FINANCIAL CONDUCT AUTHORITY

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The Rt Hon Nadhim Zahawi MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
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19 July 2022

Dear Chancellor,

Section 1JA recommendations for the Financial Conduct Authority (FCA)

Your predecessor's remit letters dated 23 March 2021 and 7 April 2022 set out recommendations to the FCA about aspects of the Government's economic policy to which we should have regard when considering how to advance our objectives and discharge our functions. I highlight below the FCA's activities over the past year that contribute to that economic policy.

As noted in the March 2021 letter, advancing our statutory objectives is the FCA's main contribution to the Government's economic policy. Our three-year Strategy (2022 to 2025) and 2022/23 Business Plan set out how we will continue to do this, using the full suite of regulatory tools, and transform the way we work. This includes setting out several priority commitments and outcomes to measure our impact.

Our activities

Better outcomes for consumers

Securing better outcomes for all consumers, including vulnerable customers, continues to be central to our work. This is particularly important given current pressures on household budgets. Examples of our work in this space, in addition to the competition-related activities mentioned below, include:

- Our **new Consumer Duty**, which sets a higher standard of care for consumers across retail financial service markets. By focusing on delivering good consumer outcomes, and giving firms greater certainty on our regulatory expectations, it will also help to boost competition and innovation. We expect to publish our Policy Statement and any new rules by the end of July 2022.
- Our **InvestSmart campaign,** launched in October 2021, which aims to help consumers make better-informed investment decisions. This includes helping investors identify and access investments that suit their circumstances and attitudes to risk, providing impartial

information on basic investment principles and encouraging a longer-term, more diversified investment approach.

- Our strengthened **financial promotion rules for high-risk investments, including cryptoassets, and for authorised firms that approve and communicate financial promotions** aim to reduce the number of consumers who lose money because they stray into investments that are riskier than they prefer.

- **Improving pension advice, including defined benefit pension transfer advice**. We continue to help consumers, who have lost benefits following unsuitable advice, to know how to get redress. We have proposed establishing a redress scheme for people who received unsuitable advice to transfer out of the British Steel Pension Scheme (BSPS).

- Our **Borrowers in financial difficulty (BiFD) project** seeks to ensure that firms continue to support borrowers in financial difficulty due to coronavirus. Our Tailored Support Guidance (TSG) for mortgages, consumer credit and overdrafts reiterates our expectations of firms for their treatment of customers. And, on 16 June 2022, we wrote to thousands of retail lending firms to remind them of the standards they should meet as consumers across the country are affected by the rising cost of living.

- Our work on **Strong Customer Authentication (SCA) for e-commerce card payments** saw the implementation of SCA rules that aim to reduce card fraud loss by making payments safer and more secure. We balance this carefully against the need to support responsible, evidence-based innovation, such as changing our rules to increase the single transaction contactless payment limit to £100.

- Our **membership of the Digital Regulation Cooperation Forum**. Digitalisation is increasingly central to how financial services markets operate. Because of the unique challenges of digital markets, the FCA strongly supports a joined up regulatory approach.

- Our £90m **enforcement** fine on Lloyds for its unsubstantiated competitiveness assertions, in millions of retail insurance renewal quotes, will have incentivised Lloyds and other firms to take greater care in such communications. Our litigation against firms unlawfully carrying on regulated financial activities without authorisation has also secured £34.8m in redress for retail investors.

- Our **supervisory intervention** work through our ongoing Use It or Lose It project saw us cancel the authorisations of over 260 firms no longer carrying on regulated financial activities, reducing the risk of harm to consumers. We also imposed statutory requirements on 70 authorised firms - for example, blocking their marketing of products, forcing them to pay redress and/or restricting their ability to dissipate their assets.

- Our long-running **ScamSmart** campaign continues to empower consumers, through advertising, social media, and a special-purpose interactive website, with knowledge and tools to reduce their risk of loss to fraud. The campaign covers a range of fraud types – with particular focus on pensions, investments, and loan fee fraud. As to its effectiveness, we estimate, from searches on our unauthorised firm warning list, that it saved consumers £87.3m from pension fraud alone last year, a return over a thousand times greater than our relevant investment.

Competition

Both our competition objective and our competition duty are integral to our work to reduce potential harm to consumers and markets. When competition works well, it can drive down costs and prices, enhance service standards and improve access to financial services. It can also drive innovation and productivity, which in turn promotes long-term economic growth and competitiveness. Our recent work includes:

- **Further investigations into how specific markets are working for consumers, including in the banking and insurance sectors**. This includes our Strategic Review of Retail Banking Business Models which examined how banks are transforming their businesses to meet the challenges of digitalisation and technological change, and responding to the growing pressures on small and medium-sized enterprises and consumers as a result of the pandemic. We are continuing to work with the Government and the industry to increase competition and innovation in retail banking – such as developing both the effectiveness of open banking and a roadmap for Open Finance.
- Our **rules to address the harm identified in our General Insurance Pricing Practices Market Study**. These stop firms systematically increasing prices in home and motor insurance for loyal customers. They also ensure that firms provide fair value to all customers, to support healthy competition and increase trust in general insurance markets.
- Our **Feedback Statement on accessing and using wholesale data** announced a review of the market for trade data, and market studies on benchmarks and credit rating agency data. A lack of competition in wholesale data markets could reduce the use of wholesale data in investment decision-making and increase costs for investors.
- Our interim report on the **credit information market,** which we will publish in September. Ensuring lenders can access high quality credit information is important in ensuring credit markets work well to help consumers through future economic cycles.
- Our continued investigation into suspected anti-competitive arrangements under Chapter I of the Competition Act 1998, using our **powers to enforce UK competition law for the provision of financial services in the UK and claims management services in Great Britain**. We also issued 14 'on notice' letters, which are designed to increase awareness of competition law and encourage compliance. These related to potential agreements or concerted practices under Chapter I across several industry sectors.

Innovation

Innovation is a key driver of productivity, long-term growth, and competitiveness, underpinned by our commitment to high regulatory standards. We continue to invest in our Innovation function, furthering our capability and commitment to safe innovation in the interests of consumers and markets. Since inception, the **FCA's Innovation Hub** has received 2,289 applications from firms and we have supported 813 of these, representing a significant portion of the UK's FinTech ecosystem.

Our services have been popular and beneficial for firms, but we are conscious of the need to continuously evolve the types of innovation services we provide to keep pace with a rapidly changing market. We have changed the **Regulatory sandbox** to be 'always open' to more quickly meet firm needs, as well as combining our 'direct support' and 'advice unit' services into a single 'Innovation Pathways' service, streamlining the application process for firms. We also piloted a '**digital sandbox**' in partnership with the City of London Corporation and, following the pilot's success, will roll out a permanent version later this year.

We are using the breadth of our regulatory innovation tools to support the development of new approaches and solutions in the areas of sustainability and climate change.

We also hosted a CryptoSprint, which brought together 160 participants to explore and inform the development of future regulations on cryptoassets. Later this year, we will convene the industry on technological approaches to preventing and detecting push payment fraud, a societal challenge requiring public-private collaboration.

Competitiveness, growth & trade

Financial services regulators have an important role to play in the continued future success of the UK's financial services markets. This includes supporting economic growth in the wider economy, with safe, stable, and open markets.

The Government's Future Regulatory Framework (FRF) Review proposes to introduce, for us and the Prudential Regulation Authority (PRA), a secondary growth and international competitiveness objective. This builds on existing work and we see this as an opportunity to further enhance the attractiveness and global reach of our markets, and to provide opportunities for UK financial services companies to invest, innovate and expand in the UK and abroad.

We seek to boost the key drivers of competitiveness and long-term growth (competition, productivity, and innovation) by opening markets to competition, creating incentives and opportunities to innovate and invest, and, indirectly, through creating a regulatory environment that builds trust and confidence in UK financial markets and institutions.

- We can open markets up to competition by seeking to reduce unnecessary frictions for firms trading internationally. We do this through our regular programmes of **engagement with regulators** from priority economies. By working with international bodies - such as the International Organisation of Securities Commissions (IOSCO), the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF) - we seek to promote good regulatory practice globally and encourage cohesion in the ways regulators manage their financial services markets.

- We support the Government's trade strategy and have worked closely with the Treasury to help deliver robust financial services chapters for both the **UK-Australia and the UK-New Zealand free trade agreements**. Ongoing negotiations for the **Swiss Mutual Recognition Agreement** and **free trade agreements with countries including India, Canada and Mexico** all hold potential to lock in or improve on existing trading conditions for financial services providers. This increases demand for UK companies, promoting competitiveness and growth. The trade agreements also increase regulatory certainty, providing additional incentives to invest. We will support the Government's ongoing programme of trade negotiations by providing technical advice in line with our objectives.

- Our work on **Open Banking** and **Open Finance** seeks to improve competitiveness and growth directly by opening up markets and creating opportunities to innovate and invest.

- Creating market reforms that promote innovation and investment is a key aspect of increasing long-term growth and competitiveness. Our pioneering 'sandbox' serves as a blueprint for over 40 regulators globally. The UK represented nearly half of all European fintech investment last year. High standards, enforced effectively, underpin this success.

- Competitiveness and growth can also be achieved through working with our regulatory partners and the Treasury. This includes through the **Digital Regulation Cooperation Forum**, which seeks to deliver a pro-innovation approach to the regulation of digital markets, and the **Regulatory Initiatives Grid and Forum**. The Grid helps us coordinate on key areas such as Wholesale Financial Markets and Innovation, and to effectively monitor the regulatory burden on industry. Stakeholders tell us that they value this forward look, and find it helpful in planning their responses to forthcoming regulatory activity. This helps ensure that the UK remains an attractive place of business for international firms.

- Our **enforcement** activities also support the competitiveness of the UK's financial markets and economic growth by giving domestic and foreign investors trust and confidence that high standards are effectively and responsibly policed and supported by deterrent sanctions and supervisory intervention when necessary. We are working to further enhance our capabilities in this regard – specifically to identify more quickly firms and individuals likely to cause harm – through our ongoing Transformation programme.

Climate change & energy security

As detailed in our three-year Strategy and our **Environmental, Social, and Governance (ESG) Strategy**, we continue to support the Government's net zero commitment and are embedding climate considerations across our functions. Examples of recent work in this area are:

- **Our new disclosure rules for standard listed issuers, asset managers and FCA-regulated asset owners**. The rules require these firms to disclose their approaches to governance, strategy and risk management of climate-related risks and opportunities, as well as the metrics and targets they use to measure progress. These requirements complement equivalent rules we introduced for **premium listed issuers** in January 2021.

- Our **Task Force on Climate-Related Disclosures Report** sets out how we are approaching the climate-related risks and opportunities we face as a regulator and as an operating entity.

- In keeping with the Government's ambition to make the UK the best place in the world for green and sustainable investment, our November 2021 Discussion Paper 21/4 sets out a potential approach to introducing **Sustainability Disclosure Requirements** for investment managers and a sustainable labelling system for investment products. We will publish our follow-on Consultation Paper later this year.

- Our work within the **Transition Plan Taskforce** and the **Climate Financial Risk Forum**, which we co-convene with the PRA, shows our commitment to helping the Government establish best practice for firm-level transition plans. We continue our work with the Financial Reporting Council, other regulators, and industry on how firms can develop their stewardship strategies to support the transition to net zero.

- Our listings regime rule changes (December 2021) aim to ensure that UK public markets, across all sectors, including the UK hydrocarbon industry, remain an attractive and trusted place for listed companies. This is in line with the Government's energy security strategy. We have focused on supporting market-led decisions over time, primarily through transparency. Our forthcoming proposals on labelling and classification of sustainable investments will accommodate products that emphasise investments in companies that are transitioning to be more sustainable, including those in the energy sector.
- Through **our ongoing international work** with the International Financial Reporting Standards Foundation and IOSCO, among others, we continue to promote the development of common global standards for corporate disclosures.

Action & support at the gateway

We continue to strengthen our authorisation gateway, assessments, and level of assurance by, for example, creating an Early and High-Growth Oversight program (previously referred to as the Scalebox) that aims to support new start-ups and growing enterprises with targeted interventions through close monitoring and interaction.

Our 'new start-up' units continue to support new banks and asset managers in meeting our standards, which will encourage greater competition by bringing new competitors, including overseas businesses, to the marketplace in a sustainable way.

We also ensure that firms with high-risk products (e.g. cryptoassets) are ready to prevent the associated risks of harm and to make consumers aware of the risks of investing.

Our remit

Future Regulatory Framework (FRF) Review

We support the Government's ambition for the FRF Review to ensure that the design of the UK's future legislative and regulatory framework maintains a coherent, agile, and internationally respected approach to financial services regulation. The Financial Services and Markets Bill includes various measures to deliver the FRF Review, and we look forward to implementing the outcomes of this legislation in the coming years.

We recognise the need to build in more accountability given the regulators' new responsibilities for making rules in areas that are currently covered by retained EU law. We remain committed to exercising our functions in a transparent and accountable way, and we hope our Strategy and Business Plan demonstrate this commitment. However, it is critical that the outcomes of FRF Review do not undermine our operational independence.

We welcome the draft new powers for regulators in areas currently covered by retained EU law, once those are transferred to our rulebooks. This will ensure we can act quickly to prevent harm. We have already implemented the new Investment Firms Prudential Regime (IFPR). In line with the aims of the FRF Review, this aims to simplify the prudential requirements for MiFID investment firms that we prudentially regulate in the UK. In line with our objectives, it refocuses prudential requirements and expectations away from the risks firms face, to also consider the potential harm firms pose to consumers and markets.

FCA’s perimeter

Our Perimeter Report sets out where we think our regulatory perimeter needs to change. This year, we are publishing this as a dynamic and web-based update. This will enable us to provide updates more regularly, as we identify harms or take action.

We will continue to raise our concerns routinely with the Government and Parliament when we identify harm that falls outside our perimeter. Our latest report covers several issues including the importance of looking again at the legislation that underpins the Appointed Representatives regime and the importance of taking forward work to extend the Senior Managers & Certification Regime to Recognised Investment Exchanges, Credit Ratings Agencies, and payment and e-money firms. We also continue to believe that changes are needed to the Financial Promotions Order, to protect consumers at risk of receiving financial promotions for high-risk investments that do not have to comply with FCA rules. We will continue to work with the Treasury on this issue.

Other than publishing this report, and my annual meeting with the Economic Secretary to the Treasury to discuss perimeter issues, we would also welcome a power for the FCA to recommend perimeter changes. This will help to ensure that our perimeter enables us to protect consumers and markets, in a dynamic and ever-changing financial services sector, whilst respecting the fact that such changes are ultimately a matter for the Government and Parliament to decide.

Russian invasion of Ukraine

Changing our operating model has proved vital in our response to the war in Ukraine. We moved fast, alongside our domestic and international partners, to respond to the introduction of a range of globally coordinated sanctions. Our work with the Bank of England and others ensured we could effectively monitor volatile commodity markets.

We took early action to provide guidance on operational and cyber resilience, including statements about preparing for the increased likelihood of cyberattacks.

We also expedited publication of our proposals on allowing Authorised Fund Managers to use side pockets to deal with sanctioned or suspended Russian and Belarussian exposures. This work will enable relevant funds to operate fairly and efficiently in the interests of all investors.

Conclusion

The markets we regulate are not static, so our response to challenges and opportunities over the past year will likely not be the same over the coming years. Regulators and industry will continue to have a pivotal role in supporting consumers, particularly those in vulnerable circumstances. We will continue to work to ensure that consumers have access to high-quality financial services that are delivering what they need.

In the coming months and years, we also look forward to tailoring our rules to better suit our global markets and to continuing to play a leading role in supporting the market-led transition to a more sustainable economy.

We will continue to take account of the Government's economic policy and the recommendations set out in these remit letters when considering how to exercise our general functions.

Yours sincerely,

Nikhil Rathi

Chief Executive