

BlackRock UK – Written evidence (SCG0004)

BlackRock¹ is pleased to have the opportunity to respond to the Financial Conduct Authority (FCA) and Prudential Regulation Authority's (PRA) Secondary Competitiveness and Growth Objective Inquiry issued by the Financial Services Regulation Committee.

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs.

We welcome the opportunity to comment on the issues raised by this inquiry and will continue to contribute to the thinking of the Committee on any issues that may assist in the final outcome.

Executive summary

The UK's well-respected financial services industry continues to enjoy the benefits of robust governance and high regulatory standards set by world-leading regulators. The regulators commendable forward-thinking approach towards developing a proportionate and predictable outcomes-based regulatory regime has afforded the UK a competitive advantage that other markets are seeking to emulate. The FCA's work on Long Term Asset Funds (LTAF), has helped to strengthen the UK's investment case as an international financial centre, bringing confidence to domestic and international investors alike.

While a competitive and attractive financial services sector is built on a proportionate and predictable regulatory framework, political stability and certainty remain equally important. A clear and consistent strategic vision set by Ministers can help to signal a continued openness to investors committing long term capital to the UK market at their clients' behest. This includes striking the right balance between appropriate investor risk taking and returns. If the balance between investor risk-taking and returns is to be recalibrated, then politicians across the political spectrum will need to give consistent support to regulators.

We continue to believe in the appropriateness of the competitiveness and growth objective being secondary in nature. An approach to

¹ BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

regulation that does not strike the right balance between the regulator's primary and secondary objectives could ultimately undermine the integrity of markets and compromise the UK's reputation as a global financial services centre. This balance is essential to maintaining a robust, expert, high-quality regulatory ecosystem that encourages investment and growth.

With the one-year anniversary of the passage of the Financial Services and Markets Act (FSMA), it is right, however, that the FCA and PRA's implementation of their new objective is subject to Parliamentary scrutiny. It is important to understand what the regulators are doing well and where there is opportunity for improvement. HMT and other regulators including The Pensions Regulator (TPR) should all be included in this discussion. This is essential to promoting collaboration across the policymaking landscape and ensuring that the breadth of policy initiatives do not conflict with or offset the benefits of one another.

Responses to questions

This response is intended to highlight those thematic areas where we believe that further attention by the Committee is warranted. We welcome the opportunity to comment on the issues raised by this inquiry and will continue to work with the Committee on these matters and other topics.

Q1. What opportunities or changes should be prioritised in order for the regulators to meet their secondary growth and competitiveness objectives effectively?

Q2. To what extent are the regulators focused on the objective to promote international competitiveness and growth? Are there areas where the ability of the regulators to fulfil their secondary objectives might be constrained by having to fulfil their primary objectives?

Q3. What are some of the barriers in the current regulatory framework (including the role and responsibilities of other regulators and bodies such as the Payment Systems Regulator, The Pensions Regulator and the Financial Ombudsman Service) that could hinder efforts to drive economic growth and international competitiveness in (a) the UK economy and (b) the financial services sector?

While it is right that Ministers set the broad objectives and principles for financial services regulation, it is worth emphasising that the independence, expertise, and quality of the UK's regulators underpins the competitiveness and reputation of its financial services industry.

This extends to the regulators ability to interpret the current regulatory framework. The hierarchy of objectives resolves this conflict and rightly prioritises the protection of consumers and market integrity, and promotion of competition. We should avoid relitigating the current framework and instead focus on opportunities to develop a proportionate and predictable outcomes-based regime that upholds high regulatory standards.

To that end, we should acknowledge where the regulators have made genuine progress on growth and competitiveness. For example, we are very supportive of the work undertaken by the FCA and HMT to close the advice gap. As the regulator has outlined there is a need for reform of the advice-guidance boundary to enable firms to provide their customers with more engaging forms of support that aid their financial decision making. We believe that the proposals outlined in the policy paper published earlier this year have the potential to both meaningfully impact the financial wellbeing of people across the UK and help to support growth in the wider economy.

One area where we do see regulatory limitations is in the current Financial Services Compensation Scheme (FSCS) framework. We remain concerned that, because the cost of FSCS compensation is disproportionately borne by the whole industry, it does not effectively address the specific sectors generating the failures akin to a 'polluter-pays' model. This contributes to a rising cost of doing business in the UK financial services industry. We strongly agree that retail investors should be protected from the potential costs of misconduct or poor advice. However, we do not believe that funding compensation through cross-subsidy between different sectors enhances trust and confidence in financial services. Compensation is a consequence of conduct failures, and it is the fact that conduct failures have occurred that reduces consumer trust and confidence, regardless of whether compensation is paid. We continue to believe that it is important to go back to first principles on the rationale for the FSCS and make fundamental changes to its structure and operation.

More work is needed to ensure that regulatory policy is designed with a clear strategic vision in mind. Doing so will help to address what can sometimes be a confusing policy environment for firms to navigate. This requires closer coordination between regulators and government. This is the case in the pensions sector, where the FCA, TPR, HMT and Department of Work and Pensions (DWP) each have policymaking responsibilities can lead to consumer and industry confusion. The FCA's Consumer Duty for example, applies to certain pension schemes while others find themselves exempt with their trustees instead regulated by the TPR. A similarly piecemeal approach is evident regarding stewardship with the DWP and the

Financial Reporting Council (FRC) both responsible for asset owner reporting on stewardship policy and voting.

Q4. Do the regulators have the right capability and capacity to fulfil their regulatory objectives on growth and competitiveness? To what extent might the culture of the FCA and PRA influence their ability to fulfil their growth and competitiveness objectives?

We recognise the regulators' efforts to address the turnover in supervisors. A lack of continuity can affect the quality of supervisory engagement and its ability to drive better outcomes for firms and consumers alike.

In addition, capacity constraints exist in the FCA and PRA's product authorisation processes. It is important they do not inhibit access to a wide range of products for UK investors. Overly complex, administrative, or time-consuming authorisation processes could disincentivise fund managers and increase the time for products to get to the UK market. This could ultimately reduce the desirability of the UK as an international financial centre and/or lead to sub-optimal outcomes for UK retail investors wishing to invest in a range of products when compared to their European counterparts. We welcome the regulators concerted effort to address their capacity constraints and commend the adoption of digitisation to streamline the process.

Q5. How effectively have the FCA and PRA consulted or engaged with industry in relation to the new secondary growth and competitiveness objective?

The regulatory consultation process by and large works well, affording industry the opportunity to comment on consideration for the new objective on an issue-by-issue basis. Informal consultation through roundtables and meetings with trade associations is similarly effective. Coordination between regulators and government is essential to ensure consistency in policy design but also to ensure that the volume of initiatives remains proportionate and predictable in design.

Q6. In delivering their secondary objective on growth and competitiveness, what opportunities are there for the regulators to help to promote and support innovation in the financial services sector? How effective has the FCA's regulatory sandbox been for supporting greater innovation in the financial services industry?

We recognise that the FCA's suite of innovation services including the regulatory sandbox are market leading and have proven to be a competitive advantage for the UK as a FinTech hub, with numerous overseas regulators looking to set up their own versions. The appeal of the sandbox is limited to start ups and with the FCA's desire to do more in technology innovation – including around tokenisation and artificial intelligence (AI) – there is greater scope for experimentation at a scale that would incentivise knowledgeable incumbents to participate.

Qs7-8. No answer.

Q9. Does the requirement within the secondary growth and competitiveness objectives to align with international standards create any constraints to fulfilling those objectives?

We strongly support the pragmatism adopted by regulators in avoiding divergence for divergence's sake and we recognise the willingness of the FCA in reviewing onshored EU files where sensible. The power to decide how to strike the balance between pursuing competitive advantage versus maintaining alignment with other markets properly rests with government and Ministers who should consider this on a case-by-case basis.

We were supportive of the FCA's work to foster an internationally competitive listings regime for the UK that encourages a diverse range of companies to list and grow in the UK. We strongly believe however that this ought to have included appropriate mechanisms to hold companies to account. As a compromise solution and to avoid introducing additional friction to the Initial Public Offering (IPO) process, we suggested to the FCA that there should be a mandatory review clause with a continuation vote in Dual Class Share Structure (DCSS) arrangements at the point of IPO. This proposal was not taken forward with the FCA instead prioritising international competitiveness over investor protection.

Q10. Are the existing accountability measures around the secondary growth and competitiveness objective adequate?

We welcome the founding of the Financial Services Regulation Committee, which alongside the Treasury Select Committee (TSC) is the proper place to hold regulators to account in forensic detail. Both Committees are equipped to weigh the regulators implementation of the secondary objective and the government's broader objectives for financial services.

Q11. Are there examples of regulatory policies in other jurisdictions that should be considered by UK regulators to

help facilitate the new secondary objective? What might the FCA and PRA be able to learn and apply from comparable supervisors in other markets in terms of applying secondary objectives on growth and competitiveness?

We would emphasise that financial services regulation alone cannot fuel the UK's growth and competitiveness. The available labour supply and its mix of skills, industrial strategy, tax policy, planning policy and the fiscal environment all influence the UK's attractiveness and incentivise investment. Policies for these areas also need to be cohesive, proportionate and predictable. What we see working well overseas are fiscal incentives targeted at the development of key growth areas. In France, for example, fiscal incentives are provided to encourage investment in Small and Medium Enterprises (SMEs). This leads us to conclude that we need to look beyond the FCA and PRA for enhancing the UK's competitiveness.

3 October 2024