UK Finance – Supplementary written evidence (FTS0063)

7. Given the plans to delegate more powers to financial regulators, what form of Parliamentary oversight of these regulators would be appropriate?

Under the proposals set out in HMT's financial-services future regulatory-framework (FRF) review consultation, Parliament will not replicate the highly technical role played by the European Parliament as a co-legislator of detailed regulation. However, it has a key role to play in setting the legislative framework in which regulators will design and implement regulatory standards and in scrutinising their delivery of regulation within that framework.

Parliament's primary role already includes considering policy issues. In practice, it could do more to help promote and align wider public and societal objectives, such as tackling climate change, with financial-services policy. Parliament could also play a greater role in examining the appropriate responses to emerging debates and evolving trends, such as the growing role of Big Tech firms, and international developments with potentially significant ramifications for the UK, such as the planned adoption by some jurisdictions of digital currencies. Such issues are inherently political, often involving trade-offs that regulators—with narrower mandates centred on competition, customer protection, market integrity and financial stability—are ill placed to balance. Only democratic bodies can define and mediate these trade-offs, so Parliament has a critical role to play in setting the mandates that will steer how regulators should approach these important issues.

If regulators are to take on more powers they will need to be subject to additional scrutiny and accountability. These will improve the quality of regulatory decision-making and enhance the UK's attractiveness as a destination for banking and finance firms.

Parliament already conducts a degree of scrutiny of regulatory activity through its periodic sessions with senior regulators, but, as the FRF consultation suggests, this should be intensified and reframed much more explicitly around regulators' execution of the mandates that Parliament sets and their navigation of the key trade-offs defined above. At present, the Treasury Committee hears from a number of regulators, including the BoE and the FCA, during the course of a Parliamentary session as part of its regular scrutiny of their work. A section of these evidence sessions, or separate, additional sessions, should be reserved for considering how the regulators have discharged their mandates, with a particular focus on how they have had regard to the public-policy issues set out by Parliament in activity-specific policy framework legislation.

We do not have strong views on the precise committee structure through which this greater Parliamentary scrutiny is to be achieved. An enhanced Treasury Committee, a new sub-committee for financial services or a joint House of Commons/House of Lords financial-services committee (perhaps modelled on the Joint Committee on Statutory Instruments) are all viable models. Whichever is chosen, the additional scrutiny that Parliament undertakes in the regulatory framework will require new capability and capacity. In particular, any new committee arrangements will need resources comparable to those in available in other legislatures with such roles. Staff providing additional expertise should be drawn from a wide range of sources, including the banking and finance sector. It may be prudent to divide these additional skills and expertise into different areas (e.g. regulatory, inquiries and legislative review). To achieve this, greater transparency will be required, and budgets and financing will need to be made available.

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