



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

23 March 2021

Nikhil Rathi
Chief Executive
Financial Conduct Authority
12 Endeavour Square
London
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Dear Nikhil,

RECOMMENDATIONS FOR THE FINANCIAL CONDUCT AUTHORITY

The Financial Services and Markets Act 2000 (“the Act”), requires the Treasury, at least once in each Parliament, to make recommendations to the Financial Conduct Authority (FCA) about aspects of the economic policy of the government to which the FCA should have regard when considering how to act in a way which is compatible with its strategic objective; how to advance one or more of its operational objectives; how to discharge its duty to promote effective competition in the interests of consumers; the application of the regulatory principles set out in the Act; and the importance of taking action to minimise the extent to which it is possible for a business to be used for a purpose connected with financial crime. This letter will also be presented to Parliament pursuant to section 1JA(3) of the Act.

I confirm that the government’s economic policy objective remains to achieve strong, sustainable and balanced growth. Price and financial stability are essential pre-requisites for free enterprise and strong, sustainable and balanced growth in all parts of the UK and sectors of the economy. The specification of the government’s economic strategy to deliver this objective can be found in section A of the annex to this letter. The government is also committed to UK financial services being effectively regulated; securing the right balance between a financial sector that is globally competitive, works for consumers, and is secure over the long-term.

The FCA’s main contribution to this economic policy is, working with the Bank of England’s Financial Policy Committee and the Bank of England acting in its capacity as the Prudential Regulation Authority, to protect consumers, promote competition in financial services and to protect and enhance the integrity of the UK financial system. A strong and stable financial system supports economic growth, helps achieve improved

outcomes for consumers, facilitates productive investment and underpins the UK's position as an important global financial centre. In the last year, the FCA has also played an important role in the UK response to Covid-19, and the government and the FCA will need to continue to work collaboratively as our response to the virus evolves.

I am grateful to you and all at the FCA for your continuing good work and dedication.

I am copying this letter to Mel Stride, Chair of the Treasury Select Committee.

A handwritten signature in blue ink, appearing to read 'Rishi Sunak', with a stylized flourish at the end.

RISHI SUNAK

RECOMMENDATIONS FOR THE FINANCIAL CONDUCT AUTHORITY

The Financial Services and Markets Act 2000 (“the Act”) sets out the objectives of the Financial Conduct Authority (“the FCA”).

The FCA has a single strategic objective to ensure that the relevant markets function well. The FCA also has three operational objectives:

- to promote effective competition in the interests of consumers;
- to secure an appropriate degree of protection for consumers; and
- to protect and enhance the integrity of the UK financial system.

Section 1B(4) of the Act provides a competition duty for the FCA whereby the FCA must, so far as it is compatible with acting in a way which advances the consumer protection or integrity objective, discharge its general functions in a way which promotes effective competition in the interests of consumers.

In discharging its general functions, the FCA must have regard to the regulatory principles and the importance of taking action to minimise the extent to which it is possible for a business to be used for a purpose connected with financial crime.

Section 3B of the Act sets out the regulatory principles, which are:

- the need to use the resources of each regulator in the most efficient and economic way;
- 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;
- the desirability of sustainable growth in the economy of the United Kingdom in the medium or long term;
- the general principle that consumers should take responsibility for their decisions;
- 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;
- 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;
- 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;
- the principle that the regulators should exercise their functions as transparently as possible.

Section 1JA of the Act allows the Treasury to make recommendations to the FCA about aspects of the economic policy of Her Majesty's government to which the FCA should have regard when considering—

- how to act in a way which is compatible with its strategic objective,
- how to advance one or more of its operational objectives,
- how to discharge the competition duty in section 1B(4) (duty to promote effective competition in the interests of consumers),
- the application of the regulatory principles in section 3B, and
- the matter mentioned in section 1B(5)(b) (importance of taking action to minimise the extent to which it is possible for a business to be used for a purpose connected with financial crime).

This document discharges the Treasury's duties under section 1JA of the Act.

A. The government's economic policy

The government's economic policy objective is to achieve strong, sustainable and balanced growth. Price and financial stability are essential pre-requisites to achieve this objective in all parts of the UK and sectors of the economy.

To achieve this objective, the government's economic strategy consists of:

- operationally independent monetary policy, responsible for maintaining price stability and supporting the economy;
- a credible fiscal policy, maintaining sustainable public finances, while providing the flexibility to support the economy;
- structural reform to level up opportunity in all parts of the UK and to transition to an environmentally sustainable and resilient net zero economy, including through regulation, and an ambitious programme of investment in skills, infrastructure and innovation, in order to sustain high employment, raise productivity and improve living standards;
- maintaining a resilient, effectively regulated and competitive financial system that supports the real economy through the provision of productive finance and critical financial services, while protecting consumers, safeguarding taxpayer interests and supporting the transition to a net zero economy.

B. Matters about aspects of the government's economic policy to which the Financial Conduct Authority should have regard.

When the Financial Conduct Authority considers how to advance its objectives, have regard to the regulatory principles and discharge its other relevant duties, it should, where relevant and practical, take these considerations into account, in its assessment of the costs, burdens and benefits of potential rules or policies.

i. Competition

The government is keen to see more competition in all sectors of the industry, particularly retail banking. This includes minimising barriers to entry and growth, as well as ensuring a diversity of business models within the industry.

ii. Growth

The government wishes to ensure financial services markets make a positive contribution to levelling up the country and supporting sustainable economic growth in the medium and long term. This includes supporting high-skilled jobs across the country, facilitating finance for productive and clean investments across the economy – including investment in SMEs and infrastructure – and ensuring the sector delivers for consumers and businesses across the UK.

iii. Competitiveness

The government wishes to ensure that the UK remains an attractive domicile for internationally active financial institutions, and that London retains its position as the leading international financial centre and hub for green finance. The government considers that achieving these goals in a manner that is consistent with robust institutions and a resilient system will support its aims for sustainable economic growth. The FCA should also continue working with its partners through the Regulatory Initiatives Grid and Forum to support co-ordination. This should have benefits for proportionality, transparency, and competitiveness.

iv. Innovation

The government is keen to see innovation in the financial services sector and how this can support the wider economy. We should encourage new methods of engaging with consumers of financial services and new ways of raising capital, maintaining the UK as a leader in the use of technology. This includes recognising differences in the nature and objectives of business models, promoting effective competition and ensuring burdens are proportionate.

v. Trade

The government aims to encourage trade and inward investment to the UK that can help boost productivity and growth across our economy. This can be supported by improved competition opening the UK to new ways of doing things and being seen as an attractive place to do business.

vi. Better outcome for consumers

The government wants to see financial services work in the best interests of the consumers and businesses they serve. This includes securing better outcomes for all consumers through improved competition in the interests of consumers and having regard to the needs of different consumers who use or may use financial services.

vii. Climate Change

The government wishes to deliver a financial system which supports and enables a net-zero economy by mobilising private finance towards sustainable and resilient growth and is resilient to the physical and transition risks that climate change presents. The FCA should have regard to the government's commitment to achieve a net-zero economy by 2050 under the Climate Change Act 2008 (Order 2019) when considering how to advance its objectives and discharge its functions.