transparency and scrutiny now, and in the years ahead.

By way of context, we have seen a significant shift in our engagement with Parliament since 2023. We engage closely with Parliamentary Committees through their inquiries and reports, take feedback on board and act to enhance our policymaking.

Between April 2025 and March 2026, we:

- appeared before four parliamentary committees on 10 occasions,
- directly engaged with more than 250 parliamentarians on major policy issues,
- responded to more than 650 pieces of parliamentary correspondence,
- published more than 50 operational performance metrics on a quarterly basis, and

- continued to publish thematic reports, market studies and evaluations of our interventions.

Since April 2026, we have appeared four times before Committees, including three times before the Treasury Select Committee and once before the Lords Financial Services Regulation Committee, with a further appearance scheduled for 2 September on insurance.

The measures in the Bill will, in our view, strengthen accountability mechanisms by making regulatory decisions more transparent, strengthening scrutiny of strategic choices and outcomes, and providing a clearer framework through which Parliament, stakeholders and the public can hold regulators to account.

The decision on how the framework operates is clearly a matter for government and Parliament. To help inform that debate, we set out how challenge and scrutiny are enabled by the existing FSMA 2023 framework, as well as our commitment to going further in the three areas outlined below.

As you know, the Bill does not change the existing mechanisms for challenge and scrutiny, which will remain in place, including the FCA's annual reporting laid before Parliament, our statutory consultation and cost-benefit analysis processes, as strengthened by FSMA 2023, and engagement with the FCA's six external statutory panels.

The existing mechanisms for challenge through our rule review processes, National Audit Office scrutiny, external review by the Complaints Commissioner on individual cases or groups of cases, and challenge by way of independent inquiries and judicial oversight will also remain. Attached at Annex A is a non-exhaustive list of our current accountability mechanisms.

We hope this letter helps address the points raised by members of the House of Lords during debates on the Bill to date. We will write separately regarding the FCA's cost-benefit analysis (CBA) framework and Cost Benefit Analysis Panel, given parliamentary interest in that area.

Proportionality

Acting proportionately across our functions is important today, including in our policymaking and supervision, and will not change as a result of the Bill.

When consulting on policy proposals, we will continue to explain how proportionality has been considered, including through assessment of expected costs, benefits and regulatory impacts. Regulatory interventions will remain evidence-led, subject to public consultation where appropriate and supported by CBA, and open to feedback from Parliament, Parliamentary Committees and

all those with a wider interest. Where required, CBAs will continue to benefit from independent challenge through the CBA Panel.

Proportionality is also important in our regulatory oversight. We are undertaking significant work to ensure that our supervisory approach is risk-based, targeted and proportionate, reflecting the size and complexity of firms and their activities, and the potential scale and pace of impact. This supports clearer judgements about where supervisory effort will deliver the greatest value and address the greatest risk of harm. We are also clarifying expectations, reducing unnecessary duplication and supporting more predictable engagement with firms. We will make it clear in our rule-making and annual reporting how proportionality has been considered, with stakeholders able to share views on this as part of our rule-making process. Proportionality will remain a key statutory consideration and basis for scrutiny.

For instance:

- Last year we fully decommissioned 8 returns and moved 5 returns from quarterly to annual submission. These changes affected over 90% of regulated firms, delivering a £16m annual saving in reporting costs.
- We are expanding our direct relationships with firms, starting with retail banking and wholesale markets. These interactions help us to share insights and market intelligence, shape priorities and respond to concerns. We intervene only where necessary, adjusting our supervisory interactions with firms to mitigate risks proportionately.
- Our recent proposed affordability changes in the mortgage market are permissive rather than mandatory, allowing firms time to adapt their risk appetite and systems, where appropriate, while enabling those ready to move faster to do so. This supports improved access to mortgages without imposing a one-size-fits-all change or costs on firms that do not wish to take advantage of our changes.
- We have automated work on less complex supervisory cases, reducing processing time from up to 4 hours to as little as 6 minutes. This has enabled teams to focus on higher-impact cases affecting consumers or market integrity.

We will continue to ensure proportionality is reflected not only in policy-making, but also in the practical outcomes of regulation and supervision. We also keep our rules under regular review through an evidence-led framework, using evaluation and stakeholder feedback to understand what is working and where change may be needed.

Parliamentary engagement

We remain committed to constructive engagement with Parliament through a range of channels, including Committee appearances, correspondence, regular

engagement with Committees, Parliamentarians and their staff, and our formal reporting. We welcome the scrutiny, challenge and insight these interactions provide, and value their contribution to improving our work and accountability.

We are considering how to provide a clearer annual account of our extensive parliamentary engagement, including Committee appearances, correspondence and how Parliament's feedback has informed our work. This includes an annual letter to the relevant Committee Chairs alongside the Annual Report, reflecting on key themes raised through formal scrutiny and wider engagement, and how we have responded.

Accountability, scrutiny and proportionality will remain central to the regulatory framework and our approach. We would welcome views on how best we can support effective Parliamentary scrutiny, whether through deeper Committee engagement, secondments, written updates, more regular parliamentary engagement sessions, topic-specific briefings or drop-ins, such as the one being held on 2 September.

Long-term strategy

The Bill will require us to publish a long-term strategy every five years. As with our current 2025-30 Strategy, we will develop this through extensive engagement with stakeholders, including industry, consumer representatives, our statutory panels and relevant Parliamentary Committees. Future strategies will continue to set out our priorities and provide the framework for our work programme, supervisory activity, and policy development.

Both our current strategy and future strategies will also continue to publish clear outcomes, metrics and performance information. This will provide transparency on our priorities, intended outcomes and progress against our commitments.

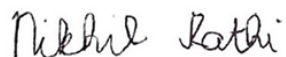
As a new commitment, we will proactively reach out to the relevant Parliamentary Committees to understand their priorities before settling our next strategies.

Together, the strategy and associated reporting will give Parliament and other stakeholders a stronger basis on which to hold us to account for our performance. They will also provide greater clarity and predictability about our priorities, helping Parliament understand our direction of travel and how we approach regulatory decisions and trade-offs.

I am copying this letter to Baroness Noakes, Chair of the House of Lords Financial Services Regulation Committee, given her active interest in these matters.

We look forward to continuing our engagement with you, the Committee and Parliament as the Bill progresses and we continue to deliver on our current strategy.

Yours sincerely,

A handwritten signature in black ink that reads "Nikhil Rathi". The script is cursive and fluid.

Nikhil Rathi
Chief Executive

cc: The Baroness Noakes DBE, Chair of the House of Lords Financial Services Regulation Committee

Annex A: List of FCA accountability mechanisms [not exhaustive]

PART 1: Discharging our general and policy-making functions

We are required to:

- a. **consult publicly before making rules and guidance**, with, among other things, a **cost benefit analysis** and a **statement on the compatibility** of the rules with our duties to advance our objectives and have regard to our regulatory principles (we are also subject to the regulatory principles and 'Regulators' Code' under the Legislative and Regulatory Reform Act 2006)
 - b. **publish our responses to consultation feedback**
 - c. have regard to aspects of Government policy set out in the **remit letter recommendations** sent in each Parliament (currently being sent more than once in each Parliament), and respond at least annually
 - d. consult, and consider representations from, a wide range of **statutory panels** (consumer and practitioner) on the extent to which our general policies and practices are consistent with our duties (and certain panel appointments are subject to Treasury approval)
 - e. set out in **general guidance how we will advance our operational objectives** in relation to different categories of authorised persons or regulated activity.
2. We co-chair the **Regulatory Initiatives Forum** (members are from organisations whose regulatory initiatives may have a significant operational impact on financial services firms), and contribute to, maintain and review the Regulatory Initiatives Grid. The Grid sets out the 2-year pipeline of regulatory work across all Forum members. This is so the financial services industry and other stakeholders can understand, and plan for, the operational impact of the initiatives on their businesses. The Grid is generally published twice a year.
 3. Our **annual reports** must address different statutory requirements. These requirements flow from, amongst other things, FSMA 2000, the Companies Act 2006 and the UK Corporate Governance Code. Examples include statutory reporting on: the discharge of the FCA's functions; the extent to which the FCA has, in its opinion, advanced its operational objectives and its secondary international competitiveness and growth objective; the extent to which the FCA has, in its opinion, acted compatibly with its strategic objective; how the FCA has, in its opinion, complied with its competition duty; how the FCA has complied with the duty to cooperate with regulatory bodies outside the UK; any other matters as directed by the Treasury.
 4. We have many kinds of **statutory metrics**. There are also **operating service metrics**, some self-imposed, but some based on statutory time-limits from responding to FOIA and DPA (data protection) requests. We are committed to being clear about how we are accountable for our progress, and have set out on our website what outcomes matter to us, the metrics we will use to measure them, and our progress against these metrics. See our published 'FCA outcomes and metrics'.
 5. For the **competitiveness and growth objective**, we outlined our approach to reporting outcomes and metrics for the objective in our public statement about that objective (published 14 July 2023). We continue to update our outcomes

and metrics framework, report on how we've advanced our secondary objective in our annual report, and report separately on this objective (s.26 FSMA 2023).

6. The **Financial Stability Board (FSB)** has a regular programme of **peer reviews**, consisting of thematic reviews and country reviews. Its peer reviews focus on the implementation and effectiveness of international financial standards developed by standard-setting bodies (SSBs) and of policies agreed within the FSB. Peer reviews are a condition of FSB membership (see FSB Framework for Strengthening Adherence to International Standards). They are an important institutional mechanism to promote complete and consistent implementation of agreed G20/FSB financial reforms and are a means of fostering a race to the top by FSB member jurisdictions.
7. The **IMF/World Bank Financial Sector Assessment Program (FSAP)** provides in-depth analysis of the resilience of a country's financial sector. It is mandatory for the UK to undergo an FSAP assessment every five years, as one of 25 countries with systemically important financial sectors. FSAP assessments result in a set of recommendations for the relevant country to take forward. The next UK FSAP is in 2026.
8. **IOSCO** has an assessment committee, which assesses the implementation of IOSCO principles and standards across IOSCO membership. The three main activities of the Assessment Committee are: (1) The conduct of Thematic Reviews of particular IOSCO Principles and IOSCO Standards across IOSCO's membership. (2) The conduct of IOSCO Standards Implementation Monitoring (ISIM) Reviews. (3) Maintenance of the IOSCO Principles and Methodology. The FCA is a member of the assessment committee and has played an active role in recent assessments, such as the assessment of the IOSCO recommendations on liquidity risk management tools.

Further provisions on our objectives & accountability mechanisms included in FSMA 2023

9. We are now also required to:

- a. advance, when we are advancing one of our current operational objectives, our **secondary statutory objective on competitiveness and growth**
- b. have regard to a new regulatory principle on **net zero** (the need to contribute towards achieving compliance by the Secretary of State with section 1 of the Climate Change Act 2008 (UK net zero emissions target), and section 5 of the Environment Act 2021 (**environmental targets**) where we must consider the exercise of our functions to be relevant to the making of such a contribution)
- c. consult with a new **statutory panel to advise on cost benefit analysis (CBA)** before a relevant consultation (the Panel will also consider our CBAs more generally and provide recommendations ex-post), and to update our CBA methodology (framework) – note that the Chair appointment is subject to non-objection by the Treasury, and there are requirements to appoint industry representatives
- d. keep our **rules under review**, and develop a new **rule review framework**
- e. discuss with the Treasury proposed rules which might affect **trade or specified deference arrangements**

- f. **publish, annually, our responses to the Treasury's remit letters**
 - g. publish information about how we have **engaged with our statutory panels**
 - h. [scrutiny by Parliamentary Committees] **notify the relevant Parliamentary committee** (e.g. the Treasury Select Committee, or Lords Committee) of our **consultations, and to respond** to Parliamentary Committees if they formally respond to consultations (requirement to explain how we have considered Parliamentary representations when making final rules)
 - i. produce **two one-off reports in the first two years of implementation of the competitiveness objective**; or a commitment for the Treasury to publish a call for input on metrics the regulators should report against for competitiveness
 - j. for the new **CBA Panel and the Consumer Panel to produce annual reports**, and for the Treasury to lay them in Parliament
 - k. to report on **compliance with our panel appointment statement** as part of our annual report
 - l. provide a summary in the **annual complaints report explaining where and why we have disagreed with any recommendations made by the Complaints Commissioner** (the Complaints Commissioner will also now be appointed by HMT, rather than by the regulators with HMT approval).
10. There is a duty for the **FCA, FOS and the FSCS to cooperate** and consult in exercising our duties. We are required to establish a cooperation policy and report annually on cooperation (new section 415C of FSMA, inserted by clause 40 of FSMA 2023).

PART 2: Ensuring transparent and clear organisational responsibilities

- 11. In exercising our legislative functions (including making rules), we must act through our governing body, the **FCA Board**.
- 12. The **Treasury Select Committee** (TSC) has a duty to scrutinise a person **appointed to be CEO**.
- 13. The Treasury makes appointments to the FCA Board, and FCA Board members may be removed for incapacity, conflicts of interest, or serious misconduct.
- 14. We are required to **publish FCA Board minutes**.
- 15. We are required to **coordinate with the Prudential Regulation Authority (PRA)** and to have a Memorandum of Understanding (MoU) with them that sets out a framework for co-ordinating and co-operating when carrying out our respective legal responsibilities [sections 3D and 3E FSMA]. We and the PRA review the effectiveness and efficiency of coordination and co-operation regularly and prepare a report for the FCA CEO and the PRA Deputy Governor.

PART 3: Accounting for our activities

We are also held to account (ex-post) externally for our actions. This happens in several ways, before several fora.

To Parliament and Government:

16. We are regularly **called before the TSC**, which can publish reports and call on us to respond to its concerns (such as its inquiry on the regulatory perimeter) and provide documents.
17. **The Treasury can arrange independent inquiries, or require the FCA to conduct an investigation**, in cases of serious failure.
18. We are required to make an **annual report to the Treasury on the discharge of our functions and advancement of our objectives**, which must be laid before Parliament.
19. We are also regularly called to give evidence to other Parliamentary Committees such as the Work and Pensions Select Committee.

To stakeholders:

20. We are required to hold **annual public meetings**, which consider our annual reports.
21. Our statutory independent Panels report annually on their activities, and **we respond to the issues raised in these reports**.
22. We can also be held accountable through the '**super-complaints' mechanism** (FSMA 234C & E – 'Complaints by consumer bodies'), and we must within 90 days publish a response stating how we propose to deal with the complaint.

To other public bodies:

23. The Comptroller and Auditor General and **National Audit Office (NAO)** examines, certifies, and reports on our accounts, and the certified accounts and report are laid before Parliament. The NAO can also conduct VFM assessments, studies and investigations – we have been included in four NAO studies since 2014 (to date).
24. **Judicial review** or references to the Upper Tribunal.
25. The **Complaints Commissioner may investigate complaints about the FCA's relevant functions**, and may, if appropriate, recommend that we remedy the matters complained of. The Complaints Commissioner also produces an annual report, which is sent to us and the Treasury. We respond to any recommendations or criticisms in the report, publish the response and send a copy to the Complaints Commissioner and the Treasury. The Treasury lays the annual report and any response to it before Parliament.
26. We are subject to the provisions of the **Freedom of Information Act (FOIA)**. The Information Commissioner can oversee complaints against the FCA in relation to obligations under the GDPR, DPA 2018 and FOIA.
27. We are subject to the provisions of the **Public Sector Equality Duty (PSED)** and other equality obligations, overseen by the Equality and Human Rights Commission (EHRC). To comply with the PSED, we must, in the exercise of our functions, have due regard to the need to meet three equality objectives under the Act.

