

Emma Reynolds MP, Economic Secretary to the Treasury and City Minister – Written evidence (SCG0077)

I would firstly like to express my thanks for the opportunity to give evidence to this inquiry. I committed to following up on a number of points that arose during the session, and Committee Members also requested some additional information following the session.

Encouraging informed risk taking

The Lord Grabiner asked for practical examples of trade-offs between risk mitigation and growth that the Government would support the regulators making. It is vitally important that the regulators fully consider whether the benefits outweigh the costs.

A good example of this challenge is the difficulty that people face when trying to get financial advice. There is no doubt that regulation has been successful in improving the quality of advice being offered, but it has made it uneconomical for firms to provide advice to people with smaller, but still significant, amounts to invest and this has left a gap whereby many people simply can't get the help with their finances that they want and need. The work that the Treasury is now doing with the Financial Conduct Authority (FCA), on the Advice Guidance Boundary Review, seeks to correct that. Enabling more people to make informed investment decisions will help more people to become investors where this is the appropriate decision for them. While investors do have the potential to be exposed to losses, investing is often the right option for long-term savings due to the potential for higher returns and enhanced long-term financial resilience, which enables investors to plan for their future. It will also provide capital to drive the economy and boost growth.

Another good example of where more risk is appropriate are the FCA's new listings rules that came into force last year. The FCA was explicit that it was rebalancing its approach to risk to help boost UK growth and competitiveness, by making our regime more attractive to a wider range of companies, so that they can list and grow in the UK. These reforms bring the UK into line with international market standards, support firms to more easily raise capital on UK markets by streamlining regulation, whilst still maintaining appropriate protections for investors.

The Lord Grabiner also asked how the government will give clear guidance to the regulators to ensure that they are fully supported in

meeting the government's growth agenda, and also fully supportive of the regulators if a crisis develops.

The Chancellor and I will continue to meet regularly with the regulators to share the government's vision and discuss how we can ensure that the regulatory environment is supporting growth while also furthering their other objectives.

In November, the Chancellor was clear in her letters of recommendation to the FCA and Prudential Regulation Committee (PRC) that the government accepts that an increased risk appetite means that more things may go wrong, and that the government would support the regulators as they consider these trade-offs. This acknowledgement has been welcomed by the regulators, as a key component of changing their risk appetite. We will continue to actively discuss this with the regulators, to ensure that they are able to support the Growth Mission.

As we develop the Financial Services Growth and Competitiveness Strategy, we will consider further actions to align the regulators and the regulatory environment behind the critical growth mission and ensure that it supports responsible and informed risk-taking.

UK position on application of Basel capital requirements

Lord Lilley asked about the PRA's implementation of Basel 3.1, HM Treasury's view on the application of international standards to domestic banks, and the scope for relaxing capital requirements.

HM Treasury consulted on its approach to Basel 3.1 implementation in November 2022, alongside the PRA's consultation on its proposals, and published a policy update on its approach in September 2024, alongside the PRA's near final rules. The PRA's rules bring the UK in line with international standards while supporting the dynamism of the UK economy and promoting the competitiveness of the UK banking system as well as economic growth.

HM Treasury also supports the PRA's development of a new framework for small, domestic-focused, UK banks and building societies, which is separate to the Basel framework and known as 'strong and simple'. The strong and simple framework is intended to simplify requirements and reduce compliance costs for small, domestic-focused banks and building societies, making it easier for these firms to operate and compete with larger ones. The regime is an example of how the UK is using its position outside of the EU to

ensure the UK prudential banking framework is fit for the future and tailored to the UK's needs.

The treatment of intellectual property in lending

Baroness Bowles asked about the regulatory treatment of loan secured against intellectual property (IP), and about the capital holding requirements for such loans.

The government has taken a number of steps to support the role of IP-focussed companies, including allocating over £1bn across 2024-25 and 2025-26 to the British Business Bank's programmes such as the Growth Guarantee Scheme, and equity programmes including Future Fund: Breakthrough, and the Life Sciences Investment Programme. In particular these equity programmes support R&D intensive, IP-rich companies and complement the announcement at the International Investment Summit which confirmed the establishment of the British Growth Partnership to encourage more UK pension fund investment into the UK's fastest growing and most innovative companies.

HM Government considers that the PRA's Basel 3.1 package will safeguard UK financial stability, underpin stable UK economic growth and support the international competitiveness of the UK as a centre for banking and investment firm business.

The Financial Ombudsman Service

The Lord Sharkey asked how the government could address issues relating to conflicting positions between the Financial Ombudsman Service (FOS) and the Financial Conduct Authority (FCA), and whether the FCA and FOS should be merged or there should be some mechanisms to align the FOS with the FCA rules.

The Chancellor acknowledged at her Mansion House speech in November that reform is needed to create a more predictable and certain climate for investment and announced steps to modernise the redress framework and give clearer expectations to both consumers and firms. Some of these measures have already come into effect to support greater alignment between the FCA and the FOS. Most significantly, the joint Call for Input on Modernising the Redress System closed at the end of January. HM Treasury will continue to work closely with the FCA and the FOS to reflect on the input received and consider what the next steps are to deliver a modernised framework that provides greater predictability and clearer expectations for all parties, supporting wider growth and investment and enabling the financial services redress system to

continue to provide the quick and informal route to resolve disputes that the FOS was established to deliver.

The FCA and the FOS have also published an updated Memorandum of Understanding setting out clear expectations regarding their respective roles, and a refreshed Wider Implications Framework, which sets out a structured approach to cooperation between members of the financial services regulatory family, including the FCA and the FOS, when relating to issues with significant implications for the finance sector.

The Government is committed to ensuring that our approach to redress delivers clarity for consumers and firms, and will therefore continue to prioritise this work.

Financial Literacy

The Lord Grabiner asked for HM Treasury's view on the prioritisation of financial education in schools. Firstly, I would like to reiterate that the Government is deeply committed to ensuring that individuals develop, starting from an early age, the financial capability required to manage their finances well and fully participate in the economy.

HM Treasury leads on the delivery of financial education through financial services providers and works closely with the Department for Education and the devolved administrations, who are ultimately responsible for the teaching of financial education in schools. The Department for Education has established an independent, expert-led Curriculum and Assessment Review, covering ages 5 to 18, chaired by Professor Becky Francis CBE. The Review seeks to deliver an excellent foundation in the core subjects of reading, writing and maths, and a curriculum that is rich and broad, inclusive and innovative, and readies young people for life and work, and reflects the diversities of our society. The review group will publish an interim report early in 2025 setting out their interim findings and confirming the key areas for further work and the final report with recommendations will be published in autumn 2025.

APP fraud reimbursement

Lord Vaux and other Committee members raised concerns about the reimbursement regime of authorised push payment (APP) scams and asked what discussions HM Treasury has with the the Payment Systems Regulator (PSR) on growth and competitiveness. As with other regulators, the Government has regular engagement with the PSR on a variety of policy matters. I understand that since I

appeared before the Committee, you have also received oral evidence on the APP scam reimbursement regime from David Geale, interim Managing Director of the PSR. As this policy is entirely a matter for the PSR, I would encourage the committee to continue to engage with him on this matter.

I also note that the Committee asked for a note setting out further information about the powers the regulators have to advance their general duties and objectives, and the powers the government has to hold them to account for how they do this, which my officials will share with you shortly.

I look forward to receiving the Committee's report in due course, which will form an important part of the government's considerations as we progress work on the Financial Services Growth and Competitiveness Strategy.

25 February 2025