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Written evidence submitted by TheCityUK

TheCityUK is the industry-led body representing UK-based financial and related professional services. We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK, across Europe and internationally that drive competitiveness, support job creation and enable long-term economic growth. The industry contributes over 12% of the UK's total economic output and employs nearly 2.5 million people, with two thirds of these jobs outside London, across the country's regions and nations. It is the UK's largest net exporting industry and generates a trade surplus exceeding that of all other net exporting industries combined. It is also the largest taxpayer and makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business, and protect and manage risk.

On the upcoming one-year anniversary of the government's Edinburgh Reforms, we are writing to the Treasury Select Committee to express support for the Committee's interest in the reforms. This is a comprehensive package which, if implemented effectively and alongside the Financial Services and Markets Act 2023 and Mansion House Reforms, should help boost the UK's competitiveness and attractiveness as a place for businesses to list, invest, operate and grow. It is our view that boosting the industry's competitiveness and securing the UK's position as a world-leading international financial centre is an investment in the nation's success and in growth across the country.

In response to the call for evidence, we would like to provide feedback on key aspects of the reforms, based on insights from our members across the industry.

A competitive marketplace promoting effective use of capital

Given TheCityUK's long-standing focus on optimising the UK's regulatory framework, we welcome the government's and regulators' ongoing initiatives and engagement on these issues.

Financial services regulation: measuring success

We welcome the new secondary objective introduced in the Financial Services and Markets Act 2023 for the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) to facilitate (I) international competitiveness and (ii) the medium to long-term growth of the UK economy. This provides an essential legislative foundation to balance regulatory priorities appropriately between sound oversight and fostering an environment where UK financial services can thrive domestically and internationally. Getting this balance right will be crucial for ensuring the industry can drive growth and opportunity across the UK. TheCityUK recommends the new international competitiveness and economic growth objective should apply to all regulators that impact on financial and related professional services. We are pleased the government are continuing to make progress on this, most recently with the updated remit letter sent from the Secretary of State for the Department of Business and Trade to the Financial Reporting Council (FRC) setting out the need for the regulator to contribute to promoting the competitiveness and growth of the UK economy.

We welcome FSMA giving HM Treasury (HMT) a new power to require regulators to report on their performance. The purpose of the power is to identify and address issues before they become ingrained and create significant and persistent negative impacts. However, transparency is also vital, so we welcome HMT's intention to require the regulators to publish performance metrics related to their secondary objective.

In response to HMT's May 2023 call for proposals on which metrics the regulators should publish, we provided a response proposing the following metrics, to be reviewed biannually, to indicate whether regulation is supporting competitiveness and growth:

- Regulatory burden on firms via an industry survey to assess the time, resources, and costs of compliance. This could highlight areas where streamlining may be possible.
- Application processing times benchmarked in granular detail against statutory deadlines, broken down by licence type. This would identify any backlogs.
- A regulatory perceptions survey to gauge industry's views on alignment of the regulatory approach with the secondary objective.
- International benchmarking analysis comparing UK regulation and regulatory burdens against key competitor jurisdictions. This perspective would highlight strengths and areas for improvement.
- Policy evaluation reviews by regulators to measure whether significant regulations are achieving their intended policy outcomes efficiently. This can identify potential fine-tuning while retaining positive elements.
- An annual industry satisfaction survey on regulators' operational performance, conducted by an independent third party to allow anonymous feedback.

These metrics and disclosures, if judiciously used, can empower stakeholders including Parliament and the public to scrutinise and encourage regulatory alignment with the secondary objective. However, any new data collection should avoid unnecessary duplication and carefully minimise reporting burdens on firms. To supplement these metrics, we suggest the regulators provide an easily accessible online 'dashboard' displaying key indicators of competitiveness and their trends over time. A public plan for evaluating critical regulations against the primary and secondary objectives should also be published annually. Furthermore, international benchmarking analysis comparing specific aspects of the UK regime against competitor jurisdictions would offer additional valuable insights. Focusing initially on major sectors like pensions and asset management would be prudent.

Overall, with careful design and collaborative input from industry, these mechanisms can shed light on the impacts of regulation and regulators' operational efficiency and effectiveness on the UK's global competitiveness in financial services. We believe openness and accountability will lead to balanced outcomes benefitting the wider economy, consumers and society.

Creating a 'Smarter Regulatory Framework' for the UK (SRF)

The government is repealing retained EU Law (REUL) in tranches. This phased, graduated approach for repealing and reforming REUL provides welcome predictability and stability for firms to adapt in an orderly fashion. Sequencing reforms into sensible tranches and stages is a prudent way forward. TheCityUK welcomed the initial focus on prospectus regulation, securitisation regulation, repealing the Packaged Retail and Insurance-based Investment Products (PRIIPs) regulation and the consultation on retail disclosure. We also agree that retaining aspects of REUL genuinely relevant for the UK, while proactively enhancing areas that can be tailored to UK markets, is positive.

TheCityUK has welcomed ongoing government engagement on REUL and looks forward to more granular guidance on the expected timing and sequencing of reforms under tranche 3. Even high-level indicative assumptions from government on likely sequencing over a 5-year horizon would aid firms in impact analysis and change management. Similarly, further directional guidance from HMT on the intended focus and scope of tranche 3 changes would allow businesses to channel analytical resources effectively. We appreciate that the government is still evaluating priorities in this space.

On the significant matter of designating activities, more detail is needed on the scope, objectives and timeline for implementation of these new regulations. Given the breadth of activities potentially captured, extensive consultation with industry on getting the architecture and calibration right from the outset will be critical. This is a foundational component of the new framework.

TheCityUK welcomed the addition of a Smarter Regulatory Framework section in the latest Regulatory Initiatives Grid (RIG). This helps to provide clarity to firms on future initiatives. Alongside the update in the RIG, we suggest establishing a single, user-friendly online portal as the centralised information hub for this entire reform programme. Easy access for firms to materials such as previous relevant publications, upcoming consultations, projected timelines, implementation phase status, draft Statutory Instruments (SIs), and contact points across regulatory bodies would provide immense value as businesses navigate this complex transition. In a similar vein, clarity from government on when calls for evidence versus full public consultations will be used for different reform areas would assist firms in understanding the scale of prospective changes under consideration and allow resources to be allocated accordingly.

Looking beyond specific repeals and amendments to REUL, maintaining the coherent operation of the new UK regulatory framework should remain a priority across government and regulators as cumulative changes are implemented. We suggest HMT issues guidance on how this alignment of approach and objectives will be achieved between the HMT, PRA, FCA and other bodies. Likewise, the creation of new rule review powers for HMT across regulators risks further fragmentation if processes are not coordinated carefully. Guidance on efficient cooperation between HMT and regulators when using these powers could maximise their benefits and industry confidence, while minimising duplication.

In summary, we reiterate our support for a calibrated, evidence-based approach balancing continuity with purposeful reform based on the UK's interests. We were pleased to see the government reaffirming its commitments to the Smarter Regulatory Framework reforms in its Autumn Statement 2023.

Regulators' operational efficiency

The culture and operational efficiency of regulators is one of the key factors that impact the competitiveness of a financial centre. Where firms perceive those processes as too complex, opaque, or subject to delays, it can undermine the UK's competitiveness and discourage further growth and investment. Conversely, where processes are simple, transparent, timely yet maintain necessary standards and rigour, they encourage faster investment decisions and support UK competitiveness.

Authorisations

One crucial area of regulators' operational efficiency is authorisations. In January 2023, we published a report on the topic of improving regulatory efficiency on authorisations. The report found that the UK's financial services regulatory authorisation processes can be slow, inefficient, and unpredictable, causing higher costs and reduced confidence for firms. We recommended that regulators should adopt a more commercially aware, efficiency-focused mindset. We also recommended that regulators should enhance transparency by publishing granular performance data and offering clearer guidance to firms. Finally, the report suggested that internally, regulators need better coordination, information sharing, and staff training and that processes should be digitised and streamlined where possible.

TheCityUK commends the FCA and PRA for the progress they have made on addressing the concerns in our report and for their continued engagement on this issue.

Senior Managers and Certification Regime

In our response to HMT's call for evidence on the Senior Managers and Certification Regime (SM&CR) in March 2023, we welcomed recent reductions in regulatory approval wait times, but recommended developing best practice guidance to further improve application quality and reviewers' capabilities.

While the regime overall does not require wholesale reform, targeted changes could enhance proportionality, risk-sensitivity, and competitiveness. We recommended:

- Narrowing approvals to focus on key roles like CEO and CFO, with notifications for other senior managers.
- Fast-tracking approvals based on previous similar roles or approvals in other jurisdictions.
- Reviewing aspects like remuneration rules and investigation lengths that may discourage senior role-taking.
- Clarifying the positioning and language used about individual accountability to reduce the complexity of decision-making.

Industry and investors prefer predictable, stable regulatory and policy regimes fostering growth over major redesigns every few years. Gradual improvements reflecting operational realities would better embed effective controls while maintaining the UK's attractiveness. Ongoing collaboration between regulators and industry can enhance the regime's effectiveness for all stakeholders.

A world leader in sustainable finance

Response to government's Green Finance Strategy

We welcomed the government's updated Green Finance Strategy earlier this year (TheCityUK response to Baroness Penn), which marked an important step towards net zero emissions. However, the UK must remain ambitious on climate action if it is to maintain its position as a global leader in green finance.

More detailed implementation plans, timelines, incentives and coordination are needed to ensure effective delivery. The government must provide long-term policy and financial clarity to attract and de-risk private investment in key technologies like carbon capture, green hydrogen, and wind power. He same applies to attracting and re-risking investment in the transition of businesses across the economy. The government also needs to ensure the UK competes effectively with green initiatives and incentives in other jurisdictions like the USA and EU.

To achieve the strategy's goals, we urge closer collaboration between government and the private sector. The government must take bold and ambitious action to demonstrate commitment to net zero transition through its regulations, funding schemes and coordination of infrastructure rollout. With the right approach, the UK can capitalise on technologies where it has advantages and continue attracting domestic and global sustainable finance.

The US Inflation Reduction Act highlights the increasing global competition for green investment. The UK must act urgently to remain an attractive destination for investment. This includes providing long-term policy certainty, targeted tax incentives, and coordinated support for industries where the UK has competitive advantages like offshore wind, carbon capture, usage and storage, and green hydrogen. The government should also consider public co-investment to catalyse private capital. Swift action is needed to signal the government's commitment to enabling the net zero transition.

HMT consultation on the future regulatory regime for ESG Ratings Providers

TheCityUK supports the overall direction of travel proposed in the government's consultation on bringing ESG ratings providers into the regulatory perimeter. There is clear justification for increased regulation of ESG ratings, to avoid potential and actual conflicts of interest, and to improve product quality and outcomes for users.

An intermediate step towards this will arise through the introduction of the voluntary Code of Conduct for ESG data and rating providers, the working group for which is supported by the International Regulatory Strategy Group (IRSG) (as co-secretariat with ICMA (International Capital Market Association)). The Code of Conduct is not, however, intended to be the final word on the matter of regulation for ESG rating providers, and the HMT proposals would seem the logical next step in this space.

A sector at the forefront of technology and innovation

The Bank of England's consultation on central bank digital currencies

TheCityUK responded to the Bank of England's consultation on central bank digital currencies, welcoming its exploration into a potential Central Bank Digital Currency (CBDC) for the UK. We have urged the Bank to closely examine the use cases for a CBDC, in collaboration with the industry. A retail CBDC could significantly alter the role and public perception of the Bank. Any rollout would require extensive public education.

We strongly encourage exploring wholesale CBDC, and we highlight that, with careful design, levels of security and confidentiality can be built into a CBDC. But further guidance is needed on data sharing between government departments and third parties. We recommend early focus on a privacy and data protection framework. The digital pound should also be designed to support the UK's net zero commitments, and not rely on energy-intensive technologies.

Overall, we support the Bank's continued exploration of a potential CBDC. But an open, coordinated approach is essential, recognising that a retail CBDC would transform the monetary system. Thorough cost-benefit analysis is required before committing to creation of a digital pound, incorporating private sector and public perspectives, to maximise the positive transformational impacts. A cautious approach is advisable given the risks posed, including to financial stability and the banking system. Any rollout would need extensive coordination and private sector collaboration.

While a CBDC could bring beneficial innovations, many questions remain unanswered regarding use cases, legal mechanisms and unintended consequences. The Bank should work closely with industry to ensure a digital pound provides clear benefits that outweigh the risks and challenges. Further analysis is still needed before pursuing a CBDC in practice.

TheCityUK would welcome an update on the Bank's approach on this important topic.

HMRC consultation on investment transactions to benefit from the investment management exemption

HMRC published a consultation earlier this year looking to expand the list of investment transactions allowed to benefit from the investment management exemption (IME) to include cryptoassets. HMRC sought feedback on the definition of cryptoassets to be used, and the likely types of funds that would benefit from inclusion of cryptoassets in the IME.

TheCityUK believes the consultation was a good first step towards achieving clarity in the tax space in relation to cryptoassets. There will be several changes to regulation needed to ensure the tax system is able to cope with the fast-paced change in this space. Tax rules should, as much as possible, be consistently applied to similar financial instruments or similar activities. There is a risk of loopholes and arbitrage arising in relation to crypto, of which regulators and government should be mindful.

Implementing a Financial Market Infrastructure Sandbox

TheCityUK supports the proposal of Digital Securities Sandbox (DSS) and the approach that the DSS facilitate trading in at least debt, equity and money market instruments, and certain other financial instruments. The framework for the DSS should be drafted broadly enough that any innovative trading and settlement proposals for other financial instruments (including exchange traded derivatives and units in collective investment schemes) can be considered on a case-by-case basis.

TheCityUK broadly agrees with eligibility as set out by HMT and that the DSS should not focus on facilitating markets in unbacked cryptoassets. We look forward to seeing the published response to the government's consultation on DSS in due course. We were happy to see the government reaffirming its commitment to lay a Statutory Instrument (SI) to implement the DSS in its Autumn Statement 2023. TheCityUK would be happy to discuss the DSS in further detail if this would be helpful.

A new class of wholesale market venue which would operate on an intermittent trading basis

TheCityUK supports the initiative to develop a new class of wholesale market venue. It will be important that the venue effectively balances the interests if private companies and investors, whilst ensuring market structures are not compromised. TheCityUK looks forward to hearing more detail on this from the FCA in due course.

Delivering for consumers & businesses

TheCityUK welcomes the government's commitment to work with the regulators and industry to ensure the sector is delivering for people and businesses across the UK. A key part of this work will be to ensure that the UK is taking a long-term view of financial markets and proactively reviewing regulation and policy to support good outcomes for consumers.

Consumer advice and guidance should help consumers make well informed and confident decisions that support their financial resilience and good outcomes. Greater use of high quality advice and guidance to invest for the long term can not only support good consumer outcomes, but boost the supply of capital to support the growth of companies across the UK.

TheCityUK is developing thought leadership, with supporting case studies, on how policy and regulatory culture can shift away from risk elimination to a greater appreciation of the necessity and value of taking risk – such as equity investment – to support good long term outcomes for individual savers and the UK economy. We would be happy to discuss this further with the Committee.

Conclusion

In summary, TheCityUK's overarching recommendation is to ensure that implementation of the Edinburgh Reforms and Mansion House Reforms strengthen the UK's competitiveness as one of the world's leading international financial centres, while upholding strong regulatory standards that support trust and confidence in the UK system. Reforms should build on efforts by regulators, industry and government to drive growth and the best possible outcomes in the long-term for businesses and savers.

The proposed metrics and reporting on regulatory performance and competitiveness will enhance accountability and provide insights to inform calibration of proportionate regulation for optimal outcomes. While judicious reforms tailored for the UK have merits, transparency and clarity of scope, timing and process is crucial to enable constructive industry input and adaptation. Coherent oversight across regulatory bodies should remain a priority as changes are implemented.

Ongoing coordinated engagement between government, regulators and industry is crucial to ensuring that the UK's regulatory environment evolves predictably, proportionately and effectively, to benefit consumers and sustainable growth across the wider economy. The government needs to focus on ensuring an attractive environment for investment to drive long-term growth and support the transition to net zero. Considered and proportionate fine-tuning of rules will drive growth and innovation across the financial services industry and the wider economy.

We hope our evidence provides constructive insights into how the UK can boost the competitiveness and vibrancy of its financial and related professional services industry, and maximise the industry's enabling role across society and the economy.

Please do contact us if you would like to discuss any of the above.

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