

Rt Hon Mel Stride MP
Chair
Treasury Select Committee
House of Commons
SW1A 0AA

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Our ref: C211213C

Dear Mel,

Thank you for your letter of 23 December 2021, which followed our oral evidence session with the Committee on 8 December. In your letter you asked for further information and shared a number of questions relating to our evidence.

Please could you provide an outline of the current FCA data-related spending, and your future projections of such spending including a breakdown to show the main areas of spend. (Q217)

As I mentioned in a speech in July last year, data is the lifeblood of a modern regulator. Everything we do depends on the information that we collect and how we use it. Modernising our systems will not only enable us to scale our operations but to share intelligence more easily within the FCA and with our partners across responsibilities and jurisdictions.

We recently combined our Business & Technology Solutions (BTS) and Innovation divisions to improve how we take advantage of data and technology. This new division – Data, Technology, and Innovation (DTI) – is led by Jessica Rusu, who joined the FCA last summer, having most recently worked at a fintech firm and eBay.

Our work in this area builds on an investment in data capabilities of over £120m over three years from 2019. This has involved creating core data platforms, tools to support data management and advanced analytics, evolving the frontline divisions, and enabling cultural change that underpins transformation, by ensuring ways of working evolve appropriately.

For the financial year 2021 to 2022, our data and technology spend is around £72m across the organisation. This includes further updating and maintaining our technology infrastructure to ensure we remain operationally resilient and implementing tooling to improve how we collect, store, and manage data. This also supports our regulatory goals in relation to authorising and supervising firms. In addition, this funding enables the delivery of longer term transformational change, such as upgrading the Register over a five year programme to improve user experience, ensure data quality and prevent harm (approximately £2m this year).

Our investment for this year falls across two key areas which are:

- Top priority initiatives, such as maintaining operational resilience, enhancing cyber security, and ensuring data integrity. Current spend in this area is approximately £40m, with the biggest investment going into exiting our Data Centre and moving to a Cloud

environment (approximately £14m) and investing in data related initiatives such as implementing tooling and improving data integrity (approximately £7m).

- Projects that we must do to remain operationally stable, meet our regulatory objectives and deliver on our public commitments, such as implementing the Investment Firms Prudential Regime (£1.2m), the Law Enforcement Partner Programme (£1.5m), reviewing Financial Promotions (£1.5m), implementing market surveillance software (£1.5m) and providing technology services across the organisation (£6m). Investment in this area is around £32m.

The Committee may find the following examples useful.

Last year we successfully moved over 52,000 firms, their 120,000 users and all historic submissions from a legacy system to our new RegData data collection platform. We invested £30m in delivering the programme, which included engagement with the firm user population, migration and platform build and test. RegData makes it easier for firms to submit data, for us to continue to improve the platform for its users and our future collections needs. We have initiated a joint programme with the Bank of England and industry to improve and align our data standards, modernise our reporting instructions and integrate reporting with the Bank of England, all with a view to reducing the reporting burden on firms.

We estimate we have made £1.5m in efficiency savings through developing new tools such as Single View dashboards, which provide greater visibility of risk across priority firms and sectors. This will be supplemented by improved search capabilities.

In addition, we spent £2.1m on implementing a business resource planning system (called Workday) to provide an integrated and continuously updated view of core business processes (HR and Finance in the case of the FCA). The applications that make up the system share data across the various departments, which facilitates information flow, often in real-time, between the business functions, and thereby providing a single source of information and operational reporting.

Our forecast budget for 22/23 is under development. Nevertheless, we plan to fully exploit the opportunities that data and advanced analytics can offer. Our focus will be on ensuring we have the appropriate underlying technical infrastructure and core data foundations in place. This will involve projects to improve how we collect, store, manage and monitor the quality of our data, underpinned by strong governance, data skills and expertise.

In addition, work will continue on improving the value we get from our centralised data repository, which was created last year.

We plan to publish an updated Data Strategy in the coming months. The updated strategy links to, and is a key enabler of, our [Business Plan's](#) stated ambition for the FCA to be a technology, intelligence and data-led regulator of the future.

The [speech](#) Jessica recently gave on our Data Strategy focused on the drivers of change in the financial services industry and our response. I have attached a copy to this letter.

Please could you provide the Committee with information on the current estimated wait times for firms asking for authorisation (segmented by type of firm or permission requested), and any work underway to improve those timelines? (Q233)

Robust authorisation processes are integral to the regulatory system, preventing bad firms or individuals joining the regulated market. Such firms add to regulatory costs for firms, as well as consuming the time of our supervisors and enforcers. More importantly, they put at risk the savings, livelihoods and health of consumers, as well as the integrity of the markets we regulate.

We have committed to more intensive assessment and greater scrutiny of applicant firms' financials and business models. This scrutiny now results in an increasing number of firms withdrawing their applications or having them refused. One in five firms now withdraws their application for authorisation or has it refused – up from one in six in FY 2020/21. As I recognised in my evidence to the Committee, there are some backlogs in authorisations. These can, in part, be explained by the more stringent scrutiny we are applying, although we also need to make operational efficiencies too.

The time it takes to determine an application depends on several factors, including the quality of information provided by the applicant, the complexity of a firm's business model, and any issues or concerns identified during our assessments. Applications that are incomplete are a factor in delays. Applicants can help us by ensuring they provide complete information. For example, registration applications under the Fifth Anti-Money Laundering Directive are often of poor quality and lack information. That results in delays from requests for further information, and longer processing times.

To ensure we can apply higher levels of scrutiny and reduce backlogs by mid-2022, we are recruiting 100 additional permanent colleagues, who I expect to be in post by the end of this financial year, including a significant number of new colleagues joining in Edinburgh. We have brought in 50 highly skilled, temporary colleagues who will assist on change in control and Senior Manager and Certification applications. Final decisions for these applications will remain with permanent FCA staff. These temporary colleagues have begun working on cases and are likely to be in place for six months.

As part of the long-term transformation of the FCA, we are considering other initiatives to help us determine applications faster, including through greater automation. We have also reformed our decision-making processes. This includes giving senior managers the power to take decisions on a firm's authorisation, rather than referring them to the Regulatory Decisions Committee. This has streamlined our process and will allow us to take more decisive action to prevent entry of those unwilling or unable to meet our standards. In turn this will, over time, reduce the costs of dealing with those firms and individuals.

We are also deepening senior leadership capacity in our Authorisations Division. I explained to the Committee in December that Emily Shepperd, Executive Director, Authorisations would be assuming responsibility for Transformation in April. I announced earlier this week that I have also asked Emily to take on the role of Chief Operating Officer (enabling her to drive forward execution of our transformation programme), following the decision of the incumbent, Stephanie Cohen, to step down for personal reasons. Emily is currently recruiting two new Directors in the Authorisations Division to build leadership and operational capacity.

I have set out the data requested by the Committee in the table below. The figures relate to:

- New firm authorisations, i.e. applications from firms for permission to carry out regulated activities under Part 4A of the Financial Services and Markets Act 2000 (FSMA), variations of Part 4A permissions and cancellations of Part 4A permissions. The statutory timeframe to determine a complete Part 4A application is 6 months. For incomplete applications it is 12 months.
- Approved person applications, which include applications under the Senior Manager and Certifications Regime, for which the statutory deadline is 3 months, unless the application is attached to an application for part 4A permission.
- Change in control notifications under s.178 of FSMA, for which the statutory timeframe is 60 working days of acknowledgment of receipt of a complete notification. Cases taking more than 60 days are automatically approved.

- Payment services applications (under the Payment Services Regulations 2009 and the Electronic Money Regulations 2011). The statutory deadline is 3 months from receipt of a complete application or within 12 months from receipt of an incomplete application.
- Applications under the Fifth Anti-Money Laundering Directive (5MLD). The timeframe is 45 calendar days from receipt of application or receipt of any further required information. There has been a particularly heavy workload over the last twelve months dealing with applications from cryptoasset businesses for anti-money laundering registration with the FCA. As we have stated publicly, there has been a very high refusal or withdrawal rate for these applications due to the low quality of the applications.

The figures below are measured from the point of receipt, so will include time elapsed where an application is incomplete, including where the clock has been 'stopped' in line with statutory provisions.

Determination times for Q3 FY2021/22		
Category of application	Mean determination time (weeks from receipt)	Completed within service
New Part 4A: Alternative Investment Fund Managers	37.1	96.7%
New Part 4A: Consumer Credit	21.4	
New Part 4A: Dual Regulated	54.5	
New Part 4A: Retail	30.8	
New Part 4A: Wholesale	27.6	
Variation of Permission: Alternative Investment Fund Managers (Variation of Permission)	26.1	99.3%
Variation of Permission: Consumer Credit	14.4	
Variation of Permission: Dual Regulated	25	
Variation of Permission: Retail	6.1	
Variation of Permission: Wholesale	18.1	
Cancellation of Part 4A permissions	5.4	99.9%
Approved Persons	4.9	79.3%
Change in Control	15.4	98.2%
Payment Services	27.7	94.2%
Fifth Anti-Money Laundering Directive (5MLD)	50.9	78.6%

The Committee would welcome your thoughts on whether the word "investment" should be used in relation to cryptocurrencies, including within cryptocurrency advertisements? (Q254)

The public can invest in a number of assets which, like crypto, are unregulated, speculative and subject to significant volatility – for example precious metals, fine wines, classic cars or property. People buy such assets for various reasons, including in the hope their value will rise, which is not the case with most gambling products.

The FCA does not currently regulate crypto adverts. We do however share information with the Advertising Standards Agency (ASA) – to date we have referred 17 cases to the ASA – and the ASA has taken action in banning inappropriate such adverts. As you know, HMT consulted on and recently announced it will bring legislation to Parliament to extend the financial promotions

order to unregulated cryptoassets, thereby bringing crypto adverts within the FCA's remit. We welcome this announcement, and our [recently announced proposals](#) for significantly strengthening our financial promotions rules include restrictions on the marketing of cryptoassets, in preparation for this legislation coming into force.

Research suggests consumers increasingly see crypto as an investment¹. While I recognise that term may be factor behind some people acquiring cryptoassets, on balance we believe there is value in using language the public readily understands and accepts. However, we have launched a consultation this morning and this is a point we will consider – including through consultation feedback and the FCA Board's review – as we prepare to take on powers to regulate the marketing of cryptoassets.

In the meantime, we have issued repeated warnings that investing in crypto is high risk, highly speculative, subject to significant volatility and unlikely to benefit from investor protections. As a result, those who invest should be prepared to lose all their money and are unlikely to have access to any redress or compensation schemes. We have focused on ensuring consumers understand these risks and we are investing £11m in a marketing campaign on high-risk investments.

Although we currently have limited powers relating to cryptoasset investments, we have acted in areas where we can. We continue to publicise information on firms that are not registered in the UK for anti-money laundering purposes, but which promote cryptoassets. We also have a public list of, at present, 219 UK businesses that appear to be carrying on cryptoasset activity without being registered with the FCA. In addition, we have issued at least 117 alerts in the last quarter where cryptoasset businesses appear to be engaged in regulated activities without authorisation.

The Committee would welcome your further thoughts on what defines “good” in terms of ESG disclosure, especially given the examples provided in the July 2021 letter from Nick Miller, Head of Department, Asset Management Supervision at the FCA to AFM Chairs.2 (Q290)

The FCA's letter to fund chairs made clear our concerns and highlighted stylised examples of applications for authorisation of ESG/sustainability investment funds that had fallen below our expectations.

The annex to that letter (page 4 onwards) – containing principles on the design, delivery and disclosure of ESG/sustainability funds – set out our expectations of what 'good' looks like. This included that “A fund's focus on ESG/sustainability should be reflected consistently in its name, stated objectives, its documented investment policy and strategy, and its holdings”. The guiding principles went into further detail, two of which are directly related to disclosures/customer communications:

- **Principle 1:** References to ESG (or related terms) in a fund's name, financial promotions or fund documentation should fairly reflect the materiality of ESG/sustainability considerations to the objectives and/or investment policy and strategy of the fund.
- **Principle 3:** Pre-contractual and ongoing periodic disclosures on responsible or sustainable investment funds should be easily available to consumers and contain information that helps them make investment decisions: ESG/sustainability-related information in a key investor information document should be easily available and clear, succinct and comprehensible, avoiding the use of jargon and technical terms when everyday words can be used instead. Funds should disclose information to enable consumers to make an informed judgement about the merits of investing in a fund.

¹ <https://www.fca.org.uk/publications/research/research-note-cryptoasset-consumer-research-2021>

Periodic fund disclosures should include evaluation against stated ESG/sustainability characteristics, themes or outcomes, as well as evidence of actions taken in pursuit of the fund's stated aims.

These principles are supported by a series of 'key considerations':

- "Where it is claimed that a fund pursues ESG characteristics, themes or outcomes, these should be appropriately reflected in the fund's objectives and/or policy" (Principle 1).
- "We expect information on a fund's ESG/sustainability focus to be made available to consumers in relevant regulatory documents and to be reflected in any accompanying marketing materials in a clear, fair and not misleading way. The information should be presented in an accessible way that is clear, succinct and comprehensible, and that forms a sufficient basis to support consumers in making informed investment decisions." (Principle 3).

The letter and the guiding principles relate to investment funds. However, the fact that they reflect pre-existing requirements, as set out in the FCA Handbook, means lessons can be drawn to how firms should approach disclosure with respect to ESG/sustainability products more generally.

As part of our ESG strategy, the FCA will continue to play a leading domestic and international role on the development of standards for disclosure.

We are building on the guiding principles as part of our work with the Government to implement its 'Greening Finance' [Roadmap](#). We are developing new regulatory requirements under which certain investment products will be required to display a label reflecting their sustainability characteristics. We issued a [Discussion Paper](#) (DP) in November 2021 to seek initial views on the regime's design. The DP closed for comment on 7 January, and we will be using the responses to it to help shape policy proposals for publication in Q2.

Now that the scheduled sentencing hearing of NatWest has occurred, and given your letter of 13 December 20213, please can you provide the Committee with any further information as to why you prosecuted NatWest under the Money Laundering Regulations but not Standard Chartered in 2019? (Q293-294)

Our [Enforcement Guide](#) sets out how the FCA should the exercise its power to prosecute under section 401 and 402 of the Financial Services & Markets Act, 2000 (see EG 12). We will look at the most effective and proportionate way to proceed where there is evidence of misconduct that can be prosecuted either civilly or criminally. The criminal route is one that is apt for the most serious cases, for example the recent NatWest prosecution, where the assembled evidence is admissible and sufficient to establish the offence.

In the NatWest case, all the relevant events took place in the United Kingdom and there were witnesses who were willing and available to give evidence here. However, not every case will be supported by evidence and witnesses available in the UK. This is a particular challenge where there may be relevant conduct in question, or material transactions, outside of the UK. For this reason, the civil disciplinary processes set out under the Financial Services and Markets Act 2000 and/or the applicable Money Laundering Regulations, where the approach to evidence is not as constraining as it is in criminal proceedings, ensures enforcement actions can still be taken in such serious cases.

Please could you provide the details of which tech firms you have paid for adverts they have carried for you, the amount paid to each of those firms and provide details of repayments you have received from those firms, if any? (Q308)

I have included in the table below the costs for delivering scam warning messages in relation to investments, pensions and loan fee fraud. These figures are from the end of November 2021. We have not received any repayments from these firms.

	2019	2020	2021
Google	£217,264.72	£256,145.50	£217,521.91
Twitter	£32,536.31	£64,354.49	£64,343.56
Meta (includes Facebook and Instagram)	£153,730	£123,440	£86,940

In December 2021, Google offered the FCA \$3m in advertising credits to be spent on its' Google Ads and YouTube platforms, which we are considering how to use most effectively. Our discussions with Google over recent months have also resulted in positive changes to Google's policies for verifying potential advertisers.

The table above does not include spending on other activities/campaigns which we have carried out through channels such as those run by Microsoft, Snapchat and TikTok. For example, the FCA has launched a new campaign, [InvestSmart](#), aimed at warning investors about the dangers of investing in high risk, high return investments. We are seeking to reach investors in spaces where they are consuming information and advice about investments, including TikTok and YouTube.

I hope the Committee finds this additional information helpful.

Yours sincerely,



Nikhil Rath
Chief Executive