Financial Conduct Authority (FCA) – Written evidence (SCG0074)

Thank you for your email of 31 January and subsequent letter of 13 February relating to our secondary objective for international competitiveness and growth (SICGO). We are happy to provide the following responses as written supplementary evidence.

1. **In response to Lord Eatwell's question on the relative proportion of investments made in primary and secondary markets (Q. 334, pg. 12), Mr Rathi helpfully noted existing metrics published by the FCA on IPOs and associated capital raisings and stated that for more detail the FCA "would lean on ONS data," (Q. 334, pg. 12). If you are able, please suggest any ONS data sets that may address Lord Eatwell's question.**

The ONS publishes a range of data related to investments, pensions and trusts.[1] Their data sets on ownership of UK shares, business investment, gross fixed capital formation, and foreign direct investment involving UK companies, may be a useful starting point.[2] [3] [4] [5] Our next strategy will include metrics we will track on growth and innovation.

2. **In response to Baroness Bowles' question on the FCA's position on Advanced Commission Arrangements (Q. 335, pg. 16), Mr Rathi undertook to respond in writing. Please provide a summary of the FCA's position on whether Advanced Commission Arrangements comply with existing regulation, noting any relevant handbook sections.**

We are aware that the commercial relationship between motor finance lenders and brokers involves various types of advance payments being made. As a result of the concerns raised by Baroness Bowles and additional context provided by others, we will look into this to understand the nature and impact of these arrangements. The relevant FCA Rules and Principles concerning both discretionary and fixed commissions are set out in our letter to the Committee on 17 January 2025.[6]

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[1] https://www.ons.gov.uk/economy/investmentspensionsandtrusts/datalist?filter=datasets

[2] https://www.ons.gov.uk/economy/investmentspensionsandtrusts/datasets/ownershipofukshares

[3] https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/businessinvestment

[4] https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/grossfixedcapitalformationbysectorandasset

[5] Foreign direct investment involving UK companies (directional): outward - Office for National Statistics

[6] https://committees.parliament.uk/publications/46298/documents/233083/default/

3. **In response to Baroness Bowles and the Chair's questions on the background and training of FCA staff (Q. 335, pgs. 19-20), Mr Rathi undertook to provide the requested data. As such, please provide:**

   a. **The retention rates for experienced staff and more recent hires.**

Recognising the importance of both retaining experienced staff and incorporating new talent, we have always looked to ensure that we maintain an appropriate balance between new colleagues and those with significant tenure. At the end of 2021, there were approximately 1,205 colleagues with over eight years of service at the FCA (a proxy we use to measure the number of most experienced colleagues). This number has been steadily increasing each year, and at the end of January 2025 we had 1,513 such colleagues (an overall increase of 308 or 25.6%). Meanwhile, the retention rate of colleagues with over eight years of service is 96.2%, its highest to date. For more recent hires (colleagues with less than two years of service), the retention rate is 91.9%. The retention rate is defined as the percentage of people employed 12 months ago that are still employed today.

Our overall annualised voluntary turnover rate is currently running at 6.2%, which is the lowest since the FCA was established (with the exception of the year of the pandemic lockdowns).

   b. **The numbers of junior and mid-level staff with experience working in financial services firms.**

We currently only hold data for 40% (1,600 colleagues) of employees in the Regulation and Supervision Hub job families, who have joined us since 2021 as this is when we began collecting this data. It only shows the immediate prior employment of the individual, and does not include graduate or apprentice roles. Many colleagues, both in the Regulation and Supervision Hub job families and elsewhere, will have experience working in financial services not captured in the below data.

Over recent years, we have strengthened the capability of our workforce significantly with a balance of external appointments and internal movements. In our Regulatory and Supervision Hub job families, we are fortunate that through our recruitment we are now able draw on a wealth of experience that originates from the financial services sector (25%), government departments (17%), other financial regulators based in the UK and abroad (11%), and law enforcement agencies (5%) as well as our own internal talent who have moved into these roles. The remainder of employees have joined us from a range of other industries, for example consulting, technology and retail.

Sector	Number of	Percentage of workforce

	employees	
Financial Services	402	25%
Government	276	17%
Financial Regulators (UK & Abroad)	176	11%
Consulting	94	6%
Technology	80	5%
Law Enforcement	74	5%

c. A summary of the FCA's approach to ensuring supervisory staff understand the sector and business model of the firm they regulate.

Business model and strategy analysis is a core part of our supervision learning pathway, and all new supervisors are required to complete this as part of their induction. We recruit for a range of skills, including sector knowledge and technical expertise.

A colleague joining one of our supervisory teams will complete a mixture of instructor-led training, self-led learning and on the job development. In addition to business model and strategy analysis, other topics as part of their learning pathway include our approach to supervision and financial analysis and prudential risk.

Colleagues will also receive guidance and training relevant to the sector they are working within, such as retail banking or insurance. This sector specific content will include sections on business models and financial analysis, which was implemented following Dame Gloster's Independent Review into London Capital & Finance.[7]

4. In Mr Rathi's 16th January letter to the Prime Minister he noted that it would be helpful if Government provided the FCA with metrics for tolerable failures, to help calibrate the FCA's risk appetite. Please respond to Lord Hill's request that Mr Rathi suggest the metrics he would find most helpful.

The Government has clearly indicated that to support economic growth, it would like regulators to allow more risk into the system and take more risk themselves, for example to go significantly further on innovation and use of technology.

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7 https://assets.publishing.service.gov.uk/media/5fda3d698fa8f54d60878b2f/Gloster_Report_FINAL.pdf

As set out in our letter to the Prime Minister and previous evidence to the Committee, the FCA is embracing this agenda and playing a significant leadership role, with a notable number of reforms already delivered and many more underway.

To help secure this shift in risk appetite on an enduring basis, we have spoken about metrics for "tolerable failures" or "tolerable harm". This is to recognise that allowing more risk into the system could produce benefits in terms of growth and competitiveness, whilst at the same time allowing more failures and a degree more consumer harm. We consider securing as broad a consensus around this as possible will make a significant difference to the effective delivery of the regulatory reform agenda.

While we consider it is for the Government to lead in articulating in more detail its thinking on risk in the system and in the reform areas it is most focused on, we share below some very initial thoughts for debate and discussion. This may also be an area for a degree of experimentation and iteration as we learn from experience.

Different types of metrics might be considered alongside the statements already made by the Chancellor in her most recent remit letter to the FCA, where she recognises 'that there are difficult trade-off to make, and I commit to the government supporting you in this'.[8]

Systemwide metrics

In 2021, we set an ambition to reduce the size of the FSCS levy which had risen considerably in preceding years, with estimates at that time of future levies rising to as much as £1bn. Last year's levy was £270m and next year the levy is forecast to be £394m. The levy may be considered a loose proxy for failure in the system resulting from firms that may fall insolvent or where there may be fraud which requires compensation. The FCA has taken significant action on prevention to drive this sustainable decline. As more risk enters the system, it could be acknowledged that this may manifest itself over time in a higher compensation levy and an acceptable range for a tolerable compensation levy could be established (excluding very large one-off levies e.g. for a major firm failure).

The FCA has a large regulated firm population of over 42,000 firms and is the prudential regulator for all firms solely authorised by us. We work together with the Prudential Regulation Authority (PRA), which is the prudential regulator for approximately 1,500 banks, building societies, credit unions, insurer and large investment firms. As a normal part of the economic cycle, a

[8] https://assets.publishing.service.gov.uk/media/673712ee12f25d73081271e8/CX_Letter_-_Recommendations_for_the_Financial_Conduct_Authority__FCA__-_Nikhil_Rathi_14112024.pdf

certain percentage of firms will fail/fall insolvent each year. A range of tolerable levels of insolvencies could be debated correlated with risk appetite.

The last Government set targets to reduce the growth of economic crime. This implicitly accepted that a certain level of fraud and economic crime would continue. These metrics could be updated in light of the evolving view on regulatory risk appetite, including around the intensity of anti-money laundering and broader financial crime controls.

In the area of financial stability, there has been considerable academic work on the likelihood/frequency of significant bank failures. There has been less research into the similar potential pattern of major conduct events, which damages confidence and trust in the regulatory system. It may be useful to study and then agree what would be a tolerable level/number of major conduct events over a multi-year time frame.

As well as quantitative systemwide metrics, an overall risk rating could be considered either at a systemwide level or for individual sectoral areas (see below). The Government could indicate whether it wishes to see a high level of risk in the system and is willing to tolerate a high level of consumer harm or whether the appetite is medium or lower. We could then work with the Government to define these different potential risk appetites more concretely.

Some examples on systemwide metrics are set out in the table below.

Consumer protection	Competition	Market integrity	Growth and competitiveness
• #of consumers in financial distress does not grow by more than x% year on year • FSCS payouts do not grow by more than x% year on year • FOS complaints do not grow by more than x% year on year • Level of fraudulent payments do not grow by more than x% year on year	• Number of firm insolvencies does not exceed # in a year • Measure of competition in FS market does not decline by more than x% year on year. For example, as measured by concentration and customer satisfaction in key products (current accounts, general	• Market cleanliness statistic does not decline by more than x% year on year • Trust/ confidence in financial services by users does not fall more than x% year on year	• Overall regulatory burden to firms does not grow by more than x year on year • UK does not fall more than x places in international financial services competitiveness tables • Access to lending for SMEs and businesses does not decline by

	insurance, asset management) • # of firms that do not pass the authorisation gate no more than x% of total applications		more than x% year on year

Sectoral metrics

Such systemwide metrics could be complemented by metrics or high/medium/low risk indicators for specific sectors. For example, a metric indicating that the number of mortgage defaults/ repossessions does not grow more than x% or stays within a certain range. A similar indicator could be provided for other markets.

We have provided some examples in Annex A below.

Consumer harm analytics

As part of tax policy changes, there is often systematic and detailed consideration of "winners" and "losers" with detailed financial modelling informing decision making.

This is much harder to achieve in relation to regulatory reform and consumer harm. Nevertheless, some work in this area building on the discipline of CBA may be helpful to inform some of the discussion around tolerable failure/harm metrics.

For example, as we are progressing significant joint initiatives such as the Advice Guidance Boundary Review, some thought could be given to the percentage of consumers who may get a less customised/less good outcome than currently as a result of the mass market being potentially much better served.

The Government could indicate that it has a high or very high risk appetite in relation, for example, to consumer harm that may flow from crypto markets given its assessment of the potential benefits of the innovation. Consumer harm could be measured not just by the risk of significant financial losses, but other consumer harms e.g. gambling and other addictions as measured by attendance at clinics, a point made recently in relation to crypto products by the Chief Executive of NHS England.

Transition metrics

A number of areas of significant difficulty in the past have involved transition of new areas into the regulatory perimeter. We have seen difficulties in the areas of peer to peer lending, funeral plans, crypto firms and consumer credit firms more broadly.

The FCA's main initial lever for tackling/preventing consumer harm in areas being brought into the regulatory perimeter is at the point of authorisation. We have very limited ability to tackle problems that already exist prior to this point. Clearer acknowledgement of this point during the legislative process which specifies perimeter changes would be beneficial.

For example, in relation to funeral plans, the FCA did not permit certain firms to secure an authorisation as they did not meet regulatory standards. The failure of these firms has been distressing for affected consumers who took out products which they relied on with an unregulated firm or firms that failed. A clearer articulation and acknowledgement during the legislative process that such harm is a consequence of the time taken to move a new area into the perimeter while Government and Parliament legislate would provide valuable clarity.

This is relevant, for example, in the discussion around deferred payment credit entities (or buy now pay later firms). The Treasury consulted a number of years ago on their inclusion in the perimeter and legislation to enable this may be forthcoming to enable the move in 2026. While the FCA has acted where we can using our existing powers in relation to certain harms, there are other well publicised potential harms in relation to customer treatment where we have not had the powers to act and have not devoted resources. It may be the case that some firms do not meet the regulatory standards needing to be authorised, resulting in negative consequences for their existing customers.

5. What steps and reforms are you taking forward to proactively help improve the UK's international competitiveness and to facilitate growth? This should include specific reference to:

a. **Specific rule changes that will improve the UK's competitiveness and growth, and allow more risk in the system**
b. **Reforms to the FCA's approach to supervision, how it will improve operational efficiency, and address some of the challenges the Committee has received evidence on.**
c. **What the FCA is doing to facilitate investment into primary markets, infrastructure and other productive assets.**

Our letter to the Prime Minister set out what reforms we will take in 2025 to drive growth and investment and improve the UK's competitiveness. This built on measures we outlined in response to the Chancellor's remit letter.[9]

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[9] https://www.fca.org.uk/publication/correspondence/fca-response-treasury-remit-letter.pdf

We have been embedding the secondary objective across the organisation, and supporting the growth of the financial services sector and the UK economy will be a cornerstone of the FCA's next strategy, covering the period 2025 to 2030. Our strategy emphasises further strengthening our operational effectiveness and efficiency, including harnessing the use of data and technology at scale and streamlining administrative burdens, to ensure that our regulatory regime is proportionate and competitive. It also prioritises tackling financial crime, noting its negative impact on economic growth and the toll on affected consumer and businesses, and enabling people to make the most of their money through a focus on improved consumer resilience.

We have welcomed this Committee's inquiry and we look forward to working with you and other stakeholders as we move towards the implementation of our strategy.

a. Specific rule changes that will improve the UK's competitiveness and growth, and allow more risk in the system

Specific rule changes that will improve the UK's competitiveness and growth include a new simplified listing regime and reforms to the commodity derivatives regulatory framework. We are also currently consulting on a range of measures including proposals to support the Public Offers and Admissions to Trading Regulations and considering responses to our Call for Input on how we might streamline the handbook to reduce the regulatory costs for firms.

b. Reforms to the FCA's approach to supervision, how it will improve operational efficiency, and address some of the challenges the Committee has received evidence on.

We know that firms would like us to be clearer about our supervisory priorities and what it means to supervise against outcomes-focused regulation, as well as how we use the data we collect while reducing the burden of providing data. To address this, we are:

- Reviewing and, where appropriate, rationalising the data we collect. For example, as part of our broader Transforming Data Collections Programme, our Data Decommissioning Project has already identified three redundant regular returns, and we will be consulting to remove these requirements in the coming months, potentially benefitting 16,000 firms.
- Being clearer about our priorities and planned activities and focusing resource.
- Better using data analytics and technology, including AI and Large Language Models.

- Using market-level analysis to proactively identify and prioritise risks of harm to markets and consumers, as well as identifying opportunities to nurture growth and innovation in financial services.

More broadly, we continue to build upon significant improvements in our operational efficiency. Our latest Q3 2024/25 authorisations data being published this week shows we have met statutory deadlines in 99.3% of cases. While we expect this number may fluctuate, we will continue to improve our authorisations process to reduce timescales and cost.

We do report the Equivalent Annual Net Direct Cost to Business of new regulation each calendar year in our SICGO metrics. Whilst there are no reliable international comparisons of cost of compliance, as set out in research by TheCityUK, ultimately firms' experience is tied to their own risk appetite in different jurisdictions and relative costs of forms of compliance.[10]

We have noted the evidence reflecting on the challenges faced by smaller firms, and the need to support and keep innovative UK companies in the UK. We are undertaking a number of measures to provide greater support to firms, particularly to help start-ups and smaller firms succeed and scale in the UK. Specific measures include providing a dedicated case officer to every firm in our regulatory sandbox, increasing the number of dedicated supervisors for early and high growth firms by 50%, and noting the importance of regulatory authorisation within start-ups' funding cycles, indicating more frequently that we are 'minded to approve' promising start-ups to help them secure funding. Recognising the success of our pre-application support, we are extending this to all wholesale, payments and crypto firms.

c. What the FCA is doing to facilitate investment into primary markets, infrastructure and other productive assets.

In our inquiry session we welcomed the opportunity to discuss with the Committee a number of measures that we are taking to support investment in the UK economy, including better supporting UK innovative companies to scale through improved access to capital via measures such as the long-term asset fund structure and PISCES.

We recognise our role in mobilising productive investment in the UK, and consequently are undertaking a number of ambitious reforms of wholesale markets, including implementing a new prospectus regime, reducing frictions for issuing lower denomination bonds, and launching a consolidated tape to improve fixed income data accessibility. We are also supporting new innovative markets, including progressing a digital securities sandbox with an accompanying roadmap for digital assets, placing the UK at the forefront of

[10] https://www.thecityuk.com/our-work/advancing-international-competitiveness-and-economic-growth/

innovation, for example. We are accelerating work including our review of capital requirements for specialised trading firms to improve liquidity.

Moreover, we are better enabling savers to invest more effectively, and improving access to help. Specifically, our reform of the value for money framework for pensions targets better long-term returns, and we created the Long Term Asset Fund (LTAF) regime to support this. We are also progressing our Advice Guidance Boundary Review to improve the provision of affordable financial advice in a commercially viable manner, and reforming online tools to improve consumer understanding of their pensions.

Finally, we recognise the role we can play in working with Government, trade bodies and others to support the attractiveness of the UK to international investment. Specific measures we have committed to include expanding our presence in the US and Asia, bolstering our visibility and openness to senior-decision makers and international investors. We also remain committed to continuing to be a global thought-leader, with recent successes including our inaugural International Capital Markets Conference which brought to the UK over 200 industry leaders and regulatory stakeholders to lead and shape the debate on the role of capital markets in supporting economic growth, demonstrating our convening power.

6. The Committee has received evidence to suggest that the FCA is stepping beyond its statutory remit. Where does the FCA see the line between advancing its statutory objectives and stepping into the way in which firms choose to run themselves?

a. It has been suggested that the FCA has been given responsibility for non-financial services issues that lay outside of its statutory remit. What are your reflections? Where is the line between having regard to issues outside of financial services versus taking responsibility for them?

The perimeter of our responsibilities is set by Parliament and amending it requires the Treasury to make legislative changes. It is important that our perimeter is kept updated to reflect product, service and technological developments.

Where we think a perimeter change is needed, or to advance one or more of our objectives, we raise this with the Treasury, and publicly through our Perimeter Report. This could include extending our perimeter to prevent significant harm, or clarifying the scope of our perimeter. We published our latest Perimeter Report in December 2024.[11]

[11] https://www.fca.org.uk/publications/corporate-documents/perimeter-report

The Treasury Select Committee has previously recommended that we have the power to recommend perimeter changes, and for the Treasury to respond to this. This is something we support. Other bodies, such as the Bank of England's Financial Policy Committee (FPC), have this power. We think that this would increase transparency in line with the overall enhanced accountability initiatives set out in FSMA 2023.

We appreciate the interconnected nature of the financial services sector with the wider economy. Financial services regulation inevitably affects, and is influenced by, wider social and economic policies. We regulate within the scope of our remit, but in a way that can support the overall economy. For example:

- We do not set climate policy, but we can regulate how financial services firms disclose climate-related risks.
- Although mortgage lending is regulated by us, the housing market is not. House prices and housing policy are influenced by wider economic factors.

To avoid conflicts where policy areas overlap, we work with, for example, the Treasury, other government departments, and other regulators to ensure our rules are proportionate and effective. Moreover, the Chancellor writes to us through a remit letter, setting out the areas of Government economic policy we should have regard to when exercising our general functions.

We recognise there are some areas of our work where delivery of our objectives may intersect or be seen to intersect with wider social policy. The most recent and often cited example of this is our joint work with the Prudential Regulation Authority on diversity and inclusion. In such areas we progress carefully and after extensive discussion and consultation. In that case, we published a Discussion Paper in 2021 which explicitly discussed the role we could play as regulators and the links to our statutory objectives.[12] The majority of respondents agreed this was an area where there was a clear role for the regulators. Furthermore, in June 2023, our new secondary international competitiveness and growth objective came into force.

We also, however, recognise that given our primary focus on financial services markets, non-financial public interest considerations may be better addressed through the expertise of other relevant or regulatory or government bodies. Therefore, with the government planning work on employment rights, equality actions plans and pay gaps, we're considering next steps following our consultation with the Prudential Regulation Authority.

b. How many 'Have Regards' does the FCA have, and do these make the rule-making process unduly burdensome? Could these be

[12] https://www.fca.org.uk/publications/discussion-papers/dp-21-2-diversity-and-inclusion-financial-sector-working-together-drive-change

consolidated or removed without meaningfully affecting the FCA's ability to advance its statutory objectives?

There are eight regulatory principles set out in s.3B of FSMA 2000 (as amended), which we have a duty to have regard to when discharging our general functions. These functions include making rules, issuing codes, issuing general guidance, and determining the policies (internal and external) and procedures about how we carry out our specific functions. They don't apply, for example, to specific supervision, authorisation, or enforcement decisions, but will apply when we determine our policies and approach to how we generally carry out those functions. We share these s.3B principles with the Prudential Regulation Authority (PRA). The Treasury's s.1JA remit letter, the most recent of which was sent to the FCA on 24 November 2024, also contains several considerations to which FCA must have regard and which apply in a cross-cutting manner.[13]

In addition to the duty to have regard to the s.3B regulatory principles and the considerations set out in the remit letter, there are around eighty other 'have regards' that apply to FCA - including those that are embedded within the framing of our objectives. These are predominantly found throughout FSMA 2000, and most only apply when we are carrying out specific functions. Some of these are sectoral 'have regards' that HMT has created under s.138EA FSMA in statutory instruments facilitating the repeal of assimilated law and its replacement with regulators' rules.

'Have regards' also appear in other non-financial services legislation that, as a public body exercising our functions, we are also required to consider, for example the public sector equality duty in the Equality Act 2010.

While we appreciate the importance of having regard to certain factors as part of a robust policy and rule-making process, requiring us to consider multiple and multi-faceted 'have regards' adds complexity to our policy and rule-making process, and risks slowing down decision making. Each 'have regard' necessitates careful consideration, which needs to also be balanced with other have regards and against the advancement of our statutory objectives.

We consider there is space for consolidation, without compromising regulatory effectiveness, or undermining the rule-making process, or our objectives. And this is something we've previously suggested. For example, in the context of the repeal of assimilated law and replacement by rules in the regulators' rulebooks, we have suggested that where policy considerations are relevant to multiple areas of regulation, it may be more appropriate to reflect these in cross-cutting regulatory principles rather than in numerous specific 'have

[13] https://assets.publishing.service.gov.uk/media/673712ee12f25d73081271e8/CX_Letter_-_Recommendations_for_the_Financial_Conduct_Authority__FCA__-_Nikhil_Rathi_14112024.pdf

regards.' We're pleased to see this suggestion being played out in practice, although this could go further.

d. How does the FCA have regard to financial literacy in the UK when advancing its statutory objectives? How does this inform the FCA's standard of regulation and stringency of supervision?

We do not have a statutory responsibility or a 'have regard' to improve financial literacy / capability or to provide financial education, as this was removed following the FSA's transition to the FCA and the creation of the Money and Pension Service (MaPS). However, we do have an objective to secure an appropriate degree of consumer protection for consumers and, as part of this objective, we must have regard to a number of factors including the differing degrees of experience and expertise that different consumers may have, the needs that consumers have for timely information and advice, the general principle that consumers should take responsibility for their decisions and the general principle that those providing financial services should provide a level of care appropriate to the risk involved and the capabilities of the consumers in question.

We need to understand consumers' capabilities in order to set the right standard of consumer protection in our rules and guidance. For example, a lack of financial capability can be a driver of consumer vulnerability. We monitor firms' approaches to this and the outcomes consumers receive as part of our supervision of the Consumer Duty.

There are a range of tools we use to address issues connected to financial capability which are within our remit, for example:

- we continue to develop our financial promotions rules, to take account of potential harms related to lack of understanding which stem from the development of new, high-risk products such as cryptoassets.
- we use our own consumer communications to raise awareness on, for example, scams or the need to avoid borrowing from illegal moneylenders. The aim of these repeated messages is to help to raise overall levels of capability to recognise illegal practices and enable consumers to protect themselves.
- we signpost to appropriate consumer services, such as Moneyhelper, either through our website or by requiring firms to do so.
- we use the answers to our Financial Lives Survey (FLS) to understand general levels of financial capability.

Further, we support the efforts of the Money and Pension Service (MaPS), which has statutory responsibility for advancing financial capability, and recognise the input provided by the firms we regulate to financial education work.

21 February 2025

Annex A

Potential FCA intervention	Potential regulatory change (high level)	Trade-offs to consider	Link to Tolerable Failure metrics	Further considerations and potential data requirements
Theme Changes to Know Your Customer (KYC) requirements	Summary Increase the threshold for due diligence on lower-value transactions to reduce regulatory burden.	Expected benefits: - Lower compliance costs for firms, allowing savings to be redirected toward value-creating initiatives. - Fewer delays or disruptions in payments and transfers, particularly for businesses. - Requirements may have prevented some customers from making legitimate payments or transfers (regulatory failure). Potential harms: - Increase in undetected money laundering facilitating crime and increased financial losses. - Increased financial crime could damage the integrity of, and trust in, financial markets.	Metric for tolerable failure: - Level of fraudulent payments do not grow by more than x% year on year	- For metric to be credible and effective, we would need to source data on the frequency, nature of criminal activity and the value of financial losses detected through due diligence checks on low-value transactions to measure the increase in harm undetected. This must be measured ex-ante as it would be challenging to estimate the undetected losses ex-post without granular data. - Metric could be adapted to assess distributional impacts and the impact of financial crime on victims. This would require, for example, assessing the impact of undetected financial crime on different groups, using the FCA's Financial lives survey.
Theme Increase	Summary Revising	Expected benefits: - Increased access to mortgages	Metric for tolerable failure:	- The metric would need to be able to isolate the individuals

mortgage affordability	affordability requirements to increase access to mortgages.	and subsequently widening home ownership. - Relaxing affordability rules may increase competition between lenders for new business. - May contribute to wider economic growth through increasing the incentives to build new homes and via wealth effects. Potential harms: - Higher risk of defaults and arrears if access is increased to more stretched consumers and those with lower resilience. - Risk of higher house prices if supply doesn't increase also, leading to more savings in unproductive assets. - Systemic risks may increase, particularly if it increases the sensitivity of defaults to changes in interest rates and unemployment.	- #of consumers in financial distress does not grow by more than x% year on year - # mortgage defaults / repossessions does not grow more than x% year on year	entering arrears who have been extended a mortgage under new affordability rules that would have been denied previously. - The metric could be extended to consider second order harms associated with being in arrears or losing house (distress, long-term impact on credit file, moving costs, etc.). - Systemic risks might be monitored through measuring the proportion of mortgages which are most sensitive to interest rate and unemployment shocks (interest-only, 40-45 year+ mortgage, high loan to value mortgages)
Theme Widen access to corporate	Summary Several measures	Expected benefits: – Increased opportunity to invest in public and other	Metric for tolerable failure: - #of consumers in	- To measure the change in participation of retail investors, we would need to

bonds for retail investors	including standardisation of corporate bond prospectuses and New Public Offer Platforms to widen investor participation.	companies, potentially gaining from improved returns – Deeper capital markets and more debt funding for firms to undertake investment. – Reduced costs to investors through improved quality and quantity of information in prospectus. Potential harms: – Retail investors may purchase investment products that are unsuitable for their risk tolerance potentially resulting in excessive risk exposure and intolerable financial losses. – Loss of trust and confidence in financial markets due to losses leading to reluctance to engage in financial services. – Increase in defaults from over issuance that can discourage future investment	financial distress does not grow by more than x% year on year - FSCS payouts do grow by more than x% year on year - Number of firm insolvencies cannot exceed # in a year - Access to lending for SMEs and businesses does not decline by more than x% year on year	measure how ownership of public companies changes. This could capture any subsequent reduction in participation following an increase in defaults. - To assess whether these investments may constitute excessive risk taking, we would need to assess the types of consumers that have increased their ownership. - We could monitor early signs of failure through the number of non-equity securities categorised as defaulted, distressed and missed payments for the first time.
Theme Reform regime for	Summary Make Alternative	Expected benefits: - Reduced compliance costs and smoother transition from small	Metric for tolerable failure: - Number of firm	- We would need to identify AIFs that face the largest reduction in regulatory burden and increase in

alternative fund managers	Investment Fund Managers Directive (AIFMD) more proportionate based on the nature and scale of a firm's business.	to full-scope regime may encourage new fund launches and drive asset growth. - Reduced compliance costs and greater flexibility for fund managers could make UK AIFs more competitive. Potential harms: - Increased leverage and market volatility that poses a risk to financial stability. This can lead to increased AIF defaults and losses to investors. - Reduced investors protections leading to mis selling, fraud or excessive risk-taking. This could lead to reduced confidence and participation in the AIF market.	insolvencies cannot exceed # in a year	flexibility following the regulatory change, and compare their risk profiles of other comparable funds. - We would continue to measure leverage and liquidity risk within AIF sector that can lead to defaults and contribute to systemic risk in the financial system. This can be measured using AIFMD reporting provides data on assets under management, leverage, liquidity profiles and fund strategies.