HOUSE OF LORDS

Financial Services Regulation Committee

2nd Report of Session 2024–25

Growing pains: clarity and culture change required

An examination of the secondary international competitiveness and growth objective

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See Appendix 1.

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Evidence is published online at https://committees.parliament.uk/work/8433/fca-and-pras-secondary-competitiveness-and-growth-objective/publications/ and available for inspection at the Parliamentary Archives (020 7219 3074).

Q in footnotes refers to a question in oral evidence.

SUMMARY

The Financial Services and Markets Act (FSMA) 2023, which came into force on 29 June 2023, introduced a new secondary international competitiveness and growth objective (the secondary objective)[1] for the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). The secondary objective is "facilitating, subject to aligning with relevant international standards—(a) the international competitiveness of the economy of the United Kingdom (including in particular the financial services sector), and (b) its growth in the medium to long term."[2] The Committee's inquiry examined the progress made in driving the regulators to support growth, both in the financial services sector and, crucially, in the wider UK economy since the introduction of the secondary objective, while maintaining the UK's position as a global financial centre with a robust financial regulatory system.

We believe that the secondary objective has proved a valuable stimulus for the regulators to increase their focus on the impact of their activities on growth and international competitiveness within the sector. However, it has also brought into stark relief long-standing issues that limit or introduce unnecessary frictions to financial services firms' ability to grow, innovate, and compete and that discourage new entrants both domestic and foreign. The regulatory barriers we identify in this report negatively impact on the perceived attractiveness of the UK as a global financial centre. Together these issues undermine the advancement of the secondary objective and must be addressed; we believe this can be done whilst also maintaining high standards of financial stability and consumer protection.

However, the secondary objective envisages more than just the growth of the financial services sector. It contains an explicit directive for the FCA and PRA to facilitate growth in the wider economy. We are not convinced that the link between financial services regulation and growth in the wider economy has yet been sufficiently understood or rigorously evidenced. In the absence of this evidence base, we are sceptical that the FCA and PRA can clearly set out how their interventions can support growth in the wider economy, and that the Government can measure their progress against this aspect of the objective; more research is needed. Regulation alone cannot generate economic growth, rather, the Government, the regulators, and industry must be aligned in their approach to improve the provision of finance for UK businesses and productive assets. While this requires regulatory action to remove barriers to productive investment, the Government's growth objectives cannot be achieved without a joined-up approach.

The secondary objective and the financial services sector

The regulatory environment is characterised by a culture of risk aversion. This culture, driven by the repercussions of the Global Financial Crisis and the conflicting pressures under which the regulators operate, is deeply entrenched and, if left unchanged, risks further undermining levels of trust between the regulators and industry. We were disappointed by the difference in candour

1 The PRA has a further secondary objective of "facilitating effective competition in the markets for services provided by PRA-authorised persons in carrying on regulated activities." See Financial Services and Markets Act 2000, section 2H.

2 Financial Services and Markets Act 2023, section 25. FSMA 2023 also introduced a new secondary objective for the Bank of England to facilitate innovation in the provision of Financial Market Infrastructure (FMI) services. See Bank of England Act 1998, section 30D.

between the evidence we received from industry in public and the views expressed to us in private. Cultural change must be led from the top. More progress must be made on instilling a regulatory culture based on efficiency, proportionality, and an appropriate degree of flexibility and trust. The FCA and PRA's senior leadership must drive cultural change throughout their organisations. This change should emphasise a more tailored and proportional approach to the risks posed by regulated firms, a culture of continual operational improvement and innovation, and a more transparent and trusting relationship with stakeholders.

There are a series of issues within the regulatory environment that are placing an undue constraint on the sector's ability to grow and attract investment. The burden of compliance in the UK is perceived to be disproportionately high. Firms have told us that they are inundated by information requests from the FCA and PRA and that there has been a significant degree of 'mission creep'; both regulators appear to have increasingly expanded the range of business activities they regulate, and the Government has continued to add to the requirements placed on them. The FCA does not do enough to distinguish between firms that cater to wholesale and retail markets in its regulation and supervision which, again, imposes unnecessary burdens and frictions on firms. These issues have fuelled an increase in bureaucracy and imposed significant monetary and resource demands on firms. The regulators do not have a clear understanding of the cumulative burden of regulation; they must work with their respective cost benefit analysis panels to develop a rigorous approach to assessing the cumulative burden of compliance. As part of its work to establish a baseline for the administrative costs of regulation,[3] the Government should also commission an independent study to assess the cumulative cost of compliance in the financial services sector relative to that in other international jurisdictions.

Firms told us that the regulatory environment is overly complex and that many find it challenging to navigate and remain compliant. There are significant overlaps between the regulators. Such overlap has delayed the implementation of reforms and made it harder for firms to conduct business due to duplicated compliance requirements. We welcome the Government's commitment to simplify the UK's regulatory regime, remove duplication, and streamline processes where they hold back growth.[4] We recommend the Government undertake a focused assessment of the financial services landscape to identify where regulatory overlap can be eliminated.

Despite commitments from the FCA and PRA to improve authorisation times, significant regulatory inefficiencies persist. Such inefficiencies slow the ability of domestic firms to launch new products and services, and risk placing the UK at a competitive disadvantage relative to jurisdictions that can authorise faster. The regulators must be more transparent with how they report on the timescales involved in authorisations, including when they 'stop the clock'; the statutory operating service metrics for the FCA and the PRA should be reviewed.

Furthermore, we heard repeatedly that a sense of 'uncertainty' is prevalent throughout the system. The interaction between the FCA and the Financial Ombudsman Service (FOS) through the consumer redress framework—

3 HM Treasury, 'New approach to ensure regulators and regulation support growth' (17 March 2025): http://www.gov.uk/government/publications/a-new-approach-to-ensure-regulators-and-regulation-support-growth/new-approach-to-ensure-regulators-and-regulation-support-growth-html [accessed 4 June 2025]

4 *Ibid.*

specifically the tension between the FCA rules and the FOS's decision processes—was cited as a significant source of this regulatory uncertainty. In addition, we heard that a failure by the FCA to clarify how firms should comply with the Consumer Duty, including which markets and customers it applies to, has also generated uncertainty for firms. Most alarmingly, we heard that concerns about regulatory uncertainty may reduce the attractiveness of investing in the UK and represent a serious barrier—a 'regulatory penalty'—to the advancement of the secondary objective. Firms should be confident that compliance with the law and a clear body of regulations will be sufficient to avoid mass redress events, but currently that certainty and predictability is not guaranteed. The FCA and FOS must set out how they intend to address long-standing concerns with the redress framework and ensure that their views on regulatory requirements are consistent. The Government has indicated it will consider legislative change if necessary.[5] We support such action and stress that the FOS's remit must be brought closer in line with its original mandate, to provide swift redress rather than examining major, complex issues—the FOS cannot continue to function as a quasi-regulator.

The secondary objective in the wider economy

Whilst a growing and dynamic financial services sector is needed to support the economy, facilitating growth in the wider economy is an integral part of the secondary objective's aim. However, the extent to which regulation can be expected to directly facilitate growth, as the secondary objective sets out, remains unclear based on the evidence we have received. We believe that this is indicative of a gap in the evidence base of policy and rule makers as to whether—and if so, how—regulatory mechanisms have a direct impact on growth in the wider economy.

Our inquiry considered several ways in which the financial services sector can have some impact on growth, for example, the provision of lending to businesses, as well as the deployment of savings. Our evidence identified issues relating to the cumulative effect of regulatory capital requirements and their implementation by the PRA (such as the process for approving Internal Ratings Based models); the deployment of savings for investment; and the need to improve financial literacy and education and to facilitate access to financial advice.

The PRA's approach to setting capital requirements has limited the commercial incentives and capital available to provide finance for growth. The use of the Internal Ratings Based Model by the large banks, with its inherent flexibility which generally results in lower capital charges than under the standardised approach, places them at a competitive advantage relative to mid-sized and specialist banks. A more proportionate approach to bank capital requirements, operating within international frameworks, could help support economic growth. The Government should work with the PRA and the Bank of England to review the cumulative impact that the regulatory capital requirements and MREL requirements have on lenders, specifically regarding the cost of lending. This should be done with a view to balancing financial stability and enabling banks and building societies to lend for productive investment and support growth.

5 HM Treasury, 'New approach to ensure regulators and regulation support growth' (17 March 2025): http://www.gov.uk/government/publications/a-new-approach-to-ensure-regulators-and-regulation-support-growth/new-approach-to-ensure-regulators-and-regulation-support-growth-html [accessed 4 June 2025]

An equity investment culture might deliver benefits for UK consumers and help to deepen the UK's secondary capital markets. Key drivers of UK consumer saving habits are the low levels of financial literacy, and low levels of trust in the financial services sector. The Government must improve the provision of financial education at all levels, commencing in primary and secondary schools, and the FCA must do more to make available to consumers the support they need to manage their savings. The regulators should also develop programmes of financial education, working with universities and research organisations. The FCA's review of the financial advice gap has been in motion for five years; this is an unacceptable length of time taken to address this challenge, and the review must be concluded urgently.

The role of Government

It is clear that the Government, the FCA and the PRA have so far devoted insufficient attention to the ways in which regulation of financial services may influence growth in the wider economy. The Government must provide clearer direction to the regulators using its statutory powers of recommendation. The secondary objective is broad and implies trade-offs; hence the necessary political cover for the regulators to make the right choices is needed. The Government must take responsibility for the changes it wishes to see and provide greater clarity about the economic outcomes it wants to achieve and the regulatory activities it considers can achieve such outcomes.

The current set of metrics used to assess the regulators' progress against the secondary objective do little to track the impact of regulation on growth. HM Treasury should introduce outcome-based secondary objective metrics that aim to illustrate the impact of the regulators' actions on the real economy and should undertake dedicated research on how the UK regulators' performance can be measured effectively against their international counterparts.

The FCA has called for "a mature debate about the risk appetite in our society".[6] The FCA suggested that the Government set: "Metrics for tolerable failures within the overall system";[7] however, the Economic Secretary to the Treasury told us: "I do not think that is something that a Government Minister would do".[8] The Government can give recommendations in relation to its economic policy and should be clear about how it intends to advance its growth strategy, setting parameters, metrics and benchmarks. The regulators have the tools to assess risk according to their mandates, and in that assessment, they can, and should, ensure that their regulatory and supervisory activities facilitate growth. Moreover, we think there is a danger that the narrative around the secondary objective could become dominated by the issue of where the setting of risk appetite resides.

The design and operation of the regulatory framework can facilitate the conditions for growth of the financial sector and may support that of the economy at large. Importantly, a robust and stable regulatory framework is, in

6 FCA, *Secondary International Competitiveness and Growth Objective report 2023/24* (29 July 2024) p 9: https://www.fca.org.uk/publication/corporate/sicgo-report-2023–24.pdf [accessed 4 June 2025]

7 Letter from Nikhil Rathi, Chief Executive of the FCA, to the Rt Hon Sir Keir Starmer MP, Prime Minister, the Rt Hon Rachel Reeves MP, Chancellor of the Exchequer, and the Rt Hon Jonathan Reynolds MP, Secretary of State for Business and Trade (16 January 2025) p 3: https://www.fca.org.uk/publication/correspondence/fca-letter-new-approach-support-growth.pdf [accessed 4 June 2025]

8 Q 358 (Emma Reynolds MP)

and of itself, conducive to growth and international competitiveness. Effective and proportionate regulation are part of the stable environment which is needed to underpin investment, and high regulatory standards are central to the UK's reputation as a stable and predictable international financial centre. Failing to address the issues we have identified in our report risks deepening the perception that there is a regulatory penalty attached to investing in the UK.

The Government must keep the secondary objective under review and should report to Parliament and this Committee to evidence how the secondary international competitiveness and growth objective has had a positive impact on facilitating growth in the wider economy on an annual basis, following the publication of this report.

Box 1: Summary of key regulatory barriers to growth and international competitiveness identified in the report

1. A deeply entrenched culture of risk aversion. If left unchanged, this culture can undermine trust between the regulators and industry.
2. A disproportionately high cost of compliance and complex regulatory landscape, driven by expansion and overlap in the regulators' remits and by the volume and scope of regulatory activity.
3. Operational inefficiencies place the UK at a competitive international disadvantage, in particular through its slow rate of authorisation of firms and funds and constraints on innovation.
4. A lack of proportionality in the regulators' approach, such as the FCA's failure to sufficiently distinguish between wholesale and retail markets or the PRA's approach to capital requirements.
5. Regulatory uncertainty has created the perception of a regulatory penalty on investment in UK businesses, driven by the lack of clarity under the Consumer Duty and the FOS's evolution into a quasi-regulator.
6. The cumulative impact of regulatory capital and MREL requirements.
7. Low financial literacy and lack of trust in the financial services sector. The Government must do more to improve financial education, and the FCA must do more to make available the support UK consumers need in managing their savings.
8. Restrictions on how savings are managed by institutional investors constrain the depth of capital that is available for productive investment.
9. The current set of metrics produced by the regulators is limited to operational issues and cannot in its current form be treated as a barometer for success in advancing the secondary objective. The Government must do more to commission academic research into how regulation can support growth.
10. Inadequate guidance from the Government as to how it sees financial services regulation supporting its growth strategy. The Government can and should provide parameters and clear direction to the regulators, including through the use of benchmarks.

CONCLUSIONS AND RECOMMENDATIONS

The secondary competitiveness and growth objective in the financial services sector

1. Throughout the evidence we received, there was a clear link made between the current regulatory culture characterised by risk aversion and its impact on the advancement of the secondary objective. We heard that this culture is driven by the repercussions of the Global Financial Crisis and the conflicting pressures under which the regulators operate. (Paragraph 28)

2. Firms have told us that they are inundated by information requests from the FCA and the PRA, who are not always transparent about how this information is used. Importantly, we received evidence suggesting that reporting requirements in the UK may be more burdensome than in competing jurisdictions, which may negatively impact on the UK's perceived attractiveness as a global financial services centre. (Paragraph 35)

3. There has been a significant degree of 'mission creep' as both regulators appear to have increasingly expanded the range of their activities into areas of business management that are outside their core responsibilities. This has increased bureaucracy and imposed significant monetary and resource demands on firms. We recognise that this trend is, in part, attributable to the varying requirements placed on the regulators by Government. However, there are clearly some areas of regulatory activity that were implemented on the regulators' own initiative and have intruded into areas of business management that are beyond their regulatory scope. (Paragraph 45)

4. The cumulative burden of regulatory compliance in the UK is perceived to be disproportionately high, diverting resources that could otherwise support the growth of the financial services sector. Whilst difficulties in producing rigorous international comparisons may prevent definitive conclusions, the evidence we received suggests that significant concerns remain as to the relative expense of operating in the UK which must be addressed. (Paragraph 53)

5. *We recommend that, building on its work to establish a baseline for the administrative costs of regulation, the Government commissions an independent study to assess the cumulative cost of compliance in the financial services sector relative to other international jurisdictions.* (Paragraph 54)

6. The regulators, particularly the FCA, do not have a clear understanding of the cumulative burden of regulation due to limitations in their approach to cost benefit analysis. This prevents them from recognising and addressing the negative impact that their activities have on the growth and international competitiveness of the sector. The design of regulation must be informed by proportionality, impact assessments, and CBA. (Paragraph 61)

7. *The FCA and the PRA should work with their respective CBA Panels to develop a rigorous approach to assessing the cumulative burden of compliance, accounting for monetary and resource demands.* (Paragraph 62)

8. *To improve regulatory decision-making, we recommend that the FCA and the PRA, in conjunction with their respective CBA Panels, create a joint cost of compliance working group to study how the regulators may develop their understanding of*

cumulative compliance cost and integrate this into their CBA process. (Paragraph 63)

9. *Assessment of the costs and resource demands that regulatory reforms impose on firms should not be limited to the CBA carried out during the consultation period. We recommend that the FCA and the PRA include an assessment of actual costs imposed after the implementation of large-scale regulatory reforms as part of their post-implementation reviews.* (Paragraph 64)

10. The UK's financial services regulatory landscape is characterised by notable complexity and several regulators with overlapping remits. Firms find it challenging to navigate and remain compliant in this environment, introducing unnecessary burdens. A perception that it is difficult to conduct business in the UK harms international competitiveness. (Paragraph 74)

11. We are concerned by the evidence that regulatory overlap has delayed the implementation of Open Banking reform, which has impeded innovation by obstructing firms' ability to develop new products. The Committee recognises the importance of cross-regulator collaboration, but this must not delay the timely delivery of key reforms. The Government should draw lessons from the delays introduced by the Joint Regulatory Oversight Committee. (Paragraph 78)

12. *We welcome the Government's commitment to simplify the UK's regulatory regime and its announcement to integrate the PSR into the FCA. The Government has committed, through its regulatory 'Action Plan', to remove duplication and streamline processes where they hold back growth in the system. We recommend that the Government undertake a focused assessment of the financial services regulatory landscape to identify where regulatory overlap can be eliminated.* (Paragraph 79)

13. The efficiency with which the FCA and PRA process authorisations is an important element in the continued growth of the UK financial services sector. Efficient authorisations allow domestic firms to launch new products quickly and international firms to easily locate capital and talent in the UK. Therefore, it is worrying that firms continue to raise concerns about authorisation timescales. (Paragraph 89)

14. Concerningly, we received evidence that the FCA and PRA are slower to process authorisations than regulators in competing jurisdictions, particularly in key areas such as the authorisation of new products, senior managers, and branches. This has negatively affected the UK's international competitiveness, resulting in the loss of business and investment. (Paragraph 90)

15. Whilst the FCA and PRA's published metrics on authorisation timescales show improvements, witnesses noted that this apparent progress does not reflect the experience of firms due to the exclusion of the intervals when further information is required. (Paragraph 91)

16. *The FCA and PRA must work to reduce authorisation timelines. This should be accompanied by a renewed cultural focus on consistent improvement of operational efficiency across all levels of the organisation.* (Paragraph 92)

17. *The Government should review the statutory operating service metrics for the FCA and PRA to ensure they are in line with comparative jurisdictions.* (Paragraph 93)

18. *There is an apparent discrepancy between the progress that the FCA and PRA report on the efficiency of authorisations and the experience of firms going through those processes. The FCA and PRA should collect and publish further data in this regard.* (Paragraph 94)

19. The continued development and integration of new technologies, such as digital assets and AI, into the financial services sector may alter how sections of this industry function. We are concerned by evidence to suggest that the UK regulators may not be addressing this as speedily as they should. The FCA and the PRA must do more to facilitate innovation, providing certainty and clarity to empower firms to use AI, or to develop new products and technologies. (Paragraph 105)

20. *The potential for regulatory and supervisory technology to automate compliance and improve the regulators' ability to fulfil their functions is compelling. The FCA and the PRA must review their operational processes and rule-making functions to explore how they might make better use of regulatory and supervisory technology.* (Paragraph 106)

21. We recognise that there are differences between the regulatory and financial systems in the UK and Singapore, but we consider that there are valuable lessons to learn from Singapore's approach which could assist foreign firms in navigating the UK when thinking about locating new business here. As set out by the PRA, the FCA and the PRA should work together to develop a proposal for a 'concierge service' in the UK, as part of broader efforts to instil a culture based on efficiency and an appropriate degree of flexibility. (Paragraph 112)

22. We are concerned by evidence which indicated that there are inconsistencies in the quality of supervision. Firms should expect consistency in the staff that supervise them and supervisors who understand their business. (Paragraph 128)

23. There is a substantial discrepancy in the quality of supervision received by the largest financial institutions and the rest of the sector. Whilst it is right that the regulators prioritise the supervision of systemically important firms, this must not come at the expense of the support offered to non-systemic firms, which risks harming the ability of small and medium sized firms to grow. (Paragraph 129)

24. *The FCA and PRA must do more to improve supervisory staff's practical understanding of financial services firms. We recommend that the FCA and PRA explore developing a formal secondment system to both send supervisory staff out to regulated financial services firms, and to bring employees from regulated firms in. We recognise that there are practical issues to consider—regulatory capture must be avoided, and commercial confidentiality must be protected—but appropriate protections could be put in place.* (Paragraph 130)

25. *The FCA and PRA should review the compensation they offer to staff with a view to introducing appropriate incentives to help to attract talent with a practitioner's background in regulated financial services sectors.* (Paragraph 131)

26. *The FCA and PRA must review how their supervisory staff are deployed to ensure greater consistency in the staffing of supervisory teams and to address reports of frequent rotation amongst supervisors.* (Paragraph 132)

27. The FCA does not do enough to distinguish between firms that cater to wholesale and retail markets, or market segments in its regulation and supervision. Consequently, this has imposed unnecessary burdens and frictions on firms that could constrain their ability to grow. (Paragraph 142)

28. We recognise that thresholds represent an essential tool for regulators to differentiate between certain types and sizes of firms and apply specific regulation proportionately. However, we received evidence that such thresholds can constitute 'cliff edges' which may hinder smaller firms' ability to grow. We encourage the Government to work with the Bank of England and FCA to explore how 'cliff edges' might be smoothed. (Paragraph 147)

29. We agree that the FOS has become a quasi-regulator as its actions have regulatory impacts by creating precedents that the FCA requires firms to follow. The responsibility for issuing binding rules and guidance lies with the FCA. The lack of alignment between the FOS and the FCA generates an unacceptable level of uncertainty for firms, stakeholders, and investors. (Paragraph 162)

30. Firms should be confident that compliance with regulations and the law will be sufficient to avoid mass redress events, but currently that certainty and predictability is not guaranteed. (Paragraph 163)

31. The reports of practices by claims management companies who submit large volumes of spurious or meritless claims to firms and the FOS are concerning, causing undesirable outcomes for both consumers and firms. We welcome the introduction by the FOS of fees for claims brought to them by professional representatives. The impact of these reforms must be monitored closely to ensure they have a material impact on poor behaviour by CMCs. (Paragraph 164)

32. The uncertainty caused by the way in which the FOS operates has created a perception of a regulatory 'risk premium' or penalty to the valuations of UK financial services firms that can act as a barrier to foreign investment in the UK financial services sector and presents a significant limitation to the advancement of the FCA's secondary objective. The tension between the FCA regulations and the FOS's decision processes is a long-standing issue and the need for action to address this and to remove the uncertainty it creates from the regulatory system is long overdue. (Paragraph 173)

33. The FCA's and FOS's response to their joint call for input to modernise the redress system and the Government's review of the FOS must both result in minimising, if not eliminating entirely, the current uncertainty and unpredictability caused by the FOS's powers and discretion. (Paragraph 174)

34. *Any reform to the redress framework should be focused on ensuring that the FCA's and FOS's views on regulatory requirements are consistent. We believe the following actions should be prioritised:*

    (a) *That the FCA is consulted on judgements that are likely to have sector-wide implications. We agree that the FCA should review its DISP rules with a view to enabling the FOS to pause its timescales while it awaits FCA input on the interpretation of its rules and guidance.*

    (b) *The precedent-setting effect of FOS decisions should be reviewed, with a view to removing it entirely, particularly for mass redress events whilst retaining the FOS's original purpose of providing quick and free individual redress.*

(c) *We welcome that the Government has indicated it will consider legislative change if necessary. We stress that the FOS's remit must be brought closer in line with its original mandate, to provide swift redress rather than examining major complex issues—it cannot continue to function as a quasi-regulator.* (Paragraph 175)

35. The FCA's implementation of the Consumer Duty has introduced considerable uncertainty for domestic and international firms operating in the UK. This uncertainty is driven by a lack of clarity on the FCA's expectations as to how firms should comply with the Consumer Duty, including which markets and customers it applies to. (Paragraph 187)

36. Should the FCA fail to address concerns about the Consumer Duty requirements there is a risk that the FOS may inadvertently fill this gap, potentially creating inconsistencies in interpretation of the Duty's application. (Paragraph 188)

37. *The FOS and the FCA's review of the redress system must result in clear actions setting out how they will ensure that there is a consistent interpretation of regulatory requirements associated with the Consumer Duty.* (Paragraph 189)

38. We welcome the FCA's review of its handbook rules following the introduction of the Consumer Duty. However, we also recognise the cost and complexity created by layering new regulation onto similar existing requirements. (Paragraph 190)

39. *It has been almost two years since the Consumer Duty was introduced—the FCA must work at pace to remove redundant or duplicative rules and requirements to provide firms with the certainty and clarity they need to maximise the Duty's benefits.* (Paragraph 191)

40. *Firms have told us that uncertainty around the FCA's expectations on the Consumer Duty, including over which markets and customers it applies to is causing them to take an overly risk-averse approach to complying with the Duty, adding unnecessary volume to an already high burden of compliance. The FCA must engage with firms to identify the key drivers behind this reaction. It must review the guidance it has provided on the Consumer Duty and identify where further clarification is needed of its expectations on how the Duty should be implemented.* (Paragraph 192)

41. The introduction of the secondary objective has increased the regulators' focus on the impact that their activities have on growth and international competitiveness, but it has also brought into relief long-standing issues that limit or introduce frictions to firms' ability to grow, innovate, compete, and attract investment. (Paragraph 193)

42. Cultural change is key, and this must be set from the top. A culture of risk-aversion has led to a proliferation of regulatory activity that is duplicative and complex. We were told that the regulators do not prioritise the requests they make of firms and have overseen a proliferation of the activities they regulate, beyond their core responsibilities. Witnesses suggested that the UK's regulatory framework is highly complex and that they do not receive enough support to navigate and operate in this environment. Unacceptable levels of uncertainty persist. (Paragraph 194)

43. Cumulatively, we were told these issues introduce significant frictions for firms, which in aggregate risk constraining growth across the sector. We heard that aspects of the UK's regulatory regime that are more costly and

complex than competing jurisdictions negatively impact on the perceived attractiveness and international competitiveness of the UK as a global financial centre. (Paragraph 195)

44. Failing to address the issues we have identified in this Chapter risks deepening the perception that there is a regulatory 'risk premium' or penalty that reduces the attractiveness of investing in the UK and poses a serious constraint on the advancement of the aims of the secondary objective. (Paragraph 196)

The secondary objective and the wider economy

45. The successful advancement of the PRA's secondary growth and competitiveness objective will depend on its ability to ensure that lenders are able to provide lending for productive investment. We are concerned to have heard evidence suggesting that the current regulation of capital requirements on lenders constrains firms' ability and willingness to do so, especially for smaller and mid-sized banks. (Paragraph 228)

46. The 'one size fits all' approach arises in part from the way the UK authorities apply the Basel Framework to UK lenders. The Basel Framework—'soft law' standards issued by the Basel Committee on Banking Supervision—is aimed at internationally active banks. The UK's approach can be contrasted with that of other jurisdictions such as the US whose capital framework applies on a graduated and proportionate basis depending on the size and complexity of the bank and the level of risk it poses to the system. The Committee welcomes the Small Domestic Deposit Takers (SDDT) regime as a helpful development but considers that the PRA could go further. (Paragraph 229)

47. *The PRA should consider whether it is appropriate to apply the Basel Framework to all UK domestic lenders or whether a more proportionate and tailored approach could be applied to determining capital requirements for lenders who are not internationally active. The Committee considers that such an approach would not be inconsistent with the secondary objective which is stated to be "subject to aligning with relevant international standards". This approach will require supervisors to have an appropriate level of experience and expertise to understand individual firms' businesses and be able to exercise judgment when making supervisory decisions (in this regard, see our conclusions and recommendations in Chapter 2, paragraphs 128 to 132). This approach will also require a culture that is not unduly risk-averse, and which allows, with appropriate safeguards and controls, supervisors to make risk-based decisions.* (Paragraph 230)

48. *This is not entirely within the control of the PRA. The Government should work with the Bank of England to review the cumulative impact that the regulatory capital requirements and MREL requirements have on lenders, specifically regarding the cost of lending. This should be done with a view to balancing financial stability and enabling both banks and building societies to lend for productive investment to support growth.* (Paragraph 231)

49. Firms that use the standardised approach generally have higher capital requirements than firms that use the IRB. Obtaining approval for internal models is a lengthy and costly process which favours larger firms. (Paragraph 252)

50. *Our recommendations in paragraph 230 apply equally here. The PRA should consider whether it is appropriate to continue to apply Basel standards to UK*

domestic lenders or whether a more proportionate approach could be applied to determining capital requirements. (Paragraph 253)

51. *We are concerned by evidence which suggested that the UK applies higher risk weightings to lending than competing jurisdictions, such as the EU. The Government should commission the PRA to report on the UK's approach to capital requirements in comparison with competing jurisdictions, as well as to evidence why it considers the current rates to be appropriate.* (Paragraph 254)

52. *The PRA should examine its process for approving IRB models and seek to make that process quicker and less costly for firms.* (Paragraph 255)

53. *We are concerned by the lack of data on the proportion of total lending made available for productive investment. The Government should work with the Bank of England to research what proportion of total lending is made available for productive investment.* (Paragraph 256)

54. The Committee is concerned by the chronically low levels of financial literacy and numeracy skills in the UK adult population, which appears to underpin UK savers' reluctance to invest their savings into equities and other investments. The average UK consumer does not hold a large amount of savings and requires more support, so any attempt to change the incentives on savings products for consumers must be done with care and take these factors into consideration. (Paragraph 279)

55. The regulatory environment has inhibited those who have sufficient savings and may benefit from investing. The Committee recognises the inherent benefit to consumers who can invest and benefit from higher returns and recognises these reforms could help deepen the UK's secondary capital markets. However, we did not receive satisfactory evidence to suggest that the creation of an equity investment culture in the UK would, by itself, increase productive investment, nor facilitate growth in the wider economy. However, an increase in savings into pension funds may increase the amount of investment available for productive assets. (Paragraph 280)

56. *A sustainable shift in saving habits rests on consumers who are financially literate and numerate and trust the financial services sector—this will not be addressed through siloed policymaking. HM Treasury must work with the FCA and industry to support adults in attaining financial literacy and numeracy; HM Treasury must work with the Department for Education to set out how it can improve the provision of financial literacy and numeracy education for students, with emphasis on early years education.* (Paragraph 281)

57. *The need to address failures in the financial advice market is long overdue. The FCA must allocate resource to prioritise the delivery of the Advice Guidance Boundary Review. UK consumers require more support and the FCA has already taken five years to deliver these reforms. Any additional delay is unacceptable and will negatively impact on consumers.* (Paragraph 282)

58. Regulation alone cannot generate economic growth. The Government, the regulators, and industry must be aligned in their approach to improve the provision of finance for UK businesses and productive assets. Whilst this requires regulatory action to identify and remove any barriers to productive investment, the Government's growth objectives cannot be achieved without a joined-up approach. (Paragraph 303)

59. The reforms to Solvency UK, and the ongoing pension reforms, may help to deepen the UK's capital markets by unlocking capital in the insurance and pensions sector. Nevertheless, the widespread and quick allocation of investment by the sector rests on the FCA and PRA acting as proportionate and enabling forces to allow firms to quickly take advantage of developing opportunities. (Paragraph 304)

60. *Whilst we welcome the Government's pension reforms to deepen the UK's capital markets and generate higher returns for pension holders, we hold serious reservations regarding any proposal to mandate pension funds to comply with a prescribed asset allocation. We are concerned that such a mandate compromises trustees' fiduciary duty to their members. We will continue to monitor the Government's pension reforms.* (Paragraph 305)

61. *Addressing the gap in growth funding will be vital if the UK is to take advantage of its strengths in IP generation for the benefit of economic growth, and resultant job and wealth creation. The Government must set out how the UK's financial services sector can provide more of this financing. The Government, the FCA, and the PRA should engage with industry to identify the key regulatory barriers in this space.* (Paragraph 306)

62. *The Government should use its review of MiFID to examine how regulation can unlock the availability of research on smaller and medium sized UK companies.* (Paragraph 307)

The role of Government

63. At the moment, the metrics comprise a set of static data predominantly measuring operational processes, which do little to track the impact of regulation on growth in the wider economy. For us, this is further evidence that the answer to the question of what mechanisms there are for the regulators to transmit their actions into growth in the wider economy has not yet been fully developed or articulated. (Paragraph 328)

64. HM Treasury states that it did not want to require the regulators to report against outcomes that they do not fully control. However, success in advancing the secondary objective should be, in part, about facilitating growth in the UK economy—currently, there is no explicit direction on this from HM Treasury within the metrics to ensure this can be measured or monitored. Without some measure of the regulators' actions on economic growth, it will be difficult to scrutinise whether or not the secondary objective is being delivered. (Paragraph 329)

65. We also recognise the difficulties associated with benchmarking the performance of our regulators with their international counterparts but again, without some measure to enable international comparisons, it will be difficult to assess whether we are competing with international jurisdictions more effectively and in a more proportionate way. (Paragraph 330)

66. *A comprehensive review and revision of the secondary objective metrics is required. This should be commenced as soon as possible after the publication of the regulators' second secondary objective progress reports, due by summer 2025. As part of this review, HM Treasury and the regulators should prioritise introducing more granularity to the metrics, ensuring there is enhanced transparency around the operational effectiveness of the regulators which better reflects the experience of firms of all sizes.* (Paragraph 331)

67. *HM Treasury should include outcomes-based secondary objective metrics that aim to illustrate the impact of the regulators' action on the real economy. In our view, it would be possible to do more to set the data reported against the current metrics with outcomes in the real economy (such as tracking trends in the markets the FCA and PRA regulate) as a way of starting to draw a more explicit link between the actions of the regulators and the progress of the objective to facilitate growth in the wider economy.* (Paragraph 332)

68. *HM Treasury should undertake dedicated research, in collaboration with the FCA and PRA, on how the UK regulators' performance can be effectively measured against their international counterparts. Failing to do so will leave a significant gap in our understanding of how the international competitiveness element of the secondary objective is being advanced.* (Paragraph 333)

69. It is vital that the Government ensures that there is a shared understanding between itself and the regulators over what "informed and responsible risk-taking" means. However, the regulators cannot expect the Government to set the 'risk appetite' entirely. What the Government can and should do is give recommendations and set parameters or benchmarks in relation to its economic policy and should be clear in what it asks. The regulators need to take responsibility for ensuring that their policy and supervision adequately assess risk while paving the way for a stable regulatory environment that facilitates growth and innovation. (Paragraph 342)

70. Moreover, we think there is a danger that the narrative around the secondary objective could become dominated by the issue of where the setting of the risk appetite resides. (Paragraph 343)

71. *We recommend that the Government use the upcoming Financial Services Sector Strategy to convert the general ambitions around enabling informed and responsible risk-taking set out in the remit letters into more actionable policies for the regulators to take forward. It needs to draw a clear link between the economic outcomes it wants to see, the levers available to the regulators to support this, and the necessary political cover to enable the regulators to implement these reforms.* (Paragraph 344)

72. *The Government should create a clear, specific steer to the regulators on how they might deliver on the strand of the secondary objective that requires them to facilitate growth in the wider economy, through linking the aims of the upcoming Financial Services Sector Strategy to specific secondary objective metrics.* (Paragraph 345)

73. We have been critical of the complexity of the regulatory system, and the regulators' contribution to that complexity, for example, by creating a heavy compliance burden and areas of regulatory overlap. However, we recognise that the regulators themselves are subject to a multitude of regulatory objectives and principles, and that requiring the regulators to consider multiple and multi-faceted 'have regards' adds complexity to policy and rulemaking process, and risks slowing down decision-making. (Paragraph 351)

74. Too many objectives muddle the work of regulators and supervisors, increase the risk of poor decisions, and can lead to a dilution or distraction in the performance of their tasks. We therefore welcome the Government's commitment to review the number of 'have regards' placed on the regulators and urge the Government to rationalise and reduce these as far as is possible. The Government must ensure that the number of objectives, regulatory

principles and have regards do not inflate to the point where the regulators are unable to balance their varying obligations. (Paragraph 352)

75. The secondary objective has been in place for almost two years. It has catalysed a renewed focus on the efficiency of regulatory practice and focused the regulators' efforts on removing the barriers to growth and international competitiveness in the sector. However, it is not yet clear whether the relationship between financial services regulation and growth of the wider economy has been clearly evidenced or established. We have demonstrated that there are areas where regulation plays a role in wider economic growth—capital requirements being the key example—but we have not received any evidence that the secondary objective is likely to have a significant impact on the growth of the wider economy. The introduction of a secondary objective, in addition to the numerous other requirements placed on the regulators, where they do not have the mechanisms to produce the outcomes the objective requires them to, risks diluting the regulators' focus on their core responsibilities of ensuring financial stability, consumer protection, market integrity, and competition, in addition to complicating accountability. (Paragraph 356)

76. *The Government must keep the secondary objective under review, including the opportunity for legislative change to rationalise the regulators' statutory objectives. The Government must report to Parliament and this Committee to evidence whether the secondary international competitiveness and growth objective has facilitated growth in the wider economy (including what academic research the Government has undertaken, or intends to undertake, to respond to our concerns set out in paragraphs 231, 256, 307, 332, and 333) within 12 months of the publication of this report; and subsequently on an annual basis.* (Paragraph 357)

77. *The FCA and the PRA must report to the Committee within 12 months of the publication of this report to set out how they have responded to our recommendations.* (Paragraph 358)

Growing pains: clarity and culture change required

An examination of the secondary international competitiveness and growth objective

CHAPTER 1: INTRODUCTION

Background

Regulation of the financial services sector

1. The UK's model of financial services regulation delegates the setting of regulatory standards to operationally independent regulators. The principal regulators are the Prudential Regulation Authority (PRA), which is part of the Bank of England, and the Financial Conduct Authority (FCA)—that work within an overall policy framework set by the Government and Parliament.[9]

2. While the terms regulation and supervision are sometimes used indistinctly, regulation refers to the establishment of rules (legislative acts, statutory instruments, rules of the competent authorities, and international standards) and supervision refers to the oversight of financial firms' behaviour, in particular risk monitoring, risk control, and compliance with the rules.[10] Monitoring and managing risk is a core function of financial services regulation, which can include (but is not limited to):

    (a) Systemic risk: the risk of the failure of one or more significant institutions that would threaten the stability of the UK financial system.

    (b) Micro-prudential risk: the failure of an individual institution. In turn an institution faces a number of risks in the course of its business which could contribute to or cause failure (e.g., a bank faces credit, liquidity, market, interest rate, operational, legal, regulatory, conduct, operational and cyber risks).

    (c) Investment risk: the risk that an investor (retail or professional) loses money because of a fall in value in investments.

    (d) Fraud risk: the risk that a person is defrauded by a bad actor.

3. The current model of financial services regulation and supervision is underpinned by the framework set out in the Financial Services and Markets

9 The Bank of England is also responsible for the regulation and supervision of Financial Market Infrastructures (FMIs) and the resolution of banks, building societies, certain investment firms, and central counterparties.

10 See Rosa Lastra, *Central Banking and Banking Regulation* (London: London School of Economics, 1996), chapter 2. In the UK, the Bank of England first received formal supervisory powers with the Banking Act 1979. See William Peter Cooke, Head of Banking Supervision at the Bank of England, Speech on the role of the banking supervisor, 4 November 1982: https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/1982/the-role-of-the-banking-supervisor.pdf [accessed 5 June 2025]. However, a proper system of bank examination was only adopted after the Bank of Credit and Commerce International (BCCI) scandal following the recommendations of the 1992 report by the Rt Hon Lord Justice Bingham. See *Inquiry into the Supervision of the Bank of Credit and Commerce International* (22 October 1992): https://assets.publishing.service.gov.uk/media/5a7c6dbbe5274a5590059cd3/0198.pdf [accessed 5 June 2025].

Act (FSMA) 2000[11] and related secondary legislation such as the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001[12] which prescribes the regulatory perimeter. FSMA 2000 has been amended several times since coming into force. With the establishment of the FCA and the PRA in 2012, the UK adopted a system that divided responsibility for key regulatory objectives between the two regulators—the 'twin-peaks' approach. This was in response to the failures of the Financial Services Authority (FSA) during the Global Financial Crisis (2007–2009). The FSA, with its multi-faceted mandate (including competitiveness within the UK financial system), had overlooked the risks that led to failures such as the collapse of Northern Rock. The crisis had also exposed the limitations of the Memorandum of Understanding between HM Treasury, the Bank of England, and the FSA. The new system adopted in 2012 emphasised the concept of financial stability and the need to avoid bail outs which resorted to taxpayers' money.

4. Although there have been changes over time to the model established by FSMA, successive governments have maintained the principle of independent regulation. The model splits responsibility between Parliament, HM Treasury, and the regulators, as follows:

- Parliament, through primary legislation, sets the overall approach and institutional architecture for financial services regulation, including the regulators' objectives.
- Within that primary legislation, Parliament also establishes the parameters within which HM Treasury can set the 'regulatory perimeter' through secondary legislation, specifying which financial services activities should be regulated and the circumstances in which regulation should apply.
- The operationally independent regulators have the statutory responsibility for setting the direct regulatory requirements and obligations that apply to firms which carry out regulated activities, using the powers given to them by FSMA, and following the processes established by FSMA.[13]

5. Although the regulators are operationally independent and have considerable discretion to decide what rules they should make to advance their objectives, within the FSMA framework, HM Treasury is able to influence the strategic approach of the regulators. FSMA 2000 and the Bank of England Act 1998 require HM Treasury, at least once per Parliament, to make recommendations about aspects of the Government's economic policy to which the FCA and PRA should have regard when carrying out their general duties and advancing their objectives. These are known as "remit letters", the latest of which were issued in November 2024. HM Treasury can update the remit letters at any time.

6. In addition to the FCA and the PRA, multiple regulators and public bodies have remits that include financial services, such as the Payment Systems

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11 Financial Services and Markets Act 2000
12 The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544)
13 HM Treasury, *Financial Services Regulation: Measuring Success—Call for Proposals* (9 May 2023) pp 10–11: https://assets.publishing.service.gov.uk/media/64552db2c6e8970012a0fa9e/Financial_Services_Regulation_-_Measuring_Success_-_Call_for_Proposals.pdf [accessed 8 May 2025]

Regulator (PSR) (which will soon be abolished and largely consolidated within the FCA[14]), the Financial Reporting Council (FRC), the Lending Standards Board (LSB), The Pensions Regulator (TPR), the Competition and Markets Authority (CMA), the Financial Services Compensation Scheme (FSCS), the Information Commissioner's Office (ICO), the Financial Ombudsman Service (FOS). In addition, the Bank of England's Financial Policy Committee has responsibility for macroprudential policy and systemic risk control. (For an overview of the UK's financial services regulatory architecture, see Appendix 6.)

Secondary international competitiveness and growth objective

7. The PRA and the FCA are required by law to act in a way that advances their statutory objectives when carrying out their general functions. The FCA's primary strategic objective is to ensure that the relevant markets function well. It has three operational objectives: to secure an appropriate degree of protection for consumers; to protect and enhance the integrity of the UK financial system; and to promote effective competition in the interests of consumers.[15]

8. The PRA has two primary objectives: a general objective to promote the safety and soundness of PRA-authorised persons and an objective specific to insurance firms for the protection of policyholders.[16] The PRA also has a secondary competition objective, which is focused on "facilitating effective competition in the markets for services provided by PRA-authorised persons in carrying on regulated activities."[17]

9. In addition to their objectives, the FCA and PRA are also subject to a number of regulatory principles and 'have regard' requirements (for a full list see Appendix 7).

10. Following the withdrawal of the UK from the EU, the Future Regulatory Framework Review was established to determine how the financial services regulatory framework should adapt to the UK's new position outside of the EU. The Government published two consultations as part of the Future Regulatory Framework Review, in October 2020[18] and November 2021,[19] including on introducing new secondary objectives for the regulators on international competitiveness and growth. HM Treasury stated that the rationale for introducing the secondary objectives was that:

> "While the UK was a member of the EU, the government was able to ensure that matters of wider public policy, such as growth and international competitiveness, were considered as part of the negotiations to agree regulations at an EU level. As the regulators take on greater responsibility for setting detailed rules across a larger portion of the

14 Prime Minister's Office, 10 Downing Street, Press Release: *Regulator axed as red tape is slashed to boost growth* on 11 March 2025: https://www.gov.uk/government/news/regulator-axed-as-red-tape-is-slashed-to-boost-growth [accessed 1 June 2025]
15 Financial Services and Markets Act 2000, section 1B
16 *Ibid.*, sections 2B and 2C
17 *Ibid.*, section 2H
18 HM Treasury, *Financial Services Future Regulatory Framework Review: Phase II Consultation* (19 October 2020): https://assets.publishing.service.gov.uk/media/5f89af3fe90e0727c70a5824/141020_Final_Phase_II_Condoc_For_Publication_for_print.pdf [accessed 8 May 2025]
19 HM Treasury, *Financial Services Future Regulatory Framework Review: Proposals for Reform* (9 November 2021): https://assets.publishing.service.gov.uk/media/618a4b9fe90e071977182bd5/FRF_Review_Consultation_2021_-_Final_.pdf [accessed 8 May 2025]

UK's financial services landscape, the government recognises the need to ensure that their objectives reflect the importance of the financial services sector as an engine of growth for the wider economy and the need to support the future strength and viability of the UK as a global financial centre."[20]

11. FSMA 2023, which came into force on 29 June 2023, delivered on the outcomes of the Future Regulatory Framework review.[21] It introduced the new secondary international competitiveness and growth objective for the FCA and the PRA:

"The competitiveness and growth objective is: facilitating, subject to aligning with relevant international standards—

(a) the international competitiveness of the economy of the United Kingdom (including in particular the financial services sector), and

(b) its growth in the medium to long term."[22]

12. The FCA and the PRA are required, under FSMA 2023, to publish two reports setting out how they have implemented their new secondary objective. The first report had to be produced within 12 months of the Act coming into force, which both regulators did—the FCA on 29 July 2024 and the PRA on 30 July 2024.[23] The second report must be produced within 24 months of the Act coming into force.[24] The FCA and the PRA will publish their second reports in summer 2025.

Recent government policy

13. The Government has placed economic growth at the centre of its policy ambitions. The Chancellor of the Exchequer, the Rt Hon Rachel Reeves MP, said at her Mansion House speech last year that "improving economic growth has been at the very heart of everything that I am seeking to achieve."[25]

14. The Government has stated that it sees the UK's financial services sector as having "a unique, core role to play in delivering growth across the whole economy."[26] In the Government's Industrial Strategy Green Paper, published in October 2024, financial services were identified as one of eight sectors which offer the highest growth opportunity for the economy and business.[27]

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20 HM Treasury, *Financial Services Future Regulatory Framework Review: Proposals for Reform* (9 November 2021) p 5: https://assets.publishing.service.gov.uk/media/618a4b9fe90e071977182bd5/FRF_Review_Consultation_2021_-_Final_.pdf [accessed 8 May 2025]

21 Explanatory Notes to the Financial Services and Markets Bill [HL Bill 80 (2022–23)-EN]

22 Financial Services and Markets Act 2023, section 25. FSMA 2023 also introduced a new secondary objective for the Bank of England to facilitate innovation in the provision of Financial Market Infrastructure (FMI) services: Bank of England Act 1998, section 30D.

23 FCA, *Secondary International Competitiveness and Growth Objective report 2023/24* (29 July 2024): https://www.fca.org.uk/publication/corporate/sicgo-report-2023–24.pdf [accessed 10 May 2025]; PRA, *Competitiveness and growth: Embedding the Prudential Regulation Authority's new secondary objective* (30 July 2024): https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/report/scgo-report.pdf [accessed 10 May 2025]

24 Financial Services and Markets Act 2023, section 26

25 The Rt Hon Rachel Reeves MP, Chancellor of the Exchequer, Mansion House 2024 Speech, 14 November 2024: https://www.gov.uk/government/speeches/mansion-house-2024-speech [accessed 10 May 2025]

26 Department for Business and Trade, *Invest 2035: The UK's Modern Industrial Strategy* (14 October 2024) p 25: https://assets.publishing.service.gov.uk/media/6711176c386bf0964853d747/industrial-strategy-green-paper.pdf [accessed 10 May 2025]

27 *Ibid.*, p 4

The Government has said of the sector's role in supporting economic growth, that through "supporting consumers and businesses across the country, it underpins the stable economic environment necessary for sustainable growth and plays a vital role in allocating capital to the productive investment necessary to unlock growth across the economy."[28]

15. The Government has also been clear that it sees the UK's regulators as playing an important role in its growth mission and, over recent months, has steadily increased the pressure on regulators to demonstrate how they will support the Government's objectives. In her remit letters to the FCA and the Prudential Regulation Committee (PRC) regarding the PRA, the Chancellor, referring to the Government's growth mission, set out that:

> "The financial services regulators are key to driving forward this mission: we must have proportionate, effective regulation that allows firms of all sizes to compete, innovate and grow, creates a stable, attractive environment which encourages businesses to establish and expand in the UK, and adequately protects consumers."[29]

16. The remit letters also stated that it was "vital" that the regulators continued to embed the secondary objective fully, "accelerating its adoption so that growth and competitiveness are appropriately considered across all of [their] policymaking, and in [their] approach to supervision".[30] In December 2024, the Prime Minister, the Chancellor, and the Secretary of State for Business and Trade wrote a joint letter to UK regulators asking each of them to propose five reforms to support growth in the coming year, with subsequent calls to tear down regulatory barriers that hold back growth.[31]

17. On 11 March 2025, the Government announced that it would abolish the Payment Systems Regulator (PSR), the regulator for UK payment systems, and that it would consolidate the PSR's functions primarily into the FCA. The Government stated that this was in response to complaints from businesses that the regulatory environment was too complex.[32] Following this, the Government published a regulatory 'Action Plan' which outlined a number of steps to "overhaul our regulatory system"[33] to ensure that it supports growth. The Action Plan, aimed at all UK regulators, included

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28 HM Treasury, *Financial Services Growth and Competitiveness Strategy: Call for evidence* (14 November 2024) p 8: https://assets.publishing.service.gov.uk/media/6735f4670b168c11ea82311d/Financial_Services_Growth___Competitveness_Strategy_-_Call_for_Evidence_.pdf [accessed 10 May 2025]

29 Letter from the Rt Hon Rachel Reeves MP, Chancellor of the Exchequer, to Nikhil Rathi, Chief Executive of the FCA (14 November 2024): https://assets.publishing.service.gov.uk/media/673712ee12f25d73081271e8/CX_Letter_-_Recommendations_for_the_Financial_Conduct_Authority__FCA__-_Nikhil_Rathi_14112024.pdf [accessed 1 June 2025]. See also: Letter from the Rt Hon Rachel Reeves MP, Chancellor of the Exchequer, to Andrew Bailey, Governor of the Bank of England (14 November 2024): https://www.bankofengland.co.uk/-/media/boe/files/letter/2024/prc-remit-letter-2024.pdf [accessed 1 June 2025].

30 *Ibid.*

31 HM Treasury, Press Release: *Chancellor calls on watchdog bosses to tear down regulatory barriers that hold back growth* on 22 January 2025: https://www.gov.uk/government/news/chancellor-calls-on-watchdog-bosses-to-tear-down-regulatory-barriers-that-hold-back-growth [accessed 10 May 2025]

32 Prime Minister's Office, 10 Downing Street, Press Release: *Regulator axed as red tape is slashed to boost growth* on 11 March 2025: https://www.gov.uk/government/news/regulator-axed-as-red-tape-is-slashed-to-boost-growth [accessed 1 June 2025]

33 HM Treasury, 'New approach to ensure regulators and regulation support growth' (17 March 2025): http://www.gov.uk/government/publications/a-new-approach-to-ensure-regulators-and-regulation-support-growth/new-approach-to-ensure-regulators-and-regulation-support-growth-html [accessed 10 May 2025]

measures aimed at tackling the complexity and burden of regulation, reducing uncertainty, and challenging excessive risk aversion in the system.[34]

18. The Government has also committed to publishing a Financial Services Growth and Competitiveness Strategy which it states will provide a "central guiding framework through which the Government will achieve sustainable, inclusive growth for the sector".[35] It published a call for evidence on the Strategy on 14 November 2024 which closed on 12 December 2024. The Government has indicated that the Strategy would be published on 15 July 2025.[36]

Our inquiry

19. Our inquiry was launched on 8 May 2024, just under a year after the secondary objective came into force.[37] Over the course of the inquiry, we received over seventy pieces of written evidence and heard oral evidence from thirty panels of witnesses.

20. On 4 December 2024, we held a private roundtable with executives from the UK's insurance and reinsurance sectors. On 29 January 2025, we held another private roundtable with executives from mid-market and specialist banks. Summary notes of these discussions are included in Appendices 4 and 5.

21. As HM Treasury set out in its evidence to us, the secondary objective covers four areas: "the growth of the wider economy, the competitiveness of the wider economy, the growth of the financial services sector, and its competitiveness."[38]As such, we wanted to ensure that our inquiry sought to assess the progress made in advancing the secondary objective both within the sector and in the UK economy more broadly. The report will cover the following areas:

    (a) Facilitating growth and international competitiveness in the financial services sector. Whether the current regulatory environment is conducive to this aim was a key question for our inquiry given that this is where the regulators have the clearest and most direct impact. Much of the evidence we received from industry centred around what factors in the regulatory landscape were hindering growth and competition within the financial services sector itself and what regulatory issues were impacting on the UK's attractiveness as a place to invest.

    (b) Regulating for growth in the wider economy. The secondary objective extends to the UK economy more broadly. We therefore sought to look beyond the immediate issues affecting the financial services sector to

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34 HM Treasury, 'New approach to ensure regulators and regulation support growth' (17 March 2025): http://www.gov.uk/government/publications/a-new-approach-to-ensure-regulators-and-regulation-support-growth/new-approach-to-ensure-regulators-and-regulation-support-growth-html [accessed 10 May 2025]

35 HM Treasury, *Financial Services Growth and Competitiveness Strategy: Call for evidence* (14 November 2024) p 6: https://assets.publishing.service.gov.uk/media/6735f4670b168c11ea82311d/Financial_Services_Growth___Competitveness_Strategy_-_Call_for_Evidence_.pdf [accessed 10 May 2025]

36 The Rt Hon Rachel Reeves MP, Chancellor of the Exchequer, Speech at the Innovate Finance Global Summit 2025, 29 April 2025: https://www.gov.uk/government/speeches/chancellor-speech-at-global-innovate-summit-2025 [accessed 4 June 2025]

37 Financial Services Regulation Committee, 'Call for Evidence' (8 May 2024): https://committees.parliament.uk/call-for-evidence/3415

38 Q 355 (Catherine McCloskey)

try to understand which regulatory mechanisms can impact directly on growth in the wider economy. We also sought to assess the extent of the regulators' focus on this strand of the objective and whether there is a shared understanding between the regulators and the Government of what can and should be achieved.

(c) The role of the Government in helping the regulators to navigate the secondary objective. Although the regulators are operationally independent, there is a role for Government to set clear expectations of them as they advance the secondary objective. The inquiry therefore also included a focus on the extent to which the Government is exercising its available powers effectively to ensure that the regulators receive sufficient direction and clarity on its expectations for the secondary objective.

(d) The value of the secondary objective. We also consider what can be said, at this stage, about the value of the secondary objective, whether it can be considered an appropriate mechanism for ensuring we have a regulatory system that effectively supports growth and international competitiveness, and whether all strands of the objective can be meaningfully advanced.

22. We are grateful to all those who submitted evidence to the inquiry. All of those who provided evidence are listed in Appendix 2. A list of Members' interests is contained in Appendix 1. We also want to thank our Specialist Advisers, Michael Raffan and Professor Rosa Lastra, for the support and guidance given throughout the inquiry.

CHAPTER 2: THE SECONDARY COMPETITIVENESS AND GROWTH OBJECTIVE IN THE FINANCIAL SERVICES SECTOR

23. A key question that we posed, both in our Call for Evidence and in oral evidence sessions, was what in the current regulatory environment is inhibiting the advancement of the secondary objective. The answers spanned a wide range of issues, likely a reflection of the complexities of the system itself. However, some clear themes emerged: the culture of the regulators, the cost and complexity of regulatory compliance, regulatory inefficiencies and their impact on innovation in the sector, a lack of proportionality in regulation, and regulatory uncertainty. Witnesses also expressed concerns that these aspects of the UK's regulatory environment have impacted on the UK's attractiveness as a place to locate business and invest.

A risk-averse culture

24. Throughout the evidence, witnesses often referred to the culture of the FCA and the PRA, suggesting that it is overly risk-averse. OakNorth Bank told us that: "The risk-averse culture within the regulatory bodies is a significant constraint. This caution, amplified after the financial crisis, can lead to overly conservative approaches that stifle innovation and hinder growth."[39] Aberdeen Group noted: "the regulatory pendulum has swung too far towards elimination of all risk."[40]

25. Several witnesses characterised the current culture of the regulators as being shaped by the repercussions of the Global Financial Crisis, from which it has not yet progressed. The Chancellor recognised this characterisation in her 2024 Mansion House speech:

> "It was right that successive governments made regulatory changes after the Global Financial Crisis to ensure that regulation kept pace with the global economy of the time but it is important that we learn the lessons of the past. These changes have resulted in a system which sought to eliminate risk taking. That has gone too far and, in places, it has had unintended consequences that we must now address."[41]

26. It was suggested that the culture established after 2008 had been reinforced by the conflicting pressures faced by the regulators from the Government, Parliament, industry, consumers, and the media. Andy Briggs MBE, Chief Executive Officer of Phoenix Group, noted: "The broader culture in the UK—the media and Parliament—is that nothing can go wrong."[42] Charles Randell CBE, former Chair of the FCA, commented that there is: "a rather curious disconnect between the stated risk appetite of politicians, which is very often that we must have risk in the system and that we need more of it, and the revealed preference of politicians, which is that risk has now crystallised and we need to blame the regulator for it."[43] Acknowledging this dynamic, Sam Woods, Deputy Governor for Prudential Regulation and Chief Executive Officer of the PRA, stated that:

39 Written evidence from OakNorth Bank (SCG0020)
40 Supplementary written evidence from Aberdeen Group (SCG0068)
41 The Rt Hon Rachel Reeves MP, Chancellor of the Exchequer, Mansion House 2024 Speech, 14 November 2024: https://www.gov.uk/government/speeches/mansion-house-2024-speech [accessed 10 May 2025]
42 Q 330 (Andy Briggs)
43 Q 155 (Charles Randell)

> "I think they are correct to say that the regulators naturally have a fear that in the abstract they will get strong encouragement from the Government, and probably from Parliament, to allow more risk taking, but then, when an actual concrete risk crystallises, the politicians will say, "Well, we didn't mean that risk. Why did you take that risk?" But I think that is just life. You have to try to balance these things."[44]

27. Andrew Griffith MP, former Financial Secretary and former Economic Secretary to the Treasury and City Minister, said: "I observed as City Minister that every time anybody found some perceived or real harm, there was a clamour for additional regulation and legislation."[45] The Lloyd's Market Association added that: "A fear of failure drives conservative expectations from the regulators."[46] Nigel Terrington, Chief Executive Officer of Paragon Banking Group, told us:

> "… post financial crisis, there is a very different risk culture everywhere, within government, probably in Parliament—though you will be much better judges of that than me—with the regulators and in management. I do not mean bank managers in the traditional sense, but bank management teams today are very different animals from what they were pre financial crisis."[47]

28. **Throughout the evidence we received, there was a clear link made between the current regulatory culture characterised by risk aversion and its impact on the advancement of the secondary objective. We heard that this culture is driven by the repercussions of the Global Financial Crisis and the conflicting pressures under which the regulators operate.**

The cost and complexity of regulatory compliance

29. A key issue that witnesses told us inhibits the advancement of the secondary objective is the cost and complexity of operating within the UK's regulatory system. We heard that firms have to comply with disproportionately burdensome compliance requirements and navigate an excessively complex environment without sufficient support.

Reporting requirements

30. To facilitate supervision, the FCA and the PRA require firms to provide data on their business activities.[48] Whilst robust supervision is essential to maintain the UK's reputation as a trusted financial centre, we received evidence that the volume of information requests is disproportionate to this aim and places significant resource demands on firms.

31. Nationwide Building Society indicated the scale of these requests, as it noted that in 2024: "we received 4,519 pieces of direct correspondence from our regulators over the past 12 months".[49] Similarly, Santander UK told us that: "we have responded to over 300 regulatory requests and managed over 400 regular regulatory reports, equating to over 2,500 submissions a year."[50]

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44 Q 298 (Sam Woods). See also Q 240 (Bim Afolami).
45 Q 243 (Andrew Griffith MP)
46 Written evidence from the Lloyd's Market Association (SCG0031)
47 Q 130 (Nigel Terrington)
48 Financial Services and Markets Act 2000, section 165
49 Written evidence from Nationwide Building Society (SCG0019)
50 Written evidence from Santander UK (SCG0046)

32. Concerningly, we received evidence that reporting requirements for certain sectors are felt to be more burdensome in the UK than in competing jurisdictions. In our private roundtable with insurers and reinsurers, one participant noted that their firm submitted 300 filings to UK regulators over one year, compared to 56 filings to regulators in another jurisdiction.[51] Another told us that their firm employed 78 compliance officers for the UK market compared to 73 for the other 40 countries in their European and Middle Eastern operations.[52]

33. Compounding the volume of information requests, it was suggested that the regulators do not always provide clarity on how they use this data. Caroline Wagstaff, Chief Executive Officer of the London Market Group, shared the results of their firm survey, which showed that: "a large number of people said that they felt that the amount of information being requested by the regulators had increased in the last 12 months. There was also a strong sense that they did not know why they were being asked for that information."[53] Hannah Gurga, Director General of the Association of British Insurers, told us that chief executives had asked their supervisors why certain information was required: "to find out whether this is the most relevant data to provide in order to inform whatever hypothesis is being tested. And the answer is not always forthcoming."[54]

34. Witnesses suggested that responding to these information requests incurred substantial costs and placed resource demands on teams. Santander UK stated that there were instances when multiple regulatory requests could "make demands of small teams within the business, posing capacity challenges."[55] Debbie Crosbie, Chief Executive Officer of Nationwide Building Society, told us that providing personal attestations required by the regulators:

> "… involved a lot of data collection and individual file reviews, and a huge amount of analysis. These are the same people who perform roles such as helping us innovate to combat fraud so, as well as it being a cost to the organisation there is an opportunity cost as to the other work that these people could be doing, if they were given the opportunity to focus on different matters."[56]

35. **Firms have told us that they are inundated by information requests from the FCA and the PRA, who are not always transparent about how this information is used. Importantly, we received evidence suggesting that reporting requirements in the UK may be more burdensome than in competing jurisdictions, which may negatively impact on the UK's perceived attractiveness as a global financial services centre.**

The volume and scope of regulatory activity

36. A prominent concern in the evidence we received related to the burden of identifying, assessing, and, where relevant, responding to the wide array of regulatory activities and publications. Witnesses told us that these imposed unnecessary cost and complexity on the sector.

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51 See Appendix 4.
52 *Ibid.*
53 Q 47 (Caroline Wagstaff)
54 Q 271 (Hannah Gurga)
55 Written evidence from Santander UK (SCG0046)
56 Q 254 (Debbie Crosbie)

Tracking regulatory publications

37. Witnesses highlighted the burden of managing the range of regulatory publications that firms must track to remain compliant. Chris Cummings, Chief Executive Officer of the Investment Association, told us: "The FCA and PRA need a better understanding of the lived experience of a regulated firm in coping with consultations, policy statements, "Dear CEO" letters, speeches and the plethora of regulatory tools that are now used by the regulators"[57].

38. Witnesses indicated the scale of the challenge that firms face in managing the volume of regulatory publications. Andy Briggs told us that Phoenix Group "have had an average of 47 regulatory and legislative changes per year over the past three years—so about 150 over that period."[58] Hannah Gurga shared that "a mid-sized firm … told me that this year to date it had had its compliance team review over 250 regulatory publications by the FCA, of which 160 were relevant to its business."[59]

The expanding scope of regulation and the impact on compliance burdens

39. We heard that the FCA and the PRA have expanded the range of business activities that they regulate. Witnesses suggested that the FCA[60] and PRA's[61] proposals on diversity and inclusion in 2023 were indicative of expanding regulatory intervention into areas beyond their core functions. Miles Celic OBE, Chief Executive Officer of TheCityUK, noted: "The diversity, equity and inclusion initiative put forward by the FCA was not at the behest of government … There is a sense that the regulators are almost creating activity for themselves in certain areas and at certain times".[62] Sir Howard Davies, former Chair of the FSA and of NatWest Group, told us that: "There is a lot of activity that preoccupies boards—things such as corporate governance and diversity and inclusion. One does not disagree with those in themselves, but they create an extraordinary compliance burden."[63] Hani Kablawi, Head of International at BNY, noted that: "Senior management spends a lot of time parsing through things that eventually end up being excluded or descoped"[64] and, on this point, we note that in March 2025 the FCA and the PRA announced that they would not take forward the proposals on diversity and inclusion, citing expected legislative developments and a desire to avoid additional burdens on firms.[65]

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57 Q 203 (Chris Cummings)
58 Q 328 (Andy Briggs)
59 Q 270 (Hannah Gurga)
60 FCA, *Consultation Paper CP23/20: Diversity and inclusion in the financial sector—working together to drive change* (25 September 2023): https://www.fca.org.uk/publication/consultation/cp23-20.pdf [accessed 10 May 2025]
61 PRA, *Consultation Paper CP18/23: Diversity and inclusion in PRA-regulated firms* (25 September 2023): https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2023/september/cp1823-diversity-and-inclusion-in-pra-regulated-firms.pdf [accessed 10 May 2025]
62 Q 12 (Miles Celic)
63 Q 187 (Sir Howard Davies)
64 Q 279 (Hani Kablawi)
65 Bank of England, 'Statement on CP18/23—diversity and inclusion in PRA-regulated firms' (12 March 2025): https://www.bankofengland.co.uk/news/2025/march/statement-on-cp18-23-diversity-and-inclusion-in-pra-regulated-firms [accessed 10 May 2025]; FCA, 'Update on the FCA's enforcement transparency proposals' (12 March 2025): https://www.fca.org.uk/news/statements/update-fca-enforcement-transparency-proposals [accessed 10 May 2025]

40. We were told that, increasingly, the FCA and the PRA seek to regulate issues beyond their core responsibilities. Andrew Griffith MP told us, with reference to the net zero agenda, that:

> "There is also an awful lot of mission creep amongst the financial regulators. … I was aghast to discover the amount of time one found regulators devoting to agendas like net zero, … not something a regulator was ever elected to look at, the diversity agenda, which seemed to me very fulsome, and other agendas."[66]

41. It should be noted, however, that an element of this "mission creep"[67] may have been driven by the imposition of 'have regards' on the FCA and the PRA, which increase the issues and factors that the regulators must take into account when exercising their powers or making rules in specific areas of regulation. For example, under FSMA 2023, the FCA and the PRA were given a new general regulatory principle that they must have regard to the Government's net zero emissions and environmental targets.[68] The FCA suggested that this principle was a significant factor in its decision to introduce sustainability disclosure reporting requirements[69], which Nikhil Rathi, Chief Executive of the FCA, noted imposed the highest estimated cost to industry of regulation introduced in 2023.[70] In reference to the statutory principle, Nikhil Rathi told us that: "The Government are endorsing those standards. In that climate, it is quite hard for us to say that we will not do it when the Government have explicitly agreed it and asked for it."[71]

42. We recognise that ensuring that the FCA and the PRA remain focused on their core responsibilities requires Government to be mindful of the range of statutory objectives, regulatory principles, and 'have regards' to which the regulators are subject (see Appendix 7). Sam Woods told us: "We have 25 have-regards, and they naturally fall into clusters. There is a question about whether they could perhaps be simplified and rationalised somewhat."[72] This issue will be addressed in more detail in Chapter 4.

43. In addition to the expansion of the regulators' responsibilities, the size and cost of the FCA and the PRA was highlighted to us. Miles Celic told us that: "It is very difficult for industry to stay on top of it when you have two regulators—now budgeted at north of £1.1 billion and with 6,500 people across the pair of them—generating this amount of activity."[73]

44. We were told that responding to new regulatory activity represents a significant proportion of the overall direct cost of compliance. Julie-Ann Haines, Chief Executive Officer of Principality Building Society, told us: "We spend £20 million on our change activity … this year 70% of that investment is focused on regulatory operational resilience and legal change."[74] Nationwide Building Society provided further evidence of the costs of meeting new regulation,

66 Q 244 (Andrew Griffith MP)
67 *Ibid.*
68 Financial Services and Markets Act 2023, section 27
69 Q 342 (Nikhil Rathi)
70 Q 341 (Nikhil Rathi)
71 Q 342 (Nikhil Rathi)
72 Q 292 (Sam Woods)
73 Q 12 (Miles Celic)
74 Q 254 (Julie-Ann Haines)

stating that: "Research by Oliver Wyman shows that UK ring fenced banks devote 15–20% of their investment budgets to regulation."[75]

45. **There has been a significant degree of 'mission creep' as both regulators appear to have increasingly expanded the range of their activities into areas of business management that are outside their core responsibilities. This has increased bureaucracy and imposed significant monetary and resource demands on firms. We recognise that this trend is, in part, attributable to the varying requirements placed on the regulators by Government. However, there are clearly some areas of regulatory activity that were implemented on the regulators' own initiative and have intruded into areas of business management that are beyond their regulatory scope.**

The cumulative burden of compliance

46. The most concerning evidence that we received relating to the burden of compliance was the suggestion that cumulatively, the regulatory burden has substantially increased the cost and difficulty of operating in the UK. It was suggested that these costs are higher than in competing jurisdictions and that the regulators do not have a clear understanding of these costs.

The UK's cumulative compliance burden

47. We received evidence that cumulative direct compliance costs in the UK are disproportionately high and negatively impact on the growth of the sector. The Investment Association told us that: "Our industry data highlights that the industry headcount for Compliance, Legal and Audit has almost tripled from 2009",[76] adding that, "One [Investment Association] member reported that 8% of their total headcount is dedicated to compliance with rules that did not exist 8 years ago."[77] A participant in a private roundtable with mid-market and specialist banks echoed this concern, telling us that their overall compliance costs had increased 138% since 2017.[78]

48. We received evidence that indirect compliance burdens further reduce the ease of doing business. Several witnesses cited the time dedicated to regulatory matters by senior management and company boards as a key non-financial cost. Nationwide Building Society noted that when responding to regulatory activity, "Each of these regulatory interactions requires considerable time and senior management resource. In aggregate, they divert resources and funding from more growth promoting activity."[79]

49. Some witnesses told us that the cumulative compliance burden negatively affects growth and international competitiveness. The Investment Association noted that the financial burden of compliance: "suppresses innovation and prevents UK-based firms from reinvesting in their businesses, making the UK a less attractive place to conduct business and ultimately stifling growth."[80] The Association of British Insurers stated that: "… the growing cumulative burden of regulation … affects firms' ability to allocate resources

75 Written evidence from Nationwide Building Society (SCG0019)
76 Supplementary written evidence from the Investment Association (SCG0058)
77 *Ibid.*
78 See Appendix 5.
79 Written evidence from Nationwide Building Society (SCG0019)
80 Supplementary written evidence from the Investment Association (SCG0058)

into product development and innovation and can scare away investment in UK firms from their international parent companies."[81]

International comparisons of the cumulative compliance burden

50. A number of witnesses suggested that the cumulative direct cost of compliance in the UK is higher than in competing jurisdictions. The British Private Equity & Venture Capital Association suggested that: "The higher regulatory capital compliance costs and operational burdens in the UK compare unfavourably to those in the US and the EU."[82] Christopher J. Lay, Chief Executive Officer of Marsh McLennan UK, echoed this: "We work in more than 100 countries around the world and, on a direct cost-only basis, the UK is at least six times more expensive than our next most expensive country from a regulatory perspective."[83] The Investment Association told us that the UK business of one of its members "is about a third of total assets under management and revenue of the global business, but their regulatory bill is around four times the rest of the organisation, making their UK business far less profitable than their APAC [Asia-Pacific] or North American businesses."[84] Likewise, the London Market Group shared that for a UK-headquartered broker: "There are 90 staff responsible for compliance and regulatory affairs in the UK, compared to 24 staff in the EU, equal to 1.5% of total headcount and 0.4% respectively."[85]

51. We note the difficulty in rigorously analysing compliance costs, particularly relative to international counterparts. Professor Kern Alexander, Chair for International Financial Law and Regulation at the University of Zurich, told us that: "Various studies estimate the costs of regulation, but they tend to be consulting reports. They do not have what I would call a scientific basis".[86] The availability of comparable data also poses a challenge, as the Investment Association noted that: "it is often hard to compare competing jurisdictions as few publish quantitative metrics equivalent to those of the UK regulators."[87]

52. We note that the Government's recent regulatory Action Plan committed to:

> "Establishing a baseline for the administrative costs of regulation. Currently, government does not have a robust understanding of the cumulative cost of regulation on businesses. We will now undertake a baselining exercise to understand how much regulation is costing and where it can be reformed to remove unnecessary burden and achieve its policy objectives more efficiently."[88]

53. **The cumulative burden of regulatory compliance in the UK is perceived to be disproportionately high, diverting resources that could otherwise support the growth of the financial services sector. Whilst difficulties in producing rigorous international comparisons may**

81 Written evidence from the Association of British Insurers (SCG0033)
82 Written evidence from the British Private Equity & Venture Capital Association (SCG0053)
83 Q 34 (Christopher J. Lay)
84 Supplementary written evidence from the Investment Association (SCG0058)
85 Written evidence from the London Market Group (SCG0075)
86 Q 102 (Professor Kern Alexander)
87 Supplementary written evidence from the Investment Association (SCG0058)
88 HM Treasury, 'New approach to ensure regulators and regulation support growth' (17 March 2025): http://www.gov.uk/government/publications/a-new-approach-to-ensure-regulators-and-regulation-support-growth/new-approach-to-ensure-regulators-and-regulation-support-growth-html [accessed 10 May 2025]

prevent definitive conclusions, the evidence we received suggests that significant concerns remain as to the relative expense of operating in the UK which must be addressed.

54. ***We recommend that, building on its work to establish a baseline for the administrative costs of regulation, the Government commissions an independent study to assess the cumulative cost of compliance in the financial services sector relative to other international jurisdictions.***

Cost benefit analysis

55. Throughout the evidence we received on the burden of compliance, witnesses emphasised that the regulators, particularly the FCA, did not accurately understand the scale and implications of the demands that they place on firms.[89] Witnesses connected this to the FCA's use of cost benefit analysis (CBA), the process used to identify, describe, and where possible, quantify the likely impacts of a regulatory intervention.[90]

56. Witnesses were critical of the FCA's use of CBA and suggested that there is often a disconnect between the findings of the FCA's CBA and the realised costs of regulatory interventions. We received evidence that the CBA produced for the Consumer Duty[91] underestimated the policy's implementation costs to industry. The Personal Investment Management & Financial Advice Association told us that: "the cost benefit analysis associated with the Consumer Duty in particular was disappointingly broad."[92] The Investment Association noted that: "With respect to the introduction of Consumer Duty, the compliance costs, direct or indirect, were vastly underestimated in the FCA's original cost benefit analysis."[93]

57. Witnesses also raised wider concerns about the FCA's use of CBA. Chris Cummings noted that: "Too much of the cost benefit analysis that we see tends to be focused on, 'This regulatory change will cost that much'. Well, that is fine, but we are digesting seven or eight others at the same time as well."[94] The FCA's CBA Panel[95] echoed this concern, noting that, "Evaluating the costs and benefits of individual rules on a stand-alone basis will very often miss cumulative and interactive effects".[96]

58. We also received evidence that the conditions under which the FCA will consult the CBA Panel are too limited. TheCityUK noted that: "the FCA will not consult their panel when the expected net cost of a policy change is between [minus] £10m and [plus] £10m [increases or decreases costs

89 Supplementary written evidence from the Investment Association (SCG0058); Written evidence from ClearBank (SCG0006)
90 FCA, *Statement of Policy on Cost Benefit Analyses* (29 July 2024) p 6: https://www.fca.org.uk/publication/corporate/statement-policy-cba.pdf [accessed 10 May 2025]
91 The Consumer Duty is a cross-cutting regulatory principle that requires firms to ensure products and services provide good outcomes for consumers. See paragraphs 176–192.
92 Written evidence from the Personal Investment Management & Financial Advice Association (SCG0025)
93 Supplementary written evidence from the Investment Association (SCG0058)
94 Q 201 (Chris Cummings)
95 The Cost Benefit Analysis (CBA) Panel is a statutory panel established by FSMA 2023 within the FCA that reviews and advises on the regulator's use of cost benefit analysis. See FCA, 'Cost Benefit Analysis Panel': https://www.fca.org.uk/panels/cost-benefit-analysis-panel [accessed 10 May 2025].
96 FCA Cost Benefit Analysis Panel, *Interim Annual Report: May-September 2024* (10 January 2025) p 20: https://www.fca.org.uk/panels/cost-benefit-analysis-panel/publication/cba-panel-annual-report-2024.pdf [accessed 10 May 2025]

to industry by less than £10 million]. Significant policy changes which could materially affect growth and competitiveness, but cost firms little to implement, may not be scrutinised."[97]

59. In its 2024 Interim Annual Report, the FCA CBA Panel raised concerns and made recommendations that reflected many of these points. The Panel noted that the "FCA's use of CBA is currently designed closely around meeting its minimum statutory obligations."[98] Consequently, this "results in some important differences between the FCA's policy on the use of CBA and the guidance set out by HM Treasury in its Green Book."[99] The report noted that "under the FCA's current CBA policy it is possible for very impactful policy changes not to undergo CBA at all."[100] The Committee's previous report, *Naming and shaming: how not to regulate*, was critical of the FCA's failure to produce a CBA for its proposals to change the way it publicised enforcement investigations, which would have represented a significant shift in FCA policy but for which no proper analysis of the expected impact on firms was conducted.[101]

60. Witnesses suggested a range of ways in which the CBA Panel could support the regulators to measure cumulative compliance costs;[102] to assess the actualised costs of a policy through post-implementation reviews;[103] and to develop a stronger research facility by "spearheading research or surveys of firms to assess the true cost of regulation."[104]

61. **The regulators, particularly the FCA, do not have a clear understanding of the cumulative burden of regulation due to limitations in their approach to cost benefit analysis. This prevents them from recognising and addressing the negative impact that their activities have on the growth and international competitiveness of the sector. The design of regulation must be informed by proportionality, impact assessments, and CBA.**

62. ***The FCA and the PRA should work with their respective CBA Panels to develop a rigorous approach to assessing the cumulative burden of compliance, accounting for monetary and resource demands.***

63. ***To improve regulatory decision-making, we recommend that the FCA and the PRA, in conjunction with their respective CBA Panels, create a joint cost of compliance working group to study how the regulators may develop their understanding of cumulative compliance cost and integrate this into their CBA process.***

64. ***Assessment of the costs and resource demands that regulatory reforms impose on firms should not be limited to the CBA carried out during the consultation period. We recommend that the FCA and the PRA include an assessment of actual costs imposed after the***

97 Written evidence from TheCityUK (SCG0016)

98 FCA Cost Benefit Analysis Panel, *Interim Annual Report: May-September 2024* (10 January 2025) p 17: https://www.fca.org.uk/panels/cost-benefit-analysis-panel/publication/cba-panel-annual-report-2024.pdf [accessed 10 May 2025]

99 *Ibid.*

100 *Ibid.*, p 20

101 Financial Services Regulation Committee, *Naming and shaming: how not to regulate* (1st Report, Session 2024–25, HL Paper 76) paras 98–108

102 Written evidence from Lloyd's of London (SCG0022)

103 Written evidence from the Association of British Insurers (SCG0033)

104 Supplementary written evidence from the Investment Association (SCG0058)

implementation of large-scale regulatory reforms as part of their post-implementation reviews.

Duplication and overlap between the regulators

65. A recurring concern raised by witnesses was that the UK's regulatory regime is particularly difficult for firms to navigate due to duplication and overlap between the significant number of regulators with responsibility for the financial services sector. We heard that managing duplicative and potentially conflicting compliance requirements imposed by different regulators has made it harder for firms to conduct business and has delayed the implementation of key reforms.

The structural causes of regulatory overlap

66. The UK operates a so-called "twin peaks regulatory model"[105] for its principal regulators, in which the PRA is responsible for prudential matters and the FCA for consumer protection, market integrity, and competition.[106] However, Nationwide Building Society told us that prior to the proposed dissolution of the PSR there were eight regulators with some responsibility for the financial system (see Appendix 6).[107] Nationwide added that: "This is in addition to organisations like the Financial Ombudsman Service which can act as quasi regulators … there are additional overlaps and agreements between them and the FOS, FSCS and Bank of England".[108] Such overlaps require Memoranda of Understanding (MoUs) to manage, adding further complexity. Nationwide noted that for the eight regulators with which it engages, "there are at least 13 MoUs in place to manage cooperation across known intersections".[109] Chris Cummings suggested that "The regulatory environment that we are in today is rather complex. No firm is regulated by a single entity, given the FRC's role and remit and the other regulatory bodies around."[110], and highlighted that asset managers have to be cognisant of the Competition and Markets Authority.[111]

Regulatory overlaps: impact on the growth of compliance burdens

67. We received evidence that regulatory overlaps introduce additional costs and frictions to firms. Concerns about overlaps between the FCA and the PRA across a range of policy and supervisory areas were prevalent in the evidence. Lord Blackwell, former Chair of Lloyds Banking Group, told us that joint FCA and PRA responsibility for the Senior Managers and Certification Regime

105 Written evidence from the Lloyd's Market Association (SCG0031)
106 Financial Services and Markets Act 2000, sections 1B, 1C, 1D, 1E, 2B, and 2C
107 Regulators that interact with financial services firms include the FCA, PRA, PSR, Financial Reporting Council (FRC), Competition and Markets Authority (CMA), Lending Standards Board (LSB), Information Commissioner's Office (ICO), and The Pensions Regulator (TPR). See supplementary written evidence from Nationwide Building Society (SCG0056).
108 Supplementary written evidence from Nationwide Building Society (SCG0056)
109 *Ibid.*
110 Q 202 (Chris Cummings)
111 Q 201 (Chris Cummings)

(SM&CR)[112] for dual-regulated firms constituted a particularly burdensome overlap between the regulators.[113] The Lloyd's Market Association told us that overlap introduces frictions for firms: "The twin peaks regulatory model invites a siloed approach to regulation with overlaps in remit. For example, both regulators are required to approve individual senior leadership appointments or changes in control adding time and weight to the system."[114] We note that the Government has now committed to consult on replacing the current Certification Regime "with a more proportionate approach".[115]

68. We also received evidence that there is duplication of operational resilience requirements[116] between the FCA and the PRA. Hani Kablawi noted that: "There is a bit of an overlap between the FCA's remit and the PRA's remit, especially in areas, for us, such as cyber resiliency, operational resiliency and third-party governance."[117] Hani Kablawi suggested that this had increased BNY's regulatory burden and queried: "Why answer the same question, potentially from different angles, twice, when you can answer it more holistically once with the PRA and allow the FCA to focus properly on conduct regulations?"[118]

69. We received evidence that this overlap had resulted in duplicated consultation processes. Principality Building Society told us that the FCA and PRA: "published separate, parallel consultation papers, (FCA—CP24/28, PRA—CP17/24) which set out proposals to enhance incident and third-party risk management, strengthen firms' operational resilience, and minimise harm."[119] Separate consultation processes may have resulted in divergences between the FCA and PRA's regimes. Principality Building Society added that:

> "… there are contradictory requirements around what will constitute an 'incident' under their incident reporting requirements and their definitions of third parties for outsourcing reporting requirements. The main implication is that the efforts and costs to deliver this change will be greater because this has not been an aligned and jointly published development."[120]

112 The Senior Managers and Certification Regime (SM&CR) comprises several, mutually reinforcing elements, centred on the Senior Managers Regime, the Certification Regime, and the Conduct Rules. The Senior Managers Regime requires the regulators to authorise individuals to hold certain senior manager functions. The Certification Regime requires the regulators to define certified functions, for which firms must certify staff on appointment and at least every 12 months to ensure that they meet the fit and proper test. See PRA, 'Discussion Paper DP1/23: Review of the Senior Managers and Certification Regime (SM&CR)' (30 March 2023): https://www.bankofengland.co.uk/prudential-regulation/publication/2023/march/review-of-the-senior-managers-and-certification-regime [accessed 11 May 2025].

113 Written evidence from Lord Blackwell (SCG0007)

114 Written evidence from the Lloyd's Market Association (SCG0031)

115 HM Treasury, Press Release: *Chancellor fires up financial services sector to drive growth* on 14 November 2024: https://www.gov.uk/government/news/chancellor-fires-up-financial-services-sector-to-drive-growth [accessed 11 May 2025]

116 Operational resilience regulations ensure that firms can withstand operational shocks such as service outages, cyber-attacks, and the failure of outsourced business functions with the minimum disruption to their commercial activities. See FCA, *Policy Statement PS21/3: Building operational resilience—Feedback to CP19/32 and final rules* (29 March 2021) p 3: https://www.fca.org.uk/publication/policy/ps21-3-operational-resilience.pdf [accessed 11 May 2025].

117 Q 282 (Hani Kablawi)

118 *Ibid.*

119 Written evidence from Principality Building Society (SCG0060)

120 *Ibid.*

70. Witnesses told us that there are significant overlaps between the FCA and other financial regulators. One example cited was that overlaps between the FCA and The Pensions Regulator (TPR) present a serious obstacle to the consolidation of the sector. Aberdeen Group told us:

> "… The Pensions Regulator oversees corporate Defined Benefit schemes and Local Government Pension Schemes (around £1.9 trillion in assets), and the trust side of Defined Contributions (about £250 [billion plus]). The FCA regulates the contract side of Defined Contributions (roughly £350 [billion]) as well as individual pensions (perhaps another £550 [billion plus]). In addition, the PRA supervises insurance companies providing bulk annuities (over £350 [billion] and rising) which provide pensions for nearly two million people."[121]

71. Consolidation of the UK pension sector is a Government priority[122] and may facilitate increased allocation of capital by UK pension funds to productive domestic assets. The Phoenix Group told us that: "If government and regulators create an environment where providers can more easily consolidate, … it would quicken the pace of consolidation, and create larger funds which would be more capable of investing not only in start-ups, but in real assets, such as infrastructure."[123]

72. Other witnesses pointed to overlap between the FCA and the FRC. Specifically, they suggested that the FRC's governance code duplicated elements of the FCA's SM&CR regime. David Postings, Chief Executive Officer of UK Finance, told us that: "The FRC is another example of where the governance code impinges on the senior management regime … there could be better dialogue to make it easier for firms to understand what they are supposed to comply with, and how."[124] Streamlining this interaction may reduce the compliance burden and make it easier for firms to navigate the regulatory environment.

73. We heard that there are some overlaps between the FCA and self-regulatory bodies, such as the LSB.[125] Nationwide Building Society told us that: "The role of the Lending Standards Board (LSB) has been another example of an overcrowded regulatory landscape, with the FCA and other regulators such as the PSR taking on increasing oversight in key areas of the LSB's previously stated scope, such as branch closures and APP scams."[126]

74. **The UK's financial services regulatory landscape is characterised by notable complexity and several regulators with overlapping remits. Firms find it challenging to navigate and remain compliant in this environment, introducing unnecessary burdens. A perception that it is difficult to conduct business in the UK harms international competitiveness.**

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121 Written evidence from Aberdeen Group (SCG0008)
122 Q 353 (Emma Reynolds MP)
123 Written evidence from Phoenix Group (SCG0042)
124 Q 119 (David Postings)
125 The Lending Standards Board (LSB) is the self-regulatory body for the banking and lending industry which sets and oversees a range of consumer standards and codes. See Thomson Reuters Practical Law, 'Glossary: Lending Standards Board (LSB)': https://uk.practicallaw.thomsonreuters.com/2-500-6741?transitionType=Default&contextData=(sc.Default)&firstPage=true [accessed 11 May 2025].
126 Written evidence from Nationwide Building Society (SCG0019)

Regulatory overlaps: impact on implementing reforms

75. We received evidence that regulatory overlaps have delayed important reforms, holding up the launch of new products and stifling the growth of the financial services sector. Witnesses told us that overlaps in the Joint Regulatory Oversight Committee (JROC)[127] had significantly delayed the development of Open Banking.[128] Witnesses criticised the complexity of JROC and the overlapping remits of its constituent regulators. Nationwide Building Society told us that: "Often their remits overlap, e.g., CMA, FCA, PSR all had responsibility for Open Banking. Rather than simplify this landscape, the UK has opted for a myriad of memoranda of understanding to manage the complexity."[129]

76. We received evidence that this overlap had slowed progress in developing new uses for Open Banking, as TrueLayer stated: "The large number of regulators with overlapping mandates has undoubtedly slowed down the delivery of new functionality and use cases."[130] An example of this is JROC's development of Variable Recurring Payments.[131] UK Finance noted that:

> "An example of the duplication and inefficiency, as well as lack of commercial considerations, is the PSR's work for JROC … on the development of arrangements for non-sweeping Variable Recurring Payments … It has done so in a way that works against the emergence of a commercially sustainable market and does, self-defeatingly, stifle investment and innovation in the long term."[132]

77. Similar criticisms were levelled by the Government in the National Payments Vision, which stated that: "progress has been slow and firms report that engaging with JROC has been challenging."[133] In the National Payments Vision, the Government dissolved JROC,[134] a decision welcomed by witnesses, with Debbie Crosbie stating: "That would be an excellent example of where simplification is working or will work much better."[135]

78. **We are concerned by the evidence that regulatory overlap has delayed the implementation of Open Banking reform, which has impeded innovation by obstructing firms' ability to develop new products. The Committee recognises the importance of cross-**

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127 The Joint Regulatory Oversight Committee (JROC) was formed in 2022 and comprised the regulators with responsibility for Open Banking, including the FCA, PSR, and CMA, along with HM Treasury. See FCA and PSR, *Joint Regulatory Oversight Committee: Terms of reference* (24 June 2022) p 1: https://www.fca.org.uk/publication/corporate/joint-regulatory-oversight-committee-tor.pdf [accessed 11 May 2025].

128 Open Banking is a system that allows customers to share financial information securely from institutions such as banks and building societies with trusted third parties to facilitate a range of services including tailored financial services and faster account-to-account payments. See HM Treasury, *National Payments Vision* (14 November 2024) pp 28–29: https://assets.publishing.service.gov.uk/media/6736385fb613efc3f182317a/National_Payments_Vision..pdf [accessed 11 May 2025].

129 Written evidence from Nationwide Building Society (SCG0019)

130 Written evidence from TrueLayer (SCG0070)

131 Variable Recurring Payments would allow customers to authorise repeated payments at flexible intervals and of varying amounts, facilitating more flexible and efficient billing. See PSR, *Expanding variable recurring payments: Response to the call for views (CP23/12)* (15 August 2024) p 5: https://www.psr.org.uk/media/tovd1ygd/rp24-1-expanding-vrp-consultation-response-aug-2024-v3.pdf [accessed 11 May 2025].

132 Written evidence from UK Finance (SCG0039)

133 HM Treasury, *National Payments Vision* (14 November 2024) p 29: https://assets.publishing.service.gov.uk/media/6736385fb613efc3f182317a/National_Payments_Vision..pdf [accessed 11 May 2025]

134 *Ibid.*, p 31

135 Q 267 (Debbie Crosbie)

regulator collaboration, but this must not delay the timely delivery of key reforms. The Government should draw lessons from the delays introduced by the Joint Regulatory Oversight Committee.

79. ***We welcome the Government's commitment to simplify the UK's regulatory regime and its announcement to integrate the PSR into the FCA. The Government has committed, through its regulatory 'Action Plan', to remove duplication and streamline processes where they hold back growth in the system. We recommend that the Government undertake a focused assessment of the financial services regulatory landscape to identify where regulatory overlap can be eliminated.***

Facilitating innovation and operational efficiency

80. Throughout the evidence, witnesses emphasised the importance of innovation to the competitiveness and growth of the UK's financial services sector. We received evidence that there are regulatory constraints on innovation in the sector, notably that despite efforts from the FCA and the PRA to improve their operational efficiency, the authorisation process in the UK remains slow. We heard that slow authorisations introduce delays for firms entering the market and introducing new products, constituting a notable drag on the sector's growth. Additionally, we heard that the FCA and the PRA's operational efficiency compares unfavourably to regulators in other jurisdictions, reducing the UK's attractiveness as a location for business and investment.

81. However, we also received evidence that there are significant opportunities for the FCA and the PRA to support innovation through regulatory interventions. Notably, the regulators can provide the frameworks necessary to develop and launch new products which, if delivered flexibly and at pace, can support the growth of the financial services sector. Witnesses also noted that by adopting a positive and proportionate approach to new technologies both regulators and firms can benefit from improvements in efficiency.

Authorisations

82. Under FSMA 2000, any individual or firm seeking to carry out a regulated activity must first gain authorisation from the relevant regulator.[136] In doing so, the individual or firm becomes subject to the range of requirements that the relevant regulator considers appropriate.[137] FSMA 2000 requires the FCA and PRA to process complete applications for authorisation, for example to authorise new firms or senior managers, within statutory deadlines[138] (for an overview of the FCA and PRA's statutory authorisation deadlines, see Appendix 8).

83. For individuals and firms, gaining authorisation is often a prerequisite for conducting business in the financial services sector. We received evidence that the FCA and the PRA are slow to authorise new firms and products. Chris Cummings told us: "We look at fund authorisations. There are service standards of three or six months, compared to in other jurisdictions where it is 48 hours."[139]

136 Financial Services and Markets Act 2000, sections 19, 20, and 23
137 *Ibid.*, sections 55L and 55M
138 *Ibid.*, section 61
139 Q 201 (Chris Cummings)

84. We heard that the FCA's approach to measuring its compliance with these targets does not always reflect the true time taken to complete the authorisation process. Witnesses told us that the regulators exclude from their metrics intervals when the regulator or authorised firm is responding to further clarifications or information requests. Caroline Wagstaff told us that "once the clock starts ticking, every time you are asked a question, the clock stops and does not start again until the answer is back."[140] She added that: "The lived experience is not the 90 days … That could be 90 days stretched over a whole year."[141] The British Insurance Brokers' Association told us that, although the FCA's first secondary objective report claimed that over 98 per cent of authorisation cases were being assessed within statutory deadlines in the final quarter of 2023/2024,[142] the "experience for some firms is that the FCA is falling short."[143]

85. Witnesses emphasised the delays and frictions firms face due to the slow authorisation of senior managers. The Association of Foreign Banks told us that, in the SM&CR, "authorisation processes are too onerous and frequently still require too long to receive approval, especially compared to other financial centres. This deters foreign banks from recruiting for, and expanding in, the UK."[144] The Association of Foreign Banks suggested that some international executives were reluctant to locate in the UK due to the SM&CR regime:

> "Some banks have also voiced that there is reluctance from senior individuals based overseas to take SMF [senior management functions] positions in the UK, again due to the regime's complexity and disincentives … which reduces the international talent pool available to banks in the UK."[145]

86. In response to these concerns, witnesses pointed to the approaches taken by other jurisdictions, which maintain accountability whilst permitting greater flexibility. The City of London Corporation told us that the Monetary Authority of Singapore (MAS) introduced the Guidelines on Individual Accountability and Conduct,[146] drawing on the UK's SM&CR.[147] However, they noted that:

> "MAS states that financial institutions should not 'adopt a check-box mentality in applying the guidelines' but notes financial institutions that choose not to adopt the specific guidance should be prepared to justify their decision and demonstrate how they achieve the relevant outcomes through other means."[148]

Similarly, the City of London Corporation noted the flexibility of the Central Bank of Ireland (CBI), in contrast to the rigidity and complexity of the FCA:

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140 Q 34 (Caroline Wagstaff)
141 *Ibid.*
142 FCA, *Secondary International Competitiveness and Growth Objective report 2023/24* (29 July 2024) p 12: https://www.fca.org.uk/publication/corporate/sicgo-report-2023–24.pdf [accessed 10 May 2025]
143 Written evidence from the British Insurance Brokers' Association (SCG0011)
144 Written evidence from the Association of Foreign Banks (SCG0026)
145 *Ibid.*
146 Monetary Authority of Singapore, *Guidelines on Individual Accountability and Conduct* (10 September 2020): https://www.mas.gov.sg/-/media/mas/mpi/guidelines/guidelines-on-individual-accountability-and-conduct.pdf [accessed 5 June 2025]
147 Written evidence from the City of London Corporation (SCG0043). See also Q 278 (Hani Kablawi).
148 Written evidence from the City of London Corporation (SCG0043)

> "In the UK there are prescriptive reporting requirements with firms required to report annually to the FCA details of conduct rule breaches resulting in disciplinary action. In contrast, the CBI takes a more subjective approach, giving firms flexibility with the requirement being to report issues promptly and appropriately."[149]

87. Such delays are particularly concerning given the comparative speed at which we were told competing jurisdictions can authorise senior managers. Professor Kern Alexander noted that: "Regarding authorisations, from what I understand from talking to practitioners, approvals of individual appointments take longer in this country in comparison to, say, in Ireland".[150] The comparative speed of other jurisdictions was emphasised by Miles Celic, who noted that the Chief Executive Officer of the Hong Kong Stock Exchange waited 18 months for UK regulators to approve a representative office compared to weeks in New York.[151] Miles Celic added that: "He had been approached by Dublin, which said, 'Well, we can offer you a sign-off for a representative office. We can do it in a few weeks, and you'll have access to the European Union from Dublin as well'."[152]

88. Witnesses also suggested that slow authorisation processes had contributed to decisions made by firms to locate investments in competing jurisdictions. A notable example of this is the implementation of the Insurance Linked Security (ILS) regime. An ILS is a vehicle to which insurers and reinsurers can transfer risk; the vehicle then issues securities based on this risk, with investors receiving returns in the form of premium payments.[153] This product class was developed by the UK, but due to the UK's slow authorisation of these products it has lost out on this opportunity to other jurisdictions which now have larger ILS markets. Aon noted:

> "Singapore copied the UK's Insurance Linked Security (ILS) regime, … recognising the quality of the UK's legislation. … Singapore has approved 18 ILS vehicles in a shorter period of time compared to five in the UK. As a result, in 2021 alone we believe that the UK lost out on over US$700 million of foreign investment in ILS to Singapore, because of a more agile and proportionate approach by their regulator."[154]

89. **The efficiency with which the FCA and PRA process authorisations is an important element in the continued growth of the UK financial services sector. Efficient authorisations allow domestic firms to launch new products quickly and international firms to easily locate capital and talent in the UK. Therefore, it is worrying that firms continue to raise concerns about authorisation timescales.**

90. **Concerningly, we received evidence that the FCA and PRA are slower to process authorisations than regulators in competing jurisdictions, particularly in key areas such as the authorisation of new products, senior managers, and branches. This has negatively affected the**

149 Written evidence from the City of London Corporation (SCG0043)
150 Q 101 (Professor Kern Alexander)
151 Q 13 (Miles Celic)
152 *Ibid.*
153 HM Treasury, *Insurance linked securities: Consultation* (1 March 2016) pp 3–4: https://assets.publishing.service.gov.uk/media/5a808dde40f0b62305b8bd3b/Insurance_linked_securities_consultation.pdf [accessed 11 May 2025]
154 Written evidence from Aon (SCG0030)

UK's international competitiveness, resulting in the loss of business and investment.

91. **Whilst the FCA and PRA's published metrics on authorisation timescales show improvements, witnesses noted that this apparent progress does not reflect the experience of firms due to the exclusion of the intervals when further information is required.**

92. ***The FCA and PRA must work to reduce authorisation timelines. This should be accompanied by a renewed cultural focus on consistent improvement of operational efficiency across all levels of the organisation.***

93. ***The Government should review the statutory operating service metrics for the FCA and PRA to ensure they are in line with comparative jurisdictions.***

94. ***There is an apparent discrepancy between the progress that the FCA and PRA report on the efficiency of authorisations and the experience of firms going through those processes. The FCA and PRA should collect and publish further data in this regard.***

Regulation providing space for innovation

95. We received evidence on the importance of innovation as a facet of international competitiveness and a driver of growth in the financial services sector. In particular, innovation is central to the UK's world-leading fintech sector. Janine Hirt, Chief Executive Officer of Innovate Finance, told us that: "We consistently receive more investment every year in FinTech than any other country in the world bar the United States, and repeatedly receive on an annual basis more investment than nearly all of Europe combined."[155] However, Janine Hirt added that: "we are at a pivotal moment" where "there is a real risk" of "other regions around the world catching up and a threat of them overtaking us as well in specific arenas".[156]

96. We received evidence that the regulators themselves cannot drive innovation but can facilitate it by providing the latitude and regulatory frameworks that firms need to innovate. Sandra Boss, Chair of BlackRock UK, told us: "It is important to understand that regulators cannot cause innovation. Regulators should be apprised of innovation and should encourage innovation, but need not impede innovation."[157] TheCityUK told us that, "Greater pace and a dynamic approach to policymaking, in partnership with industry",[158] will be required to enable innovation.

Authorisations and innovation

97. Noting that innovation in the financial services sector often requires the implementation of new regulatory frameworks, witnesses told us that the pace at which the FCA and the PRA develop new regimes to leverage growth opportunities is slow, which risks the UK falling behind competing jurisdictions.

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155 Q 166 (Janine Hirt)
156 *Ibid.*
157 Q 78 (Sandra Boss)
158 Written evidence from TheCityUK (SCG0016)

98. A number of witnesses referenced the FCA's approach to regulating digital assets. Charles McManus, Chief Executive Officer of ClearBank, highlighted that the opportunities offered by fund tokenisation and digitalisation are significant, citing the example of global stablecoin valuations which stood at $650 billion in summer 2024 and are projected to reach $2.2 trillion by 2028.[159] However, we received evidence that there are notable regulatory barriers to the growth of this sector in the UK. The Digital Currencies Governance Group told us that: "The FCA's approval rate of 13% for cryptoasset firms under the Money Laundering Regulations (MLRs) significantly lags behind international benchmarks, such as the EU's Markets in Crypto-Assets (MiCA)".[160]

99. Whilst low authorisation rates for these firms may be indicative of regulatory inefficiency, it is important to note that there is also a lack of a dedicated regulatory regime for digital assets, with these firms instead regulated under general MLRs. This concern was echoed by Innovate Finance, which told us that:

> "On digital assets, use of blockchain and regulation of crypto currency services, the Government needs to set out clearly the UK's risk/opportunity approach. The EU has a very clear approach implemented through MiCA; the incoming US administration has also given a clear signal to the market of its support for crypto currencies and digital assets and this is already affecting investment decisions. The UK meanwhile has yet to give a comprehensive statement of direction or position that stands out internationally and provides clarity and confidence for investors."[161]

100. However, witnesses were clear that the regulators must balance the need to work quickly to leverage new opportunities with adherence to their primary objectives, recognising that innovation can introduce new risks and consumer harms. Witnesses pointed to cryptocurrency as an example of a highly volatile product which presents a material risk of financial harm to consumers who purchase it. Soups Ranjan, Co-Founder and Chief Executive Officer of Sardine, told us: "One method of regulating crypto could be to think of it as any asset that has a lot of volatility. You could think of regulating it like gambling."[162] Simon Taylor, Head of Strategy and Content at Sardine, praised the FCA's work to clarify the consumer-facing rules on cryptoassets, telling us that: "the FCA has done a commendable job clarifying the nature of what a crypto asset is for the benefit of the UK population. There has been good work clarifying the online promotions section of the FCA handbook. There is now a register of crypto asset firms held at the FCA."[163]

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159 Q 194 (Charles McManus)

160 Written evidence from the Digital Currencies Governance Group (SCG0021). The EU Markets in Crypto Assets Regulation (MiCA), which entered into force in June 2023, establishes uniform EU market rules for crypto-assets and related services that are not currently regulated by existing EU financial services legislation. See European Securities and Markets Authority (ESMA), *Consultation Paper: Technical Standards specifying certain requirements of the Markets in Crypto Assets Regulation (MiCA)* (12 July 2023) p 8: https://www.esma.europa.eu/sites/default/files/2023–07/ESMA74-449133380–425_MiCA_Consultation_Paper_1st_package.pdf [accessed 4 June 2025].

161 Written evidence from Innovate Finance (SCG0049)

162 Q 211 (Soups Ranjan)

163 Q 211 (Simon Taylor)

Enabling innovation

101. Witnesses also highlighted a range of ways through which the FCA and the PRA could facilitate innovation by creating a regulatory environment that is supportive of new technologies, and in which firms could safely develop new products and approaches.

102. Several witnesses highlighted the success of the FCA's Regulatory Sandbox in allowing firms to develop new products in a closely supervised environment and recommended that the FCA build on this success.[164] TheCityUK told us that: "The FCA's sandbox has been effective to date and they recognise the need to expand the scale of sandboxes",[165] but added that the Regulatory Sandbox "is now 10 years old and the FCA should work with the industry to develop successor programmes."[166] Innovate Finance described the Bank of England and the FCA's joint Digital Securities Sandbox as a "good example of excellent pro-innovation joined up approach".[167] Innovate Finance praised the approach taken by the Bank of England and the FCA to operating the Digital Securities Sandbox, which it described as allowing:

> "… the regulators (FCA and Bank of England) to get in the sandbox and experiment with the regulatory rule book—with powers for the regulator to turn regulatory controls on and off. This is genuine collaboration and innovation, which enables the regulatory framework to be tested and developed in real time as new services and products are tested. We would encourage this to become the norm."[168]

103. Witnesses also commended the Government and the regulators' approach to the use of AI by authorised firms. Sandra Boss told us: "By taking a principles-based approach it is enabling a rapidly changing area to develop and enabling companies to look for productivity gains."[169] Nevertheless, some witnesses called for greater certainty over the long-term use of AI in the sector, with Innovate Finance telling us that "there is still some uncertainty in the market."[170]

104. Several witnesses encouraged the FCA and the PRA to make greater use of regulatory technology, which could help reduce the compliance burden and enhance the monitoring of trends to support supervision. Simon Taylor noted that increased data sharing and standardisation between firms and the regulators would "make a meaningful difference to the issue of APP fraud, mule activity and other activities."[171] Witnesses suggested that the Government and regulators could provide greater clarity on how firms can utilise new technologies, such as AI, in compliance functions. Soups Ranjan told us that: "it would be helpful if regulators could explain that it is okay for the bank to have AI models that do things like populate a SAR [Suspicious Activity Report] narrative".[172]

164 Q 167 (Janine Hirt); Written evidence from Zurich Insurance (SCG0023); Written evidence from the City of London Corporation (SCG0043)
165 Written evidence from TheCityUK (SCG0016)
166 *Ibid.*
167 Written evidence from Innovate Finance (SCG0049)
168 *Ibid.*
169 Q 78 (Sandra Boss)
170 Written evidence from Innovate Finance (SCG0049)
171 Q 212 (Simon Taylor)
172 Q 212 (Soups Ranjan)

105. **The continued development and integration of new technologies, such as digital assets and AI, into the financial services sector may alter how sections of this industry function. We are concerned by evidence to suggest that the UK regulators may not be addressing this as speedily as they should. The FCA and the PRA must do more to facilitate innovation, providing certainty and clarity to empower firms to use AI, or to develop new products and technologies.**

106. ***The potential for regulatory and supervisory technology to automate compliance and improve the regulators' ability to fulfil their functions is compelling. The FCA and the PRA must review their operational processes and rule-making functions to explore how they might make better use of regulatory and supervisory technology.***

Comparison with international regulators: the 'concierge' service

107. Noting concerns about the impact that the UK's regulatory environment has on the attractiveness of the UK as a place to invest, a number of witnesses referred to what they saw as examples of good practice within other jurisdictions. Chris Hayward, Policy Chairman at the City of London Corporation, referred to "a gold concierge service for inward investment", and stated that "our competitors, such as Ireland or Paris … do this remarkably well."[173]

108. Several witnesses highlighted the success of MAS in operating an authorisation process that is responsive to, and supportive of, candidate firms. Sir Nicholas Lyons, Chair of Phoenix Group and former Lord Mayor of the City of London, told us: "Singapore was consistently demonstrating that it was more responsive to inbound [financial services] firms, especially in insurance and reinsurance, basing its competitiveness on its proximity to huge Asian markets."[174] This was echoed by Charles Randell, who stated: "One aspect of Singapore is that it has a sort of concierge culture. The regulator accompanies firms through the authorisation process and has a developmental objective of growing the Singapore finance industry."[175]

109. We recognise that there are significant differences between the UK and Singaporean financial and regulatory systems that must be taken into account when making comparisons. However, as Kerstin Mathias, Director of Policy and Innovation at the City of London Corporation, said: "The Singaporean system is very different from the UK's, and we should acknowledge that. What we can learn from is that it has nailed how to mainstream the innovation and growth mindset across everyone who works at the regulator."[176]

110. Sir Nicholas Lyons echoed the importance of a more open and flexible supervisory culture in the UK regulators, but cautioned that this should not come at the expense of protections on the UK's financial services sector:

> "We should not, however, compromise the integrity of our checks for overseas entities to become UK-regulated in the same way. … I remain unconvinced that any worthwhile entity will favour being authorised in Singapore over the UK, based on a concierge service alone. But, we need to remove the sense that we are unwelcoming to foreign entities per

173 Q 21 (Chris Hayward)
174 Written evidence from Sir Nicholas Lyons (SCG0067)
175 Q 160 (Charles Randell)
176 Q 26 (Kerstin Mathias)

> se and have the ability to fast-track firms that are regulated by respected overseas regulators."[177]

111. In its letter to the Prime Minister, the PRA stated that it could develop a proposal to create "a 'concierge service' to help foreign firms navigate the UK when thinking about locating new businesses here"[178], but noted that it would need to liaise with the FCA and other stakeholders in thinking about how to approach this.[179] Sam Woods also told us that he had visited Singapore to learn how the MAS operates this service.[180] We asked the FCA whether it had spoken with the PRA on this issue. Nikhil Rathi said:

> "We did. We are talking about it. In my letter, there was a section on improving exports and inward investment, where I talked specifically about working with the Government, the City of London Corporation and other regulatory partners on how we can collectively promote the UK together. Sam used the word 'concierge', I think. I did not use that specific word in the letter".[181]

112. **We recognise that there are differences between the regulatory and financial systems in the UK and Singapore, but we consider that there are valuable lessons to learn from Singapore's approach which could assist foreign firms in navigating the UK when thinking about locating new business here. As set out by the PRA, the FCA and the PRA should work together to develop a proposal for a 'concierge service' in the UK, as part of broader efforts to instil a culture based on efficiency and an appropriate degree of flexibility.**

The quality of supervision

113. A concern that was raised repeatedly in the evidence that we received related to the quality of supervision, which witnesses connected to the capabilities and experience of supervisory staff. The quality of supervision is central to the predictability of the regulatory regime and can pave the way for the sustained growth of regulated firms. Supervisors monitor risks and can detect incipient problems. Transparent supervisory expectations, which account for a firm's business model and market sector, can clarify how the rules will be applied and support firms to navigate the regulatory environment.

114. Witnesses suggested that there were inconsistencies in the quality of supervision and an overdependence on rigid and inefficient supervisory processes, increasing the demands placed on firms. Witnesses told us that the frequent rotation in supervisory teams can disrupt the continuity in the relationships between firms and their supervisors, undermining the predictability needed to invest and grow.

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177 Written evidence from Sir Nicholas Lyons (SCG0067)

178 Letter from Sam Woods, Deputy Governor for Prudential Regulation and Chief Executive Officer of the PRA, to the Rt Hon Sir Keir Starmer MP, Prime Minister, the Rt Hon Rachel Reeves MP, Chancellor of the Exchequer, and the Rt Hon Jonathan Reynolds MP, Secretary of State for Business and Trade (15 January 2025) p 5: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2025/pra-response-letter-15-january-2025.pdf [accessed 12 May 2025]

179 *Ibid.*

180 Q 302 (Sam Woods)

181 Q 341 (Nikhil Rathi)

A lack of practical experience

115. The evidence we received indicated some variation in the quality of supervision experienced by industry. The larger firms noted the strong working relationships that they enjoy with experienced supervisors whilst some of the smaller firms expressed significant concerns as to the quality of the supervision that they receive.

116. Hani Kablawi noted that for BNY, “The PRA has been strong and solid. Its ability to retain people has been good. We build relationships with team members there at different levels of management and supervisory management, and there is continuity.”[182] The discrepancy between the quality and level of supervisory engagement between the largest organisations and the majority of regulated firms was noted by Anna Dunn, Chief Executive Officer for the Commercial and Investment Bank at JP Morgan UK, who told us: “the level of expertise, professionalism and knowledge of our supervisors is very high and compares favourably with other international jurisdictions. … The FCA regulates 42,000 firms. Not all of those 42,000 firms have the degree of interaction that we have.”[183]

117. Whilst it is of vital importance that the firms which pose the greatest systemic risk to the UK financial system are appropriately supervised by knowledgeable and experienced staff, we were told that this concentration of experience has negative implications for the growth of smaller firms, particularly start-ups. Innovate Finance noted that: “The capacity and capability of the regulators are consistently raised as a concern to us by our members”,[184] and stated that: “We need all teams in the regulator, including supervisory and policy teams, to embrace and champion innovation in financial services.”[185]

118. Some witnesses suggested that the experience and capacity of supervisors leads to slow and inefficient approval processes, which may impact on their ability to scale and grow. Witnesses noted that the limited resources allocated to smaller firms have introduced delays to critical supervisory activities. Allica Bank told us that: “many scale-up firms have seen significant delays to the capital review process”[186] and that “this is primarily a function of there being insufficient people in the relevant specialist teams at the PRA to work on these matters.”[187] As part of the capital review process the PRA may apply additional firm-specific capital holding requirements dependent on a firm’s risk profile.[188] Allica Bank noted that delays in the capital review process have contributed to significant uncertainty regarding the bank’s future capital requirements and that: “This degree of capital uncertainty reduces the investor confidence that is required in continuing to supply capital to underpin … SME lending growth.”[189]

119. ClearBank noted that the experience of supervisory staff has created difficulties for the regulators understanding and adapting supervisory

182 Q 280 (Hani Kablawi)
183 Q 280 (Anna Dunn)
184 Written evidence from Innovate Finance (SCG0049)
185 *Ibid.*
186 Written evidence from Allica Bank (SCG0052)
187 Supplementary written evidence from Allica Bank (SCG0076)
188 PRA, *Supervisory Statement SS31/15: The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP)* (29 July 2015): https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2025/ss3115-february-2025-update.pdf [accessed 12 May 2025]
189 Supplementary written evidence from Allica Bank (SCG0076)

processes to account for novel business models: "specifically for Embedded Banking,[190] regulators have struggled to understand how to best [oversee] the model."[191] Improving the quality of supervision for new business models can provide the clarity firms need to grow, as ClearBank noted: "Regulators devoting the resource to fully embrace newer business models will improve standards of supervision, facilitate growth and help the UK to remain internationally competitive."[192]

Rigid supervisory practices

120. We received evidence that an overdependence on inflexible supervisory processes increases the burden on firms and reduces the agility of the regulators. Witnesses suggested that adherence to rigid supervisory processes increases the information requests put to firms without necessarily addressing the key risks they face. Christopher J. Lay noted that whilst the capabilities of the supervisors with whom Marsh McLennan UK interacts are strong,[193] staff are bound by rigid processes that have limited supervisory utility:

> "… by the time it comes to our supervision team its hands are, in a sense, tied, because this is what it has been given to execute. We often find that we are answering questions because they need to be answered, but the outcome that we should be trying to address is a different issue."[194]

121. Other witnesses complained about the inconsistent quality of supervision and the rigidity in the application of rules, linking the lack of flexibility and agility in the supervisory processes to the prevalence of junior staff in supervisory roles. Lord Blackwell noted: "The size of the supervisory teams and the relatively junior experience of those conducting the day to day interface with financial institutions means that many interactions demonstrate an overly rigid and risk averse application of the detailed rules."[195]

The rotation of supervisors

122. Several witnesses cited the frequent rotation of staff in supervisory teams as a concern. TheCityUK told us that: "Poor understanding of firms' business models is exacerbated by regular churn in supervisory teams."[196] We received evidence that frequent rotation requires firms to invest significant time and resources into rebuilding relationships with their supervisory teams and developing new supervisors' understanding of a firm's sector and business model. Cuan Coulter, Executive Vice-President, Global Head of Asset Managers, and Head of UK and Ireland at State Street told us that: "A lot of my administrative time is spent educating field supervisors; that is a reason why there is a lag between intention and execution. … In the field, you spend quite a bit of time educating field supervisors."[197]

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190 Embedded banking is the integration of financial services, such as banking and payment systems, into non-financial platforms. See Bain Capital and Bain & Company, *Embedded Finance: What It Takes to Prosper in the New Value Chain* (September 2022) p 5: https://www.bain.com/contentassets/a5ad904e61324de88b62707de879f174/bain_brief_embedded-finance.pdf [accessed 12 May 2025].
191 Written evidence from ClearBank (SCG0006)
192 *Ibid.*
193 Q 44 (Christopher J. Lay)
194 *Ibid.*
195 Written evidence from Lord Blackwell (SCG0007)
196 Written evidence from TheCityUK (SCG0016)
197 Q 214 (Cuan Coulter)

123. We received evidence that frequent personnel changes in a firm's supervisory team reduce the pace of supervision. Aon told us that: "the high turnover of the FCA means supervisory teams are frequently changing; new supervisors are having to familiarise themselves with their brief quickly, which can lead to a delay in decision-making."[198] Such delays in decision-making may slow the development of new products, constraining the growth of UK financial services firms. ClearBank told us that:

> "Well trained, experienced and stable supervisory staff are required to support new and complex products and services. Regulators should implement staff retention schemes to ensure that staff with necessary experience and seniority are available."[199]

124. Notably, both Aon and ClearBank connected the frequent rotation of supervisors to wider concerns regarding staff retention, particularly at the FCA. Ashley Alder, Chair of the FCA, accepted that staff turnover at the FCA had previously posed a challenge to the consistency of supervision firms received:

> "One of the issues was the very high level of turnover within the organisation and a programme to grow it and recruit. … When I was interacting with firms at that time—it was 2023—they tended to say that, because of that, they were seeing a degree of churn around which supervisors were allocated to them."[200]

125. Critically, however, the FCA and PRA provided evidence that retention at both regulators is now strong. The FCA noted that: "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)."[201] This represents a marked improvement, particularly relative to the FCA's prior retention challenges. Sam Woods said of staff turnover rates that: "Currently they are at the lowest level they have ever been. The last annualised stat I have is 4.7%. I would like that to be slightly higher."[202] This low turnover rate is a positive indication that the FCA and PRA are able to retain a pool of experienced policy and supervisory staff.

126. However, low aggregate turnover does not necessarily guarantee continuity in the important supervisory function. Indeed, David Bailey, Executive Director for Prudential Policy at the PRA, noted that staff rotations are inherent to the PRA's supervisory approach: "We need the supervisors to turn over on individual firms. We do not need that on a frequent basis, but they need to turn over after some time to prevent them getting too close and to make sure that there is appropriate independence, challenge and fresh thinking."[203] Rotating supervisors has an important function in preventing regulatory capture, however, this must be balanced against the disruption to firms posed by the frequent rotation of supervisors.

127. Witnesses suggested that an important constraint on the FCA and PRA employing staff with experience of the sector is the level of remuneration offered, particularly in comparison to pay in the private sector. Noting the

198 Written evidence from Aon (SCG0030)
199 Supplementary written evidence from ClearBank (SCG0059)
200 Q 335 (Ashley Alder)
201 Written evidence from the FCA (SCG0074)
202 Q 309 (Sam Woods)
203 Q 309 (David Bailey)

difficulty of recruiting and retaining such staff, the Alternative Investment Management Association told us that: "We understand that this is challenging as the FCA does not have the resources to compete with private sector pay."[204] Moreover, we received evidence that this discrepancy has widened, as Sir Howard Davies told us: "A recent report by New Financial, … says that real pay in the regulators has fallen by 25% in the last decade."[205] Other witnesses emphasised that matching the pay of regulators more closely to that of industry would require exemptions from public sector pay scales. Andrew Griffith MP told us: "we need to accept that, when you are trying to engage in a symmetrical fashion with very sophisticated financial counterparties, you may sometimes have to step outside the pay bands."[206]

128. **We are concerned by evidence which indicated that there are inconsistencies in the quality of supervision. Firms should expect consistency in the staff that supervise them and supervisors who understand their business.**

129. **There is a substantial discrepancy in the quality of supervision received by the largest financial institutions and the rest of the sector. Whilst it is right that the regulators prioritise the supervision of systemically important firms, this must not come at the expense of the support offered to non-systemic firms, which risks harming the ability of small and medium sized firms to grow.**

130. ***The FCA and PRA must do more to improve supervisory staff's practical understanding of financial services firms. We recommend that the FCA and PRA explore developing a formal secondment system to both send supervisory staff out to regulated financial services firms, and to bring employees from regulated firms in. We recognise that there are practical issues to consider—regulatory capture must be avoided, and commercial confidentiality must be protected—but appropriate protections could be put in place.***

131. ***The FCA and PRA should review the compensation they offer to staff with a view to introducing appropriate incentives to help to attract talent with a practitioner's background in regulated financial services sectors.***

132. ***The FCA and PRA must review how their supervisory staff are deployed to ensure greater consistency in the staffing of supervisory teams and to address reports of frequent rotation amongst supervisors.***

A lack of proportionality in regulation and supervision

133. The evidence we received provided mixed views on the extent to which the FCA and PRA tailor their approach to regulation and supervision to ensure it is proportionate. The requirements placed on firms must account for variations in firm size, sector, and market segment. Proportionate regulation and supervision help to ensure that the rules firms must comply with are relevant to their business model, which can streamline compliance and remove barriers to their ability to grow.

204 Written evidence from the Alternative Investment Management Association (SCG0015)
205 Q 182 (Sir Howard Davies)
206 Q 244 (Andrew Griffith MP)

134. We received evidence that the FCA may not do enough to distinguish between retail and wholesale firms, resulting in it regulating business-to-business transactions, or firms focussed on serving sophisticated or wholesale customers, as though they were retail customers.

135. We received evidence to suggest that the use of regulatory thresholds is an important part of facilitating proportionate regulation, which exempts smaller firms from certain regulatory regimes. However, we received evidence to suggest that these thresholds had introduced constraints on smaller banks' ability and willingness to grow, that is they represented 'cliff edges', and that more could be done to smooth the introduction of these thresholds. The evidence we received applied to the Bank of England's use of thresholds, as well as ring-fencing which is set out in statute.

Wholesale and retail sectors

136. The FCA has a broad remit spanning a wide range of retail and wholesale sectors that witnesses suggested has resulted in the over-application of consumer protections to wholesale markets. Retail markets require greater protection for consumers due to discrepancies in the sophistication of the counterparties. As Sir Howard Davies noted: "In wholesale markets, you are aiming to produce a fair contest, whereas in the retail markets you know it is not a fair contest because there is a significant information asymmetry problem between the consumer and the firm."[207]

137. Witnesses suggested that consumer protection, intended to manage these asymmetries between consumers and firms, has increasingly applied to wholesale markets. Sir Howard Davies told us:

> "Yes, there has been a bit of a blurring of the line between wholesale and retail in recent years. … You cannot completely back off, because the market does like some rules of the game and it likes to appeal to the regulator when it believes these rules have been contravened blatantly, but there has been some blurring of the objectives."[208]

138. Aon told us that the application of consumer protections to wholesale markets is unnecessary and burdensome given the sophistication of the counterparties in such markets:

> "… in wholesale markets—such as the London Market—customers are sophisticated corporate entities with teams of professional advisers. They do not need the same sort of regulatory approach and level of consumer protection as individual retail customers buying products online or on the High Street."[209]

139. An example of the burdens that firms can incur responding to consumer focussed regulation is the need for firms to demonstrate that their wholesale activities are outside of the scope of consumer regulation. Cuan Coulter told us that:

> "… our business is almost entirely an institutional business … we, as an organisation, had to spend a significant amount of time—in the order of several thousand man-hours—developing an articulation of

207 Q 183 (Sir Howard Davies)
208 *Ibid.*
209 Written evidence from Aon (SCG0030)

why the consumer duty framework did not apply to our business model, notwithstanding the fact that we do not have any retail presence."[210]

140. The London Market Group noted that Fair Value Assessments apply a similar burden. These are a component of the wider Consumer Duty regulation and require firms to demonstrate that the price consumers pay for products and services is reasonable compared to the benefits they provide.[211] The London Market Group provided the example of a UK-headquartered insurance broker in which "8 of these UK staff are responsible solely for completing Fair Value Assessments, the majority of which are in respect of products provided to corporate clients, not retail customers."[212] These burdens impose direct staffing costs and may have resultant opportunity costs to firms required to produce these documents unnecessarily.

141. More broadly, we received evidence that wholesale markets may benefit from a more flexible approach to regulation that recognises the differences in sophistication between retail and wholesale markets. Professor Kern Alexander noted that: "In wholesale markets, we might think about where regulation could be applied more flexibly and which regulations are viewed as onerous or rigidly applied, and maybe about more flexible ways to apply them."[213]

142. **The FCA does not do enough to distinguish between firms that cater to wholesale and retail markets, or market segments in its regulation and supervision. Consequently, this has imposed unnecessary burdens and frictions on firms that could constrain their ability to grow.**

The use of thresholds

143. We received evidence that a range of regulatory requirements disproportionately affect smaller and medium sized firms, constraining their growth and limiting the competition between UK financial services firms needed to ensure a dynamic and growing sector. Witnesses cited the extensive use of thresholds, particularly relating to balance sheet size, in determining the application of regulatory regimes. Monzo emphasised the large number of thresholds that impose additional regulatory requirements, placing an effective ceiling on a firm's growth, by introducing additional costs which these firms cannot shoulder as easily as established firms: "UK challenger banks must negotiate 53 such thresholds as they grow. These thresholds disproportionately impact smaller challenger banks and act as a barrier to growth and investment."[214]

144. In the evidence that we received the 'threshold' cited most frequently by witnesses was the Minimum Requirement for own funds and Eligible Liabilities (MREL), an aspect of the resolution regime that will be addressed in Chapter 3.

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210 Q 214 (Cuan Coulter)

211 FCA, 'Consumer Duty: Findings from our review of fair value frameworks' (10 May 2023): https://www.fca.org.uk/publications/good-and-poor-practice/consumer-duty-findings-our-review-fair-value-frameworks [accessed 12 May 2025]

212 Written evidence from the London Market Group (SCG0075)

213 Q 95 (Professor Kern Alexander)

214 Written evidence from Monzo (SCG0029)

145. We received evidence that the UK's ring-fencing regime represents a significant threshold for firms to contend with. The UK's ring-fencing regime is a statutory requirement unique to the UK, introduced after the Global Financial Crisis, that requires firms with a balance sheet over £25 billion to separate their consumer and SME deposit taking arms from their wholesale and investment arms.[215] Sir Howard Davies told us that the process of ring-fencing incurs significant costs: "That was extremely costly to implement. It adds nothing to financial stability and makes UK banks less competitive."[216] The City of London Corporation echoed this, adding that ring-fenced banks face increased ongoing costs due to regulatory duplication and are at a competitive disadvantage relative to their international competitors: "The ring-fencing framework is unique to the UK and places a burden on firms—other jurisdictions have decided not to use this approach. In particular, there is a burdensome duplication in relation to resolution and operational resilience requirements".[217]

146. Since the ring-fencing regime and other threshold requirements do not phase in gradually, they represent a 'cliff edge' in which firms growing their balance sheets above a specific size are faced by an abrupt increase in their compliance burden. Richard Davies, Chief Executive Officer of Allica Bank, told us that this disincentivises growth above a certain level: "There is a range of aspects that kick in at £10 billion or £15 billion or 40,000 transactional accounts that are very relevant to this as well, which can lead a lot of firms to not want to get beyond a certain size."[218] This constraint on firms' appetite to expand their balance sheet beyond certain regulatory thresholds negatively impacts on the growth of these firms and entrenches the position of the largest firms. The concern that the regulators' reliance on 'cliff edges' inhibits a firm's ability to grow was echoed in a private roundtable with mid-market and specialist banks.[219] It was suggested by Charles McManus that a "sliding scale" be applied to further smooth the transition.[220]

147. **We recognise that thresholds represent an essential tool for regulators to differentiate between certain types and sizes of firms and apply specific regulation proportionately. However, we received evidence that such thresholds can constitute 'cliff edges' which may hinder smaller firms' ability to grow. We encourage the Government to work with the Bank of England and FCA to explore how 'cliff edges' might be smoothed.**

Regulatory uncertainty

148. We were told that a sense of 'regulatory uncertainty' is prevalent across the system. Many witnesses cited this uncertainty as a key barrier to enabling growth and facilitating international competitiveness within the sector.

149. The interaction between the FCA and the FOS through the consumer redress framework—specifically the tension between the FCA regulations

215 PRA, *Review of ring-fencing rules* (25 January 2024) p 7: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/publication/2024/review-of-ring-fencing-rules.pdf [accessed 12 May 2025]
216 Q 178 (Sir Howard Davies)
217 Written evidence from the City of London Corporation (SCG0043)
218 Q 191 (Richard Davies)
219 See Appendix 5.
220 Q 191 (Charles McManus)

and FOS's decision processes—was cited as a significant source of this regulatory uncertainty.

FOS and the FCA

150. The FOS is an independent public body set up by Parliament under FSMA 2000 to resolve individual complaints between financial businesses and their customers.[221] It handles approximately 200,000 disputes per year.[222] Consumers can approach the FOS after failing to resolve their complaint with the financial services firm directly. The FOS's decisions are legally binding on the financial services firm once accepted by the complainant and can only be challenged by the firm via judicial review.[223]

151. Under FSMA 2000, the FOS is required to make decisions based on what it considers "fair and reasonable in all the circumstances of the case".[224] The FCA's Dispute Resolution (DISP) rules dictate how firms and the Financial Ombudsman Service handle complaints. Under these rules the 'fair and reasonable' test requires the FOS to take into account: "(1) relevant: (a) law and regulations; (b) regulators' rules, guidance and standards; (c) codes of practice; and (2) (where appropriate) what [it] considers to have been good industry practice at the relevant time."[225]

152. The FCA and FOS are operationally independent. The FOS's role is to resolve disputes referred to it. The FCA does not have a role in the FOS's decision-making, and it cannot direct the FOS to take certain steps. Under the current system, when cases have wider implications, the FCA can provide the FOS with its views on the interpretation of its rules where relevant via the Wider Implications Framework (which was launched in 2022 as a means for certain regulators to work with each other on issues that could have a wider impact across industry[226]). In addition, FSMA 2023 introduced a duty for the FCA and the FOS to cooperate.[227] However, due to the FOS's statutory independence, the FCA does not have the power to direct the FOS to uphold a particular interpretation, nor does the FOS have an obligation to consult the FCA.[228]

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221 Financial Ombudsman Service, *Annual report and accounts for the year ended 31 March 2020* (5 November 2020) p 5: https://www.financial-ombudsman.org.uk/files/287580/Annual-Report-and-Accounts-for-the-year-ended-31-March-2020.pdf [accessed 12 May 2025]

222 Financial Ombudsman Service, *Policy statement: Charging claims management companies and other professional representatives* (7 February 2025) p 3: https://www.financial-ombudsman.org.uk/files/324553/Charging-professional-representatives-Policy-statement.pdf [accessed 12 May 2025]

223 Financial Ombudsman Service, 'How we make decisions': https://www.financial-ombudsman.org.uk/who-we-are/make-decisions [accessed 12 May 2025]

224 Financial Services and Markets Act 2000, section 228

225 FCA, 'DISP 3.6: Determination by the Ombudsman', *FCA Handbook*: https://www.handbook.fca.org.uk/handbook/DISP/3/6.html [accessed 12 May 2025]

226 The members of the Wider Implications Framework are the FCA, FOS, Financial Services Compensation Scheme (FSCS), The Pensions Regulator (TPR), and the Money and Pensions Service (MaPS). See Wider Implications Framework, *Annual Report 2022* (19 April 2023) p 3: https://www.financial-ombudsman.org.uk/files/324217/Wider-Implications-Framework-Annual-Report-2022_ACC.pdf [accessed 12 May 2025].

227 Financial Services and Markets Act 2000, section 415C

228 FCA and Financial Ombudsman Service, *Call for Input: Modernising the Redress System* (15 November 2024) p 23: https://www.fca.org.uk/publication/call-for-input/call-for-input-modernising-redress-system.pdf [accessed 12 May 2025]

153. In practice, the application of the fair and reasonable test can mean that the FOS makes judgements that extend beyond, or diverge from, the FCA rules.[229] The FCA's Handbook also requires regulated firms to ensure that lessons learned as a result of FOS determinations are effectively applied in future complaint handling, which some have described as, in effect, precedent setting, imposing quasi-regulatory obligations on firms.[230] In addition, witnesses told us that the operation of the "fair and reasonable" test also creates the risk that past business practices, although permissible under the FCA rules, may be deemed unfair and subject to redress at a later date.

154. The City of London Corporation told us that the FOS "now often applies new interpretations of regulations to past conduct, and can make 'test case' decisions of wide application."[231] It stated that: "This has increased the number and complexity of the FOS's assessments, reducing the FOS's ability to deliver as effectively as possible for consumers. Some practitioners note that it also means that the FOS judges against standards and requirements that did not exist at the time, which causes uncertainty/deters investors, undermining banks' ability to support the economy."[232]

155. The former Economic Secretary to the Treasury and City Minister, Bim Afolami, highlighted the "action, powers and remit of the FOS"[233] as a key area for regulatory change. He said: "We now have a situation where you have a Financial Ombudsman that can make determinations that supersede or change rules that were in place at a time when the FCA had already made rules and there is primary legislation that underpins the secondary legislation under which the FCA makes rules."[234]

Andy Briggs MBE, Chief Executive Officer of Phoenix Group, provided us with an example of this issue in practice:

> "In 2016, the regulator issued more regulation around reviewable whole of life. The industry therefore took that on board and changed their practices prospectively based on that regulation. We now have a whole host of claims across the industry from, say, a group from 2013. We are looking at the moment at where the FOS is applying the 2016 regulation to communications and business sold in 2013. That is a specific live example."[235]

156. Compounding the issues set out above in relation to the interaction between the FCA rules and the FOS's rulings is the impact of what the FCA and FOS describe as 'mass redress events' in which large numbers of complaints are

229 The FOS and FCA have themselves recognised this. They have stated: "There is also a risk that the FCA will ultimately move forward with a regulatory solution which is different to the outcome the Financial Ombudsman may have reached on individual complaints. This is anticipated in FSMA and understood by the courts, but it can suggest inconsistency in the system." See FCA and Financial Ombudsman Service, *Call for Input: Modernising the Redress System* (15 November 2024) p 12: https://www.fca.org.uk/publication/call-for-input/call-for-input-modernising-redress-system.pdf [accessed 12 May 2025].

230 UK Finance and White & Case, *Review of statutory dispute-resolution processes in the banking and finance sector* (16 February 2021) p 2: https://www.ukfinance.org.uk/system/files/Review%20of%20statutory%20dispute-resolution%20processes%20in%20the%20banking%20-%20FINAL.pdf [accessed 12 May 2025]

231 Written evidence from the City of London Corporation (SCG0043)

232 *Ibid.*

233 Q 236 (Bim Afolami)

234 *Ibid.*

235 Q 326 (Andy Briggs)

filed about the same issue. The FOS states that professional representatives such as claims management companies (CMCs) were behind around 47% of the cases referred to it between April and December 2024.[236] The FOS has also noted that "only 26% of cases brought by professional representatives were found in favour of the consumer, compared to 38% of those brought directly by consumers for free."[237]

157. Several witnesses suggested that some CMCs are exploiting the disparity between FOS decisions and FCA rules. The Finance & Leasing Association suggested that firms complying with FCA rules can still find themselves embroiled in mass redress events and that this "generates regulatory uncertainty which provides an opportunity for claims management company activity, introduces additional risk to the operation of the market and increases the cost of finance to the end customer—all of which is detrimental to economic growth."[238]

158. There were concerns that some CMCs are issuing high volumes of complaints which are not properly evidenced or substantiated. The FOS and FCA have said that they are aware of large numbers of "meritless"[239] complaints. Stephen Hadrill, Director General of the Finance & Leasing Association, told us:

> "… over the last couple of years our industry has seen rafts of claims coming forward, sometimes 10,000 in a week or that sort of number. On the latest estimate we saw, something like a fifth of those came forward without any proper basis at all. The customer had not been consulted by the claims management company. It had just run off a list of PPI claimants in the past and submitted it."[240]

159. Witnesses also suggested that where a FOS ruling involves historic cases or historic mass redress events, it can become punitively expensive for firms. Witnesses highlighted the fact that the FOS applies eight per cent interest a year to the compensation that firms are required to pay. Stephen Haddrill told us that "if the claim goes back over a considerable period, that boosts it quite significantly."[241] We note, however, that the eight per cent figure is in line with the current rate on judgement debts, as set by the Lord Chancellor.[242]

160. In an effort to tackle abuses by CMCs, in February 2025 the FOS announced that it would introduce a £250 fee for professional representatives for each case referred above the annual limit of ten free cases, reduced to £75 if the

236 Financial Ombudsman Service, Press Release: *Financial Ombudsman Service to start charging professional representatives to refer cases* on 7 February 2025: https://www.financial-ombudsman.org.uk/news/financial-ombudsman-service-start-charging-professional-representatives-refer-cases [accessed 12 May 2025]

237 *Ibid.*

238 Finance & Leasing Association, 'FLA response to FCA/FOS Call for Input on Modernising the Redress System' (31 January 2025): https://fla.org.uk/news/fla-response-to-fca-fos-call-for-input-on-modernising-the-redress-system/ [accessed 12 May 2025]

239 FCA and Financial Ombudsman Service, *Call for Input: Modernising the Redress System* (15 November 2024) p 6: https://www.fca.org.uk/publication/call-for-input/call-for-input-modernising-redress-system.pdf [accessed 12 May 2025]

240 Q 229 (Stephen Haddrill)

241 Q 228 (Stephen Haddrill)

242 Financial Ombudsman Service, 'Compensation': https://www.financial-ombudsman.org.uk/consumers/expect/compensation [accessed 13 May 2025]

outcome is in the consumer's favour.[243] This move is aimed at encouraging "professional representatives to submit better-evidenced complaints, considering their merits more diligently before referring them."[244]

161. We heard that in its current form, the FOS has now significantly evolved from its original purpose of resolving individual disputes and that its involvement in mass redress events means that it is frequently addressing broader sector-wide issues. This has led to concerns that the Ombudsman has inadvertently become a "quasi",[245] or "de-facto",[246] regulator.

162. **We agree that the FOS has become a quasi-regulator as its actions have regulatory impacts by creating precedents that the FCA requires firms to follow. The responsibility for issuing binding rules and guidance lies with the FCA. The lack of alignment between the FOS and the FCA generates an unacceptable level of uncertainty for firms, stakeholders, and investors.**

163. **Firms should be confident that compliance with regulations and the law will be sufficient to avoid mass redress events, but currently that certainty and predictability is not guaranteed.**

164. **The reports of practices by claims management companies who submit large volumes of spurious or meritless claims to firms and the FOS are concerning, causing undesirable outcomes for both consumers and firms. We welcome the introduction by the FOS of fees for claims brought to them by professional representatives. The impact of these reforms must be monitored closely to ensure they have a material impact on poor behaviour by CMCs.**

FOS and regulatory uncertainty: impact on the secondary objective

165. There was broad consensus across the evidence that the regulatory uncertainty caused by the way the FOS operates threatens to undermine the aims of the secondary objective. Nationwide Building Society told us that: "Certainty and predictability are crucial enablers of growth and innovation, however the material [uncertainty] caused by the FOS creates uncertainty around regulatory expectations and steers firms towards a zero-risk approach."[247]

166. A number of witnesses explicitly linked regulatory uncertainty caused by the existing redress framework to impacts on the international competitiveness of the sector. St James's Place said:

> "We know that regulatory uncertainty is a central factor raised by overseas investors as to why they are not investing (or investing more) in the UK and in financial services. More specifically, we know of examples where FOS decisions which seem to set new regulatory precedent have even been directly referenced as a cause for concern by overseas investors."[248]

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243 Financial Ombudsman Service, Press Release: *Financial Ombudsman Service to start charging professional representatives to refer cases* on 7 February 2025: https://www.financial-ombudsman.org.uk/news/financial-ombudsman-service-start-charging-professional-representatives-refer-cases [accessed 12 May 2025]
244 *Ibid.*
245 Q 254 (Debbie Crosbie)
246 Written evidence from UK Finance (SCG0039)
247 Written evidence from Nationwide Building Society (SCG0019)
248 Written evidence from St. James's Place (SCG0037)

UK Finance suggested: "It is clear that this part of the regulatory system is not functioning as efficiently as it could, creating significant uncertainty in the framework and therefore acting as a drag on the investor appeal for UK financial services."[249] TheCityUK told us that the "unpredictability of redress requirements (as acknowledged in the Chancellor's Mansion House speech), is a barrier to investment in UK-based financial services firms."[250] Bim Afolami suggested that: "This messy situation effectively means there is more of a discount on financial services businesses in the UK; people do not want to invest in the UK because they think, at any given point, the Financial Ombudsman can come and make a determination completely outside what the rules were at any time."[251] Echoing this point, Andy Briggs told us:

> "When it comes to overseas capital flowing into the UK, there is something that we could do. Overseas investors, who I talk to regularly, perceive a significant risk premium from regulatory retrospection in the UK, and we need to deal with that. We need to remove the perception, and indeed the reality, of retrospection that goes on where rules change retrospectively."[252]

Action by the regulators and the Government

167. To address some of these issues, in November 2024, the FOS and FCA published a joint Call for Input,[253] which closed on 30 January 2025. The Call for Input recognises some of the concerns expressed in our evidence over the potential impact of the regulatory uncertainty on growth and competitiveness. It states:

> "If the UK redress framework does not operate effectively or is seen to be hampering a stable and predictable trading environment, this can potentially affect the FCA's primary objectives of consumer protection, market integrity and competition, as well as the FCA's secondary objective to facilitate the international competitiveness of the UK economy in the medium to long term."[254]

168. The Dispute Resolution (DISP) rules dictating how firms and the Financial Ombudsman Service handle complaints were last reviewed ten years ago.[255] The FCA and FOS acknowledge that: "since then the landscape has changed significantly with several mass redress events and increasing levels of complaints brought by professional representatives."[256] Several of our witnesses suggested that the FCA should review its dispute rules to address issues such as the precedential value of FOS decisions.[257] The Call for Input indicated that the FOS and FCA were considering amendments to the DISP

249 Written evidence from UK Finance (SCG0039)
250 Written evidence from TheCityUK (SCG0016)
251 Q 236 (Bim Afolami)
252 Q 322 (Andy Briggs)
253 FCA and Financial Ombudsman Service, *Call for Input: Modernising the Redress System* (15 November 2024): https://www.fca.org.uk/publication/call-for-input/call-for-input-modernising-redress-system.pdf [accessed 13 May 2025]
254 *Ibid.*, p 5
255 Financial Ombudsman Service, Press Release: *Financial Ombudsman Service and FCA move to modernise redress system* on 15 November 2024: https://www.financial-ombudsman.org.uk/news/financial-ombudsman-service-fca-move-modernise-redress-system [accessed 13 May 2025]
256 *Ibid.*
257 Written evidence from UK Finance (SCG0039), the City of London Corporation (SCG0043), and the Finance & Leasing Association (SCG0048)

rules to allow for changes, including allowing the FOS to pause on certain cases to await regulatory input on the interpretation of rules.[258]

169. The need for enhanced input from the FCA on FOS decision-making or ensuring that the FCA can determine how its rules should be interpreted in major cases was echoed by others. UK Finance said: "This should be addressed by, among other things, amending the rules and processes governing the FOS to ensure that the FCA and other relevant bodies are consulted on any significant decisions, to ensure the FOS is interpreting FCA rules in the way the FCA intended."[259]

170. In response to these concerns, the FCA told us that it is working to review the redress framework in partnership with the FOS, but that "some of this goes back to the choices in the underlying statute and the breadth of discretion—for example, in the case of FOS, around the fair and reasonable test—and other things in the underlying law."[260] In response to the Committee's question on whether these reforms would require legislation, Nikhil Rathi told us that there are steps that the FCA can take to "ensure that we can spot issues better and act earlier if we see significant complaints come forward",[261] but stated: "we have a multilayered system and, of course, the common law is not within our gift. Ultimately, those are all matters for the Government and Parliament."[262]

171. Emma Reynolds MP, Economic Secretary to the Treasury and City Minister, told us: "we are working at pace on looking at the relationship between the FOS and the FCA and how we ensure that there is more predictability and clearer expectations",[263] and stated that the Government wants "predictability for firms so that they do not feel that they are being told to do one thing by one part of the system and another by the other."[264]

172. On 17 March 2025, the Government announced that the Economic Secretary to the Treasury would review the FOS.[265] HM Treasury has stated that this will include addressing concerns around: "The framework in which the FOS operates which has resulted in it acting, at times, as a quasi-regulator"; "whether the FOS is applying today's standards to actions that have taken place in the past"; and the "practices that have grown up over time on compensation."[266] HM Treasury has said that the work is expected to conclude by summer 2025 and that the Government "stands ready to legislate in order to ensure that we have a dispute resolution system in the UK which is fit for a modern economy."[267]

258 FCA and Financial Ombudsman Service, *Call for Input: Modernising the Redress System* (15 November 2024) pp 23–24: https://www.fca.org.uk/publication/call-for-input/call-for-input-modernising-redress-system.pdf [accessed 13 May 2025]
259 Written evidence from UK Finance (SCG0039)
260 Q 332 (Nikhil Rathi)
261 *Ibid.*
262 *Ibid.*
263 Q 361 (Emma Reynolds MP)
264 *Ibid.*
265 HM Treasury, 'New approach to ensure regulators and regulation support growth' (17 March 2025): http://www.gov.uk/government/publications/a-new-approach-to-ensure-regulators-and-regulation-support-growth/new-approach-to-ensure-regulators-and-regulation-support-growth-html [accessed 13 May 2025]
266 *Ibid.*
267 *Ibid.*

173. **The uncertainty caused by the way in which the FOS operates has created a perception of a regulatory 'risk premium' or penalty to the valuations of UK financial services firms that can act as a barrier to foreign investment in the UK financial services sector and presents a significant limitation to the advancement of the FCA's secondary objective. The tension between the FCA regulations and the FOS's decision processes is a long-standing issue and the need for action to address this and to remove the uncertainty it creates from the regulatory system is long overdue.**

174. **The FCA's and FOS's response to their joint call for input to modernise the redress system and the Government's review of the FOS must both result in minimising, if not eliminating entirely, the current uncertainty and unpredictability caused by the FOS's powers and discretion.**

175. ***Any reform to the redress framework should be focused on ensuring that the FCA's and FOS's views on regulatory requirements are consistent. We believe the following actions should be prioritised:***

(a) ***That the FCA is consulted on judgements that are likely to have sector-wide implications. We agree that the FCA should review its DISP rules with a view to enabling the FOS to pause its timescales while it awaits FCA input on the interpretation of its rules and guidance.***

(b) ***The precedent-setting effect of FOS decisions should be reviewed, with a view to removing it entirely, particularly for mass redress events whilst retaining the FOS's original purpose of providing quick and free individual redress.***

(c) ***We welcome that the Government has indicated it will consider legislative change if necessary. We stress that the FOS's remit must be brought closer in line with its original mandate, to provide swift redress rather than examining major complex issues—it cannot continue to function as a quasi-regulator.***

Consumer Duty

176. We received a considerable amount of evidence critiquing the FCA's implementation of the Consumer Duty. The Consumer Duty came into force on 31 July 2023.[268] The FCA stated that a key outcome of it was for "consumers to have confidence in retail financial services markets, with healthy competition based on high standards and firms focused on delivering good customer outcomes."[269] To implement this, the Consumer Duty requires firms to "act to deliver good outcomes for retail customers".[270] Amongst other requirements, the FCA stated that management boards are required "to use data to identify, monitor and confirm they are satisfied

268 The Consumer Duty is Principle 12 of the FCA's high-level Principles for Businesses. See FCA, 'PRIN 2.1: The Principles', *FCA Handbook*: https://www.handbook.fca.org.uk/handbook/PRIN/2/1.html [accessed 4 June 2025].

269 FCA, 'Consumer Duty implementation: good practice and areas for improvement' (20 February 2024): https://www.fca.org.uk/publications/good-and-poor-practice/consumer-duty-implementation-good-practice-and-areas-improvement [accessed 13 May 2025]

270 FCA, *Finalised Guidance FG22/5: Final non-Handbook Guidance for firms on the Consumer Duty* (27 July 2022) p 24: https://www.fca.org.uk/publication/finalised-guidance/fg22-5.pdf [accessed 13 May 2025]

that their customers' outcomes are consistent with the Duty" and stated that firms "must act when customers suffer poor outcomes."[271]

177. However, whilst witnesses supported the underlying objective of the Consumer Duty, they told us that its implementation by the FCA has generated considerable uncertainty. We also heard a range of concerns about the impact of Consumer Duty, specifically that the FCA has provided insufficient clarity around how it expected firms to comply with the Duty, and that it had created duplication and complexity within the framework.

Concerns about Consumer Duty

178. There was some support expressed for the aims of the Consumer Duty. Phoenix Group told us that it was supportive of: "An outcomes-based approach that creates [an] environment for healthy competition and innovation based on high standards of consumer protection and financial sustainability" and that Consumer Duty is "one such example".[272] StepChange Debt Charity suggested that the Duty "creates the basis for a common language between firms; setting expectations and commitments about good practice and good customer outcomes across the financial services sector."[273]

179. However, we also heard from a number of witnesses that implementing the Consumer Duty has been difficult due to, as the Investment Association suggested, "the ambiguity of the rules" and the lack of clarity provided by the FCA. The Investment Association told us that obtaining a clear understanding of FCA expectations has been "challenging."[274] Andrew Griffith MP said:

> "My issue with the consumer duty is not the unobjectionable desire to protect consumers, but the fact it unleashed into the wild a new duty of care that was not clear, had not been clarified, did not benefit from precedent, and created a vast amount of rework from a regulatory corpus that itself had always had regard to protecting consumers, in some cases overprotecting consumers from themselves."[275]

Caroline Wagstaff told us that the FCA "uses the word 'consumer' … but with no definition of what it means by that—all consumers appear to be equal."[276]

180. We heard from witnesses representing wholesale business and specialist service providers that the Consumer Duty duplicated pre-existing fiduciary duties and other regulatory requirements that govern their relationship with clients. They told us that this introduced either additional compliance, or new requirements to evidence pre-existing duties. State Street told us: "Some market participants (e.g., asset managers) were already subject to comprehensive regulatory requirements that outline their clear fiduciary duties, so it was not only unclear as to why the new framework was necessary but also resulted in significant work to understand and embed the Duty

271 FCA, 'Consumer Duty implementation: good practice and areas for improvement' (20 February 2024): https://www.fca.org.uk/publications/good-and-poor-practice/consumer-duty-implementation-good-practice-and-areas-improvement [accessed 13 May 2025]
272 Written evidence from Phoenix Group (SCG0042)
273 Written evidence from StepChange Debt Charity (SCG0071)
274 Written evidence from the Investment Association (SCG0009)
275 Q 242 (Andrew Griffith MP)
276 Q 33 (Caroline Wagstaff)

where it applied."[277] The Lloyd's Market Association told us: "Much of the specialist and international business written by the London Market is brought into Consumer Duty despite being covered by local consumer protection rules or where customers are advised by brokers acting on their behalf."[278]

181. We also heard that the Consumer Duty had required some firms to undertake unnecessary compliance activity. Hani Kablawi told us: "We knew from the get-go that we do not have volume in that space. It is a retail activity, and we are not a retail bank, and yet a lot of work had to be done to put in place the structures, the processes and the systems to enable us to support that activity should any volume come our way in the future. That is an example of where regulations can be better scoped and more specific to business models."[279]

182. Some witnesses told us that the uncertainty around the application of Consumer Duty had driven a risk-averse approach. Monzo told us: "Consumer Duty's ambiguity drives risk-aversion" and "the lack of clarity around their application is prompting banks and fintechs to become increasingly risk-averse, fearing potential non-compliance."[280] David Postings also told us that the Consumer Duty had reinforced risk aversion in firms, stating that "authorised push payment fraud and the consumer duty" are "two really significant ones which cause us to have a very risk-averse approach, with a lot of protection for consumers, which can actually end up with consumer detriment."[281]

183. Some witnesses told us that the subjectivity of the Consumer Duty has made international investors more hesitant to invest into the UK. UK Finance told us that, for the banking sector: "the subjective nature of the Consumer Duty generates uncertainty and creates nervousness for investors."[282] The Investment Association told us that: "the process of implementing the policy may have damaged the UK's reputation for competitiveness by creating deep uncertainty about how it would work".[283]

184. There was also considerable concern expressed around the way in which the Consumer Duty might interact with the FOS's rulings. The FCA and FOS's Call for Input on the redress system acknowledged:

> "A mass redress event could be triggered by differing views of how the FCA rules apply. Moving to outcomesfocused regulation (like the FCA's Consumer Duty) has many benefits … However, for these benefits to be fully realised, firms and consumers need to be confident that we have a consistent interpretation of regulatory requirements."[284]

Again, we heard that this uncertainty impacted on the attractiveness of the UK as a place to invest. Sir Howard Davies said that the Consumer Duty: "creates extreme nervousness among overseas investors because they do not know quite what it means. … It all seems, in a way, quite sensible when

277 Written evidence from State Street (SCG0055)
278 Written evidence from the Lloyd's Market Association (SCG0031)
279 Q 277 (Hani Kablawi)
280 Written evidence from Monzo (SCG0029)
281 Q 108 (David Postings)
282 Written evidence from UK Finance (SCG0039)
283 Written evidence from the Investment Association (SCG0009)
284 FCA and Financial Ombudsman Service, *Call for Input: Modernising the Redress System* (15 November 2024) p 6: https://www.fca.org.uk/publication/call-for-input/call-for-input-modernising-redress-system.pdf [accessed 14 May 2025]

you discuss it with the FCA, but then you have the ombudsman, and the record shows that the ombudsman produces judgments that sometimes go well beyond what the FCA recommended."[285]

185. The Economic Secretary told the Committee that the Government had engaged with the FCA over some of these issues, and stated that:

> "On the consumer duty, we have asked the regulator to look at the rule book and see where duplication is. If we are asking firms to focus on outcomes, we cannot have an outcomes approach and a completely prescriptive approach, at the same time. Those two things run in contradiction. So we are asking the regulator, and the regulator is looking at its rule book and at any duplication."[286]

186. On 29 July 2024, the FCA launched a Call for Input to review how it can simplify its regulatory requirements following the introduction of the Consumer Duty. The FCA stated that it was aimed at identifying where it can refine its retail conduct rules and guidance and address any potential areas of "complexity, duplication, confusion, or over-prescription, which create regulatory costs with limited or no consumer benefit."[287] The FCA's Call for Input closed on 31 October 2024.[288] In March 2025, it published an update on the actions it plans to take in response to the consultation, which included a mortgage rule review.[289] The FCA has said it will set out further actions in September 2025.[290]

187. **The FCA's implementation of the Consumer Duty has introduced considerable uncertainty for domestic and international firms operating in the UK. This uncertainty is driven by a lack of clarity on the FCA's expectations as to how firms should comply with the Consumer Duty, including which markets and customers it applies to.**

188. **Should the FCA fail to address concerns about the Consumer Duty requirements there is a risk that the FOS may inadvertently fill this gap, potentially creating inconsistencies in interpretation of the Duty's application.**

189. ***The FOS and the FCA's review of the redress system must result in clear actions setting out how they will ensure that there is a consistent interpretation of regulatory requirements associated with the Consumer Duty.***

190. **We welcome the FCA's review of its handbook rules following the introduction of the Consumer Duty. However, we also recognise the cost and complexity created by layering new regulation onto similar existing requirements.**

285 Q 178 (Sir Howard Davies)

286 Q 349 (Emma Reynolds MP)

287 FCA, *Call for Input: Review of FCA requirements following the introduction of the Consumer Duty* (29 July 2024) p 5: ttps://www.fca.org.uk/publication/call-for-input/call-for-input-review-retail-conduct-rules.pdf [accessed 14 May 2025]

288 *Ibid.*, p 6

289 FCA, *Feedback Statement FS25/2: Immediate areas for action and further plans for reviewing FCA requirements following introduction of the Consumer Duty* (25 March 2025) p 5: https://www.fca.org.uk/publication/feedback/fs25-2.pdf [accessed 14 May 2025]

290 *Ibid.*, p 4

191. ***It has been almost two years since the Consumer Duty was introduced—the FCA must work at pace to remove redundant or duplicative rules and requirements to provide firms with the certainty and clarity they need to maximise the Duty's benefits.***

192. ***Firms have told us that uncertainty around the FCA's expectations on the Consumer Duty, including over which markets and customers it applies to is causing them to take an overly risk-averse approach to complying with the Duty, adding unnecessary volume to an already high burden of compliance. The FCA must engage with firms to identify the key drivers behind this reaction. It must review the guidance it has provided on the Consumer Duty and identify where further clarification is needed of its expectations on how the Duty should be implemented.***

Advancing the secondary objective in the financial services sector: our conclusions

193. **The introduction of the secondary objective has increased the regulators' focus on the impact that their activities have on growth and international competitiveness, but it has also brought into relief long-standing issues that limit or introduce frictions to firms' ability to grow, innovate, compete, and attract investment.**

194. **Cultural change is key, and this must be set from the top. A culture of risk-aversion has led to a proliferation of regulatory activity that is duplicative and complex. We were told that the regulators do not prioritise the requests they make of firms and have overseen a proliferation of the activities they regulate, beyond their core responsibilities. Witnesses suggested that the UK's regulatory framework is highly complex and that they do not receive enough support to navigate and operate in this environment. Unacceptable levels of uncertainty persist.**

195. **Cumulatively, we were told these issues introduce significant frictions for firms, which in aggregate risk constraining growth across the sector. We heard that aspects of the UK's regulatory regime that are more costly and complex than competing jurisdictions negatively impact on the perceived attractiveness and international competitiveness of the UK as a global financial centre.**

196. **Failing to address the issues we have identified in this Chapter risks deepening the perception that there is a regulatory 'risk premium' or penalty that reduces the attractiveness of investing in the UK and poses a serious constraint on the advancement of the aims of the secondary objective.**

CHAPTER 3: THE SECONDARY OBJECTIVE AND THE WIDER ECONOMY

197. The issue of the relationship between banking and the financing of growth in the UK has been a matter of debate since, at least, the identification of the 'Macmillan gap' in 1931. The 'gap'—addressed in one paragraph of the Report by the Committee on Finance and Industry (the Macmillan Committee)—referred to the difficulty that small and medium-sized enterprises (SMEs) face in securing long-term financing.[291] The debate has resurfaced persistently without any definitive policy resolution.[292] A recent report by the Treasury Committee in 2023 concluded that SMEs are struggling with access to finance and "are generally pessimistic about their ability to raise funds".[293]

198. The sheer persistence of this problem in the face of various government initiatives over the years, suggests that there are significant organisational issues or structural issues or both in UK financial services and the relationship between financial services and the financing of industry. In these circumstances, we are not convinced that such changes in regulation as have been envisaged in evidence to the Committee would, by themselves, bring about reform on the scale required to make a discernible impact on the competitiveness and growth of the economy as a whole.

199. We received limited evidence on what the FCA and PRA could do to facilitate growth in the wider economy, or what changes could be made to regulation that would impact on investment in the UK economy as a whole. We believe that this is indicative of a gap in the evidence base for policy makers and rule makers around which regulatory mechanisms have a direct impact on growth. This raised questions for us around the extent to which the FCA and PRA can be expected to facilitate economic growth.

200. Broadly speaking, the financial services sector facilitates economic growth by providing capital, credit, insurance and other services to firms in the 'real economy'.[294] Much of the evidence we received concerned the operational efficiency of the regulators, as described in Chapter 2. While this relates primarily to the competitiveness of, and growth in, the financial services sector, it also contributes to economic growth as all businesses should benefit indirectly if the financial services sector itself benefits.

201. Economic growth is achieved primarily through new investment by businesses and the creation of productive assets. However, deep and efficient secondary markets play an important role in facilitating economic growth by providing the ability to buy and sell existing assets, such as shares or bonds in a company, thereby giving investors the ability to realise their investment;

291 Report of the Committee on Finance and Industry (the Macmillan Committee) (June 1931, Cmd. 3897) para 404, pp 173–74: https://discovery.nationalarchives.gov.uk/details/r/C1851842 [accessed 28 May 2025]

292 The 'Macmillan gap' was subsequently considered by the Committee on the Working of the Monetary System (the Radcliffe Committee) (reported 1959), the Committee of Inquiry on Small Firms (the Bolton Committee) (reported 1971), and the Committee to Review the Functioning of Financial Institutions (the Wilson Committee) (reported 1979). See Oliver Mallett and Robert Wapshott, *A History of Enterprise Policy: Government, Small Business and Entrepreneurship*, 1st edition (New York: Routledge, 2020) p 68.

293 Treasury Committee, *SME Finance* (Eighth report, Session 2023–2024, HC 27), para 13

294 Treasury Committee, *Future of financial services regulation* (First report, Session 2022–2023, HC 141), para 73

for example, by enabling founders of, and early investors in, businesses to sell their shares through a public offering.

202. Additionally, deep and liquid secondary capital markets can improve the attractiveness of the UK as a place to list by enabling companies to realise higher valuations when issuing equity; this can indirectly facilitate economic growth by making it more attractive for private companies to remain in the UK. Access to finance is key to growth, whether to fund new investment or the purchase of assets in the secondary market

203. From the evidence we received, the areas where it is possible to demonstrate some direct impact of regulation on wider economic growth is the provision of lending to businesses, the deployment of savings and the overall burden of compliance. This chapter will examine the evidence we received on the cumulative effect of regulatory capital requirements and their implementation by the PRA, such as the process for approving Internal Ratings Based models; the deployment of savings for investment; and the need to improve financial literacy and education and to facilitate access to financial advice.

204. The PRA's secondary objective framework identifies "facilitating the efficient allocation of capital by PRA-regulated firms"[295] as a key transmission mechanism through which the PRA can support growth in the wider economy.[296]

205. The provision of finance and capital for investment is a vitally important transmission mechanism through which the financial services sector can facilitate wider economic growth. Catherine McCloskey, Deputy Director for Financial Services Strategy at HM Treasury, told us that:

> "Access to finance is absolutely a core part of what we are looking at there—what is the availability of finance to support growth, and is it meeting needs? That is absolutely something that the Treasury and the Government are looking at more broadly. Capital requirements do impact on the cost and availability of lending. The regulators need to balance that. Now that the PRA has a growth and competitiveness objective, that is something that it will explicitly consider when it is considering appropriate capital requirements, alongside making sure that firms remain safe and sound and are able to withstand economic shocks."[297]

206. We asked witnesses, including the Government and regulators, what proportion of total lending in the UK is allocated to productive direct investment, for example lending to support investment by SMEs, to finance housebuilding, or into infrastructure. We did not receive any data on this. When asked whether the Bank of England held data on what proportion of total investment made by the financial services sector is allocated to productive assets, including investment in infrastructure, or investment in scale-up firms, Sam Woods confirmed that it did not collect this data:

> "… the Bank does not have data sources that directly answer this question. However, I would draw the Committee's attention to the work

295 PRA, *Competitiveness and growth: Embedding the Prudential Regulation Authority's new secondary objective* (30 July 2024) p 10: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/report/scgo-report.pdf [accessed 28 May 2025]
296 *Ibid.*
297 Q 354 (Catherine McCloskey)

of the Productive Finance Working Group, co-chaired by the Bank, FCA and HM Treasury, which considered in 2021 how to facilitate investment into what the Group called 'productive assets' and may have some insights relevant to the Committee's considerations."[298]

207. This issue is particularly pertinent to the health of the SME market. SMEs represent a considerable proportion of the UK business population, providing around £2.8 trillion of turnover (52% of total business turnover).[299]

208. We did not receive evidence from SMEs or representative business bodies on whether SMEs continue to struggle with access to finance. We did receive evidence from small and medium-sized banks that the effect of capital requirements constrains their ability to lend to SMEs.

209. Access to finance is also key to efficient secondary markets, particularly for the housing market where access to mortgage funding is vital. Again, we received evidence from mortgage lenders that the effect of capital requirements constrains their ability to lend to house buyers.

The cumulative effect of regulatory capital and MREL requirements

210. Throughout the inquiry we heard repeatedly that capital requirements have become onerous and complex, and that not only does this risk inhibiting the aims of the secondary objective but also negatively impacts on competition. There was some consensus among small and medium-sized banks that the cumulative effect of regulatory capital and MREL has constrained the ability of those banks to provide lending for investment to SMEs. With regard to the competitive disadvantage of the banking sector relative to non-banks, David Postings told us that as a result only 41% of lending to SMEs comes from banks and 59% from non-bank sources.[300] Mike Regnier, Chief Executive Officer of Santander UK, echoed David Postings' statistic and attributed the trend to "the cost of the capital that we have to hold against those loans [which] means that for us we are less competitive than other lenders that do not have the same capital."[301]

211. Underpinning witnesses' concerns were criticisms of the levels of capital banks are required to hold and the lack of proportionality in the approach to setting those levels. It is important to note that we did not receive data on the ways in which regulation has affected the cost of capital across the system, but several senior executives of banks and building societies provided comment on the cost of capital.[302]

298 Written evidence from the PRA (SCG0078)
299 Department for Business and Trade, 'Business population estimates for the UK and regions 2024: statistical release' (3 October 2024): https://www.gov.uk/government/statistics/business-population-estimates-2024/business-population-estimates-for-the-uk-and-regions-2024-statistical-release [accessed 28 May 2025]
300 Q 116 (David Postings)
301 Q 144 (Mike Regnier)
302 Q 126 (Nigel Terrington); Q 256 (Steve Hughes); Q 148 (Mike Regnier)

Leverage ratio

212. The PRA states that the leverage ratio is intended to provide a simple view of a firm's solvency and protect safety and soundness against excessive leverage.[303] The leverage ratio framework achieves this by requiring banks and building societies to maintain a minimum proportion of capital relative to their total balance sheet; the percentage ratio applied is determined by whether a firm's balance sheet exceeds certain thresholds, with the ratio increasing with the size of the balance sheet.[304] The leverage ratio has most impact on firms whose business is focused on assets that attract a low risk weighting such as mortgage lenders. Coventry Building Society told us:

> "Given the current Leverage Framework applies to firms with an excess of £50 [billion] retail deposits, and leverage requirements are generally higher than risk-based requirements, the Society has had to both carefully manage growth and undertake an SNP [Senior Non-Preferred Bonds] issuance programme over the past 24 months to ensure that it can meet the increased MREL requirements upon reaching £50 [billion] retail deposits."[305]

The countercyclical capital buffer

213. We heard that the UK's countercyclical capital buffer (CCyB) requires domestic banks to hold more capital than their European or American counterparts, and that this both restricts the capital available to UK banks to lend into the economy and places them at a competitive disadvantage to international competitors. The CCyB is a macroprudential tool of the Financial Policy Committee (FPC) of the Bank of England.[306] Mike Regnier said that the UK's countercyclical capital buffer is set at 2%, whereas the EU and US currently set rates of 1% and 0% respectively. He told us: "The FPC decides that is what the level should be, and the idea is that it is supposed to provide effectively some capital for when things start to deteriorate. But we are in a world where at the moment there is not much credit expansion, yet we have a 2% capital buffer. That is quite high."[307]

214. Mike Regnier connected this to the FPC's lack of a secondary international competitiveness and growth objective: "Again, the FPC does not need to pay any regard to international comparisons; its sole responsibility is making sure that the UK has a strong and stable financial services sector, which is very important, but it does not need to look at the international

303 The PRA is currently consulting on increasing one of the thresholds for the application of leverage ratio capital requirements and buffers from £50 billion held in retail deposits to £70 billion. See PRA, '*Consultation Paper CP2/25: Leverage Ratio—changes to the retail deposits threshold for application of the requirement*' (5 March 2025): https://www.bankofengland.co.uk/prudential-regulation/publication/2025/march/leverage-ratio-changes-to-the-retail-deposits-threshold-consultation-paper [accessed 4 June 2025].

304 PRA, '*Consultation Paper CP2/25: Leverage Ratio—changes to the retail deposits threshold for application of the requirement*' (5 March 2025): https://www.bankofengland.co.uk/prudential-regulation/publication/2025/march/leverage-ratio-changes-to-the-retail-deposits-threshold-consultation-paper [accessed 4 June 2025]

305 Written evidence from Coventry Building Society (SCG0054)

306 The Financial Policy Committee (FPC) is the UK's macroprudential authority, and is primarily tasked with identifying, monitoring, and taking action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK's financial system. See Bank of England, 'The contribution of the Financial Policy Committee to UK financial stability' (25 September 2024): https://www.bankofengland.co.uk/quarterly-bulletin/2024/2024/the-contribution-of-the-fpc-to-uk-financial-stability [accessed 28 May 2025].

307 Q 148 (Mike Regnier)

competitiveness."[308] We note that the countercyclical capital buffer "aims to ensure that banking sector capital requirements take account of the macro-financial environment in which banks operate",[309] and is therefore intended to vary between jurisdictions based on the system-wide risk of their banking sectors.[310]

The MREL regime

215. A prominent concern that emerged within the evidence was that the MREL regime[311] places a significant burden on smaller to medium sized firms that negatively impacts on the ability of the financial services sector to support growth in the wider economy. The intention of MREL is to allow sufficient capital to be bailed in in the event of the failure of a bank, so that the bank can be recapitalised without recourse to taxpayer funds.[312]

216. The Bank of England Resolution Directorate, as the resolution authority in the UK, is responsible for setting the indicative MREL threshold, which is currently set at £15 billion–£25 billion.[313] Following our evidence session with the Bank of England, on 22 January 2025 we received a letter from Dave Ramsden, Deputy Governor for Markets and Banking at the Bank of England, on the Bank's approach to MREL and its recent reforms. Dave Ramsden told us:

> "In 2021 we undertook a further review of MREL. In response to feedback that some smaller firms faced difficulties accessing the funding market, we introduced new arrangements to provide a gradual transition to meet MREL. These included a six-year glidepath (with the possibility of a further two-year extension if needed) and a notice period of up to three years before entering the six-year glide path."[314]

217. Dave Ramsden also highlighted that the Bank conducted a consultation on MREL in 2024,[315] which proposed increasing the indicative MREL threshold from £15 billion–£25 billion to £20 billion–£30 billion.[316] Dave Ramsden also noted the new bank recapitalisation mechanism in the Bank Resolution (Recapitalisation) Bill which may allow the Bank to remove the

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308 Q 148 (Mike Regnier)

309 Basel Committee on Banking Supervision, *Basel III: A global regulatory framework for more resilient banks and banking systems* (1 June 2011) p 57: https://www.bis.org/publ/bcbs189.pdf [accessed 28 May 2025]

310 *Ibid.*

311 The minimum requirement for own funds and eligible liabilities (MREL) is a minimum requirement for banks to maintain equity and eligible debt which can be 'bailed in' when a firm fails (that is, resources that enable the bank to absorb financial loss and ensure that the bank is able to continue operating). See Bank of England, *Consultation Paper: The Bank of England's review of its approach to setting a minimum requirement for own funds and eligible liabilities (MREL)* (22 July 2021) p 1: https://beta.bankofengland.co.uk/-/media/boe/files/paper/2021/the-boes-review-of-its-approach-to-setting-a-mrel-cp.pdf [accessed 28 May 2025]

312 Bank of England, *Consultation Paper: The Bank of England's review of its approach to setting a minimum requirement for own funds and eligible liabilities (MREL)* (22 July 2021) p 1: https://beta.bankofengland.co.uk/-/media/boe/files/paper/2021/the-boes-review-of-its-approach-to-setting-a-mrel-cp.pdf [accessed 28 May 2025]

313 Letter from Dave Ramsden, Deputy Governor for Markets and Banking at the Bank of England, to Lord Forsyth of Drumlean, Chair of the Financial Services Regulation Committee (22 January 2025) pp 2–3: https://committees.parliament.uk/publications/46387/documents/234647/default/

314 *Ibid.*, p 3

315 *Ibid.*, p 4

316 Bank of England, *Consultation Paper: Amendments to the Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)* (15 October 2024) p 24: https://www.bankofengland.co.uk/-/media/boe/files/paper/2024/amendments-to-the-boe-approach-to-setting-a-mrel.pdf [accessed 28 May 2025]

MREL requirement for smaller firms with a preferred resolution transfer strategy.[317] The effect of this would be to reduce the MREL requirement for such firms from up to twice their minimum capital requirement (MCR) to equal to the MCR.[318]

218. Nigel Terrington told us that the Bank of England's proposal to raise the indicative threshold at which MREL applies represents a disproportionately small increase, considering the wider measures the PRA and Bank of England have put in place. He told us:

> "… three additional levels of regulation and protection for the system have come in. We saw in yesterday's announcement that, under the consultation, they have proposed increasing the thresholds from £15 billion–£25 billion to £20 billion–£30 billion, in line with GDP, which has not been a great measure because it has not been very high."[319]

219. Several witnesses highlighted that the UK's indicative MREL threshold, including the planned uplift, was considerably lower than the US and EU. Coventry Building Society highlighted that the UK's proposed £20 billion–£30 billion threshold was considerably lower than levels set in the US ($100 billion, which only applies to Globally Systemically Important Banks) and the EU (€100 billion).[320] It told us: "we note that the UK still appears to be much more conservative than other jurisdictions with regards to MREL thresholds, potentially impacting international and domestic competitiveness."[321] It also told us that: "If firms need to raise SNP [Senior Non-Preferred debt] to meet MREL requirements, this increases their cost of funding, impacting competitiveness, growth and pricing offered to consumers. The transactional account threshold may act as a barrier to growth, [particularly] for smaller or less well-established firms."[322]

220. However, when the Committee put this evidence to Sam Woods, he cautioned against making direct comparisons between the indicative thresholds at which the UK and EU's MREL requirements apply:

> "It is often stated that it is €100 billion in the EU. If you actually look at the publications of the Single Resolution Board, you will find that national authorities have set MREL requirements for around 70 lower significance institutions which have an average balance sheet size of €10 billion. It is also the case that between those national authority MREL requirements and the €100 billion, the SRB itself has also set MREL requirements for another lot of firms. We do not know the number, but I do not think it is a small number. So it is a little misleading."[323]

The impact of MREL on growth

221. As discussed in Chapter 2, we received evidence to suggest that regulatory thresholds, including those within the MREL regime, place constraints on

317 Letter from Dave Ramsden to Lord Forsyth of Drumlean, p 4

318 Bank of England, *Consultation Paper: Amendments to the Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)* (15 October 2024) p 31: https://www.bankofengland.co.uk/-/media/boe/files/paper/2024/amendments-to-the-boe-approach-to-setting-a-mrel.pdf [accessed 28 May 2025]

319 Q 126 (Nigel Terrington)

320 Written evidence from Coventry Building Society (SCG0054)

321 *Ibid.*

322 *Ibid.*

323 Q 296 (Sam Woods)

the ability of small to medium sized banks to grow their balance sheets. We heard that this limits those firms' ability and willingness to grow, depressing their appetite to lend more, and thereby limiting the total capital that a firm can deploy, or is willing to deploy, to lend for investment. Nigel Terrington told us: "I described it as a glass ceiling because, as a consequence, as you get close to that number, you think, 'Do I hold back on my growth aspirations here?' I am talking about it in the first person as though it is just us, but it is the whole mid-tier sector."[324]

222. Nigel Terrington told us that the increase in capital requirements for small to mid-tier banks under MREL represents a substantive uplift: "with MREL there is no individual assessment; you are either in or out. If you are in, then you end up doubling your capital requirements, but if you are out, then you do not."[325] Nigel Terrington then told us that, consequently, "it is likely to cause mid-tier banks to reduce their growth expectations. They would therefore be unwilling to extend credit or to ration it by increasing the funding costs."[326]

223. Some witnesses provided data on the cost of meeting the MREL requirements, which we heard is proportionately higher for smaller and medium sized banks and building societies relative to larger firms. Coventry Building Society provided the following data to illustrate how the increased cost incurred by MREL utilises funds which could otherwise be lent:

> "Coventry have issued an additional £1,500 [million] of MREL compliant debt in total to meet the leverage backstop above the risk weighted requirement. This funding is at a c.2% premium to other sources of funding giving rise to a c.£30 [million] per annum interest cost. This will add a further 0.05% to the cost of a mortgage or prevent around £400 [million] of growth each year."[327]

> "Coventry issued £400 [million] of Alternative Tier 1 to improve its leverage ratio in 2014 at a net cost to customers of c. £15 [million] per annum relative to other sources of funding. This has added around 0.05% to the cost of funding a mortgage over this period or cumulatively prevented around £3 [billion] of additional mortgage lending over the last 10 years."[328]

They added that "this cost would not be borne by a firm of a similar size and complexity based in the EU or US."[329]

224. We received evidence suggesting that the aforementioned points constrain the small to medium sized banking sector's ability and willingness to lend, which has a negative impact on growth. As small to medium sized banks provide around 60% of all lending from banks to SMEs,[330] these challenges risk having a serious impact on the volume of lending that SMEs can access to invest. Paragon Banking Group told us that this "is an integral part of the future growth and prosperity of the UK economy."[331] They said: "We [the small and mid-tier banking sector] are now the main providers of SME bank

324 Q 126 (Nigel Terrington)
325 Q 131 (Nigel Terrington)
326 Q 126 (Nigel Terrington)
327 Written evidence from Coventry Building Society (SCG0054)
328 *Ibid.*
329 *Ibid.*
330 Written evidence from Paragon Banking Group (SCG0045)
331 *Ibid.*

funding, lending £35 billion to SMEs in 2023, totalling a 60% market share. The sector also provides 22% of the BTL [buy-to-let] mortgage market and tends to provide the top deposit rates for customers."[332]

225. Paragon Banking Group[333] and OakNorth Bank,[334] told us that the indicative MREL threshold should be increased (to £50 billion and between £40 billion–£50 billion respectively) which they told us would reduce the regulatory capital small banks have to hold and thereby reduce their ongoing cost of servicing this capital. In our private roundtable with small and medium banks, we were told that if the indicative MREL threshold were increased to £50 billion, this could increase the ability of these banks to lend more to SMEs.[335]

226. Following the Committee's question to Sam Woods as to why the Bank of England had set the threshold at which MREL applies at its current level, the Bank of England wrote to us to state that it had consulted on MREL in October 2024, which proposed increasing the indicative MREL threshold,[336] and noted that:

"… for a firm of a size greater than £15 [billion]–£25 [billion]:

(a) insolvency would be unlikely to serve the public interest, taking into account the negative impact on the UK financial system as a whole that the failure of such a firm might have; and

(b) it is insufficiently likely that a suitable buyer for such a firm could be found, taking into account the complexity of such a transaction. The larger a given firm is, the less likely it is that there will be a willing, suitable purchaser. This leaves bail-in as the only option which would avoid the difficult choice between some form of public ownership and therefore risk to public funds, or entering into a disruptive insolvency that would not serve the public interest."[337]

227. When the Committee questioned the Economic Secretary on the indicative threshold that the UK has set for MREL, she told us that the Government was aware of the issue but noted that this is a topic for the Bank of England.[338]

228. **The successful advancement of the PRA's secondary growth and competitiveness objective will depend on its ability to ensure that lenders are able to provide lending for productive investment. We are concerned to have heard evidence suggesting that the current regulation of capital requirements on lenders constrains firms' ability and willingness to do so, especially for smaller and mid-sized banks.**

229. **The 'one size fits all' approach arises in part from the way the UK authorities apply the Basel Framework to UK lenders. The Basel**

332 Written evidence from Paragon Banking Group (SCG0045)
333 *Ibid.*
334 Written evidence from OakNorth Bank (SCG0020)
335 See Appendix 5.
336 Bank of England, *Consultation Paper: Amendments to the Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)* (15 October 2024) p 24: https://www.bankofengland.co.uk/-/media/boe/files/paper/2024/amendments-to-the-boe-approach-to-setting-a-mrel.pdf [accessed 28 May 2025]
337 Letter from Dave Ramsden to Lord Forsyth of Drumlean, pp 2–3
338 Q 354 (Emma Reynolds MP)

Framework—'soft law' standards issued by the Basel Committee on Banking Supervision—is aimed at internationally active banks.[339] **The UK's approach can be contrasted with that of other jurisdictions such as the US whose capital framework applies on a graduated and proportionate basis depending on the size and complexity of the bank and the level of risk it poses to the system. The Committee welcomes the Small Domestic Deposit Takers (SDDT) regime as a helpful development but considers that the PRA could go further.**

230. ***The PRA should consider whether it is appropriate to apply the Basel Framework to all UK domestic lenders or whether a more proportionate and tailored approach could be applied to determining capital requirements for lenders who are not internationally active. The Committee considers that such an approach would not be inconsistent with the secondary objective which is stated to be "subject to aligning with relevant international standards".***[340] ***This approach will require supervisors to have an appropriate level of experience and expertise to understand individual firms' businesses and be able to exercise judgment when making supervisory decisions (in this regard, see our conclusions and recommendations in Chapter 2, paragraphs 128 to 132). This approach will also require a culture that is not unduly risk-averse, and which allows, with appropriate safeguards and controls, supervisors to make risk-based decisions.***

231. ***This is not entirely within the control of the PRA. The Government should work with the Bank of England to review the cumulative impact that the regulatory capital requirements and MREL requirements have on lenders, specifically regarding the cost of lending. This should be done with a view to balancing financial stability and enabling both banks and building societies to lend for productive investment to support growth.***

Risk weighting of assets and the internal ratings based model

232. Another key theme that emerged in the evidence we received related to the incentives that regulation, through the risk weighting of assets, places on the direction of investment through lending by the financial services sector, both generally and into the wider UK economy. An example of lending for productive investment might include lending to housebuilders to create new housing stock; an example of lending into the secondary market would be to purchase existing housing stock, that is, mortgages.

233. The risk weighting of assets measures the relative risk of a given asset defaulting (credit risk), thus incurring financial loss. In the context of lending, this risk weighting is used to assess the overall risk of a given loan portfolio, which is then used to calculate the relative capital that a bank must hold. The PRA has the power to set risk weightings under the Capital Requirement Regime, which it generally sets in line with international

339 The Basel Framework is an example of 'soft law' standards, which are not directly binding and allow flexibility in interpretation and implementation. See Basel Committee on Banking Supervision, 'The Basel Framework: Scope and definitions' (15 December 2019), SCO10: https://www.bis.org/basel_framework/chapter/SCO/10.htm?inforce=20191215&published=20191215 [accessed 29 May 2025].

340 Financial Services and Markets Act 2000, section 1EB

standards, themselves informed by the Basel Committee on Banking Supervision's recommendations.[341]

234. Banks and Building Societies utilise one of two methodologies when calculating the regulatory capital they need to hold:

(a) The Standardised Approach with pre-defined risk weightings; this is the default that most authorised banks and building societies use.

(b) The Internal Ratings Based (IRB) model, where a firm can tailor its risk weightings and model to its loan book; this requires approval from the PRA.[342]

Disparity in the risk weights of assets

235. The evidence we received suggested that the disparity in the risk weightings—by affecting the amount of capital a bank needs to hold to support a particular asset class—disincentivises the allocation of lending to different investment streams; for example, SMEs seeking to grow their businesses, building new housing developments, or investing in productive assets such as infrastructure.

236. We received evidence to suggest that there is a disparity in risk weightings between lending to SMEs, especially housebuilders, and lending for other purposes. Witnesses told us that this disparity disincentivises SME lending due to increased capital holding requirements. Mike Regnier told us that higher capital holding requirements reduce the returns and thus the attractiveness of lending into this sector: "When I look at the capital requirements of certain segments of the corporate market, I would not get the returns from those assets as I would if I put the same amount of capital into another market, such as mortgages, for example."[343] Bim Afolami told us that adjusting the risk weightings could have a significant impact on the growth of sectors of the UK economy:

> "That needs to be changed because you end up with a situation where there are comparatively small tweaks to risk rates—that are often made in other jurisdictions, such as the United States—which, if we were to make them, would mean fiscal policy would not have to do so much heavy lifting on the demand side in order to make it affordable for people, particularly first-time buyers, to afford houses or for SME housebuilders to be successful."[344]

237. We were told that the higher risk weightings attached to lending to SMEs or to housebuilders reflects the higher risk of loss. To mitigate the risk to a given lender's safety and soundness, the PRA requires a lender to hold more capital against these loans. Julie-Ann Haines noted that in the case of housebuilding: "In effect, you are taking on development risk. … We understand the need to hold more capital, and of course inevitably the housebuilder gets charged

341 The secondary objective must be aligned with relevant international standards, which include the Basel capital requirements. See Basel Committee on Banking Supervision, 'The Basel Framework' (1 January 2023): https://www.bis.org/basel_framework/ [accessed 29 May 2025].
342 Basel Committee on Banking Supervision, 'The Basel Framework' (1 January 2023), CRE 20.1–20.2: https://www.bis.org/basel_framework/chapter/CRE/20.htm [accessed 30 May 2025]
343 Q 146 (Mike Regnier)
344 Q 234 (Bim Afolami)

a higher price as a result. That is the risk. That is why not many building societies are in this."[345]

238. Echoing this, Sam Woods told us that: "lending to SMEs attracts a higher risk rate than mortgages, for instance".[346] He added that this reflects the PRA's assessment of the risks involved in certain types of lending: "The tilt goes in that direction, but only in so far as the data available to us about how much money banks are likely to lose from that type of lending supports it. That is the way that we do it."[347]

239. In the context of mortgage lending, we received evidence from, and on behalf of, building societies that the PRA's approach to setting some risk weightings has altered the incentives placed on firms' ability and willingness to lend. Steve Hughes, Chief Executive Officer of Coventry Building Society, told us the following about the PRA's changes to IRB in its near-final rules for Basel 3.1:

> "… on a 50% loan-to-value mortgage under Basel 3.1 and IRB modelling, I [Coventry Building Society] will end up holding five times more capital … Five times more than I hold today. Equally, for a 95% LTV [loan-to-value] mortgage, which you would deem to be high risk, I would hold 30% less capital."[348]

240. Underpinning the concerns raised around risk weightings were criticisms of the lack of proportionality and discretion in the PRA's approach. Witnesses understood this as a focus on taking any and all steps to advance its primary objective to mitigate risk to financial stability, rather than varying capital requirements on firms with a track record of good risk management whose default history suggested that the amount of capital required to be held was disproportionately high and overly cautious. The Building Societies Association told us that the PRA's near-final Basel 3.1 rules proposed introducing an additional 20% 'haircut' on top of the underlying RWA attached to self-build and custom build mortgages (mortgages for individuals to build a house, adding to the housing stock), making this type of product comparatively more expensive to provide. Robin Fieth, Chief Executive Officer of the Building Societies Association, told us:

> "We provided a lot of data with our submission to the PRA that showed that arrears on custom and self-build in the last 10 to 15 years have basically been zero. We were actually struggling to find a complete default, and yet in the final numbers, the PRA decided to put an arbitrary—at least, it appears to be arbitrary—20% haircut on the valuation of customer self-build projects going through the process. I say arbitrary because it has not been able to provide the data to support its 20%, and it sounds like a remarkably round number."[349]

241. We also received evidence contrasting the UK's approach to setting capital requirements with some countries in the EU, suggesting that the UK's approach to regulating banks' capital inhibits their ability and willingness to lend. Santander UK told us:

345 Q 264 (Julie-Ann Haines)
346 Q 294 (Sam Woods)
347 *Ibid.*
348 Q 256 (Steve Hughes)
349 Q 256 (Robin Fieth)

> "… the capital requirement in the UK does appear to be significantly higher than an equivalent EU headquartered bank. This is driven from a variety of sources, including modelling differences, differences in the approaches to setting the pillar 2 requirement, and differing approaches in respect to setting the Countercyclical Capital Buffer (CCyB). The level of capital required to be held is a factor in determining investment decisions and a high level of capital detracts from the UK's attractiveness."[350]

242. We were also told that the PRA has chosen to apply the Basel Committee on Banking Supervision's recommendations in a disproportionate manner, rather than tailoring the regulatory capital requirements to the UK's markets. Robin Fieth told us:

> "… the whole of the building society sector in the UK is domestically focused. Basel 3.1 regulations apply to internationally active banks, so there was a big choice to be made about whether it wanted to take the approach it has taken, which is to apply Basel 3.1 across the whole board, which is closer to the European single rulebook, or to just apply it to the major internationally active banking institutions and instead go down more the US route. That was the choice it made."[351]

243. We received evidence from several witnesses that have maintained consistently low arrears in their loan book for multiple years, through periods of turbulence, yet have seen their capital requirements increase. Julie-Ann Haines told us:

> "We have had significant challenge over the last five years, whether that be coming through Brexit, Covid and the pandemic, or now a very significant cost of living crisis, but when you do the stand-back test the arrears data from the mutual building society sector shows that that has performed extremely well. There have been some modest increases, as you would expect, but if I look at my repossessions data currently versus where we were 10 years ago, we are 85% lower than we were."[352]

The PRA's supervision of regulatory capital and the internal ratings based model

244. We received evidence that the PRA conducts individual assessments on a bank's capital requirements and can adjust these upwards where it deems it necessary. Nigel Terrington told us: "the PRA requires each bank to do an annual ICAAP [Internal Capital Adequacy Assessment Process] and ILAAP [Internal Liquidity Adequacy Assessment Process]—that is, an internal assessment of what you think your capital risks are and what your capital requirements should therefore be; the same is done for liquidity. The PRA takes that and reviews it, and either it agrees with you or it does not. If it does not, it will add more capital requirements."[353]

245. Witnesses also told us that, whilst a rigorous authorisation process for lenders to utilise IRB modelling is necessary, small and medium sized banks without approval to use internal models but with strong risk management and a high-quality loan book cannot reflect this in the capital they have to hold to support lending. This is because these lenders are required to use the

350 Written evidence from Santander UK (SCG0046)
351 Q 261 (Robin Fieth)
352 Q 256 (Julie-Ann Haines)
353 Q 131 (Nigel Terrington)

standardised approach as their IRB models have not been approved by the PRA. Paragon Banking Group told us that:

> "The PRA has acknowledged that the IRB accreditation process has not worked well and has sought in previous years to deploy revised processes for approval ('modular' approach) and also improved scheduling of reviews. However, these developments have not made any significant positive impact; we are not aware of any IRB aspirant bank achieving IRB accreditation in the last 7 years."[354]

246. Nigel Terrington told us that access to the IRB allows a bank to "align [its] capital to [its] good-quality loan book. Otherwise, [its] capital is pre-determined by the Basel rules and their one-size-fits-all approach."[355] Paragon Banking Group suggested that the difficulty of smaller banks receiving permission to utilise the IRB means that "this is a benefit for only the large UK banks and building societies. This perpetuates a significant competitive disadvantage for the mid-tier banks, impeding our ability to compete with the large banks, which would lead to better customer choice, outcomes and drive innovation."[356]

247. Nigel Terrington set out that part of the IRB's attraction is derived from the aforementioned reluctance of the PRA to 'reward good behaviour' on the part of banks:

> "Our average bad-debt charge—impairment charge—through our P&L [Profit and Loss] account has been 10 basis points per annum, or 0.1% per annum. That is very low, but presently we are on the standardised approach and there is no reflection in the capital measurement of how good our loan book is. That is why we are keen to move towards the IRB method."[357]

248. We were also told by one attendee at our private roundtable that the risk weightings for lending to housebuilders under IRB were half of the 150% weighting required by the standardised approach. This was estimated to equate to a 1–2% increase in the interest charged on the loan.[358]

249. The time and expense incurred to apply for and receive permission to use IRB modelling can be significant, without certainty as to when the PRA will grant permission. Nigel Terrington told us: "Banks that fall below a certain level can join that club, but they have to go through an authorisation process. It is long, arduous and costly; I speak from experience because we are in the middle of that process."[359] For banks which are applying, the IRB process can cost millions of pounds and take multiple years to complete with little to no progress.[360]

250. These issues are compounded by the pace of change, which requires IRB models to be updated, thus introducing additional delay and uncertainty which can affect business planning. Julie-Ann Haines told us: "If you look at the IRB programmes to rebuild models, we are nearly four years in the

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354 Written evidence from Paragon Banking Group (SCG0045)
355 Q 122 (Nigel Terrington)
356 Written evidence from Paragon Banking Group (SCG0045)
357 Q 123 (Nigel Terrington)
358 See Appendix 5.
359 Q 122 (Nigel Terrington)
360 See Appendix 5.

process of trying to get existing models recalibrated and re-agreed with no firm commitment yet … the lack of clarity that it provides to the business as you are trying to develop five and 10-year business plans is very significant."[361]

The proportion of lending provided for productive investment

251. Our evidence suggested that cultural practices at the regulators, and additional complexity derived from overlaps in regulation disincentivise lending for growth and investment purposes. However, it is important to note that firms decide how and to whom they lend, with regulatory incentives only playing a partial role in this. We received evidence from individual firms who told us they would like to lend more to small businesses or would use additional capital to expand the volume they lent for investment.[362] When questioned on whether the capital requirements regime biased investment, including lending, away from investment into the primary market, Sam Woods told us that he did not agree:

> "I would not subscribe to that statement, although it would be fair to say that I have not tried to examine our risk-weighting regime specifically with that direct and indirect framework in mind. With regard to the forms of direct lending, of which, as you say, SMEs are, it depends how you view things like leveraged lending and lending into the private equity sphere. Those are also quite significantly risk weighted."[363]

252. **Firms that use the standardised approach generally have higher capital requirements than firms that use the IRB. Obtaining approval for internal models is a lengthy and costly process which favours larger firms.**

253. ***Our recommendations in paragraph 230 apply equally here. The PRA should consider whether it is appropriate to continue to apply Basel standards to UK domestic lenders or whether a more proportionate approach could be applied to determining capital requirements.***

254. ***We are concerned by evidence which suggested that the UK applies higher risk weightings to lending than competing jurisdictions, such as the EU. The Government should commission the PRA to report on the UK's approach to capital requirements in comparison with competing jurisdictions, as well as to evidence why it considers the current rates to be appropriate.***

255. ***The PRA should examine its process for approving IRB models and seek to make that process quicker and less costly for firms.***

256. ***We are concerned by the lack of data on the proportion of total lending made available for productive investment. The Government should work with the Bank of England to research what proportion of total lending is made available for productive investment.***

Savings and investment

257. A common theme that emerged in the evidence is that the depth of the UK's primary and secondary capital markets is constrained, and that this has

361 Q 260 (Julie-Ann Haines)
362 Written evidence from Coventry Building Society (SCG0054), Paragon Banking Group (SCG0045), and OakNorth Bank (SCG0020)
363 Q 294 (Sam Woods)

reduced the availability of capital needed for investment. Sir Nicholas Lyons told the Committee that an additional £100 billion of capital per year would be required to meet the UK's demand.[364] Deep and liquid capital markets are important for providing the capital necessary for all types of productive investment, including for equity, scale-up finance, and infrastructure.

258. In the evidence we received, witnesses welcomed the Government and FCA's reforms to the UK's capital markets, and stated they wanted progress to continue.[365] For example, Innovate Finance told us that the FCA's listing reforms "bring the UK much closer to other stock markets such as the United States and Asia, by simplifying and aligning the UK's approach. In our view, this increases capital and aids the UK's competitiveness in attracting and retaining both domestic and international FinTech companies in listing here."[366] The Investment Association emphasised the importance of continuing to implement capital market reforms to "further improve the provision of investment services in the UK.".[367]

259. We have therefore focused on the constraints to the depth and liquidity of the UK's capital markets, and the extent to which deploying the UK's pool of savings could support productive investment. We received evidence that a key constraint to achieving these aims is the extent to which UK savers hold a significant proportion of domestic savings and wealth in cash and physical assets. This can be explained by the lack of an equity investment culture, the difficulty in obtaining financial advice, and low levels of financial literacy.

260. Witnesses suggested that addressing these issues and supporting the creation of an equity investment culture in the UK could help to increase returns for consumers in the long-term, as well as deepen the UK's secondary capital markets. However, we did not receive evidence to demonstrate conclusively how increasing the proportion of personal savings invested directly into equities would help to increase productive investment and have a significant impact on growth.

261. We also received evidence that there are legislative, regulatory, and cultural restrictions that limit the total liquidity that key institutional investors, such as life insurers and pension funds, can deploy for productive investment.

Regulatory barriers to retail investing

262. We received evidence that existing financial advice regulation has substantially limited access to the advice consumers need to invest their savings. Emphasising the difficulty of accessing financial advice, Lisa Laybourn, Director of Technical Policy and Risk at The Investing and Saving Alliance, told us that: "Around 8% of UK adults take advice at the moment, so 92% of people over the age of 18 are unable or unwilling to take advice because of its cost."[368]

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364 Written evidence from Sir Nicholas Lyons (SCG0067). See also Capital Markets of Tomorrow, *Delivering Over £100bn of New Capital into the UK Economy Every Year: Building World-Class Capital Markets Of Tomorrow* (6 September 2024) p 5: https://capitalmarketsindustrytaskforce.com/wp-content/uploads/2024/09/Capital-Markets-Of-Tomorrow-report.pdf [accessed 29 May 2025].

365 Examples of reforms include reforms to the UK's prospectus regime and the UK's listings regime and the creation of the Long-Term Asset Fund (LTAF). Several reforms continue to be delivered, such as the FCA's ongoing reform of consumer investments disclosure.

366 Written evidence from Innovate Finance (SCG0049)

367 Supplementary written evidence from the Investment Association (SCG0058)

368 Q 64 (Lisa Laybourn)

263. Several witnesses[369] suggested that the regulations introduced following the implementation of the Retail Distribution Review (RDR) in 2012,[370] particularly the prohibition on advisors receiving commission,[371] have made it uneconomical to advise most consumers. Sir Howard Davies told us that the RDR:

> "… caused a number of firms … to reduce very significantly the advice they were prepared to give customers. The compliance burden of doing so was so difficult that effectively, you could not meet it except at quite high cost, and you could not recover that cost unless the client had quite a decent amount of money to invest."[372]

264. Andy Briggs illustrated the difficulty of supporting customers under the current regime with an example in which a customer requested to draw down their pension pot:

> "We cannot say: 'Just take £12,500, the 25% tax-free cash, and leave the balance invested. It will get gross roll-up and it's there for you whenever you want to take it and spend it'. The regulations do not allow that, so I listen to our brilliant, wonderful people take about 20 minutes to dance around the topic and end up getting to a place where the customer says, 'I see what you're saying—if I take all of it, I'd pay far more tax, and I can take it any time I want to so I'm better off leaving it invested'."[373]

265. Witnesses connected the limited uptake of financial advice to the high proportion of consumer savings held in cash and other non-productive assets. Bim Afolami noted that:

> "If you are not wealthy, the regulatory regime makes it too difficult for anybody to give you any proper advice in a way that is affordable and could actually be helpful—for example, the amount of money sitting in cash ISAs, which is far in excess of what it should be according to any reasonable investing strategy."[374]

266. To address these concerns, the FCA initiated the Advice Guidance Boundary review (AGBR) to assess the financial advice landscape[375] and in December 2024 proposed the Targeted Support regime for pension advice, which would permit firms to offer simplified financial advice to pension customers.[376] Targeted Support aims to increase the availability of financial advice by allowing firms to develop guidance for groups of consumers with similar characteristics, rather than tailoring recommendations to the circumstances of individual customers.[377] As Nikhil Rathi explained: "We want to enable

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369 Q 144 (Mike Regnier) and Q 236 (Bim Afolami)
370 Financial Services Authority, *Policy Statement PS10/6: Distribution of retail investments—Delivering the RDR: feedback to CP09/18 and final rules* (March 2010) p 3: https://www.fca.org.uk/publication/policy/fsa-ps10-06.pdf [accessed 2 June 2025]
371 *Ibid.*, pp 3–4
372 Q 177 (Sir Howard Davies)
373 Q 329 (Andy Briggs)
374 Q 236 (Bim Afolami)
375 FCA, Press Release: *Advice Guidance Boundary Review* on 3 August 2023: https://www.fca.org.uk/news/news-stories/advice-guidance-boundary-review [accessed 29 May 2025]
376 FCA, *Consultation Paper CP24/27: Advice Guidance Boundary Review—proposed targeted support reforms for Pensions* (12 December 2024) pp 6–7: https://www.fca.org.uk/publication/consultation/cp24-27.pdf [accessed 29 May 2025]
377 *Ibid.*

the industry to say, 'For people like you, this is, broadly speaking, the kind of thing that you should be going for', which could include investments."[378]

267. Whilst witnesses were generally supportive of targeted support,[379] the FCA's pace of delivery was criticised. The initial call for input to address failures in the financial advice market was published in 2019,[380] with Targeted Support for pensions proposed over five years later in 2024 and the FCA expecting to consult on applying Targeted Support to other investments in summer 2025.[381] Charles Randell told us: "I set the organisation the task of reviewing the boundary between advice and guidance and trying to come up with a better model. I must say that progress has not been good and much more work is needed to solve that problem."[382]

268. We also received evidence that the current disclosure regime for retail investment products deters savers from investing, particularly in UK equities. Witnesses characterised the FCA's disclosure regime as too rigid, preventing firms from providing simple and accessible information. Chris Cummings told us that: "Disclosure is a staid, arid process of legal protections that has built up because of regulation. We need an engagement regime that starts inviting people to the party."[383] In response to the inflexibility of the retained EU disclosure regime, the FCA has proposed a more flexible regime that may facilitate better consumer engagement.[384]

269. However, witnesses also raised concerns regarding how the regime requires firms to present the risks involved in investing. Chris Cummings told us that: "if you want to start investing then the first thing you will encounter is a disclosure regime that starts off with phrases such as, 'Your capital is at risk', 'You could lose every single penny that you want to put in' … I think that immediately erects a barrier to people saving."[385] Witnesses also pointed to the warnings attached to the risk score, which assigns a numerical rating based on the overall risk of a product, an aspect retained under the FCA's proposed new regime.[386] Lisa Laybourn told us that: "those warnings are stark and apply to everything from 1 to 5, which gives you no sense of the level of risk."[387]

The state of retail investment

270. We received evidence that UK consumers invest a limited proportion of their savings, which may have a negative effect on the depth of the UK's capital markets. Aberdeen Group told us that: "UK adults hold the smallest

378 Q 339 (Nikhil Rathi)
379 Q 64 (Lisa Laybourn)
380 FCA, *Call for input: Evaluation of the Retail Distribution Review and the Financial Advice Market Review* (1 May 2019): https://www.fca.org.uk/publication/call-for-input/call-for-input-evaluation-rdr-famr.pdf [accessed 29 May 2025]
381 FCA, 'CP24/27: Advice Guidance Boundary Review—proposed targeted support reforms for pensions' (12 December 2024): https://www.fca.org.uk/publications/consultation-papers/cp24-27-advice-guidance-boundary-review-targeted-support-reforms-pensions [accessed 3 June 2025]
382 Q 155 (Charles Randell)
383 Q 199 (Chris Cummings)
384 FCA, *Consultation Paper CP24/30: A new product information framework for Consumer Composite Investments* (19 December 2024) pp 8–11: https://www.fca.org.uk/publication/consultation/cp24-30.pdf [accessed 29 May 2025]
385 Q 199 (Chris Cummings)
386 FCA, *Consultation Paper CP24/30: A new product information framework for Consumer Composite Investments* (19 December 2024) p 29: https://www.fca.org.uk/publication/consultation/cp24-30.pdf [accessed 29 May 2025]
387 Q 70 (Lisa Laybourn)

percentage of their wealth in investments of any G7 country (8%). The vast majority of UK adults hold their wealth in perceived 'lower risk' assets such as property (50%) and cash or cash-type products (15%)."[388] Similarly, citing the FCA's 2020 Financial Lives Survey,[389] the Investment Association told us: "Over 15 million adults in the UK have investable assets of over £10,000, but more than half of these people have at least three quarters of these assets in cash."[390] We were also told that consumer holdings of shares have reduced. Kerstin Mathias told us that: "Only about 11% of UK retail participants now hold shares, whereas 10 years ago the number was twice that."[391]

271. Witnesses representing the asset management industry or equity investment bodies told us that the lack of an equity investment culture in the UK constrains the UK's capital markets, and that addressing this could have positive implications for the growth of the UK economy. Several witnesses raised this concern,[392] with Sir Douglas Flint CBE, Chair of Aberdeen Group, telling us: "If this country is going to build the infrastructure it needs … it has to harness more of the savings pool of the population. It is about getting more of the savings pool out of cash and into productive assets."[393]

272. Witnesses suggested that the allocation of retail savings to cash and other non-productive assets significantly reduces savers' realised returns, often to below the rate of inflation. Sir Douglas Flint noted that: "money sitting in cash is effectively losing money for the individual. Because it is in a bank, it is paying significantly less than inflation, so it is not preserving spending power."[394] The Investment Association provided the following example: "If these consumers had put £10,000 in a cash ISA a decade ago, it would be worth less than £8,500 today due to inflation. If they had invested that same £10,000, for instance in a Global Equity Fund, they would have over £18,000."[395]

The retail investment culture

273. Concerningly, we received evidence of a wider cultural reluctance amongst UK savers to invest, driven by low levels of financial literacy and a lack of trust in the financial services sector. Addressing these issues and moving the UK towards a culture of retail investment requires close engagement between the FCA, Government, and industry.

274. The impacts of the UK's poor financial literacy were underlined by research shared by Aberdeen Group. The Savings Ladder Index report showed a correlation between adults with low financial literacy and low savings rates: 44% of UK adults (approximately 23.3 million adults) have poor financial literacy, notably that:

(a) Respondents with higher financial literacy scores were more likely to hold a Defined Contribution Pension or Self Invested Pension Plan than those with poor financial literacy (51% compared to 33%,

388 Supplementary written evidence from Aberdeen Group (SCG0068)
389 FCA, *Financial Lives 2020 survey: the impact of coronavirus* (11 February 2021): https://www.fca.org.uk/publication/research/financial-lives-survey-2020.pdf [accessed 29 May 2025]
390 Supplementary written evidence from the Investment Association (SCG0058)
391 Q 28 (Kerstin Mathias)
392 Q 74 (Lisa Laybourn); Supplementary written evidence from the Investment Association (SCG0058)
393 Q 204 (Sir Douglas Flint)
394 *Ibid.*
395 Supplementary written evidence from the Investment Association (SCG0058)

respectively) and held more in their pensions (£37,500 compared to £17,500, respectively).[396]

(b) Respondents with high financial literacy scores were more likely to hold investments than those with low financial literacy scored (39% compared to 21%, respectively). Similarly, respondents with the lowest financial literacy scores were more likely to have a low risk tolerance than those with the highest financial literacy (62% compared to 34%, respectively).[397]

275. Sir Nicholas Lyons told us that successive governments have failed to address this, which has "left the UK with 48% of adults with the numeracy skills of an 11-year-old."[398] He highlighted that students aged 6–7 are given basic assistance with financial literacy in Northern Ireland, Wales, and Scotland, and noted a "growing body of evidence that this is the age you need to target in order to make a difference later in life."[399]

276. Responding to questions put by the Committee on this issue, the Economic Secretary highlighted initiatives such as the pensions dashboard that could support people to actively manage their finances,[400] as well as the Government's ongoing review of the school curriculum headed by Professor Becky Francis CBE.[401] The interim report, published on 18 March 2025, showed that 43% of parents and 34% of key stage four students surveyed stated that they wanted the curriculum to spend more time on finance and budgeting.[402]

277. We also received data to show that UK consumers hold low levels of trust in the financial services sector. Helen Charlton, Chair of the FCA Financial Services Consumer Panel, highlighted data from the FCA's 2022 Financial Lives Survey,[403] which showed that 41% of adults had confidence in the sector, and 36% agreed that financial services firms are honest and transparent.[404]

278. Jonathan Hewitt, Working Group Chair of the FCA Financial Services Consumer Panel, told us that research conducted by the FCA Consumer Panel had identified that there is a significant number of consumers "who do not trust financial services, especially investments, and generally they know someone, a family member or friend, who has been impacted by some of the issues that have been well publicised over the last five, 10 or 20 years."[405] StepChange Debt Charity shared data that highlighted the importance of regulation in increasing trust and consumers' willingness to invest:

396 Aberdeen Group, *How can the UK close its saving and investing gap?: abrdn launches new Savings Ladder Index to track progress* (1 July 2024) p 7: abrdn.com/docs?editionid=337aace2-fccf-4cb9-b91a-b19c011368f4 [accessed 29 May 2025]
397 *Ibid.*
398 Written evidence from Sir Nicholas Lyons (SCG0067)
399 *Ibid.*
400 Q 362 (Emma Reynolds MP)
401 Written evidence from Emma Reynolds MP (SCG0077)
402 Department for Education, *Curriculum and Assessment Review: interim report* (18 March 2025) p 26: https://assets.publishing.service.gov.uk/media/6821d69eced319d02c9060e3/Curriculum_and_Assessment_Review_interim_report.pdf [accessed 30 May 2025]
403 FCA, *Financial Lives 2022: Key findings from the FCA's Financial Lives May 2022 survey* (26 July 2023) p 26: https://www.fca.org.uk/publication/financial-lives/financial-lives-survey-2022-key-findings.pdf [accessed 30 May 2025]
404 Q 289 (Helen Charlton)
405 Q 289 (Jonathan Hewitt)

> "The FCA Financial Lives survey highlights high levels of trust among the small proportion of people who take regulated financial advice—around 8% in the 12 months before the survey. Respondents cited FCA regulation as a key factor in their trust and confidence in financial advice. However the FCA found a much larger group—nearly 15 million (28%) UK adults—who had a likely need for regulated financial advice but not taken it. Low trust among this group is a possible barrier to seeking advice."[406]

279. **The Committee is concerned by the chronically low levels of financial literacy and numeracy skills in the UK adult population, which appears to underpin UK savers' reluctance to invest their savings into equities and other investments. The average UK consumer does not hold a large amount of savings and requires more support, so any attempt to change the incentives on savings products for consumers must be done with care and take these factors into consideration.**

280. **The regulatory environment has inhibited those who have sufficient savings and may benefit from investing. The Committee recognises the inherent benefit to consumers who can invest and benefit from higher returns and recognises these reforms could help deepen the UK's secondary capital markets. However, we did not receive satisfactory evidence to suggest that the creation of an equity investment culture in the UK would, by itself, increase productive investment, nor facilitate growth in the wider economy. However, an increase in savings into pension funds may increase the amount of investment available for productive assets.**

281. ***A sustainable shift in saving habits rests on consumers who are financially literate and numerate and trust the financial services sector—this will not be addressed through siloed policymaking. HM Treasury must work with the FCA and industry to support adults in attaining financial literacy and numeracy; HM Treasury must work with the Department for Education to set out how it can improve the provision of financial literacy and numeracy education for students, with emphasis on early years education.***

282. ***The need to address failures in the financial advice market is long overdue. The FCA must allocate resource to prioritise the delivery of the Advice Guidance Boundary Review. UK consumers require more support and the FCA has already taken five years to deliver these reforms. Any additional delay is unacceptable and will negatively impact on consumers.***

Increasing liquidity from pensions and insurance

283. As previously noted, we received evidence to suggest that legislative and regulatory restrictions limit the total liquidity that life insurers and pension funds can deploy for productive investment. Much of the evidence we received focused on the potential benefits of enabling pension funds to invest into a wider range of assets that may provide higher returns, which

406 Written evidence from StepChange Debt Charity (SCG0071)

has also been addressed in the Final Report of the Government's Pensions Investment Review.[407]

The UK pension sector

284. We received evidence that suggest that the UK pension sector is fragmented and underinvests in productive domestic assets due to cultural and regulatory disincentives. Phoenix Group noted that: "The UK is a leading global financial centre, with one of the largest pensions markets, managing assets of over £3 [trillion]."[408] Nevertheless, Phoenix Group shared data that underlined significant issues:

(a) The UK pension sector is "the most fragmented" globally amongst other developed markets, consisting of "over 30,000 DC [Defined Contribution] and DB [Defined Benefit] schemes, and 8,000 open schemes."[409]

(b) The 2024 Global Pension Assets Study found that UK pensions underinvest in productive assets relative to international peers. UK pensions allocate 26% of assets under management to equities and 14% to alternative assets, compared to an average 42% and 20% respectively across seven countries with developed markets including the US and Switzerland.[410]

(c) Research from New Financial cited by Phoenix Group showed that UK pension funds underinvest in domestic capital markets.[411]

285. Witnesses connected the low levels of investment into productive assets by UK pension funds with a culture that emphasises low management costs. Andy Briggs told us that within the UK pension sector there is "a cultural obsession with having the very lowest charges; therefore, the investment strategies have been focused on passive investment to get the very lowest cost."[412] We received evidence that the Government and FCA have moved to address this issue. Several witnesses welcomed the steps they have taken to address the investment culture in pension funds.[413]

286. Specifically, we received evidence that the FCA's proposed reforms to the Value for Money framework guidance for Defined Contribution pension trustees would support greater investment in productive assets. Nikhil Rathi told us that this would ensure that pension funds:

> "… can consider the overall return, and not just fees, when they are thinking about value-for-money considerations. That is important because, sometimes, some of the investments you are talking about, be

407 HM Treasury, *Pensions Investment Review: Final Report* (29 May 2025): https://assets.publishing.service.gov.uk/media/683971d8e0f10eed80aafb3a/27.05.2025_PM_-_final_report.pdf [accessed 4 June 2025]
408 Written evidence from Phoenix Group (SCG0042)
409 *Ibid.*
410 Thinking Ahead Institute, *Global Pension Assets Study 2024* (26 February 2024) p 18: https://www.thinkingaheadinstitute.org/content/uploads/2024/02/GPAS-2024.pdf [accessed 30 May 2025]
411 Written evidence from Phoenix Group (SCG0042). See New Financial, 'Comparing the asset allocation of global pension systems' (September 2024): https://www.newfinancial.org/reports/comparing-the-asset-allocation-of-global-pension-systems [accessed 5 June 2025].
412 Q 324 (Andy Briggs)
413 *Ibid.*

they equities or infrastructure investments, may generate better returns than holding in cash or other such things."[414]

This reform was welcomed by the British Private Equity & Venture Capital Association who told us that: "The existing low-cost culture has driven providers only to consider inexpensive investments, which in turn has both driven down pension saver returns and has been detrimental to the mission to boost investment in UK growth companies."[415]

287. Despite the reforms to the Value for Money framework, witnesses told us that regulation remained a barrier to ensuring that UK pension funds can invest in productive domestic assets. As noted in Chapter 2, there are significant overlaps between the FCA and TPR which regulate different pension classes.[416] We heard that these overlaps have resulted in a disjointed approach to supporting increased pension fund investment into UK productive assets; we note the Government's Manifesto commitment "to deliver greater investment in UK productive assets and better returns for UK savers."[417] Andy Briggs told us that: "When it comes to looking at investing in productive assets and the charge caps, The Pensions Regulator has made changes, but the FCA has not."[418] This divergence between the FCA and TPR limits the number of funds that can invest into productive assets and creates another point of fragmentation in the pension sector.

288. Moreover, we received evidence that emphasised the need for UK pension funds to invest more in domestic capital markets, particularly UK equities. Bim Afolami told us that: "comparatively small increases in flows of capital into the UK would have a significant, positive benefit to the capital markets, which raises valuations for everybody, and in areas like infrastructure and other areas in private markets."[419] We received some evidence that connected UK pension funds' low investment in UK capital markets with regulatory activity. Miles Celic suggested that: "There has also been an approach by the regulators to disincentivise pension funds and others from going into equities. The proportion held in equities has declined over time, particularly the proportion held in British equities."[420]

289. However, whilst witnesses felt that pension funds could allocate a higher proportion of investment into domestic capital markets, assets, or private markets, this must be done on a voluntary basis. We asked two former Economic Secretaries to the Treasury for their reflections on whether it was appropriate for the Government to mandate that pension funds comply with a prescribed asset allocation. Andrew Griffith MP criticised this proposal as an overreach from Government and Parliament and highlighted definitional challenges in implementing such a mandate: "It is easy to say at a superficial level that we should put 5% of assets into the UK. … No one ever quite agrees on what assets are, and no one ever quite agrees on what the UK

414 Q 339 (Nikhil Rathi)
415 Written evidence from the British Private Equity & Venture Capital Association (SCG0053)
416 The FCA regulates personal and contract-based Defined Contribution pensions. TPR regulates corporate Defined Benefit and trust-based Defined Contribution pensions. See written evidence from Aberdeen Group (SCG0008).
417 HM Treasury, *Pensions Investment Review: Interim Report* (14 November 2024) p 6: https://assets.publishing.service.gov.uk/media/6736181254652d03d5161199/Pensions_Investment_Review_interim_report.pdf [accessed 30 May 2025]
418 Q 328 (Andy Briggs)
419 Q 233 (Bim Afolami)
420 Q 11 (Miles Celic)

is."[421] Bim Afolami told us that this approach would conflict with trustees' fiduciary duty and would be unlikely to succeed: "it does not work for the Government on high in Parliament to say to thousands of hard-working pension trustees all over the country, 'You need to do something that you don't think is in the fiduciary duty'; that is never going to work."[422]

290. We also received evidence from businesses echoing these concerns and noting that concentrating capital into specified sectors may pose a stability risk. Aberdeen Group told us that:

> "In line with the prevailing view of our industry, we consider the Government should not mandate or direct capital to achieve improved domestic investment. This could lead to conflicts with fiduciary duty, introduce greater volatility (UK equities can be riskier than diversified global portfolios), create asset bubbles and undermine flexibility and autonomy."[423]

The UK insurance sector

291. We also received evidence that regulation has impacted on the ability of the UK's insurance sector to support economic growth through investment in productive domestic assets. Much of this evidence highlighted the benefits of the Government and PRA's reforms to Solvency II.[424] Witnesses welcomed the PRA's reforms to Solvency II, but either criticised the PRA's slow pace of delivery or suggested that it could go further. Sir Nicholas Lyons noted:

> "The new Solvency UK (SUK) regime is an improvement on Solvency II, however, during my time as Lord Mayor, many insurance firms felt the UK was missing an opportunity to fully unlock the potential of the sector and shape the regime more to the specifics of the UK insurance industry."[425]

292. We received evidence that the UK insurance sector manages substantial investments and is well placed to invest in productive domestic assets. The scale of UK insurers' investment portfolios was underscored by Phoenix Group, which noted for one product class: "In recent years, insurers [have] been writing up to £50 [billion] of bulk purchase annuity business, which is well suited to financing social and economic infrastructure, such as social housing and clean energy."[426]

293. Witnesses highlighted the PRA's proposal to introduce the Matching Adjustment (MA) accelerator as a positive example of the regulators enabling accelerated authorisation timelines for productive investments. The MA is a mechanism that lowers the capital holding requirements for certain low-risk assets the insurer intends to hold to maturity[427] that as of 2022 had released

421 Q 249 (Andrew Griffith MP)
422 Q 233 (Bim Afolami)
423 Supplementary written evidence from Aberdeen Group (SCG0068)
424 PRA, *Policy statement PS2/24: Review of Solvency II—Adapting to the UK insurance market* (28 February 2024): https://www.bankofengland.co.uk/prudential-regulation/publication/2024/february/review-of-solvency-ii-adapting-to-the-uk-insurance-market-policy-statement [accessed 30 May 2025]
425 Written evidence from Sir Nicholas Lyons (SCG0067)
426 Written evidence from Phoenix Group (SCG0042)
427 PRA, *Consultation Paper CP19/23: Review of Solvency II—Reform of the Matching Adjustment* (28 September 2023) p 10: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2023/september/cp1923.pdf [accessed 30 May 2025]

£66 billion in additional capital.[428] The PRA's reform of the Solvency II prudential regime for insurers widened the asset classes that qualify for the MA to include more productive assets.[429] We received evidence that further action from the PRA was needed to fully leverage this opportunity. Phoenix Group told us that: "the new Solvency UK regime, whilst an improvement on the previous Solvency II regulation, may not unleash the investment in new assets that the UK needs to build new types of infrastructure."[430]

294. In response to this concern the PRA consulted on the creation of an MA accelerator sandbox, which would allow insurers and reinsurers to include certain stable assets in their MA portfolios and seek approval from the PRA later. Sam Woods told us that: "They need authorisation for certain types of investment, and sometimes there can be a gap between those two things. So the idea is like a sandbox; they should be able to go ahead and come to us later for approval."[431]

295. The accelerator may increase the flexibility of insurers and reinsurers to adapt to changing market conditions whilst maintaining prudential supervision of MA portfolios. Additionally, witnesses noted that the MA accelerator may increase the attractiveness of certain asset classes for insurers, as the Association of British Insurers noted: "The Investment Accelerator seeks to speed up the application process that insurers have to follow before an investment can be deemed eligible for the MA, a critical consideration in determining the economic attractiveness of any asset."[432] Combined with the increase in the asset classes that qualify for the MA, this change may further support insurers to more effectively invest in productive domestic assets.

296. We received some evidence that the PRA could give life insurers more flexibility to invest their Matching Adjustment portfolios into a wider range of assets, and it was suggested that this flexibility could help increase the total volume of productive investment. Although we did not receive evidence directly from insurers on securitisation, the Alternative Investment Management Association suggested that life insurance firms could be permitted to invest into securitised products since: "Securitisation of assets helps boost economic activity by freeing space on firms' [balance] sheets to make further investment."[433] Jack Inglis, Chief Executive Officer of the Alternative Investment Management Association, told us that capital holding requirements and securitisation rules mean that: "For equivalent credit risk, an insurance company would have to put up anywhere up to 12 times the amount of capital investing in a non-standard securitised product as it would for a publicly issued corporate bond. That is a massive disincentive for insurers."[434] Since securitised products are used extensively by private credit,[435] current regulation may disincentivise insurers from investing in this sector.

428 PRA, *Consultation Paper CP19/23: Review of Solvency II—Reform of the Matching Adjustment* (28 September 2023) p 72: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2023/september/cp1923.pdf [accessed 30 May 2025]

429 PRA, *Policy statement PS10/24: Review of Solvency II—Reform of the Matching Adjustment* (6 June 2024) p 7: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/publication/2024/ps1024pdf.pdf [accessed 30 May 2025]

430 Written evidence from Phoenix Group (SCG0042)

431 Q 292 (Sam Woods)

432 Written evidence from the Association of British Insurers (SCG0033)

433 Written evidence from the Alternative Investment Management Association (SCG0015)

434 Q 215 (Jack Inglis)

435 Q 218 (Jack Inglis)

Providing businesses with access to finance to grow

297. We received evidence that firms that require additional funding to grow beyond the start-up stage have increasingly secured funding in competing jurisdictions with deeper capital markets, particularly the US, and locate there. Consequently, the UK may lose the innovative firms that provide growth opportunities and the associated wealth they create. Sir Nicholas Lyons provided data that indicated the scale of this challenge: "The UK has over 28,000 scale-ups, but a £15 [billion] per year funding gap and we have the second highest number of VC [Venture Capital]-backed companies at £25–100 [million] revenue stage—more than France, Germany, Sweden, [and] Holland combined."[436]

298. We received evidence that the UK financial services sector does not provide sufficient Series C funding to SMEs, typically worth £50 million to £100 million. Witnesses told us that they were unable to secure finance easily at this scale in the UK. Robert Kerrigan, Chief Operating Officer of TrueLayer, told us: "We have raised over $300 million, most recently a $50 million extension to our Series E funding round",[437] raised in the US.[438] Likewise, Shachar Bialick, Founder and Chief Executive Officer of Curve, told us that: "The Valley of Death gap, not only in the UK but across Europe, is Series C and beyond, so we are starting to look for tickets of £50 million or £100 million and above for Series C scale-ups. That is the main challenge in the UK."[439]

299. Conversely, witnesses told us that the UK financial services sector has a strong track record of providing early-stage funding, which could be built upon. Robert Kerrigan told us that: "The UK is exceptional at private equity and at pre-seed, pre-product, seed stage Series A and Series B."[440] Michael Moore, Chief Executive Officer of the British Private Equity & Venture Capital Association, told us: "We were almost, in one respect, an emerging industry until about 10 years ago. It has come on leaps and bounds."[441]

300. However, witnesses emphasised that the UK's ability to retain scale-up firms by closing the funding gap is constrained by cultural and regulatory barriers. We received evidence that SMEs often do not provide sufficient scale for domestic institutional investors. Sir Douglas Flint told us that:

> "For a company with a market cap of £500 million, 10% of that company would be £50 million. Most patient funds do not get out of bed to invest £50 million, so there is a challenge that the British Business Bank will go a long way to address."[442]

301. Importantly, we were told that wider cultural changes in the UK's approach to innovation and investment are required to retain and grow successful companies.[443] Miles Celic told us that he does not believe there is "a simple,

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436 Written evidence from Sir Nicholas Lyons (SCG0067)
437 Q 166 (Robert Kerrigan)
438 Q 173 (Robert Kerrigan)
439 Q 173 (Shachar Bialick)
440 Q 173 (Robert Kerrigan)
441 Q 223 (Michael Moore)
442 Q 205 (Sir Douglas Flint)
443 With regard to start-ups, other issues beyond access to finance are relevant to supporting their ability to grow, such as tax policy and company law.

easy switch that we can flick on regulation, legislation, or government policy that fixes this."[444] He added that:

> "Interestingly, if you look at the approach in these centres, partly, to a very large degree, it is cultural. There is a sense in Boston that this is an area of expertise that they have developed, the financing is available, and there is a closer link between the way the regulators, government, and the industry operates."[445]

302. Witnesses highlighted the role of MiFID in reducing the volume of company research produced on SMEs necessary to inform investments in this sector. Sir Douglas Flint noted that MiFID had prevented asset managers from combining research and trade execution services, suggesting that combining these functions:

> "… facilitated a lot more research on smaller companies that simply does not exist today. We have to do something to create a pool of money that is pointed towards small and medium-sized companies in this country, because they tend to be domestic and to support our science base."[446]

303. **Regulation alone cannot generate economic growth. The Government, the regulators, and industry must be aligned in their approach to improve the provision of finance for UK businesses and productive assets. Whilst this requires regulatory action to identify and remove any barriers to productive investment, the Government's growth objectives cannot be achieved without a joined-up approach.**

304. **The reforms to Solvency UK, and the ongoing pension reforms, may help to deepen the UK's capital markets by unlocking capital in the insurance and pensions sector. Nevertheless, the widespread and quick allocation of investment by the sector rests on the FCA and PRA acting as proportionate and enabling forces to allow firms to quickly take advantage of developing opportunities.**

305. ***Whilst we welcome the Government's pension reforms to deepen the UK's capital markets and generate higher returns for pension holders, we hold serious reservations regarding any proposal to mandate pension funds to comply with a prescribed asset allocation. We are concerned that such a mandate compromises trustees' fiduciary duty to their members. We will continue to monitor the Government's pension reforms.***

306. ***Addressing the gap in growth funding will be vital if the UK is to take advantage of its strengths in IP generation for the benefit of economic growth, and resultant job and wealth creation. The Government must set out how the UK's financial services sector can provide more of this financing. The Government, the FCA, and the PRA should engage with industry to identify the key regulatory barriers in this space.***

307. ***The Government should use its review of MiFID to examine how regulation can unlock the availability of research on smaller and medium sized UK companies.***

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444 Q 5 (Miles Celic)
445 *Ibid.*
446 Q 205 (Sir Douglas Flint)

CHAPTER 4: THE ROLE OF GOVERNMENT

308. HM Treasury has acknowledged that: "Successfully advancing the competitiveness and growth of the UK economy, and in particular the financial services sector, requires action from more than just the regulators. The government, working with Parliament and industry, also has a role to play."[447]

309. Within the evidence a number of themes emerged around the role of the Government and the regulators' advancement of the secondary objective. First, the way in which the regulators' performance against the secondary objective is reported and tracked, which is currently supported by a set of public metrics, developed between HM Treasury and the regulators.

310. The second prevalent theme on the role of the Government concerned the direction and steer it provides to the regulators on the secondary objective, much of which centred around to what extent the Government should be explicit about the trade-offs that might be required for the regulators to meet their secondary objective, while maintaining their primary objectives around market stability and consumer protection. The FCA, in particular, has been clear that it wants the Government to be more explicit about the "risk appetite" it will tolerate in order to advance the secondary objective.[448]

311. In addition, while we have been critical of the complexity of the regulatory system, and the regulators' contribution to that complexity, we have also considered the impact on the regulators of the increasing numbers of objectives, regulatory principles, and 'have regards' that have been added over time, and what impact that might have on their ability to advance growth and international competitiveness (see Appendix 7). The Government and Parliament have a clear role here to ensure the objectives and regulatory perimeters that the regulators are subject to are clear and uncontradictory.

312. Finally, we make some concluding remarks on the overall value of the secondary objective and what the evidence we have received throughout this inquiry suggests about the appropriateness and value of having it in place, as a mechanism to support the Government's broader economic aims.

Metrics

313. During the passage of the Financial Services and Markets Bill, HM Treasury consulted on what additional metrics the FCA and PRA should publish to track progress and support scrutiny of their work to advance the secondary objective. Subsequently, the regulators agreed to publish a range of metrics relating to operational efficiency and management information; international competitiveness; regulatory burden; policy and implementation; and digital and innovation.[449]

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447 HM Treasury, *Financial Services Regulation: Measuring Success—Call for Proposals* (9 May 2023) p 9: https://assets.publishing.service.gov.uk/media/64552db2c6e8970012a0fa9e/Financial_Services_Regulation_-_Measuring_Success_-_Call_for_Proposals.pdf [accessed 1 June 2025]

448 Written evidence from the FCA (SCG0074)

449 The metrics for each regulator differ slightly, reflecting the differences in remits. See HM Treasury, *Financial Services Regulation: Measuring Success—Response to the Call for Proposals* (8 December 2023) p 13: https://assets.publishing.service.gov.uk/media/6571e6ae049516000d49be45/Financial_Services_Regulation_-_Measuring_Success_-_Response_to_the_Call_for_Proposals.pdf [accessed 1 June 2025]

314. There was broad support for the inclusion of metrics to support the delivery of the secondary objective. Professor Kern Alexander told us that he had looked at 70 jurisdictions that have a secondary growth and competitiveness objective and none to his knowledge had accompanying metrics. He told us:

> "This is a very worthwhile initiative that the regulators are doing. Your scrutiny of what is happening is very important. It is needed, because we do not have a lot of data on how we define secondary objectives, how we should pursue them and how we measure the spillover effects—positive as well as negative."[450]

315. However, we also received numerous suggestions for how the metrics might be improved. The metrics were criticised for being too high-level and that it was unclear with some measures what 'good' looked like. TheCityUK said: "Some of the existing metrics lack clarity e.g. the number of new market entrants or senior managers, where it is unclear whether an increase or decrease has a bearing on competitiveness and growth."[451] Speaking about the PRA's metrics, Nigel Terrington told us: "when I looked at the metrics, some of them are fairly static. They measure the CET1 ratio and the liquidity coverage ratio. There is no objective measurement as to what is good and what is bad; it is what it is."[452]

316. In our own assessment of these metrics, we note that the current categories are primarily focused on the operational efficiencies of the regulator and so, in practice, only provide a measure of progress on competitiveness within the financial services sector. The metrics do not contain any explicit measures on wider economic growth. A number of witnesses suggested that the metrics could be improved by being more outcomes-focused, including by introducing a measure of outcomes in the real economy as a result of measures initiated by the regulators to advance the secondary objective. Additionally, there is limited scope within the metrics to help measure international comparisons, which is key to assessing international competitiveness.

Metrics on economic growth

317. We received mixed evidence on whether the metrics would benefit from an additional measure to track the effect of the regulators' actions on economic growth, with some witnesses supporting this idea, whilst others expressing scepticism as to whether it was possible to measure such an impact. David Postings told us: "The Government issued some potential metrics that were focused on administrative speed and accuracy. My view is that we need more output measures, such as net lending, flow and stock, investment and things like that. It is difficult to link those back directly to the regulators, but I feel they must have metrics that align with that."[453]

318. That the metrics should be more outcomes-focused was a view shared by a number of witnesses across the evidence. Sir Nicholas Lyons suggested that metrics could involve "monitoring the allocation of pension and insurance capital to UK assets, and the number of new products brought to market."[454] He suggested: "By adopting more outcomes-based metrics, policymakers would be better able to judge whether or not customers and the economy are

450 Q 99 (Professor Kern Alexander)
451 Written evidence from TheCityUK (SCG0016)
452 Q 128 (Nigel Terrington)
453 Q 110 (David Postings)
454 Written evidence from Sir Nicholas Lyons (SCG0067)

benefiting from the full potential of sector activity."[455] However, Sir Nicholas Lyons also highlighted that the "regulators by themselves are not responsible for all of these outcomes, so any analysis of the metrics must consider the legal and regulatory architecture, as well as market behaviour, and other contributory factors in the ecosystem."[456]

319. A number of witnesses highlighted that there are difficulties in capturing the economic impact of specific regulatory actions. Miles Celic told us: "We have looked at this, and the difficulty is being able to separate out what has happened as a result of action taken through policy or implementation and rule-making that has a direct impact on economic growth."[457] However, TheCityUK also suggested that the metrics could include a measure of wider economic outcomes adjacent to the measures around operational efficiencies:

> "… the FCA could include a metric on investment fund authorisations. The PRA could report on the level of capital allocation in the UK. The FCA's number of listed entities metric could be accompanied by data on trading volumes and market capitalisation. We recognise these are not solely controlled by the regulators and would be useful in a broader sense, rather than scrutiny of regulators' work in isolation."[458]

320. We asked HM Treasury for its view on the effectiveness of the current set of metrics in enabling progress by the regulators against the secondary objective to be tracked. Catherine McCloskey commented that HM Treasury was conscious not to require the regulators "to report against things that they do not fully control and do not control the majority of."[459]

International comparisons

321. In Chapter 2, we set out some of the evidence we heard about the costs of compliance in the UK in comparison to other jurisdictions. As we noted there, we were told that undertaking a comparison of compliance cost in the UK and other countries poses some difficulties. However, the secondary objective specifically directs the regulators to facilitate international competitiveness. International competitiveness is 'relational' since it involves comparisons with other countries. The UK economy and its financial sector are considered internationally competitive or not vis-à-vis other jurisdictions. It is therefore vital for both HM Treasury and the regulators have access to data and evidence to gauge that competitiveness. As the British Insurance Brokers' Association said: "There is an opportunity for further metrics to be reported on by the regulators, for example, a proper international comparison to understand how we [fare] against other markets."[460]

322. The current metrics have an international competitiveness category, though this is currently limited to a requirement for the FCA to measure the number of new entrants and exits from the UK market, for each sector, and report on the number of listed equity entities on UK exchanges.[461] The PRA is

455 Written evidence from Sir Nicholas Lyons (SCG0067)
456 *Ibid.*
457 Q 3 (Miles Celic)
458 Written evidence from TheCityUK (SCG0016)
459 Q 355 (Catherine McCloskey)
460 Written evidence from the British Insurance Brokers' Association (SCG0011)
461 HM Treasury, *Financial Services Regulation: Measuring Success—Response to the Call for Proposals* (8 December 2023) p 15: https://assets.publishing.service.gov.uk/media/6571e6ae049516000d49be45/Financial_Services_Regulation_-_Measuring_Success_-_Response_to_the_Call_for_Proposals.pdf [accessed 1 June 2025]

required to report on the number of new entrants and exits from the UK market for each sub-sector and the number of new domestic versus overseas firms authorised.[462]

323. We received suggestions about what prospective international comparison metrics could measure. The Quoted Companies Alliance said the FCA should assess: "where UK rules go above and beyond the rules in other jurisdictions. As a general comment, if approaches to UK regulation differ substantially to those in other jurisdictions, it should be made clear why this is necessary."[463]

324. The Alternative Investment Management Association suggested a set of proposals to effectively assess how the secondary objective has been implemented, including: "Capital market studies. The FCA should publish regular studies of UK capital markets to compare their functioning and effectiveness with other jurisdictions. This would provide clear empirical data on where the UK's competitive vulnerabilities do and do not lie and would allow better targeting of interventions."[464]

325. The British Private Equity & Venture Capital Association also called for metrics that benchmark the UK against other global financial hubs and that could assess its attractiveness to international firms and investors. It suggested that these metrics could include: "Average time to authorisation compared to regulators in key competitor jurisdictions; number of international firms entering the market annually; number of international firms exiting the UK annually; costs of compliance, including a comparative analysis of compliance costs for firms operating in the UK versus other jurisdictions … ; international collaboration, including the number and scope of agreements facilitating cross-border business with other jurisdictions, i.e. mutual recognition agreements".[465]

326. Bim Afolami was the Minister responsible when the secondary objective metrics were agreed in December 2023. We asked him for his reflections on the set that was agreed on. He told us that:

> "I recall that, when it came to the international competitiveness point that you mentioned—something of immense interest to Members of Parliament, Members of the House of Lords, et cetera—the FCA was not terribly keen on that sort of metric on the basis that, 'Oh, well, you'd be comparing apples and oranges; it wouldn't quite be the same. You can't compare us with this country because they have a different environment, and you can't compare us with that country because we have a much bigger financial services sector', and the like."[466]

327. We asked HM Treasury for its view on whether a measure of international comparison would be viable. The Economic Secretary said: "Different jurisdictions have different cultures, and it is not always that easy to compare

462 HM Treasury, *Financial Services Regulation: Measuring Success—Response to the Call for Proposals* (8 December 2023) p 18: https://assets.publishing.service.gov.uk/media/6571e6ae049516000d49be45/Financial_Services_Regulation_-_Measuring_Success_-_Response_to_the_Call_for_Proposals.pdf [accessed 1 June 2025]
463 Written evidence from the Quoted Companies Alliance (SCG0012)
464 Written evidence from the Alternative Investment Management Association (SCG0015)
465 Written evidence from the British Private Equity & Venture Capital Association (SCG0053)
466 Q 241 (Bim Afolami)

one to another."[467] HM Treasury had previously stated that: "Benchmarking the performance of our regulators with their international counterparts is important. However, direct comparison is currently difficult, as other jurisdictions may not publish related data at all or published data may not be directly comparable."[468]

328. **At the moment, the metrics comprise a set of static data predominantly measuring operational processes, which do little to track the impact of regulation on growth in the wider economy. For us, this is further evidence that the answer to the question of what mechanisms there are for the regulators to transmit their actions into growth in the wider economy has not yet been fully developed or articulated.**

329. **HM Treasury states that it did not want to require the regulators to report against outcomes that they do not fully control. However, success in advancing the secondary objective should be, in part, about facilitating growth in the UK economy—currently, there is no explicit direction on this from HM Treasury within the metrics to ensure this can be measured or monitored. Without some measure of the regulators' actions on economic growth, it will be difficult to scrutinise whether or not the secondary objective is being delivered.**

330. **We also recognise the difficulties associated with benchmarking the performance of our regulators with their international counterparts but again, without some measure to enable international comparisons, it will be difficult to assess whether we are competing with international jurisdictions more effectively and in a more proportionate way.**

331. ***A comprehensive review and revision of the secondary objective metrics is required. This should be commenced as soon as possible after the publication of the regulators' second secondary objective progress reports, due by summer 2025. As part of this review, HM Treasury and the regulators should prioritise introducing more granularity to the metrics, ensuring there is enhanced transparency around the operational effectiveness of the regulators which better reflects the experience of firms of all sizes.***

332. ***HM Treasury should include outcomes-based secondary objective metrics that aim to illustrate the impact of the regulators' action on the real economy. In our view, it would be possible to do more to set the data reported against the current metrics with outcomes in the real economy (such as tracking trends in the markets the FCA and PRA regulate) as a way of starting to draw a more explicit link between the actions of the regulators and the progress of the objective to facilitate growth in the wider economy.***

333. ***HM Treasury should undertake dedicated research, in collaboration with the FCA and PRA, on how the UK regulators' performance can be effectively measured against their international counterparts.***

467 Q 356 (Emma Reynolds MP)

468 HM Treasury, *Financial Services Regulation: Measuring Success—Response to the Call for Proposals* (8 December 2023) p 13: https://assets.publishing.service.gov.uk/media/6571e6ae049516000d49be45/Financial_Services_Regulation_-_Measuring_Success_-_Response_to_the_Call_for_Proposals.pdf [accessed 1 June 2025]

Failing to do so will leave a significant gap in our understanding of how the international competitiveness element of the secondary objective is being advanced.

Government direction to the regulators and risk appetite

334. The Government has been clear that it wants to see the regulators do more to facilitate growth and that adjusting their attitude to risk is a key part of advancing the secondary objective. In both the remit letters to the FCA and the PRC, regarding the PRA, the Chancellor stated that the regulators should "consider how [they] can enable informed and responsible risk-taking by authorised firms and customers."[469] The remit letters state that the Chancellor recognises there are difficult trade-offs to make and confirms: "I commit to the Government supporting you in this."[470]

335. In response to the obligations placed on them by the secondary objective and to the Government's focus on delivering economic growth, the FCA has repeatedly called for explicit direction from the Government on the 'risk-appetite' that would be considered tolerable in order to deliver gains in growth and international competitiveness.

336. In his foreword to the FCA's first progress report on the secondary objective in July 2024, Nikhil Rathi called for "a mature debate about the risk appetite in our society".[471] Over the past year, he has consistently reiterated this message. More recently, the FCA has gone further and asked the Government to set "Metrics for tolerable failures within the overall system".[472] The FCA explained that: "Enabling more informed risk-taking requires enduring acceptance, as the Chancellor has recognised, that we need to prioritise resources and that there will be failures. This acceptance needs to be shared across all our accountability mechanisms, including in Parliament."[473]

337. In its evidence to the Committee, the PRA appeared to take a slightly different position from the FCA on the setting of risk appetite. Sam Woods said: "As you say, the Government have written to us to say they want to encourage more responsible risk taking in support of growth, and we think that is a perfectly sensible thing for the Government to put to us. They have not elaborated on it further, but it is clear from the remit letter that the message is, 'We want you to push further on growth and risk taking in response to that'."[474]

338. Sam Woods also suggested that not all the activities the PRA is taking to advance the secondary objective require a shift in risk. He said:

469 Letter from the Rt Hon Rachel Reeves MP, Chancellor of the Exchequer, to Nikhil Rathi, Chief Executive of the FCA (14 November 2024): https://assets.publishing.service.gov.uk/media/673712ee12f25d73081271e8/CX_Letter_-_Recommendations_for_the_Financial_Conduct_Authority__FCA__-_Nikhil_Rathi_14112024.pdf [accessed 1 June 2025]. See also: Letter from the Rt Hon Rachel Reeves MP, Chancellor of the Exchequer, to Andrew Bailey, Governor of the Bank of England (14 November 2024): https://www.bankofengland.co.uk/-/media/boe/files/letter/2024/prc-remit-letter-2024.pdf [accessed 1 June 2025].

470 *Ibid.*

471 FCA, *Secondary International Competitiveness and Growth Objective report 2023/24* (29 July 2024) p 9: https://www.fca.org.uk/publication/corporate/sicgo-report-2023–24.pdf [accessed 1 June 2025]

472 Letter from Nikhil Rathi to the Prime Minister et al., p 3

473 *Ibid.*

474 Q 298 (Sam Woods)

> "Some of the things we are doing on our competitiveness and growth objective do not really go to risk—they are more about decluttering things that we did not need—but other things are definitely a risk judgment. I would say that what we are doing on SME finance, infrastructure finance and trade finance are risk judgments. We are putting less capital into the system than we might otherwise have done—actually out of line with international requirements—but to a degree that is tolerable. There, we are taking a kind of informed risk."[475]

339. A number of witnesses supported the idea that the Government should do more to define the levels of risk-appetite within the regulatory environment. For example, the Association of Foreign Banks stated that: "whilst operational responsibility lies with the regulators, governmental action is needed to recalibrate the risk-appetite of financial policymakers and ensure that they design policy to support growth rather than eliminate all systemic and non-systemic risks in specific policy areas."[476] Sandra Boss suggested: "Industry can ask for a risk appetite but it is in the power of the Government to determine what regime [it] would like."[477]

340. We asked the Economic Secretary about Nikhil Rathi's suggestion for setting metrics for tolerable failures within the overall system. The Economic Secretary responded by saying: "I have discussed this with him. I am cautious about this because I do not know how we put numbers on that."[478] We asked HM Treasury how it will give clear guidance to the regulators to ensure that they are fully supported in meeting the Government's growth agenda. The Economic Secretary reiterated the Chancellor's commitment that the Government would support the regulators as they consider trade-offs around risk and asserted that: "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."[479]

341. As the PRA highlighted, many of the issues that we have identified in the previous Chapters that we see as presenting a barrier to growth and international competitiveness—for example operational inefficiencies, reducing regulatory uncertainty and addressing areas of regulatory overlap—do not have to involve a significant recalibration of risk.

342. **It is vital that the Government ensures that there is a shared understanding between itself and the regulators over what "informed and responsible risk-taking" means. However, the regulators cannot expect the Government to set the 'risk appetite' entirely. What the Government can and should do is give recommendations and set parameters or benchmarks in relation to its economic policy and should be clear in what it asks. The regulators need to take responsibility for ensuring that their policy and supervision adequately assess risk while paving the way for a stable regulatory environment that facilitates growth and innovation.**

475 Q 298 (Sam Woods)
476 Written evidence from the Association of Foreign Banks (SCG0026)
477 Q 84 (Sandra Boss)
478 Q 358 (Emma Reynolds MP)
479 Written evidence from Emma Reynolds MP (SCG0077)

343. **Moreover, we think there is a danger that the narrative around the secondary objective could become dominated by the issue of where the setting of the risk appetite resides.**

344. ***We recommend that the Government use the upcoming Financial Services Sector Strategy to convert the general ambitions around enabling informed and responsible risk-taking set out in the remit letters into more actionable policies for the regulators to take forward. It needs to draw a clear link between the economic outcomes it wants to see, the levers available to the regulators to support this, and the necessary political cover to enable the regulators to implement these reforms.***

345. ***The Government should create a clear, specific steer to the regulators on how they might deliver on the strand of the secondary objective that requires them to facilitate growth in the wider economy, through linking the aims of the upcoming Financial Services Sector Strategy to specific secondary objective metrics.***

An inflation of objectives?

346. The secondary objective has pushed the regulators to consider the competitiveness and growth of the UK's financial services sector in their rulemaking and supervision. While we have heard evidence to suggest that this focus can bring about improvements to the regulatory environment, which could support the sector to grow and make the UK a more attractive place to invest, it nonetheless adds to the multitude of regulatory objectives, principles, and have regards placed on the regulators.

347. There is a clear role for Government and for Parliament to ensure that the objectives and regulatory principles they set provide clear and well-defined direction to the regulators and are constrained to a manageable volume, to avoid obfuscating the regulators' focus on their primary functions. Both the FCA and the PRA have suggested that there is space for consolidation in the number of 'have regards' they are subject to.

348. The FCA told us that in addition to its statutory objectives, there are eight regulatory principles, set out in section 3B of FSMA 2000 (as amended), to which it has a duty to have regard when discharging its general functions. In addition to the duty to have regard to the section 3B regulatory principles and the considerations set out in the remit letter, the FCA told us there are "around eighty other 'have regards' that apply to [the] FCA—including those that are embedded within the framing of our objectives."[480] The FCA also noted: "'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."[481]

349. Similarly, the PRA, in its letter to the Prime Minister, highlighted that: "The number of principles that the PRA is required to 'have regard' to has substantially increased in recent years, increasing the complexity of the analysis required when making or amending regulation. Depending on how

480 Written evidence from the FCA (SCG0074). See also Appendix 7.
481 *Ibid.*

they are counted, the PRA currently has around 25 such 'have regards'."[482] Sam Woods told us:

> "We have one cluster, for instance, which I would call the cluster of the climate and environment-related have-regards, of which we have four or five; we have another lot which are around growth and competitiveness; and another lot which are around the financial services agenda of the Government; then there are also some around competition and some around regulatory principles. Each of them individually makes a lot of sense, and I do not think any of us would find any reason to object to them—certainly, I would not—but the effect of having quite so many is to make the policy-making process quite a lot more bureaucratic, and that also makes what we have to publish bureaucratic, and the things that firms have to read more bureaucratic."[483]

350. The Government's recent 'Action Plan' on regulation contains a commitment to review the FCA's and PRA's 'have regards' to rationalise them and ensure a focus on their priorities.[484]

351. **We have been critical of the complexity of the regulatory system, and the regulators' contribution to that complexity, for example, by creating a heavy compliance burden and areas of regulatory overlap. However, we recognise that the regulators themselves are subject to a multitude of regulatory objectives and principles, and that requiring the regulators to consider multiple and multi-faceted 'have regards' adds complexity to policy and rulemaking process, and risks slowing down decision-making.**

352. **Too many objectives muddle the work of regulators and supervisors, increase the risk of poor decisions, and can lead to a dilution or distraction in the performance of their tasks. We therefore welcome the Government's commitment to review the number of 'have regards' placed on the regulators and urge the Government to rationalise and reduce these as far as is possible. The Government must ensure that the number of objectives, regulatory principles and have regards do not inflate to the point where the regulators are unable to balance their varying obligations.**

Our view on the secondary objective

353. From the evidence we have received, it is evident that the regulators have made progress in advancing the secondary objective. Witnesses cited rule changes such as the FCA's Listing Reforms and the PRA's proposal to introduce the MA accelerator as evidence of this progress. More recently, both regulators have attempted to demonstrate that they are focused on wider economic growth. The FCA's recent Five-Year Strategy, for example, emphasises the mechanisms through which it suggests the FCA can support growth in the financial services sector and wider economy.[485] In February

482 Letter from Sam Woods to the Prime Minister et al., p 5
483 Q 292 (Sam Woods)
484 HM Treasury, 'New approach to ensure regulators and regulation support growth' (17 March 2025): http://www.gov.uk/government/publications/a-new-approach-to-ensure-regulators-and-regulation-support-growth/new-approach-to-ensure-regulators-and-regulation-support-growth-html [accessed 1 June 2025]
485 FCA, *Strategy 2025–2030* (25 March 2025): https://www.fca.org.uk/publication/corporate/our-strategy-2025–30.pdf [accessed 1 June 2025]

2025, the PRA published its approach to policy document that identifies three "transmission channels"[486] through which the PRA can facilitate growth and international competitiveness; specifically, capital allocation, the ability of UK firms to sell into other markets, and the ability of the UK market to attract international firms.[487]

354. We note the growing focus from the Government and regulators on the core aspects of the secondary objective: how can financial services support growth in the wider economy, and how can financial services regulators better enable the sector to do this. We have examined some of these points in Chapter 3 of this report. Going forward a focus should be maintained on how regulation affects the sector's ability to match capital to demand for investment. However, regulatory action alone cannot generate growth, it must fit in as part of a wider economic strategy.

355. The Committee recognises the value of a statutory objective for the FCA and PRA to consider the impact their regulation has on the growth of the financial services sector. It is, however, a broad objective. We believe questions remain around the extent to which the regulators can be expected to contribute to wider economic growth and be held accountable for it. We note the evidence we received from Professor Kern Alexander, who, when asked about other jurisdictions that have introduced related secondary objectives, told us that: "The gap we have is that, in many countries where they have been using secondary objectives for 25 or 30 years, there is no policy conclusion about whether they work, how they are applied or how the secondary objectives are defined."[488]

356. **The secondary objective has been in place for almost two years. It has catalysed a renewed focus on the efficiency of regulatory practice and focused the regulators' efforts on removing the barriers to growth and international competitiveness in the sector. However, it is not yet clear whether the relationship between financial services regulation and growth of the wider economy has been clearly evidenced or established. We have demonstrated that there are areas where regulation plays a role in wider economic growth—capital requirements being the key example—but we have not received any evidence that the secondary objective is likely to have a significant impact on the growth of the wider economy. The introduction of a secondary objective, in addition to the numerous other requirements placed on the regulators, where they do not have the mechanisms to produce the outcomes the objective requires them to, risks diluting the regulators' focus on their core responsibilities of ensuring financial stability, consumer protection, market integrity, and competition, in addition to complicating accountability.**

357. ***The Government must keep the secondary objective under review, including the opportunity for legislative change to rationalise the regulators' statutory objectives. The Government must report to Parliament and this Committee to evidence whether the secondary international competitiveness and growth objective has facilitated***

486 PRA, *The Prudential Regulation Authority's approach to policy* (20 February 2025): https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2025/february/ps325app1.pdf [accessed 5 June 2025]
487 *Ibid.*
488 Q 94 (Professor Kern Alexander)

growth in the wider economy (including what academic research the Government has undertaken, or intends to undertake, to respond to our concerns set out in paragraphs 231, 256, 307, 332, and 333) within 12 months of the publication of this report; and subsequently on an annual basis.

358. ***The FCA and the PRA must report to the Committee within 12 months of the publication of this report to set out how they have responded to our recommendations.***

APPENDIX 1: LIST OF MEMBERS AND DECLARATIONS OF INTEREST

Members

Baroness Bowles of Berkhamsted
Baroness Donaghy
Lord Eatwell
Lord Forsyth of Drumlean (Chairman)
Lord Grabiner
Lord Hill of Oareford
Lord Hollick
Lord Kestenbaum
Lord Lilley
Baroness Noakes
Lord Sharkey
Lord Smith of Kelvin
Lord Vaux of Harrowden

Declarations of interest

Baroness Bowles of Berkhamsted

Non-Executive Director, London Stock Exchange Plc, regulated investment exchange supervised by the FCA

Shareholder and Non-Executive Director, Valloop Holdings Limited

Non-Executive Director, Valloop Investment Management Limited (interest ceased 9 January 2025)

Non-Executive Director, Valloop Impact Captive

Investor in collective investment undertakings

Baroness Donaghy

No relevant interests to declare

Lord Eatwell

Member of the advisory committee, and partner, Palamon Capital Partners LLP

Non-Executive Director, Unity Trust Bank

Investments via collective investment funds

Lord Forsyth of Drumlean (Chairman)

Chairman and Non-Executive Director, Secure Trust Bank Plc (interest ceased 16 May 2024)

Lord Grabiner

Non-Executive Director, Goldman Sachs (Goldman Sachs International and Goldman Sachs International Bank), 2014–22, then regulated under the Senior Managers Regime by the FSA/FCA and the PRA; chaired the Remuneration Committee and the Nominations Committee

Conducted two inquiries for the Bank of England on Forex and Liquidity Auctions in 2015

In practice as a barrister in several regulated areas

Investments disclosed in the Register of Interests

Lord Hill of Oareford

Lead Non-Executive Director, HM Treasury (interest ceased 5 September 2024)

Adviser, Santander SA (Lord Hill of Oareford recused himself from the oral evidence session with Santander UK on 16 October 2024)

Adviser, VISA Europe

Adviser, Intercontinental Exchange Inc

Member of Advisory Board, VISA Economic Empowerment Institute

Lord Hollick

Shareholder, G.P. Bullhound (a technology corporate adviser and fund manager)

Shareholder and adviser, Salica Investments (a technology fund manager, formerly known as Hambro Perks before 16 June 2024) (role as adviser ceased 10 March 2025)

Other interests as recorded in the Register of Interests

Lord Kestenbaum

Director, Windmill Hill Asset Management (investment manager)

Director, JPMorgan Japanese Investment Trust Plc (Investment Company)

RIT Capital Partners Plc (consultant)

Lord Lilley

Member of Advisory Board, YiMei Capital, Shanghai

Baroness Noakes

Shares in listed financial services companies as recorded in the Register of Interests

Lord Sharkey

No relevant interests to declare

Lord Smith of Kelvin

No relevant interests to declare

Lord Vaux of Harrowden

Non-practising member, Institute of Chartered Accountants in England and Wales

Shareholding in Fidelity National Information Services Inc

A full list of Members' interests can be found in the Register of Lords' Interests: https://members.parliament.uk/members/lords/interests/register-of-lords-interests.

Specialist Advisers

Professor Rosa Lastra

Specialist expert adviser to the Banco de España in its inquiry into the independence, accountability, and transparency of the Banco de España

Member of the Monetary expert panel that advises the European Parliament (ECON)

Expert witness in an international banking arbitration case involving the Republic of Poland

Specialist adviser to the Bank of England on Digital Assets (occasional; non-remunerated)

Michael Raffan

Partner, Freshfields LLP

Member of HM Treasury's Banking Liaison Panel

Member of TheCityUK's Long-Term Competitiveness Group

Member of TheCityUK's US Market Advisory Group Technical Working Group

Member of the Advisory Board, Financial Services Lawyers Association

Investments in various companies and collective investment vehicles

APPENDIX 2: LIST OF WITNESSES

Evidence is published online at https://committees.parliament.uk/work/8433/fca-and-pras-secondary-competitiveness-and-growth-objective/publications/ and available for inspection at the Parliamentary Archives (020 7219 3074).

Evidence received by the Committee is listed below in chronological order of oral evidence session, and then in alphabetical order. Those witnesses marked with ** gave both oral evidence and written evidence. Those marked with * gave oral evidence and did not submit any written evidence. All other witnesses submitted written evidence only.

Oral evidence in chronological order

**	Miles Celic, Chief Executive Officer, TheCityUK	QQ 1–18
**	Chris Hayward, Policy Chairman, City of London Corporation	QQ 19–32
**	Kerstin Mathias, Director of Policy and Innovation, City of London Corporation	QQ 19–32
**	Caroline Wagstaff, Chief Executive Officer, London Market Group	QQ 33–56
*	Christopher J. Lay, Chief Executive Officer, Marsh McLennan UK	QQ 33–56
*	Carol Knight, Chief Executive Officer for Membership Services, The Investing and Saving Alliance	QQ 57–74
*	Lisa Laybourn, Director of Technical Policy and Risk, The Investing and Saving Alliance	QQ 57–74
**	Sandra Boss, Chair, BlackRock UK	QQ 75–86
*	Professor Kern Alexander, Chair for International Financial Law and Regulation, University of Zurich, and Director of Studies in Law and Finance, Queens' College, University of Cambridge	QQ 87–106
**	David Postings, Chief Executive Officer, UK Finance	QQ 107–121
**	Nigel Terrington, Chief Executive Officer, Paragon Banking Group	QQ 122–136
**	Mike Regnier, Chief Executive Officer, Santander UK	QQ 137–150
**	Charles Randell CBE, Senior Consultant, Slaughter and May, and Former Chair, Financial Conduct Authority (FCA) and Payment Systems Regulator (PSR)	QQ 151–165
**	Shachar Bialick, Founder and Chief Executive Officer, Curve	QQ 166–176
**	Janine Hirt, Chief Executive Officer, Innovate Finance	QQ 166–176
**	Robert Kerrigan, Chief Operating Officer, TrueLayer	QQ 166–176

*	Sir Howard Davies, Former Chair, NatWest Group, and Former Chair, Financial Services Authority (FSA)	QQ 177–189
**	Richard Davies, Chief Executive Officer, Allica Bank	QQ 190–197
**	Charles McManus, Chief Executive Officer, ClearBank	QQ 190–197
**	Chris Cummings, Chief Executive Officer, Investment Association	QQ 198–207
**	Sir Douglas Flint CBE, Chair, Aberdeen Group	QQ 198–207
**	Soups Ranjan, Co-Founder and Chief Executive Officer, Sardine	QQ 208–213
**	Simon Taylor, Head of Strategy and Content, Sardine	QQ 208–213
**	Cuan Coulter, Executive Vice President, Global Head of Asset Managers, and Head of UK and Ireland, State Street	QQ 214–219
**	Jack Inglis, Chief Executive Officer, Alternative Investment Management Association	QQ 214–219
*	Lionel Assant, Global Co-Chief Investment Officer, Blackstone	QQ 220–226
**	Michael Moore, Chief Executive Officer, British Private Equity & Venture Capital Association	QQ 220–226
*	Anthony Coombs, Chair, S&U Plc	QQ 227–231
**	Stephen Haddrill, Director General, Finance & Leasing Association	QQ 227–231
*	Bim Afolami, Former Economic Secretary to the Treasury and City Minister	QQ 232–241
*	Andrew Griffith MP, Former Financial Secretary and Former Economic Secretary to the Treasury and City Minister	QQ 242–253
**	Debbie Crosbie, Chief Executive Officer, Nationwide Building Society	QQ 254–269
**	Robin Fieth, Chief Executive Officer, Building Societies Association	QQ 254–269
**	Julie-Ann Haines, Chief Executive Officer, Principality Building Society	QQ 254–269
**	Steve Hughes, Chief Executive Officer, Coventry Building Society	QQ 254–269
**	Hannah Gurga, Director General, Association of British Insurers	QQ 270–274
*	Anna Dunn, Chief Executive Officer for the Commercial and Investment Bank, JP Morgan UK	QQ 275–286

*	Hani Kablawi, Head of International, BNY	QQ 275–286
*	Helen Charlton, Chair, FCA Financial Services Consumer Panel	QQ 287–291
*	Jonathan Hewitt, Working Group Chair, FCA Financial Services Consumer Panel	QQ 287–291
*	Julie Hunter, Member, FCA Financial Services Consumer Panel	QQ 287–291
**	David Bailey, Executive Director for Prudential Policy, Prudential Regulation Authority (PRA)	QQ 292–310
**	Sam Woods, Deputy Governor for Prudential Regulation and Chief Executive Officer, Prudential Regulation Authority (PRA)	QQ 292–310
**	Rocio Concha, Director of Policy and Advocacy and Chief Economist, Which?	QQ 311–321
**	Chris Pond, Chair, Financial Inclusion Commission	QQ 311–321
**	Peter Tutton, Head of Policy, Research and Public Affairs, StepChange Debt Charity	QQ 311–321
**	Andy Briggs MBE, Chief Executive Officer, Phoenix Group	QQ 322–330
**	Ashley Alder, Chair, Financial Conduct Authority (FCA)	QQ 331–345
**	Nikhil Rathi, Chief Executive, Financial Conduct Authority (FCA)	QQ 331–345
**	Emma Reynolds MP, Economic Secretary to the Treasury and City Minister, HM Treasury	QQ 346–363
**	Catherine McCloskey, Deputy Director for Financial Services Strategy, HM Treasury	QQ 346–363
**	David Geale, Interim Managing Director, Payment Systems Regulator (PSR)	QQ 364–379

Alphabetical list of witnesses

	Anonymous	SCG0001
**	Sir Douglas Flint CBE, Chair, Aberdeen Group (QQ 198–207)	
**	Aberdeen Group	SCG0008
**	Aberdeen Group	SCG0068
*	Bim Afolami, Former Economic Secretary to the Treasury and City Minister (QQ 232–241)	
*	Professor Kern Alexander, Chair for International Financial Law and Regulation, University of Zurich, and Director of Studies in Law and Finance, Queens’ College, University of Cambridge (QQ 87–106)	

**	Allica Bank	SCG0052
**	Allica Bank	SCG0076
**	Richard Davies, Chief Executive Officer, Allica Bank (QQ 190–197)	
**	Alternative Investment Management Association	SCG0015
**	Alternative Investment Management Association	SCG0072
**	Jack Inglis, Chief Executive Officer, Alternative Investment Management Association (QQ 214–219)	
	AMS Insurance	SCG0073
	Aon	SCG0030
**	Association of British Insurers	SCG0033
**	Association of British Insurers	SCG0069
**	Hannah Gurga, Director General, Association of British Insurers (QQ 270–274)	
	Association of Foreign Banks	SCG0026
**	BlackRock UK	SCG0004
**	Sandra Boss, Chair, BlackRock UK (QQ 75–86)	
*	Lionel Assant, Global Co-Chief Investment Officer, Blackstone (QQ 220–226)	
	Lord Blackwell	SCG0007
*	Hani Kablawi, Head of International, BNY (QQ 275–286)	
	British Insurance Brokers' Association	SCG0011
**	British Private Equity & Venture Capital Association	SCG0053
**	Michael Moore, Chief Executive Officer, British Private Equity & Venture Capital Association (QQ 220–226)	
**	Building Societies Association	SCG0024
**	Building Societies Association	SCG0050
**	Robin Fieth, Chief Executive Officer, Building Societies Association (QQ 254–269)	
	Charles Stanley	SCG0034
**	City of London Corporation	SCG0043
**	Chris Hayward, Policy Chairman, City of London Corporation (QQ 19–32)	
**	Kerstin Mathias, Director of Policy and Innovation, City of London Corporation (QQ 19–32)	
	City of London Law Society Regulatory Law Committee	SCG0017
**	Charles McManus, Chief Executive Officer, ClearBank (QQ 190–197)	
**	ClearBank	SCG0006

**	ClearBank	SCG0059
	Will Collins	SCG0040
*	Anthony Coombs, Chair, S&U Plc (QQ 227–231)	
**	Coventry Building Society	SCG0054
**	Steve Hughes, Chief Executive Officer, Coventry Building Society (QQ 254–269)	
	Crezco Limited	SCG0002
	CryptoUK	SCG0014
	C-Suite Pension Strategies Ltd	SCG0063
**	Shachar Bialick, Founder and Chief Executive Officer, Curve (QQ 166–176)	
**	Curve	SCG0041
*	Sir Howard Davies, Former Chair, NatWest Group, and Former Chair, Financial Services Authority (FSA) (QQ 177–189)	
	Digital Currencies Governance Group	SCG0021
	European Venues and Intermediaries Association and London Energy Brokers' Association	SCG0028
*	Helen Charlton, Chair, FCA Financial Services Consumer Panel (QQ 287–291)	
*	Jonathan Hewitt, Working Group Chair, FCA Financial Services Consumer Panel (QQ 287–291)	
*	Julie Hunter, Member, FCA Financial Services Consumer Panel (QQ 287–291)	
**	Finance & Leasing Association	SCG0005
**	Finance & Leasing Association	SCG0048
**	Stephen Haddrill, Director General, Finance & Leasing Association (QQ 227–231)	
**	Financial Conduct Authority (FCA)	SCG0074
**	Ashley Alder, Chair, Financial Conduct Authority (FCA) (QQ 331–345)	
**	Nikhil Rathi, Chief Executive, Financial Conduct Authority (FCA) (QQ 331–345)	
	Financial Inclusion and Markets Centre	SCG0061
**	Financial Inclusion Commission	SCG0065
**	Chris Pond, Chair, Financial Inclusion Commission (QQ 311–321)	
	Goldman Smith Claims Management Ltd	SCG0018
*	Andrew Griffith MP, Former Financial Secretary and Former Economic Secretary to the Treasury and City Minister (QQ 242–253)	

	Independent Investment Management Initiative	SCG0036
**	Innovate Finance	SCG0049
**	Janine Hirt, Chief Executive Officer, Innovate Finance (QQ 166–176)	
	International Regulatory Strategy Group	SCG0038
**	Chris Cummings, Chief Executive Officer, Investment Association (QQ 198–207)	
**	Investment Association	SCG0009
**	Investment Association	SCG0058
*	Anna Dunn, Chief Executive Officer for the Commercial and Investment Bank, JP Morgan UK (QQ 275–286)	
	Kuperstein Kapital Ltd	SCG0064
	Lloyd's of London	SCG0022
	Lloyd's Market Association	SCG0031
**	London Market Group	SCG0075
**	Caroline Wagstaff, Chief Executive Officer, London Market Group (QQ 33–56)	
	Sir Nicholas Lyons, Former Lord Mayor of the City of London and Chair, Phoenix Group	SCG0067
*	Christopher J. Lay, Chief Executive Officer, Marsh McLennan UK (QQ 33–56)	
	Monzo	SCG0029
	W. J. Morris	SCG0013
	Dr David Murphy, Visiting Professor in Practice, London School of Economics and Political Science	SCG0057
**	Debbie Crosbie, Chief Executive Officer, Nationwide Building Society (QQ 254–269)	
**	Nationwide Building Society	SCG0019
**	Nationwide Building Society	SCG0056
	OakNorth Bank	SCG0020
**	Paragon Banking Group	SCG0045
**	Nigel Terrington, Chief Executive Officer, Paragon Banking Group (QQ 122–136)	
**	David Geale, Interim Managing Director, Payment Systems Regulator (PSR) (QQ 364–379)	
**	Payment Systems Regulator (PSR)	SCG0079
**	Andy Briggs MBE, Chief Executive Officer, Phoenix Group (QQ 322–330)	
**	Phoenix Group	SCG0042
**	Phoenix Group	SCG0066

	Personal Investment Management & Financial Advice Association	SCG0025
**	Julie-Ann Haines, Chief Executive Officer, Principality Building Society (QQ 254–269)	
**	Principality Building Society	SCG0060
	Progress Together, Social Mobility Foundation, and upReach	SCG0027
**	David Bailey, Executive Director for Prudential Policy, Prudential Regulation Authority (PRA) (QQ 292–310)	
**	Prudential Regulation Authority (PRA)	SCG0078
**	Sam Woods, Deputy Governor for Prudential Regulation and Chief Executive Officer, Prudential Regulation Authority (PRA) (QQ 292–310)	
	Quoted Companies Alliance	SCG0012
**	Charles Randell CBE, Senior Consultant, Slaughter and May, and Former Chair, Financial Conduct Authority (FCA) and Payment Systems Regulator (PSR) (QQ 151–165)	
**	Charles Randell CBE, Senior Consultant, Slaughter and May, and Former Chair, Financial Conduct Authority (FCA) and Payment Systems Regulator (PSR)	SCG0035
	Revolut	SCG0044
**	Mike Regnier, Chief Executive Officer, Santander UK (QQ 137–150)	
**	Santander UK	SCG0046
**	Soups Ranjan, Co-Founder and Chief Executive Officer, Sardine (QQ 208–213)	
**	Sardine	SCG0047
**	Simon Taylor, Head of Strategy and Content, Sardine (QQ 208–213)	
	SME Alliance Ltd	SCG0032
	St. James's Place	SCG0037
**	Cuan Coulter, Executive Vice President, Global Head of Asset Managers, and Head of UK and Ireland, State Street (QQ 214–219)	
**	State Street	SCG0055
**	StepChange Debt Charity	SCG0071
**	Peter Tutton, Head of Policy, Research and Public Affairs, StepChange Debt Charity (QQ 311–321)	
**	Miles Celic, Chief Executive Officer, TheCityUK (QQ 1–18)	
**	TheCityUK	SCG0016

*	Carol Knight, Chief Executive Officer for Membership Services, The Investing and Saving Alliance (QQ 57–74)	
*	Lisa Laybourn, Director of Technical Policy and Risk, The Investing and Saving Alliance (QQ 57–74)	
	TP ICAP Group plc	SCG0010
**	Catherine McCloskey, Deputy Director for Financial Services Strategy, HM Treasury (QQ 346–363)	
**	Emma Reynolds MP, Economic Secretary to the Treasury and City Minister, HM Treasury (QQ 346–363)	
**	Emma Reynolds MP, Economic Secretary to the Treasury and City Minister, HM Treasury	SCG0077
**	Emma Reynolds MP, Economic Secretary to the Treasury and City Minister, HM Treasury	SCG0080
**	Robert Kerrigan, Chief Operating Officer, TrueLayer (QQ 166–176)	
**	TrueLayer	SCG0070
**	David Postings, Chief Executive Officer, UK Finance (QQ 107–121)	
**	UK Finance	SCG0039
	UK Sustainable Investment and Finance Association	SCG0003
**	Rocio Concha, Director of Policy and Advocacy and Chief Economist, Which? (QQ 311–321)	
**	Which?	SCG0062
	Zurich Insurance	SCG0023

APPENDIX 3: CALL FOR EVIDENCE

Scope

This inquiry looks into the secondary international competitiveness and growth objective given to the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) under the Financial Services and Markets Act 2023. This call for evidence was reopened on 5 August 2024 following the Committee's reappointment on 29 July 2024.

Background

The Financial Services and Markets Act 2023 (FSMA 2023) introduced a new secondary objective for the Financial Conduct Authority (FCA) and the Bank of England's Prudential Regulation Authority (PRA) of facilitating the UK economy's international competitiveness and its growth in the medium to long term. FSMA 2023 contains the following objective for the FCA and PRA:

"The competitiveness and growth objective is: facilitating, subject to aligning with relevant international standards—

(a) the international competitiveness of the economy of the United Kingdom (including in particular the financial services sector), and (b) its growth in the medium to long term."

Purpose of the inquiry

The Financial Services Regulation Committee, chaired by Lord Forsyth of Drumlean, is seeking views on the FCA's and PRA's secondary objective of facilitating the UK economy's growth and international competitiveness, how that is being implemented by the regulators and integrated with their other objectives, and what the implementation of those objectives might mean for the financial services sector in the UK.

Contributing evidence

The Committee encourages anyone with expertise in or experience of the matters under consideration in its inquiry to submit written evidence. If you wish to contribute to this inquiry, please respond to the questions below. There is no obligation to answer every question.

Questions

The Committee is seeking evidence on the following questions:

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

2. 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?

3. 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?

4. 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?

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

6. 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?

7. How should the regulators ensure that any measures introduced to meet the secondary growth and competitiveness objectives work for businesses of all sizes across the sector, including startups, scaleups, and incumbents?

8. Are there any additional metrics over and above those already agreed by the regulators that would better enable stakeholders to track progress and support scrutiny of their work against the secondary growth and competitiveness objective? How should a measure of growth be included in these metrics?

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

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

11. 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?

This is a public call for written evidence to be submitted to the Committee. The call for evidence was originally opened on [8] May 2024, and was closed following the prorogation of Parliament on 24 May. It has been reopened, as of 5 August, following the reappointment of the Financial Services Regulation Committee on 29 July.

The deadline for submissions is 11.59pm on Friday 29 November 2024.

APPENDIX 4: NOTE ON THE PRIVATE ROUNDTABLE MEETING WITH INSURERS AND REINSURERS

On Wednesday 4 December 2024, the Committee heard from executives in the UK insurance and reinsurance industry in a private roundtable meeting. The meeting was convened as part of the Committee's inquiry into the FCA and PRA's Secondary International Competitiveness and Growth Objective (SICGO) to develop the Committee's understanding of the sector's experience with regulators and to provide background for evidence received publicly.

This note summarises the key themes expressed to the Committee during the roundtable but does not attribute its specifics to any one participant, in accordance with the prior agreement of the participants.

The position of the UK insurance and reinsurance industry

Participants stated that London remains a global leader in the insurance industry and the London Market retains its international competitiveness in the wholesale insurance sector. Participants stated that London's success stems from the following advantages:

(a) Access to talent from world-leading universities.

(b) Access to professional services, particularly consultancy and legal advice.

(c) Ability to serve as an English-speaking bridge into Europe.

(d) A stable and predictable place to locate and conduct business.

It was noted that Lloyds of London remains central to the success of the London Market, as it draws to London international firms seeking to access its extensive trade in international markets and ability to insure for risks that other jurisdictions cannot.

However, participants felt that London has retained its position in the insurance market due to inertia and the upfront cost to firms of relocating. They cautioned that these factors alone cannot guarantee London's continued success, particularly as the cost of doing business in the UK increases.

Moreover, participants stated that the London Market faces strong competition from other jurisdictions, notably Bermuda and Singapore. These have actively promoted the development of new products and supported firms by focusing on offering a 'concierge' service that prioritises fast authorisations. Participants noted the following challenges London faces:

(a) Products which London hosts insurance advisory and management services for are increasingly domiciled overseas, such as Captive Insurance. Whilst the Government is now consulting on a regulatory regime for this product, other jurisdictions have built a substantial lead in this sector compared to the UK.

(b) The London Market's advantage in being able to insure for new types of risk is being hindered by the regulators' slow authorisation processes. There are significant opportunities in the insurance of environmental risk, trade disruption, and green infrastructure which require support from the regulators to realise.

(c) The UK's pool of strong talent is increasingly hired by international firms which are not strongly tied to the UK, which can relocate should London lose its competitive advantage. Connected to this is the relative decline in the number of domestic firms versus international insurers in the London Market.

Participants provided the following recommendations to help retain the London Market's competitive advantage:

(a) The regulators and Government removing barriers that prevent firms creating new products and insuring for new risks in future growth areas; for example, offering new products to protect against losses from climate associated risks such as hurricanes i.e., catastrophe bonds.

(b) The FCA and PRA need to recognise the urgency of addressing the regulatory burdens that reduce the competitiveness of the London market. This is especially important given the increasing proportion of international firms that make up the London Market and have an enhanced ability and willingness to relocate.

Cultural attitude towards the Secondary International Competitiveness and Growth Objective within the regulators

Participants suggested they felt that, culturally, the regulators appear to be disinclined against permitting risk, to the extent that this has stifled dynamism, innovation, and growth within the London Market.

Participants shared the following examples which they felt showed that the regulators are still culturally conservative:

(a) That they prioritise limiting their exposure to political criticism for failing to prevent consumer harm or firm failure. For example, following a large increase in the prices of natural catastrophe and cyber policies in 2019, the regulators attempted to reduce firms' appetites to underwrite and reinsure such policies.

(b) That the apply more stringent standards than initially intended by policy makers, which eliminates potential benefits of tailoring rules to the UK market. For example, the PRA raised regulatory capital requirements under Solvency II (on shored EU legislation) to eliminate all risk of insolvency.

(c) Provide insufficient support and clarity to firms through their supervision, which increases the burden of compliance and raises the barrier to entry. For example, the regulators place a higher barrier to entry for firms to offer regulated services, as they must implement complete compliance processes and raise the regulatory capital required prior to authorisation.

Participants noted several factors that they felt contributed to the development of this culture within the regulators:

(a) The regulators' leadership have rightly focused on addressing regulatory failings that contributed to the Global Financial Crisis, but the balance has focused on eliminating harm to the extent that there is little to no tolerance for a healthy risk appetite that is necessary to sustain a competitive market and to facilitate growth.

(b) The regulators receive significantly more robust criticism following regulatory failures than regulating excessively, and so are dis-incentivised to accept a healthy level of risk.

(c) Lack an integrated business development body or joined-up approach with Government departments responsible for promoting the UK's financial services sector. It was suggested that the regulators have not viewed themselves as being responsible for improving the UK's international competitiveness or facilitating economic growth.

    (i) Participants noted that this contrasts with the UK's competing jurisdictions. Singapore integrates business development into the Monetary Authority of Singapore, where development officials attend supervisory meetings. The Irish Development Agency sits outside the regulator but serves as an intermediary between firms and the Bank of Ireland.

However, participants did share that they were pleased to see that the regulators now appear to have taken steps to embed their SICGO into their working culture; the PRA was seen to have taken more substantive steps. Participants caveated that this work is ongoing, particularly in the supervisory teams which are firms' main point of contact.

Participants shared the following recommendations to help change the regulators' cultural attitude to risk:

(a) The Government and the regulators must cooperate more effectively to promote the UK's financial services sector internationally, helping to increase Foreign Direct Investment.

(b) The regulators must prioritise embedding the SICGO into their working culture. In particular, both recognising the importance of efficient supervision to the UK's international competitiveness as well as their roles in facilitating economic growth.

(c) The regulators need to engage with firms constructively to understand what growth markets there are, and to develop regulatory regimes that enable businesses in the UK to be early entrants into these markets.

The regulators' approach to policy making

Participants suggested that they felt the UK's regulatory landscape was complex, due to the accumulation of multiple overlapping regulatory regimes which firms need to comply with. This has been driven by a combination of:

(a) Disproportionate and dedicated responses to individual examples of consumer harm, which are often disproportionate to the original harm. Consequently, firms, regardless of how relevant it is to their business model or firm.

(b) The regulators appear to have a tendency to add to, or amend, existing regulation. Cumulatively, this has created an overly complex framework with overlapping rules, making it more expensive to reconcile potential conflicting requirements.

(c) Sometimes the regulators under-estimate the cost of complying with rule changes. One participant shared that their firm spent \$2–3 million on new systems and staff and increased their regulatory capital requirement by \$50 million in order to comply with Solvency UK.

Participants suggested that the regulators do not appear to bring in the practitioners' perspective into the rulemaking process early enough or consistently enough, resulting in rules which carry unintended consequences for firms.

(a) For example, participants shared that the General Insurance Pricing Practices, introduced in 2021, required insurers to charge the same premium for new customers as existing customers with identical risk profiles. This inadvertently reduced competition in the insurance sector by prohibiting loss-leading pricing, raising the barrier to entry.

Participants felt these issues reflected problems common with the FCA and PRA, other financial services regulators, and HM Treasury. They suggested that:

(a) The FCA does not appear to recognise that the London Market deals with wholesale customers who are international and well advised, and therefore do not need the same standards of protection applied as for retail facing sectors.

(b) HM Treasury defers overly to the regulators' operational independence, to the extent that it is not able to provide sufficient direction as to how it sees the regulators' objectives supporting its wider economic strategy.

Consumer duty

Participants agreed with the principle of the Consumer Duty that firms should deliver good outcomes for consumers.

However, participants shared that because the FCA has not clarified the limits of the Duty, firms are increasingly required to applying the Consumer Duty to wholesale and commercial insurance. For example, firms are increasingly under-writing approximately 10 million small businesses as retail customers.

Participants shared the following examples on how they felt that the Consumer Duty has increased the cost of compliance in the UK:

(a) Duplicating existing rules in the handbook, which increases the burden on firms; for example, duplicating ESG reporting requirements.

(b) One participant withdrew several products from the market due to the increased cost associated with the Consumer Duty; another hired 10 full time employees to ensure the entire value chain was compliant despite less than 1% of its business being subject to the Duty.

Participants suggested that Fair Value Assessments (FVA) were the largest contributor to the increase in compliance costs. Firms are required to conduct an FVA on products they offer to evaluate its value, efficacy, and suitability against the needs of their customers.

Participants stated all firms in the supply chain are required to complete an FVA, including both the manufacturer and distributor. This, it was suggested, has introduced additional burdens from data collection and processing. Participants shared the following examples of where they saw an increase in compliance costs:

(a) The FCA has not clarified where responsibility for completing an FVA lies. Consequently, it is now industry practice for all firms in the supply chain to complete an FVA, duplicating compliance and increasing costs.

(b) This has introduced knock-on effects in the supply chain. Downstream (distributors) can only finalise their FVAs after firms upstream (i.e., manufacturers) have completed theirs. Consequently, when the FCA set a deadline for firms to implement FVAs, manufacturers that met the FCA's deadline resulted in distributors missing it.

(c) The FCA requires FVA to be completed regardless of different needs of customers', which introduces additional compliance without meaningfully advancing the FCA's primary objective. For example, a broker's responsibility is to ensure a product meets the customer's needs; and, both participants in a business-to-business transaction are typically well advised.

(d) The lack of guidance around how much detail is required in an FVA has led to firms to adopt a conservative approach and gold plate their compliance. Participants shared the following examples: One firm hired an additional eight full time employees to complete FVA; and it is now common practice for firms to hire external consultants to ensure they are complying with the FCA's standards.

(e) One participant shared that they had reported producing over 2000 fewer FVAs in 2024 than 2023, which it partly attributed to its decision to withdraw products from the market due to the associated cost of compliance.

Senior managers and certification regime (SM&CR)

Participants recognised that the SM&CR as a conduct regime was introduced to address cultural problems that contributed to the Global Financial Crisis, which they agreed was necessary.

However, participants shared that they felt the SM&CR had become overly burdensome to comply with; one participant shared that they have hired an entire team to complete SM&CR forms.

Participants felt that the regime could be made more efficient if the regulators hired staff familiar with the industry and empowered them to make judgements as to whether a Senior Manager was fit and proper. Additionally, participants shared that the Certification Regime applied to staff who are too junior. Participants shared the following examples on how the SM&CR has increased the cost of compliance:

(a) One firm shared they had to certify between 40–50 staff.

(b) Whilst metrics on time taken to authorise Senior Managers have improved, these metrics do not capture all types of delays in authorisation; for example, stopping the clock, or how often the regulators ask for additional data.

(c) Prior to appointing a Senior Manager, it is common practice for firms to share a shortlist of candidates with the regulators to take on feedback and ensure the individual is appropriate. However, the senior manager will still be required to undergo the full approval process, despite receiving informal approval.

The regulators' approach to supervision

Participants noted that firms tend to have good working relationships with their supervisors, particularly if they have a dedicated supervisory team. A good working relationship with the regulators is considered to be vital to a firm's success, and so firms invest considerable time and resource into this relationship. This is why, it was suggested, firms find it risky to provide feedback directly to the regulators on specific rules, and especially on their approach to supervision.

Participants shared that the UK's supervision can be overly burdensome and intrusive, which they felt is out of step with competing jurisdictions. Participants suggested that they have different experiences with other jurisdictions, even within the EU.

Participants suggested that this burden is becoming a deciding factor to a firm's decision on whether they should continue to operate in the UK. Participants shared the following reflections on the UK's approach to supervision:

(a) Participants shared the following examples of the cost of compliance in the UK: one participant shared that their total expenditure on compliance was 10x higher than the US; one participant had a compliance and risk department 3x larger than for the European market, and another shared that their firm employed 78 compliance officers for the UK market versus 73 for 40 countries in their European and Middle Eastern Market.

(b) Supervisors do not focus on forward looking conversations on future risks and growth opportunities, instead focussing on granular details of a firm's financials and compliance. As supervisors frequently engage senior managers, consuming a large portion of executive and board time, distracting them from running their businesses; participants felt that the regulators' approach to supervision stepped into directing the way in which firms choose to run themselves. One participant estimated that 70% of the board's time is spent addressing compliance and supervision.

(c) Supervisors submit a large volume of regular data requests to firms, as well as ad-hoc requests which consume additional resource as these cannot be planned for. One participant shared that they returned 300 filings in one year in the UK, compared to 56 in the next highest jurisdiction; another shared that supervisors did not explain why they needed this data, and some of the requests were irrelevant to the firm's business.

(d) Supervisors often do not have a good understanding of the sector and particularly of a firm's business model. Consequently, supervisors often request slow and poorly targeted requests and pushes firms to invest heavily in training supervisors, which in turn adds cost.

(e) The regulators are not ambitious enough in authorising firms quickly, especially in comparison to competing jurisdictions. The regulators appear to have exceeded their current service level requirements, and so could set more ambitious targets.

Participants shared their reflections on why the UK's supervision has these issues:

(a) Supervisors are not empowered to make judgements on where to apply or disapply standards. Consequently, business-to-business transactions can be subjected to standards of protection appropriate for retail customers, which prioritises technical requirements over forward-looking discussions.

(b) The high turnover in supervisory staff their lack of understanding of the insurance sector and business. Additionally, supervisory staff appear to be taking on new guidance and training on incorporating the SICGO more slowly than other teams.

APPENDIX 5: NOTE ON THE PRIVATE ROUNDTABLE MEETING WITH MID-MARKET AND SPECIALIST BANKS

On Wednesday 29 January 2025, the Committee heard from eight senior executives of mid-market and specialist banks in a private roundtable meeting.

The meeting was convened as part of the Committee's inquiry into the FCA and PRA's Secondary International Competitiveness and Growth Objective (SICGO) to deepen the Committee's understanding of the sector's experience with regulators and to provide background for evidence received publicly.

This note summarises the key themes expressed to the Committee during the roundtable but does not attribute its specifics to any one participant, in accordance with the prior agreement of the participants.

The position of the UK specialist banking sector

Participants suggested that following the Global Financial Crisis (GFC) the structure of the UK banking industry has been generally stagnant, despite a range of new entrants.

Participants suggested that there is a persistent difference in scale and profitability between the UK's largest banks and the mid-market, with one participant characterising this dynamic as a two-tier system.

Participants suggested that the factors below reinforce this difference and limit mid-market firms' ability to scale:

(a) Lack of Proportionality: regulatory requirements are substantially similar between banks of all sizes and do not account for different business models.

(b) Lack of Predictability: frequent changes within the regulatory and redress systems incur significant costs and make it difficult for firms to invest.

(c) Thresholds: setting thresholds after which increased capital and other requirements apply creates a "cliff edge" which deters mid-market firms from growing their balance sheets beyond this limit.

(d) High Compliance Burden: the cost of complying with regulation is high with a high fixed cost base and has increased, impacting smaller firms with fewer resources to meet this cost rise.

Additionally, participants shared that specialist non-consumer lending is increasingly sourced from private capital, which they attributed to the different burden of regulatory regimes which gives private capital a competitive advantage over banks.

Participants noted consequences they think this has on their firms and the wider sector:

(a) UK bank shares trade below their EU and US counterparts and often below their net asset value.

(b) UK banks struggle to attract investors beyond domestic institutional firms.

(c) Mid-market firms are unable to meet their growth ambitions, reinforcing the position of the largest banks.

Culture in the regulators

Participants suggested that following the GFC, the regulators focused on harm elimination, which has favoured risk mitigation over growth.

Participants suggested that the regulators have continued to add to their existing regulatory regime, despite continued stability and increases in standards within the industry. Participants shared the following examples of the progress the sector has made since 2008:

(a) Prohibition on problematic products, such as self-certification mortgages.

(b) Substantially improved resilience and governance, particularly in contrast to practices before 2008.

Participants suggested that the following factors contributed to this cultural risk aversion:

(a) Institutional memory of the GFC and the resulting condemnation of the FSA. This is fundamental to how the regulators view their role within financial services and understand the public and political pressures to which they are exposed.

(b) The objectives, as the regulators interpret them, reinforce risk aversion. Lacking clear guidance as to the balance between the primary and secondary objectives, the regulators do not pursue growth to the degree Parliament intended.

(c) Participants felt that the regulators were paying lip service to their secondary objective.

(d) Independence of the regulator is closely adhered to by HM Treasury, which prevents there being a corrective to cultural risk aversion.

Proportionality in regulation and supervision

Participants suggested that the regulators do not have due regard to proportionality when rulemaking and are not convinced they have a sense of what this would entail; for example, neglecting to account for the size of the firm, different business models or the risks within the sector.

Firm size

Participants suggested that firm size is not sufficiently accounted for by the regulators, as regulation is primarily targeted at systematically important banks.

As a result, smaller firms are required to meet standards intended to mitigate systemic risks that they do not pose, incurring unnecessary cost. Participants cited the following areas where requirements were not proportional to the size of a firm:

(a) Operational resilience.

(b) Reporting and oversight requirements.

  (i) A participant with experience of both large and mid-market banks noted that reporting requirements were similar in both firms.

(c) Senior Management and Certification Regime (SM&CR).

(d) Remuneration Regime.

(i) A participant suggested that the current pay deferral period of up to 8 years had dissuaded candidates for a senior risk management position from accepting the role.

(e) Data collection.

Sectoral risks

Participants suggested that regulation is often impractical and not proportionate to sectoral risks. Consequently, firms are required to hold more capital or are effectively prohibited from certain products based on an overly conservative view of specific risks in the banking sector. This incurs costs and may place UK firms at a disadvantage internationally.

Participants provided the following examples:

(a) Mortgage Securitisation: The PRA considers mortgages covered by a mortgage indemnity insurance policy as securitised. Due to the general prohibition on re-securitisation, they cannot be sold into the secondary market.

(b) Participants were unclear as to the PRA's reasoning, as this decision did not appear to be proportionate to the risk of securitising indemnified mortgages.

(i) A participant noted that the firm had ceased this business line.

(c) Core Capital Holdings: Participants noted that the UK's capital holding requirements are not proportionate to the risk of the exposure, as indicated by firms' own stress tests and historic losses:

(i) One firm holds £1 billion in capital reserves, compared to a modelled maximum loss of £140 million, and an actualised maximum loss of single-digit millions. This also does not take into consideration their approximately £450 million annual profit.

(ii) The position is exacerbated by the length of time and cost required to obtain approval to use the internal ratings-based approach (IRB).

(d) Participants also noted that capital requirements are often more burdensome than other jurisdictions, and emphasised the UK's approach to implementing the Basel standards by providing the following examples:

(i) The EU introduced an exception for software assets from the requirement in the Basel standards to deduct from CET1 all intangible assets. The PRA removed this exception following the UK's departure from the EU,[489] with the result that European banks can invest in software as intangible assets at lower capital costs relative to the UK's banks and increasing the overall cost of capital to lend for UK banks relative to EU counterparts.

(ii) In the Basel Committee on Banking Supervision, the BoE argued for maintaining the risk weightings for housebuilding under the

489 PRA, 'PRA statement on the EU requirement on prudential treatment of software assets' (30 December 2020): https://www.bankofengland.co.uk/prudential-regulation/publication/2020/statement-prudential-treatment-software-assets [accessed 1 June 2025]

standardised approach at 100%. When implemented, the PRA followed the Basel standard to set this at 150%, unlike the EU.

(iii) Although the PRA notes its implementation of Basel 3.1 will not significantly increase capital holding requirements, a participant expected a 100bps increase in core holdings, potentially doubled by the need to raise MREL against the increase.

(e) Counter-Cyclical Buffer (CCyB): Participants suggested that under the Basel framework the CCyB should be set at 0% under normal credit conditions.

(f) The PRA has set the CCyB at 2% under normal conditions, compared to1% in France, 0.75% in Germany, and 0% in Italy, Canada, US, Japan, and Singapore.

(g) Participants noted that the CCyB is applied in addition to other capital holdings, representing a 20% increase over the industry average of 10%.

(h) It was suggested that when the CCyB is reduced to 0% under stress conditions, banks are unwilling to use the additional capital, since they are aware that they must re-raise it once normal conditions resume.

Predictability of regulation and supervision

Participants provided several areas where they felt that the regulators' approach to regulation and supervision lacked predictability. It was suggested that this reduces firms' ability to plan and manage their business and discourages international investment in the UK, both to the detriment of the sector's growth.

Inconsistency of supervisors

Participants noted that as mid-market firms their engagement with supervisors was less consistent than larger firms. This affects the crucial firm-supervisor relationship and makes it harder to adapt to forthcoming regulation and supervisory issues.

Participants suggested the following issues with supervision:

(a) Supervisors they interact with are generally less experienced than those supervising larger firms.

(b) Where supervisors are experienced, they may not have sufficient sector specific knowledge.

(c) Supervisory teams for smaller firms are subject to greater staff turnover, which requires substantial retraining and relationship building on the part of the firm.

(i) One firm had been assigned three different PRA supervisory teams in one year.

Redress

Participants were concerned about the current approach to redress, specifically what they see as the disconnect between the FCA rules and the judgements of the Financial Ombudsman Service (FOS).

Participants noted that the FCA as rule maker has no control over how the FOS interprets and applies its regulation. They said this risks a situation where firms must pay redress for actions that were compliant with FCA rules.

It was also stressed that uncertainty whether the FCA rules were themselves compliant with common law further increases the exposure of firms complying with the regulation.

Moreover, since firms process complaints and pay for appeals to the FOS, this incurs significant cost.

Together, participants suggested that these severely reduce the consistency and predictability of the regulatory regime, complicating firms' compliance functions and dissuading international investors. Participants noted the following consequences:

(a) Several participants noted that they received thousands of redress complaints, sometimes hundreds of thousands in a single submission. Claims management companies submitted these claims, some of which were found to be spurious.

(b) Some firms have cut their headcount in anticipation of redress findings, whilst others have hired dozens of staff to process complaints.

Regulatory thresholds

Participants emphasised that the thresholds above which further regulatory requirements apply to firms represent a significant barrier to the growth of mid-market firms.

Additional aspects of the regulatory regime phase in as a bank grows, often determined by the size of its balance sheet. Since the additional requirements can be significantly burdensome to implement, firms below the threshold may limit their growth to avoid the application of these rules.

A participant noted that there were approximately 53 different thresholds within banking regulation, of which participants highlighted several particularly impactful limits.

Ringfencing

Participants suggested that the UK's ringfencing regime, which requires the separation of a bank's retail and SME lending arms from its other operations, is particularly burdensome to comply with.

Participants noted that ringfencing is unique to the UK which they suggested both places domestic firms at a disadvantage and makes the UK less attractive for international banks.

The threshold for ringfencing is currently a balance sheet of over £25 billion, with proposals to raise this to £35 billion. Due to the cost of ringfencing, mid-market firms, many of which are close to the threshold, constrain their growth to avoid the regime.

Participants noted the following key costs:

(a) Duplication of governance structures, particularly the requirement for separate boards.

(b) Creation of a separate legal and accounting entity.

(c) Duplication of capital holding requirements. A participant noted that splitting a smaller firm's CET1 capital to ensure compliance is particularly costly.

Preferred resolution strategy

Participants noted that the thresholds the Bank of England (BoE), as the UK's resolution authority, uses to determine whether a bank's preferred resolution strategy is partial transfer or bail-in, are too low and do not reflect the systemic risk posed by mid-market firms.

Participants noted that a firm must prepare to implement this strategy under the Planning for Solvent Exit requirements, and that preparing for a bail-in is more costly than partial transfer.

A participant suggested that firms with a balance sheet of up to £50 billion should be required to prepare for a partial transfer, rather than a bail-in.

MREL

Participants explained that the Minimum Requirements for Own Funds and Eligible Liabilities (MREL) was central to the BoE's approach to resolving a bank failure, as it provided capital to absorb losses and partially recapitalise a firm. This makes it easier to sell to another bank or operate as a bridge bank under the BoE.

The current MREL threshold is a balance sheet of £15 billion–£25 billion, which many participants noted their firms were approaching or had recently exceeded. Firms under the threshold considered limiting their growth aspirations to remain outside of the regime.

Participants highlighted the following costs:

(a) Increased debt and equity requirements reduce the amount banks can lend.

  (i) A participant noted that if the MREL threshold were raised to £50 billion, mid-market banks could lend an additional £62 billion over 5 years.

(b) The need to service MREL debt reduces a bank's cash holdings, reducing available liquidity. A participant emphasised the importance of balancing capital and liquidity availability.

(c) Issuing MREL is costly, as the banks pay a premium on MREL bond issuances.

  (i) A participant noted that the coupon rate on the firm's MREL issuances was approximately £100 million per year.

  (ii) A participant expected issuing MREL to cost 10%–15% of the firm's annual profits, approximately £50 million.

(d) Markets are aware that a firm must issue MREL, which gives counterparties leverage to increase the coupon on MREL issuances.

It was also suggested that the UK's implementation of MREL is disproportionate:

(e) The threshold of £15 billion–£25 billion has not changed since its introduction in 2016, and so does not account for inflation.

(f) The BoE's proposed threshold increase to £20 billion–£30 billion covers inflation but does not account for the growth aims of mid-market banks.

(g) Competitor jurisdictions have a substantially higher MREL threshold, such as $100 billion in the US.

(h) The comparatively low MREL threshold places mid-market firms in the same regime as Globally Structurally Important Banks (GSIBs).

Regulatory burden

Participants stated that the overall cost of complying with the UK's regulatory regime remains high and has increased. This is particularly important to mid-market firms, which typically have fewer staff and resources to meet increasing demands from the regulators and may run on finer profit margins.

Several participants recognised that accurately measuring compliance costs was challenging as direct costs, such as staffing and compliance infrastructure, do not account for the significant management time compliance requires.

(a) However, a participant had calculated that their overall compliance costs had increased 138% since 2017.

Participants provided several examples of what they felt were driving high compliance costs.

Regulatory filings and data requests

Several participants emphasised the burden of meeting data requests and filings required by the regulators, particularly the impact this has on their compliance headcount:

(a) A firm told us they regularly filed 150 returns per quarter, or 600 per year.

(b) Several participants were not clear for what the regulators were using much of this data.

Internal ratings-based approach (IRB)

IRB allows firms to use approved models to set their own risk weights for capital requirements, often lower than those required by the standardised approach.

(a) One participant noted that the risk weightings for lending to housebuilders under IRB were half of the 150% weighting required by the standardised approach. This was estimated to equate to a 1–2% increase in the interest charged on the loan.

Several participants noted that their firms had applied to the PRA for model validation and approval. Having waited several years and incurred significant expense many of these firms are still waiting for final approval:

(a) A firm expressed its intent to move to IRB in 2017, applied in 2020, and currently has been approved for stage one, with full authorisation being stage nine.

(b) Another firm has been waiting four years to move forward with its application.

(c) A firm estimated that preparing for IRB had cost them £50 million to date, despite not yet being authorised.

APPENDIX 6: OVERVIEW OF THE UK'S REGULATORY ARCHITECTURE

This note sets out the range of bodies which witnesses[490] identified as regulating aspects of the UK financial services sector and briefly describes their remit.

The Financial Conduct Authority

The Financial Conduct Authority (FCA) was originally established as the Financial Services Authority (FSA) by FSMA 2000[491] and has the functions conferred on it by FSMA 2000.[492]

The FCA has a strategic objective to ensure that relevant markets function well.[493] It has operational objectives to protect consumers, protect the integrity of the UK financial system, and promote effective competition in the interests of consumers.[494] In addition to its primary objectives, following FSMA 2023 the FCA has a secondary international competitiveness and growth objective.[495]

The FCA is the UK Official Listing Authority.[496] It also regulates consumer credit[497] and is the micro-prudential authority for those financial firms that fall outside the remit of the PRA.[498]

The Prudential Regulation Authority

The Prudential Regulation Authority (PRA) forms part of the Bank of England.[499] The PRA has a general objective to promote the safety and soundness of PRA-authorised persons.[500] It also has an insurance objective of securing an appropriate degree of protection for those who are or may become policyholders.[501]

The PRA has two secondary objectives: the secondary international competitiveness and growth objective and a competition objective.[502] This requires the PRA to facilitate effective competition in the markets for services provided by PRA-authorised persons in carrying on regulated activities.[503]

Payment Systems Regulator

The Payment Systems Regulator (PSR) is an independent subsidiary of the FCA which serves as the economic regulator of payment systems.[504] Its objectives are to ensure that payment systems are operated and developed in a way that considers and promotes the interests of all the businesses and consumers that use them;[505] to

490 Supplementary written evidence from Nationwide Building Society (SCG0056)
491 Financial Services Act 2012, section 6
492 Financial Services and Markets Act 2000, section 1B
493 *Ibid.*
494 *Ibid.*, sections 1C, 1D, and 1E
495 *Ibid.*, section 1EB
496 *Ibid.*, section 74
497 The Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) (No.2) Order 2013 (SI 2013/1881)
498 Financial Services and Markets Act 2000, section 1D
499 *Ibid.*, section 2A
500 *Ibid.*, section 2B
501 *Ibid.*, section 2C
502 *Ibid.*, section 2H
503 *Ibid.*
504 Financial Services (Banking Reform) Act 2013, sections 40 and 49; PSR, 'PSR governance': https://www.psr.org.uk/about-us/psr-governance/ [accessed 3 June 2025]
505 Financial Services (Banking Reform) Act 2013, section 52

promote effective competition in the markets for payment systems and services;[506] and to promote the development of and innovation in payment systems, in particular the infrastructure used to operate those systems.[507]

Following an announcement by the Prime Minister on 11 March 2025, the PSR will be abolished and largely consolidated within the FCA.[508]

Bank of England

The Bank of England (BoE) is the central bank of the UK. The BoE has responsibilities for monetary policy, via the Monetary Policy Committee (MPC), and financial stability, via the Financial Policy Committee (FPC).[509] The BoE is also the UK's Resolution Authority with responsibility for the operation of the UK's special resolution regime for firms facing financial difficulties;[510] HM Treasury, the FCA, and the PRA also have a role in the operation of the special resolution regime.[511] Additionally, the BoE has a role in regulating systemically important financial services firms as the PRA, for which the Prudential Regulation Committee (PRC) is responsible.[512]

As such, the BoE is responsible for stabilising the UK's financial system by lending to other banks, providing liquidity support to financial institutions, and ensuring failing banks exit the market in an orderly way without causing damage to the economy.[513]

It is also responsible for supervising financial market infrastructure, via the Financial Market Infrastructure Committee,[514] supervising specified service providers to recognised payment systems,[515] and running core payment systems that allow people, businesses, and banks to make large transfers.[516]

The Joint Regulatory Oversight Committee

The Joint Regulatory Oversight Committee (JROC) was formed in March 2022 and comprised the regulators with responsibility for Open Banking, including the FCA, PSR, and CMA, along with HM Treasury. Its role was to oversee the planning, implementation, and monitoring of the future Open Banking entity until the creation of a permanent regulatory framework.[517]

On 14 November 2024 the Government announced in the National Payments Vision that JROC would be disbanded, with primary responsibility for Open Banking transferred to the FCA.[518]

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506 Financial Services (Banking Reform) Act 2013, section 50
507 *Ibid.*, section 51
508 Prime Minister's Office, 10 Downing Street, Press Release: *Regulator axed as red tape is slashed to boost growth* on 11 March 2025: https://www.gov.uk/government/news/regulator-axed-as-red-tape-is-slashed-to-boost-growth [accessed 1 June 2025]
509 Bank of England Act 1998, sections 9B and 13
510 Banking Act 2009, section 1
511 *Ibid.*
512 Bank of England Act 1998, section 30A
513 Bank of England, 'About us': https://www.bankofengland.co.uk/about [accessed 2 June 2025]
514 Bank of England Act 1998, section 30F
515 Banking Act 2009, section 206A
516 Bank of England, 'About us': https://www.bankofengland.co.uk/about [accessed 2 June 2025]
517 FCA and PSR, *Joint Regulatory Oversight Committee: Terms of reference* (24 June 2022) p 1: https://www.fca.org.uk/publication/corporate/joint-regulatory-oversight-committee-tor.pdf [accessed 2 June 2025]
518 HM Treasury, *National Payments Vision* (14 November 2024) pp 29–31: https://assets.publishing.service.gov.uk/media/6736385fb613efc3f182317a/National_Payments_Vision..pdf [accessed 2 June 2025]

Financial Reporting Council

The Financial Reporting Council (FRC) is an executive non-departmental public body sponsored by the Department for Business and Trade.[519]

It serves as the regulator of auditors, accountants, and actuaries and is responsible for setting the UK's Corporate Governance and Stewardship Codes and promoting transparency and integrity in business.[520]

In His Majesty the King's Speech to Parliament on 17 July 2024, the Government announced its intention to introduce an Audit Reform and Corporate Governance Bill, by which the FRC would be replaced by a new Audit, Reporting and Governance Authority (ARGA).[521]

The Pensions Regulator

The Pensions Regulator (TPR) is an executive non-departmental public body, sponsored by the Department for Work and Pensions, which serves as the regulator of workplace pension schemes. It works with trustees, employers, pension specialists, and business advisers, giving guidance on what is expected of them.[522]

Lending Standards Board

The Lending Standards Board (LSB) is an independent self-regulatory body which sets and provides oversight of adherence to voluntary best practice Standards and Codes for registered financial services firms,[523] with a mission to challenge financial services providers to deliver better outcomes for their customers.[524]

Competition and Markets Authority

The Competition and Markets Authority (CMA) is an independent non-ministerial government department that serves as the UK's principal competition and consumer protection authority, promoting competitive markets and tackling unfair behaviour.[525]

Information Commissioner's Office

The Information Commissioner's Office (ICO) is an executive non-departmental public body, sponsored by the Department for Science, Innovation and Technology. It is responsible for upholding information rights in the public interest and promoting openness by public bodies and data privacy for individuals.[526]

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519 HM Government, 'Financial Reporting Council': https://www.gov.uk/government/organisations/financial-reporting-council [accessed 2 June 2025]
520 *Ibid.*
521 Prime Minister's Office, 10 Downing Street, *The King's Speech 2024* (17 July 2024) pp 44–45: https://assets.publishing.service.gov.uk/media/6697f5c10808eaf43b50d18e/The_King_s_Speech_2024_background_briefing_notes.pdf [accessed 2 June 2025]
522 HM Government, 'The Pensions Regulator': https://www.gov.uk/government/organisations/the-pensions-regulator [accessed 2 June 2025]
523 Written evidence from the Lending Standards Board to the Treasury Committee, Consumers' Access to Financial Services inquiry (December 2018, Session 2017–2019) (CAF0034)
524 Lending Standards Board, 'LSB Strategic Plan 2024–2027: A Summary' (1 August 2024): https://www.lendingstandardsboard.org.uk/resources/lsb-strategic-plan-2024–2027-a-summary/ [accessed 2 June 2025]
525 Competition and Markets Authority, *Competition and Markets Authority Annual Plan 2025 to 2026* (27 March 2025) p 8: https://assets.publishing.service.gov.uk/media/67e408209c9de963bc39b4d4/Annual_Plan_2025_to_2026.pdf [accessed 2 June 2025]
526 HM Government, 'Information Commissioner's Office': https://www.gov.uk/government/organisations/information-commissioner-s-office [accessed 2 June 2025]

Financial Ombudsman Service

The Financial Ombudsman Service (FOS) is the statutory operator of the dispute resolution scheme responsible for resolving individual complaints between financial businesses and eligible complainants. The FOS resolves complaints quickly and with minimum formality,[527] on the basis of what is deemed fair and reasonable.[528]

It looks at complaints from individuals, small and medium-sized enterprises (SMEs), charities, and trusts about financial businesses, in addition to complaints made by customers of claims management companies (CMCs).[529] The Claims Management Ombudsman, a service provided by the Financial Ombudsman Service, is responsible for resolving complaints against CMCs.[530]

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) is the independent statutory compensation scheme of last resort[531] for customers of authorised financial services providers if they are unable to satisfy claims against them[532] and is funded by a levy on the financial services industry.[533] The FSCS is overseen by the FCA and PRA, with the PRA responsible for deposits and insurance rules that relate to the FSCS and the FCA responsible for rules relating to other activities, such as pension advice and investments.[534]

527 Financial Services and Markets Act 2000, section 225
528 *Ibid.*, section 228
529 Financial Ombudsman Service, *Our 2025/26 Plans and Budget: Consultation paper* (11 December 2024) p 3: https://www.financial-ombudsman.org.uk/files/324541/Financial-Ombudsman-Service-Plans-and-Budget-Consultation-2025–26.pdf [accessed 2 June 2025]
530 Claims Management Ombudsman, 'Who we are' (28 January 2021): https://cmc.financial-ombudsman.org.uk/who-we-are [accessed 2 June 2025]
531 FCA, *Financial Services Compensation Scheme: Reporting data for FSCS levies and exemption from levies* (2 January 2014) p 1: https://www.fca.org.uk/publication/fees-information/fscs-guidance.pdf [accessed 2 June 2025]
532 Financial Services and Markets Act 2000, section 213
533 *Ibid.*, section 214
534 Bank of England, 'What is the Financial Services Compensation Scheme (FSCS)?' (3 April 2025): https://www.bankofengland.co.uk/explainers/what-is-the-financial-services-compensation-scheme [accessed 2 June 2025]

APPENDIX 7: OVERVIEW OF THE FCA AND PRA'S OBJECTIVES, REGULATORY PRINCIPLES, AND HAVE REGARDS

The functions of the FCA and PRA are set out in statute.[535] However, when carrying out these functions, the FCA and PRA must consider a range of statutory requirements. These requirements consist of:

(a) The FCA's primary[536] strategic and operational objectives.

(b) The PRA's primary[537] general and insurance objectives.

(c) Secondary objectives.

(d) Regulatory principles.

(e) Have regards.

This appendix is not an exhaustive overview of all statutory requirements to which the FCA and PRA are subject as both have responsibilities under other legislation, such as the Equality Act 2010.[538] However, this sets out the key statutory requirements that the FCA and PRA must consider when carrying out their functions as of 13 June 2025.

The objectives

The FCA and PRA's statutory objectives guide how the regulators act when discharging their general functions by imposing specific standards that regulatory interventions must aim to meet.[539]

Statute provides for two tiers of objectives,[540] with the primary objectives, for the FCA its strategic and operational objectives and for the PRA its general and insurance objectives, taking precedence over their respective secondary objectives.[541]

The primary strategic and operational objectives of the FCA

As set out in Box 1, FSMA 2000 specifies that the FCA has a strategic objective and three operational objectives,[542] together referred to as the primary objectives:[543]

Box 2: The Strategic and Operational Objectives of the FCA

"The FCA's strategic objective is: ensuring that the relevant markets (see section 1F) function well."

"The consumer protection objective is: securing an appropriate degree of protection for consumers."

"The integrity objective is: protecting and enhancing the integrity of the UK financial system."

535 Financial Services and Markets Act 2000, sections 1A and 2AB
536 Letter from Nikhil Rathi to the Prime Minister et al., p 3
537 Letter from Sam Woods to the Prime Minister et al., p 1
538 FCA, 'Product Intervention and Product Governance Sourcebook (PROD) 2.6', *FCA Handbook*: https://www.handbook.fca.org.uk/handbook/PROD/2/6.html [accessed 2 June 2025]
539 Financial Services and Markets Act 2000, sections 1B, 2B, 2C, and 2H
540 *Ibid.*
541 Letter from Nikhil Rathi to the Prime Minister et al., p 3; Letter from Sam Woods to the Prime Minister et al., p 1
542 Financial Services and Markets Act 2000, section 1B
543 Letter from Nikhil Rathi to the Prime Minister et al., p 3

> "The competition objective is: promoting effective competition in the interests of consumers in the markets for—
>
> (a) regulated financial services, or
>
> (b) services provided by a recognised investment exchange in carrying on regulated activities in respect of which it is by virtue of section 285(2) exempt from the general prohibition."

Source: Financial Services and Markets Act 2000, sections 1B, 1C, 1D, and 1E

The secondary objective of the FCA

FSMA 2023 amended FSMA 2000 and created a secondary objective for the FCA:[544]

Box 3: The Secondary Objective of the FCA

> "The competitiveness and growth objective is: facilitating, subject to aligning with relevant international standards—
>
> (a) the international competitiveness of the economy of the United Kingdom (including in particular the financial services sector), and
>
> (b) its growth in the medium to long term."

Source: Financial Services and Markets Act 2000, section 1EB

The primary general and insurance objectives of the PRA

FSMA 2000 specifies that the PRA has a general objective and an objective related to its regulation of the insurance sector,[545] together referred to as the primary objectives:[546]

Box 4: The General and Insurance Objectives of the PRA

> "The PRA's general objective is: promoting the safety and soundness of PRA-authorised persons."
>
> "In discharging its general functions so far as relating to a PRA-regulated activity relating to the effecting or carrying out of contracts of insurance or PRA-authorised persons carrying on that activity, the PRA must, so far as is reasonably possible, act in a way—
>
> (a) which is compatible with its general objective and its insurance objective, and
>
> (b) which the PRA considers most appropriate for the purpose of advancing those objectives."
>
> "The PRA's insurance objective is: contributing to the securing of an appropriate degree of protection for those who are or may become policyholders."
>
> "This section applies only if the effecting or carrying out of contracts of insurance as principal is to any extent a PRA-regulated activity."

Source: Financial Services and Markets Act 2000, sections 2B and 2C

544 Financial Services and Markets Act 2023, section 25
545 Financial Services and Markets Act 2000, sections 2B and 2C
546 Letter from Sam Woods to the Prime Minister et al., p 1

The secondary objectives of the PRA

FSMA 2000 specifies that the PRA has two secondary objectives, a competition objective and an international competitiveness and growth objective introduced by FSMA 2023:[547]

Box 5: The Secondary Objectives of the PRA

"When discharging its general functions in a way that advances its objectives (see section 2F), the PRA must, so far as reasonably possible, act in a way that advances the following secondary objectives—

(a) the competition objective, and

(b) the competitiveness and growth objective."

"The competition objective is: facilitating effective competition in the markets for services provided by PRA-authorised persons in carrying on regulated activities."

"The competitiveness and growth objective is: facilitating, subject to aligning with relevant international standards—

(a) the international competitiveness of the economy of the United Kingdom (including in particular the financial services sector through the contribution of PRA-authorised persons), and

(b) its growth in the medium to long term."

Source: Financial Services and Markets Act 2000, section 2H

Regulatory principles

Section 3B of FSMA 2000[548] specifies eight Regulatory Principles to which both the FCA and PRA must have regard when discharging their general functions.[549] These principles set out how the regulators are expected to operate and their general approach to regulating:

Box 6: The Regulatory Principles to be applied by the FCA and PRA

"In relation to the regulators, the regulatory principles referred to in section 1B(5)(a) and 2H(2) are as follows—

(a) the need to use the resources of each regulator in the most efficient and economic way;

(b) the principle that a burden or restriction which is imposed on a person, or on the carrying on of an activity, should be proportionate to the benefits, considered in general terms, which are expected to result from the imposition of that burden or restriction;

(c) the desirability of sustainable growth in the economy of the United Kingdom in the medium or long term;

547 Financial Services and Markets Act 2023, section 25
548 Financial Services and Markets Act 2000, section 3B
549 *Ibid.*, sections 1B and 2H

(c) the need to contribute towards achieving compliance by the Secretary of State with section 1 of the Climate Change Act 2008 (UK net zero emissions target) and section 5 of the Environment Act 2021 (environmental targets) where each regulator considers the exercise of its functions to be relevant to the making of such a contribution;

(d) the general principle that consumers should take responsibility for their decisions;

(e) the responsibilities of the senior management of persons subject to requirements imposed by or under this Act, including those affecting consumers, in relation to compliance with those requirements;

(f) the desirability where appropriate of each regulator exercising its functions in a way that recognises differences in the nature of, and objectives of, businesses carried on by different persons (including different kinds of person such as mutual societies and other kinds of business organisation) subject to requirements imposed by or under this Act;

(g) the desirability in appropriate cases of each regulator publishing information relating to persons on whom requirements are imposed by or under this Act, or requiring such persons to publish information, as a means of contributing to the advancement by each regulator of its objectives;

(h) the principle that the regulators should exercise their functions as transparently as possible."

Source: Financial Services and Markets Act 2000, section 3B

Have regards

The key 'have regards' which the FCA and PRA must consider when exercising their statutory functions derive from three sources:

(a) The framing of the FCA and PRA's general duties and statutory objectives.[550]

(b) Aspects of the Government's economic policy for which HM Treasury determines the FCA and PRA must have regard under FSMA 2000, section 1JA, and the Bank of England Act 1998, section 30B,[551] set out in the Chancellor's remit letters.

(c) Under FSMA 2000, section 138EA, HM Treasury may, through regulations, determine considerations the FCA and PRA must have regard for when making specific rules.[552]

However, the FCA and PRA also have a broader range of 'have regards', often related to the exercise of specific regulatory functions.[553] Whilst such 'have regards' may not have the general application of those set out below, each requires consideration by the FCA and PRA when exercising the related statutory functions.

The FCA told the Committee that, excluding the regulatory principles under FSMA 2000, section 3B, and 'have regards' contained in the Chancellor's remit

550 Financial Services and Markets Act 2000, sections 1B, 1C, 1D, 1E, 1EB, 2B, 2C, 2D, and 2H
551 *Ibid.*, section 1JA; Bank of England Act 1998, section 30B
552 Financial Services and Markets Act 2000, section 138EA
553 Written evidence from the FCA (SCG0074)

letter, "there are around eighty other 'have regards' that apply to [the] FCA".[554] Sam Woods told the Committee that: "We [the PRA] have 25 have regards".[555]

Have regards for the FCA

FSMA 2000 stipulates that the FCA must have regard to a range of considerations when carrying out its general duties, as set out in Boxes 7–11:

Box 7: Have Regards Connected to the FCA's General Functions

"In discharging its general functions the FCA must have regard to— …

(b) the importance of taking action intended to minimise the extent to which it is possible for a business carried on—

(i) by an authorised person or a recognised investment exchange, or

(ii) in contravention of the general prohibition,

to be used for a purpose connected with financial crime."

Source: Financial Services and Markets Act 2000, section 1B

Box 8: Have Regards Connected to the FCA's Consumer Protection Objective

"In considering what degree of protection for consumers may be appropriate, the FCA must have regard to—

(a) the differing degrees of risk involved in different kinds of investment or other transaction;

(b) the differing degrees of experience and expertise that different consumers may have;

(c) the needs that consumers may have for the timely provision of information and advice that is accurate and fit for purpose;

(d) the general principle that consumers should take responsibility for their decisions;

(e) the general principle that those providing regulated financial services should be expected to provide consumers with a level of care that is appropriate having regard to the degree of risk involved in relation to the investment or other transaction and the capabilities of the consumers in question;

(f) the differing expectations that consumers may have in relation to different kinds of investment or other transaction;

(h) any information which the scheme operator of the ombudsman scheme has provided to the FCA pursuant to section 232A."

Source: Financial Services and Markets Act 2000, section 1C

554 Written evidence from the FCA (SCG0074)
555 Q 292 (Sam Woods)

Box 9: Have Regards Connected to the FCA's Integrity of the UK Financial System Objective

"The "integrity" of the UK financial system includes—

(a) its soundness, stability and resilience,

(b) its not being used for a purpose connected with financial crime,

(c) its not being affected by contraventions by persons of Article 14 (prohibition of insider dealing and of unlawful disclosure of inside information) or Article 15 (prohibition of market manipulation) of the market abuse regulation,

(d) the orderly operation of the financial markets, and

(e) the transparency of the price formation process in those markets."

Source: Financial Services and Markets Act 2000, section 1D

Box 10: Have Regards Connected to the FCA's Competition Objective

"The matters to which the FCA may have regard in considering the effectiveness of competition in the market for any services mentioned in subsection (1) include—

(a) the needs of different consumers who use or may use those services, including their need for information that enables them to make informed choices,

(b) the ease with which consumers who may wish to use those services, including consumers in areas affected by social or economic deprivation, can access them,

(c) the ease with which consumers who obtain those services can change the person from whom they obtain them,

(d) the ease with which new entrants can enter the market, and

(e) how far competition is encouraging innovation."

Source: Financial Services and Markets Act 2000, section 1E

Box 11: Have Regards Connected to the Chancellor's Most Recent Remit Letter to the FCA

"The FCA should have regard to the government's policy towards the financial services sector, where the government's top priority is to promote its growth and international competitiveness.

As part of this, the FCA should have regard to:

- The vital contribution of the financial services sector to overall economic growth and in supporting the real economy through sustainable lending, and by attracting and mobilising increased investment and encouraging trade;

- Creating a regulatory environment which facilitates growth through supporting competition and innovation, and encouraging newer and more innovative firms to startup, scale-up and remain in the UK;
- Maintaining and enhancing the UK's position as a world-leading global finance hub and a destination of choice for international financial services business, including by demonstrating leadership in international regulatory forums;
- Leading the world in sustainable finance, including by unlocking the full potential of the financial services sector to fund the green transition; making the UK a global hub for sustainable finance activity, and delivering a world-leading sustainable finance regulatory framework;
- Ensuring the UK's capital markets are competitive and support UK growth, including through the ongoing Pensions Review that aims to unlock billions of pounds of investment for UK businesses with high growth potential; and
- Reinforcing financial inclusion and supporting home ownership to enable individuals to access the financial services and products they need to fully participate in the economy, including the government's commitment to making home ownership more accessible by fixing the planning system and building 1.5 million more homes, and supporting first-time buyers who struggle to save for a large deposit."

Source: Letter from the Rt Hon Rachel Reeves MP, Chancellor of the Exchequer, to Nikhil Rathi, Chief Executive of the FCA (14 November 2024): https://assets.publishing.service.gov.uk/media/673712ee12f25d73081271e8/CX_Letter_-_Recommendations_for_the_Financial_Conduct_Authority__FCA__-_Nikhil_Rathi_14112024.pdf *[accessed 3 June 2025]*

Have regards for the PRA

FSMA 2000 stipulates that the PRA must have regard to a range of considerations when carrying out its general duties,[556] set out in Boxes 12–13:

Box 12: Have Regards Connected to the PRA's General Objective to Promote Safety and Soundness

"That objective is to be advanced primarily by—

(a) seeking to ensure that the business of PRA-authorised persons is carried on in a way which avoids any adverse effect on the stability of the UK financial system,

(b) seeking to minimise the adverse effect that the failure of a PRA-authorised person could be expected to have on the stability of the UK financial system, and

(c) discharging its general functions in relation to the matters mentioned in subsection (4A) in a way that seeks to—

(i) ensure that the business of ring-fenced bodies is carried on in a way that avoids any adverse effect on the continuity of the provision in the United Kingdom of core services,

556 Financial Services and Markets Act 2000, sections 2B, 2C, and 2D

(ii) ensure that the business of ring-fenced bodies is protected from risks (arising in the United Kingdom or elsewhere) that could adversely affect the continuity of the provision in the United Kingdom of core services, and

(iii) minimise the risk that the failure of a ring-fenced body or of a member of a ring-fenced body's group could affect the continuity of the provision in the United Kingdom of core services."

Source: Financial Services and Markets Act 2000, section 2B

Box 13: Have Regards Connected to the Chancellor's Most Recent Remit Letter to the Prudential Regulation Committee (PRC)

"The Committee should have regard to the government's policy towards the financial services sector, where the government's top priority is to promote its growth and international competitiveness.

As part of this, the Committee should have regard to:

- The vital contribution of the financial services sector to overall economic growth and in supporting the real economy through sustainable lending, and by attracting and mobilising increased investment and encouraging trade;
- Creating a regulatory environment which facilitates growth through supporting competition and innovation, and encouraging newer and more innovative firms to startup, scale-up and remain in the UK;
- Maintaining and enhancing the UK's position as a world-leading global finance hub and a destination of choice for international financial services business, including by demonstrating leadership in international regulatory forums;
- Leading the world in sustainable finance, including by unlocking the full potential of the financial services sector to fund the green transition; making the UK a global hub for sustainable finance activity, and delivering a world-leading sustainable finance regulatory framework;
- Ensuring the UK's capital markets are competitive and support UK growth, including through the ongoing Pensions Review that aims to unlock billions of pounds of investment for UK businesses with high growth potential; and
- Reinforcing financial inclusion and supporting home ownership to enable individuals to access the financial services and products they need to fully participate in the economy, including the government's commitment to making home ownership more accessible by fixing the planning system and building 1.5 million more homes, and supporting first-time buyers who struggle to save for a large deposit."

Source: Letter from the Rt Hon Rachel Reeves MP, Chancellor of the Exchequer, to Andrew Bailey, Governor of the Bank of England (14 November 2024): https://www.bankofengland.co.uk/-/media/boe/files/letter/2024/prc-remit-letter-2024.pdf *[accessed 3 June 2025]*

APPENDIX 8: OVERVIEW OF THE FCA AND PRA'S STATUTORY AUTHORISATION DEADLINES

This note sets out the FCA and PRA's statutory operating service requirements for the principal functions for which authorisation is required, namely, firm (regulated activity) authorisation, investment fund authorisation, and approved persons authorisation.

This note is not exhaustive but sets out the statutory timescales of key functions for which firms often require authorisation.

Authorising a firm

Operating a regulated financial services firm requires registration with the FCA,[557] whilst carrying on regulated activities requires authorisation from either the FCA or the PRA.[558]

The process for gaining authorisation to carry on general regulated activities is stipulated by FSMA 2000,[559] with the processes for Electronic Money Institutions and Payment Institutions set out in the Electronic Money Regulations 2011[560] and Payment Services Regulations 2017[561] respectively.

The statutory maximum timescales for receiving general authorisation to operate as a regulated financial firm are set out below:

Table 1: Table of Statutory Timeframes for Firm Authorisations

Regulator	Function Authorised	Purpose	Statutory Timeframe	Section of Statute
FCA and PRA	Regulated Activity (Part 4A) Permissions	The process whereby the FCA and PRA grant a financial services firm authorisation to carry on specified activities that they regulate. Receiving authorisation to carry on such regulated activities is a prerequisite for new firms operating in the sector.	Complete applications within 6 months. Incomplete applications within 12 months.	FSMA 2000, section 55V, (1) and (2)

557 Financial Services and Markets Act 2000, section 347
558 *Ibid.*, section 55A
559 *Ibid.*, part 4A
560 The Electronic Money Regulations 2011 (SI 2011/99), part 2
561 The Payment Services Regulations 2017 (SI 2017/752), part 2

Regulator	Function Authorised	Purpose	Statutory Timeframe	Section of Statute
FCA and PRA	Regulated Activity (Part 4A) Variation of Permission	The process whereby the FCA and PRA grant a financial services firm authorisation to carry on additional specified activities that they regulate. A Variation of Permission may be required before a firm begins a new type of regulated activity, for instance, when expanding into a new market segment or leaving a Sandbox.	Complete applications within 6 months. Incomplete applications within 12 months.	FSMA 2000, section 55V, (1) and (2)
FCA	Regulated Activity (Part 4A) Permission and Variation of Permission (Insurance Distribution Activities)	Insurance Distribution Activities are defined in statute[562] as regulated activities related to advising on or brokering securities, structured deposits, or insurance contracts. Statute provides for a lower operating service requirement for authorising these activities.	Complete applications within 3 months. Incomplete applications within 12 months.	FSMA 2000, section 55V, (9)
FCA	Electronic Money Institution Authorisation and Variation of Authorisation	Electronic Money Institutions (EMIs) are firms authorised to issue electronic money, which is money stored electronically to facilitate payments.[563]	Complete applications within 3 months. Incomplete applications within 12 months.	The Electronic Money Regulations 2011 (SI 2011/99), regulation 9, (1) and (2)

562 The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544), article 92
563 The Electronic Money Regulations 2011 (SI 2011/99), regulation 2

Regulator	Function Authorised	Purpose	Statutory Timeframe	Section of Statute
FCA	Payment Service Provider Authorisation and Variation of Authorisation	Payment Service Providers (PSPs) are any regulated firm, EMI, or public body that carry out payment services, such as cash withdrawals, card payments, standing orders, and remittances.[564] Firms carrying out these activities must be authorised or receive a variation of a current authorisation.	Complete applications within 3 months. Incomplete applications within 12 months.	The Payment Services Regulations 2017 (SI 2017/752), regulation 9, (1) and (2)

Source: Financial Services and Markets Act 2000; *The Electronic Money Regulations 2011 (*SI 2011/99*); The Payment Services Regulations 2017 (*SI 2017/752*)*

Authorising an investment fund

Statute requires collective investment schemes, that is, arrangements enabling participants to participate in or receive profits or income arising from investments,[565] to be authorised by the FCA.

Undertakings for Collective Investment in Transferable Securities (UCITS) are collective investments that under UK and EU law may be marketed to retail customers.[566] Money Market Funds maintain the net asset value of the fund by investing into cash and cash-like assets.[567]

The statutory maximum timescales for receiving authorisation to operate an investment fund are set out below:

564 The Payment Services Regulations 2017 (SI 2017/752), regulation 2 and schedule 1, part 1
565 Financial Services and Markets Act 2000, section 235
566 FCA, *The Collective Investment Scheme Information Guide* (May 2025): https://www.handbook.fca.org.uk/handbook/COLLG.pdf [accessed 3 June 2025]
567 FCA, *Consultation Paper CP23/28: Updating the regime for Money Market Funds* (6 December 2023) p 3: https://www.fca.org.uk/publication/consultation/cp23-28.pdf [accessed 4 June 2025]

Table 2: Table of Statutory Timeframes for Investment Fund Authorisations

Regulator	Function Authorised	Purpose	Statutory Timeframe	Section of Statute
FCA	Authorised Unit Trust (AUT) Authorisation	An AUT is a class for collective investment vehicle that includes many common forms of investment funds, such as equity, fixed income, and real estate investment funds.	Complete applications within 6 months. Incomplete applications within 12 months.	FSMA 2000, section 244, (1) and (2)
FCA	Authorised Unit Trust (AUT) (UCITS and Money Market) Authorisation	AUTs may also be regulated as UCITS or Money Market funds. For these fund types, a shorter statutory authorisation timeframe applies.	Complete UCITS or Money Market applications within 2 months. Incomplete applications within 12 months.	FSMA 2000, section 244, (1A) and (2)
FCA	Authorised Contractual Scheme Authorisation	An Authorised Contractual Scheme is a vehicle that allows for assets to be held in a co-ownership or partnership arrangement that is tax transparent.[568]	Complete applications within 6 months. Incomplete applications within 12 months.	FSMA 2000, section 261F, (1) and (3)
FCA	Authorised Contractual Scheme (UCITS and Money Market) Authorisation	Authorised Contractual Schemes may also be regulated as UCITS or Money Market funds. For these fund types, a lower statutory authorisation timeframe is required.	Complete UCITS or Money Market applications within 2 months. Incomplete applications within 12 months.	FSMA 2000, section 261F, (2) and (3)

Source: Financial Services and Markets Act 2000

568 HM Treasury, *Contractual schemes for collective investment: summary of consultation responses and Government response* (25 March 2013) pp 3–4: https://assets.publishing.service.gov.uk/media/5a7cbc93ed915d68223623cb/consult_contractual_schemes_collective_investment_summary_of_responses.pdf [accessed 4 June 2025]

Authorising approved persons

1. Under statute individuals holding key functions within an authorised firm are required to receive regulatory approval to carry on those functions within the business.[569]

2. The statutory maximum timescales for receiving authorisation to carry on certain functions as an approved person are set out below:

Table 3: Table of Statutory Timeframes for Approved Persons Authorisations

Regulator	Function Authorised	Purpose	Statutory Timeframe	Section of Statute
FCA and PRA	Senior Manager and Certification Regime and Controlled Function Authorisation	The Senior Manager and Certification Regime and Controlled Function Regime are key elements of the approved persons requirements. Receiving authorisation is required to carry on designated senior management functions.	Within 3 months (unless also applying for Part 4A authorisation). If additional information is required, the assessment period stops until the day on which all information is received.	FSMA 2000, section 61, (3A) and (4)
FCA and PRA	Senior Manager and Certification Regime and Controlled Function Variation of Permission Authorisation	An individual seeking to carry on additional or different designated senior management functions must receive a Variation of Permission authorisation.	Within 3 months. If additional information is required, the assessment period stops until the day on which all information is received.	FSMA 2000, section 63ZA, (5) and (8)

Source: Financial Services and Markets Act 2000

569 Financial Services and Markets Act 2000, section 59

APPENDIX 9: GLOSSARY OF TERMS

AGBR	Advice Guidance Boundary Review
AI	Artificial Intelligence
APAC	Asia-Pacific Region
APP fraud	Authorised Push Payment fraud
AUT	Authorised Unit Trust
CBA	Cost Benefit Analysis
CBI	Central Bank of Ireland
CCyB	Counter-Cyclical Buffer
CET1	Common Equity Tier 1
CMA	Competition and Markets Authority
CMCs	Claims Management Companies
DB	Defined Benefit
DC	Defined Contribution
DISP	Dispute Resolution Handbook
EMI	Electronic Money Institution
ESMA	European Securities and Markets Authority
FCA	Financial Conduct Authority
FOS	Financial Ombudsman Service
FPC	Financial Policy Committee
FRC	Financial Reporting Council
FSA	Financial Services Authority
FSCS	Financial Services Compensation Scheme
FSMA 2000	Financial Services and Markets Act 2000
FSMA 2023	Financial Services and Markets Act 2023
GDP	Gross Domestic Product
ICAAP	Internal Capital Adequacy Assessment Process
ICO	Information Commissioner’s Office
ILAAP	Internal Liquidity Adequacy Assessment Process
ILS	Insurance Linked Securities
IRB	Internal Ratings Based
ISA	Individual Savings Account
JROC	Joint Regulatory Oversight Committee
LSB	Lending Standards Board
LTAF	Long Term Asset Fund
LTV	Loan-to-Value (Ratio)

MA	Matching Adjustment
MaPS	Money and Pensions Service
MAS	Monetary Authority of Singapore
MCR	Minimum Capital Requirement
MiCA	Markets in Crypto-Assets Regulation
MiFID	Markets in Financial Instruments Directive
MoU	Memorandum of Understanding
MREL	Minimum Requirements for Own Funds and Eligible Liabilities
MLRs	Money Laundering Regulations
P&L	Profit and Loss
PSP	Payment Service Provider
PRA	Prudential Regulation Authority
PSR	Payment Services Regulator
RDR	Retail Distribution Review
RWA	Risk Weighted Assets
SAR	Suspicious Activity Report
SDDT	Small Domestic Deposit Takers
SM&CR	Senior Managers and Certification Regime
SME	Small and Medium-Sized Enterprise
SMF	Senior Manager Function
SNP	Senior Non-Preferred Debt
SUK	Solvency UK
TPR	The Pensions Regulator
UCITS	Undertakings for Collective Investment in Transferable Securities