in partnership with

CITY OF LONDON

THE GLOBAL CITY

HM Treasury

State of the sector: annual review of UK financial services 2022

Contents

Princes Street, Edinburgh

Foreword

Richard Fuller MP
Economic Secretary to the Treasury

I am immensely proud of the UK financial services sector, and the huge contribution it makes to jobs and growth in all four nations of our country. I want to see it go from strength to strength, and this report will help inform the policymaking debate and support that endeavour. Bringing together government and industry viewpoints in one document is a novel process. It will not always be comfortable, but this is necessary to ensure we have an honest, objective, assessment of where we can do more, go faster, and really push ourselves to achieve all that we can. I want to express my sincere thanks to Chris Hayward and the team at the City of London for their hard work in bringing this report together, and their collaborative approach to working with HM Treasury.

I take the positive engagement with this report as a strong sign that we all want to achieve the brightest future for our sector. Entirely rightly, there are suggestions in the following pages on where we can all do more. But I was delighted that, overall, there was agreement that we are on the right path, with broad support for the government's vision for the sector.

One of the major areas of focus for us in government over the forthcoming months will be the Financial Services and Markets Bill.

This is a landmark piece of legislation that will maintain and enhance the UK's position as a global leader in financial services. It will provide us with the tools to establish a coherent, agile, and internationally respected approach to financial services regulation that is tailored to the UK market. Importantly for this report, these are the tools we need to deliver on the opportunities identified here.

As we can all agree, past performance is no guarantee of future success. However, I believe that in the UK we have an unparalleled combination of talent, strong markets and supporting infrastructure. And I look forward to working with you all to deliver on the government's – indeed, our shared – ambitions for our sector.

Chris Hayward
Policy Chairman of the
City of London Corporation

Financial services are a vital asset to London, the United Kingdom, and the world. The sector creates jobs, drives investment, and supports trade for the benefit of communities both domestically and overseas.

It builds on the UK's fundamental strengths: a global outlook, a world-class business environment, and a skilled and entrepreneurial workforce. Stretching from Glasgow to Cardiff, from Belfast to London, financial services in the UK are innovative, globally connected, and provide services to partners around the world.

But the UK's future success is not guaranteed. We must not be complacent. We have many challenges ahead with few easy solutions. Reinforcing the UK's strengths will require explaining how the wider economy and its people benefit from a strong financial services sector.

The City of London Corporation is dedicated to ensuring a vibrant and thriving Square Mile, within a diverse and sustainable London, as part of a globally successful UK. One of our key priorities s to support the UK's position as a leading centre for financial and related professional services. This is why we have partnered with HM Treasury to produce this analysis. We are delighted to see the whole ecosystem working together to promote the attractiveness of London and the UK as a world-leading financial centre.

This new annual report is key in monitoring the UK's direction of travel. It summarises what steps have been taken to improve the environment for financial services in the UK and considers areas for further reform. It celebrates strengths, highlights opportunities, and gives us a good overview of the road ahead.

Through this report, we want to initiate debate on the future of the UK's financial services sector. It is also the first time we are publishing this report – and we are welcoming feedback and thoughts on how to best use and strengthen this exercise in the coming years.

The City of London Corporation is looking forward to working with government and the financial services sector to strengthen our offer, increase our competitiveness, and secure our future.

Executive summary: seizing the opportunity

The UK is one of the world's leading financial centres and the financial services sector is the engine of the UK's economy. A successful financial services sector delivers for businesses and people across the UK. Our historical strengths have endured, but securing future success requires active steps. Now is the time to think about how UK financial services can continue their success story and further support the UK economy, jobs and growth.

In 2021, Lord Hill's UK Listing Review recommended the government present an annual report on the attractiveness and international competitiveness of UK financial services. This report, developed by HM Treasury in partnership with the City of London Corporation, delivers on that recommendation. Together, we intend to use the report to monitor and comment on key performance indicators. We will summarise what steps have been taken to improve the overall environment for the sector and the wider ecosystem and consider areas for further reform.

By assessing where things are going well, and where we might want to do things differently, this report will help inform policymaking and debate. It will also ensure that the UK positions itself to seize the opportunities ahead.

An open and global financial hub

The UK is a strong financial centre because of its international reach. It is the most globally connected banking hub. It is also the world's largest centre for international debt issuance, commercial insurance and reinsurance and foreign exchange trading, and a leading centre for asset management. This activity is based on strong market access, alignment and coherence with other jurisdictions. To remain attractive, provide domestic and international firms with the funding they need, and continue to innovate in financial tools and products, **the UK should remain aligned with global standards and seek outcomes-based trading relationships with global markets.** It should also introduce regulation that is better tailored to its domestic markets.

An integrated ecosystem driving growth across the UK

The depth and breadth of the UK's finance ecosystem is unique. There is a dense network of expertise and a co-location of banking, insurance, investment management, accounting, legal services, consulting and other related services. Together they help businesses access finance, create jobs and drive growth across the UK. **A common sense of purpose, shared across all parts of government and policymaking, regulators, trade associations and firms can strengthen the sector for years to come.** This will require political stability, regulatory certainty and a supportive business environment with competitive tax policy. It will also call for a strong sense of priorities and a culture that identifies opportunities and implements change where necessary.

A once-in-a-generation opportunity to become more nimble, agile and proportionate

The UK's framework for financial services regulation is internationally respected and plays a major role in the UK's attractiveness for global businesses. With market-leading ideas such as regulatory sandboxes and open banking, the UK has been a pioneer in embedding innovation in regulatory frameworks. HM Treasury has consulted on the Future Regulatory Framework (FRF) Review and proposed reforms including growth and international competitiveness secondary objectives for the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The reforms offer a once-in-a-generation opportunity to ensure the regulatory framework in the UK stays agile, coherent and competitive, while delivering better outcomes for consumers and businesses. **Seizing this opportunity requires expert and professional regulators with adequate resourcing and efficient supervisory processes.**

A sector at the forefront of innovation

The UK is a leading global fintech hub. It brings together innovative minds, supportive policymakers and the finance required for ideas to take off. Pioneering innovative ideas laid the foundation for a thriving ecosystem. **The right policy support and culture change will deliver further growth, support scaling businesses and drive the adoption of technology across the sector.** Opportunities in fintech lie not only in the number of new businesses being set up, but also in the implementation of new technology within incumbent firms and regulators. This will help them streamline existing processes and free up resources to use elsewhere.

A sector greening the world's financial system

The future of finance is green. COP26 reaffirmed the UK's ambition to be the best place in the world for sustainable finance. The UK remains the only financial centre that leads in both conventional and green financial centre rankings. **Now is the time to develop and strengthen a market where global participants can find the fullest spectrum of services and products.** This represents not only an opportunity for the UK to gain an advantage. It will help achieve a sustainable future and a healthier planet.

A sector with access to the right talent and expertise

The UK is a world-leading financial centre because of its people. The expertise, talent and skills available in the UK are nearly unrivalled. There are more than 2.3 million jobs in the sector – 1.1 million in financial services and just over 1.2 million in related professional services. Financial services firms in the UK can hire from a multitude of backgrounds and experience. But the world is changing. **Now is the time to ensure we have the right skills going forward, remain attractive to highly skilled international talent and continue to provide expertise across the economy.**

Next steps

The UK remains a hugely successful financial services centre. In order to maintain this position, the government, industry, and the regulators must continue to work collaboratively and to constructively challenge each other. While the report makes clear that there is broad agreement about how we work together to maintain and develop the strengths of the sector – not least through the passage of the Financial Services and Markets (FSM) Bill – it identifies opportunities where the government can look to do more, and where industry should look to take a leading role to drive work forward. The report touches on a vast array of work currently being undertaken by all stakeholders and areas where the sector enjoys much success, **and the government is keen to see how those with an interest in the success of the sector can collaborate to capitalise on the opportunities of the UK in 2022 and beyond.**

Introduction

Cardiff Bay, Wales

The financial services sector is the engine of the UK's economy. There are more than 2.3 million jobs in the sector - 1.1 million in financial services[1] and just over 1.2 million in related professional services. Two thirds of these jobs are outside of London[2] in finance hubs such as Belfast, Birmingham, Cardiff, Edinburgh, Glasgow, Leeds, and Manchester. In 2020, financial and professional services contributed nearly £100bn in taxes.[3] The sector produces £10 of every £100 of UK economic output, making it relatively more important than the financial services sectors in the US, Germany and France.[4] According to the IMF, the UK is one of the globally most developed financial markets, providing depth, easy access to finance and efficiency.[5]

A successful financial services sector delivers for businesses and people across the UK. The sector provides finance to tackle challenges big and small. From starting a business to making green home improvements, from upskilling people to seizing the opportunities of digital transformation, from tackling the rising cost of living to helping level up the country, the sector's competitiveness matters.

The UK is one of the world's leading financial centres. In assessments such as those by the City of London Corporation, New Financial, Z/Yen and Long Finance, London and the UK consistently rank first or second. **The UK is a particularly strong financial centre because of its international reach.**

Our historical strengths have endured, but securing future success requires active steps. A competitive financial services sector is critical – for example, to fund the fight against climate change. Now is the time to think about how UK financial services can continue their success story and further support the UK economy, jobs and growth.

2.3m
jobs

£100bn
total tax contribution

In 2021, Lord Hill's UK Listing Review recommended the government present an annual report on the attractiveness and international competitiveness of UK financial services. This report, developed by HM Treasury in partnership with the City of London Corporation, delivers on that recommendation. **Together, we intend to use the report to monitor and comment on key performance indicators. We will summarise what steps have been taken to improve the overall environment for the sector and the wider ecosystem and consider areas for further reform.**

Based on rigorous data analysis and an extensive industry engagement programme, the report aims to provide a comprehensive, evidence-based diagnostic of the state of the UK financial services sector. **By assessing where things are going well, and where we might want to do things differently, this report will help inform policymaking and debate. It will also ensure that the UK positions itself to seize the opportunities ahead.** This means having the right rules and regulations for our markets, helping us build a system that the rest of the world continues to look towards.

The report is based on historic data. Going forward, the ongoing pandemic, Russia's invasion of Ukraine and the unprecedented sanctions imposed by the UK and its partners, as well as an uncertain economic outlook, may affect some indicators and metrics used in this report. We will monitor, contextualise and explain changes in future editions.

1 ONS (2022).
2 City of London Corporation (2022).
3 City of London Corporation (2022).
4 OECD (2021).
5 IMF Financial Development Index (2022).

How to navigate this report

The report is divided into chapters focused on individual themes that aim to capture the full spectrum of financial services policy priorities for the UK. Each chapter contains subsections as described below.

Leeds Dock

We are monitoring activity in...

- Delivering on Lord Hill's recommendation to "monitor and comment on key performance indicators"

These subsections compare the UK's position with other major economies, using a selection of metrics that help illustrate the identified themes and outline historical developments over time, subject to data availability. International comparators include key global financial centres. Where possible, the report's charts showcase the same set of comparator centres to support readability and comparison. The overall analysis is based on a wider set of comparator centres and includes leading markets for certain indicators, for example Ireland and Luxembourg for fund domiciliation. Many of these metrics are relevant across more than one theme and tell a powerful story when read together, reflecting the deeply integrated ecosystem for financial services in the UK.

To strengthen the UK in this area, the government...

- Delivering on Lord Hill's recommendation to "consider areas for further reform"

These subsections summarise key government work already under way, as well as future workstreams where these have already been announced. A key outcome of the industry engagement undertaken for this report was a broad alignment between industry and the government on the overall ambitions for the sector, as well as on key priorities.

The financial services sector sees strengths and further opportunity in...

- Delivering on Lord Hill's recommendation to "consider areas for further reform"

These subsections set out opportunities identified by the industry that the UK could explore to further strengthen its financial services sector. These findings reflect the engagement undertaken when developing this report and while it has not been possible to capture all of the industry's feedback, it covers themes that were identified repeatedly – areas that were highlighted as being particularly valuable opportunities and those that offered a fresh perspective. Inclusion of a policy here should not be read as government endorsement of the position, but it is nevertheless important to reflect this feedback to inform future policymaking and debate.

State of the sector:

annual review of UK financial services 2022

Royal Exchange, London

An open and global financial hub

The UK is a strong financial centre because of its international reach. It is the most globally connected banking hub. It is also the world's largest centre for international debt issuance, commercial insurance and reinsurance and foreign exchange trading, and a leading centre for asset management. This activity is based on strong market access, alignment and coherence with other jurisdictions. To remain attractive, provide domestic and international firms with the funding they need, and continue to innovate in financial tools and products, the UK should remain aligned with global standards and seek outcomes-based trading relationships with global markets. It should also introduce regulation that is better tailored to its domestic markets.

We are monitoring activity in:

- **Cross-border banking.**[6] The UK is capturing the biggest share of international bank lending and borrowing. This demonstrates the UK's global connectivity and flow of capital. Between 2018 and 2021, the UK's market share declined from 17% to 15%, whereas France's market share increased from 9% to 13%.
- **Asset management.**[7] The UK is Europe's largest and the world's second largest hub for asset management and had £11tn assets under management (AuM) in 2020 (Chart 1). Some 44% of the UK's AuM is managed on behalf of international investors, demonstrating the UK's importance as a global funding hub. The UK's scale helps support the wider financial services ecosystem and associated agglomeration benefits. But the UK's global market share held steady between 2019 and 2020, whereas the US' share increased.
- **Commercial insurance and reinsurance.**[8] The London Market is the largest global commercial insurance and reinsurance hub. Large specialty buyers continue to seek out the capacity and risk management expertise that London and the UK provide. With $121bn of gross written premiums in 2020, the London Market is considerably larger than other competing centres, such as the US and Singapore. And the London Market's capital is increasingly global in source: 89% of London Market premium is written by companies domiciled outside the UK.
- **International debt issuance.**[9] The UK's outstanding value of international bonds is the largest in the world. This demonstrates the UK's international reach and deep capital markets. Its global market share of outstanding international debt remains stable, and the amount issued in the UK in 2021 was nearly four times as much as in the US (Chart 2).
- **Foreign exchange trading.**[10] The UK is the world's leading centre for foreign exchange (FX) trading. This supports global investment, enables market participants to hedge against exchange rate fluctuations, and facilitates international payments. From 2004 to 2019, the UK's volume of global FX trading more than quadrupled and went from being twice as big as the US to almost three times its size.
- **Financial services foreign direct investment.**[11] In 2021, the UK attracted 51 financial services foreign direct investment (FS FDI) projects with a combined value of £646m. FDI is a direct contributor to jobs growth, with around half of the jobs created outside of London. Hong Kong, Singapore and the US attract a higher value of FS FDI than the UK. Most markets saw a decline in investment during the pandemic, but the UK's decline started prior to the initial outbreak of COVID-19.
- **Financial services trade.**[12] The UK's international financial reach continues to be unmatched. In 2020, against the backdrop of a challenging year, the UK's financial services trade surplus increased by 8% year-on-year to £63bn (Chart 3). This surplus was higher than the US' net financial services exports and higher than the value of France, Singapore, Germany and Hong Kong's surplus combined.

£63bn

was the **UK's financial services trade surplus** in 2020.

£11tn

assets under management in the UK in 2020.

[6] BIS (2021).
[7] The IA (2021). Overseas clients figures based on AuM managed in the UK by IA members, representing £9.4tn of the £11tn UK AuM.
[8] LMG (2022).
[9] BIS (2021).
[10] BIS, Bank of England, Federal Reserve Bank of New York, SFEMC (2021).
[11] fDi Markets (2021).
[12] UNCTAD (2021).

Chart 1: the UK is the second largest asset management centre globally.

Share of assets under management per region

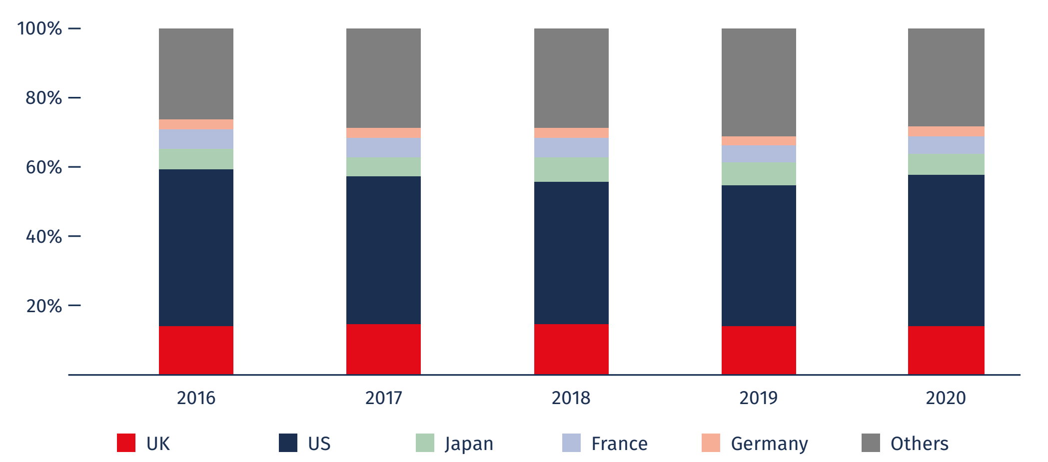


Chart 2: the UK is the world's largest centre for international debt issuance.

Gross issuance of international debt securities

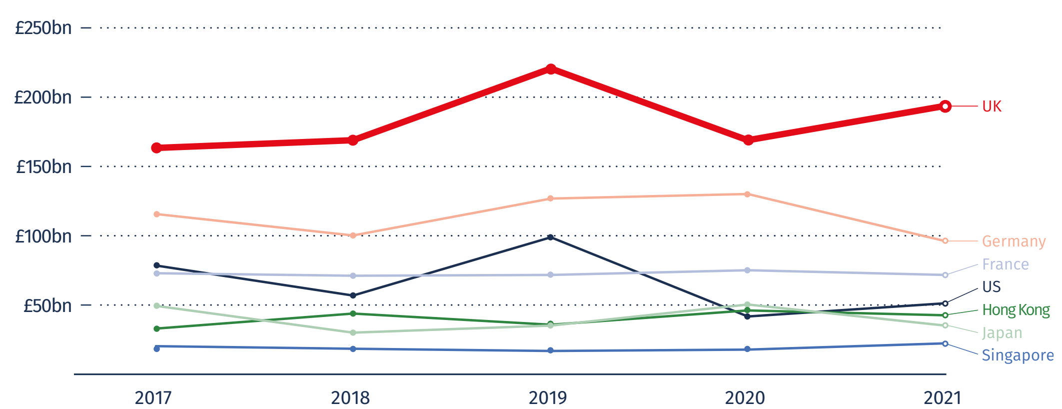
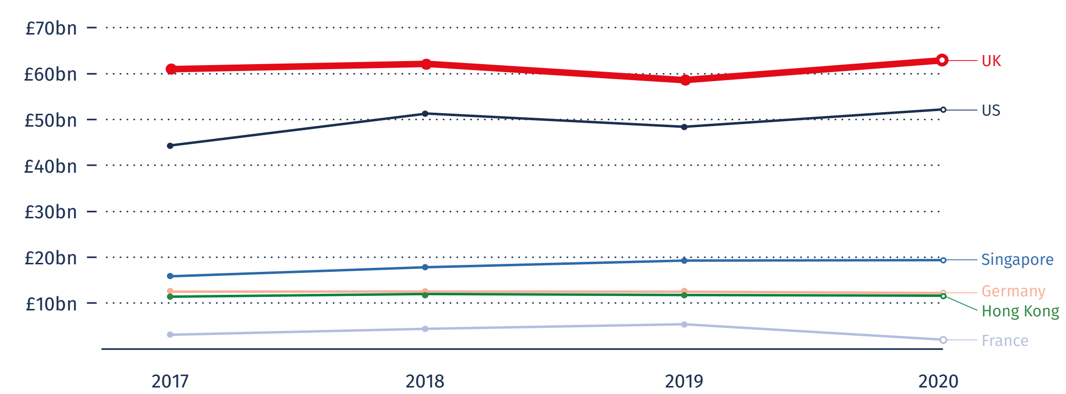


Chart 3: the UK has the world's highest financial services trade surplus.

Value of net financial services exports



Japan not listed as it is a net importer of financial services.

To strengthen the UK in this area, the government:

- Granted **a package of equivalence decisions** across financial services regulation for European Economic Area (EEA) countries. It has also granted Switzerland an equivalence decision in relation to share trading.
- Legislated to **bring the Overseas Funds Regime into effect.** Subject to an equivalence decision, the regime will enable investment funds from an overseas jurisdiction to be sold to UK retail investors.
- Used its **new regulatory freedom to propose reforms to the prudential regulatory regime for insurance firms,** known as Solvency II. They will help maintain and grow the insurance sector while protecting policyholders and ensuring the safety and soundness of firms.
- Committed to keeping the **UK's market open and global.** An ambitious mutual recognition agreement is being been negotiated with Switzerland. Meanwhile, a financial services partnership and a Digital Economy Agreement have been signed with Singapore.

Committed to keeping the **UK's market open and global.**

- **Will consult on the future of the Overseas Framework.** To provide greater clarity and confidence to firms relying on the Overseas Framework for their cross-border business, the government will publish its first consultation on potential changes to the Overseas Framework later this year. The UK will continue to support firms based in the UK to connect with counterparties and customers globally, while ensuring that those with significant UK activities maintain the appropriate operations, regulatory permissions and authorisations in the UK; and are able to be supervised effectively.
- **Will accede to the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP).** The UK intends to accede to the CPTPP and is continuing negotiations with Canada, India, Israel, Gulf Cooperation Council and Mexico.
- **Will conclude negotiations on a Free Trade Agreement with India.** The UK hosted a fourth round of negotiations in June 2022, seeking to make ambitious provisions for financial services. It also continues to work with India on wider cooperation on sustainable finance and fintech as part of its broader financial market cooperation agenda with leading emerging markets.

Will consult on the **future of the Overseas Framework.**

The financial services sector sees strengths and further opportunity in:

- Establishing and following **clear principles and strategy for regulatory reform.** This will keep the UK aligned with global standards, while introducing regulation that is better tailored to its domestic markets. Reform of Solvency II, the implementation of Basel 3.1 and the future of clearing activity in the UK will be critical moments for the UK to demonstrate its approach.
- Finalising **the UK-Switzerland Mutual Recognition Agreement.** The proposed agreement is expected to provide greater stability and market access for cross border business between the UK and Switzerland.
- **Replicating the approach taken with Switzerland and Singapore with other jurisdictions.** These agreements should be seen as templates of what could be achieved with other jurisdictions to secure the future of cross-border business.
- Maintaining and enhancing **the UK's open approach to market access** through bilateral and multilateral mechanisms such as trade agreements, mutual recognition agreements, regulatory cooperation, and through the regulation of branches of overseas firms in the UK and the UK's deference framework. Further efforts to promote openness and clarity for international firms could build on reviewing the framework for overseas firms, including the well-regarded Overseas Person Exclusion (OPE), in ways consistent with maintaining market integrity and financial stability.

Replicating the approach taken with **Switzerland and Singapore** with other jurisdictions.

An integrated ecosystem driving growth across the UK

The depth and breadth of the UK's finance ecosystem is unique. There is a dense network of expertise and a co-location of banking, insurance, investment management, accounting, legal services, consulting and other related services. Together they help businesses access finance, create jobs and drive growth across the UK. A common sense of purpose, shared across all parts of government and policymaking, regulators, trade associations and firms can strengthen the sector for years to come. This will require political stability, regulatory certainty and a supportive business environment with competitive tax policy. It will also call for a strong sense of priorities and a culture that identifies opportunities and implements change where necessary.

Canary Wharf, London

We are monitoring activity in:

- **Initial public offerings (IPOs).**[13] Amid proposed changes to the UK's listing regime, the London Stock Exchange (LSE) saw an uptick in the number and value of IPOs in 2021. This reverses the decline seen in the preceding years, giving more firms access to finance and enabling retail participation in capital raising and economic growth. Globally, the US remains the leading market for IPOs (Chart 4).
- **Equity markets.**[14] LSE's trading activity reduced from a global market capitalisation share of 5% in 2017 to 3% in 2021. Euronext, after a decline between 2017 and 2018, increased its share to 5.9%. This was partially due to acquisition of exchanges. Nasdaq and the New York Stock Exchange remain the world's largest stock exchanges by market capitalisation.
- **Over-the-counter (OTC) derivatives.**[15] The UK is the leading market for OTC derivatives trading (Chart 5). Globally, GBP-denominated OTC derivatives represent 8.3% of total derivatives (USD: 50.3%, EUR: 24.4%). This split suggests that the UK's strength is in providing global OTC services to the world.
- **Private equity (PE) and venture capital (VC) investment.**[16] With numerous high-profile deals in recent years, the UK saw strong growth in PE and VC investment activity. In 2021, financial services firms in the UK secured £37.5bn in PE and VC funding. This is financing jobs and innovative products. Representing a 48% year-on-year growth, this was more funding than businesses secured in Singapore (£7.7bn), Germany (£5.8bn), and France (£5bn), but less than in the US (£111bn).
- **Insurance premiums.**[17] The UK is one of the largest insurance markets in the world, and the largest in Europe. Its effective insurance market supports businesses in risk management and decreases its associated costs. There are higher levels of activity in life and specialist insurance in the UK than in non-life, but premiums growth has stalled recently (Chart 6).
- **Domiciled funds.**[18] Investment management represents a significant part of the UK's finance ecosystem, with £1.6tn worth of assets in UK-domiciled funds. Fund domiciliation is more prominent in the US (£22.4tn), Luxembourg (£4.7tn) and Ireland (£3.1tn). The UK's greater strength is in portfolio management due to its wealth of investment expertise. The UK's £11tn of AuM extends beyond UK borders, with UK managers running portfolios for overseas clients.

117

companies chose to list on the **London Stock Exchange** in 2021.

£37.5bn

PE & VC funding was secured by UK financial services firms in 2021.

[13] Refinitiv (2022).
[14] World Federation of Exchanges (2022).
[15] BIS (2019). Turnover by currency, net-net basis.
[16] Pitchbook (2022).
[17] SwissRe Institute (2021).
[18] Investment Company Institute (2021). Figures include regulated open-ended funds.

Chart 4: the US remains the leading market for IPOs.

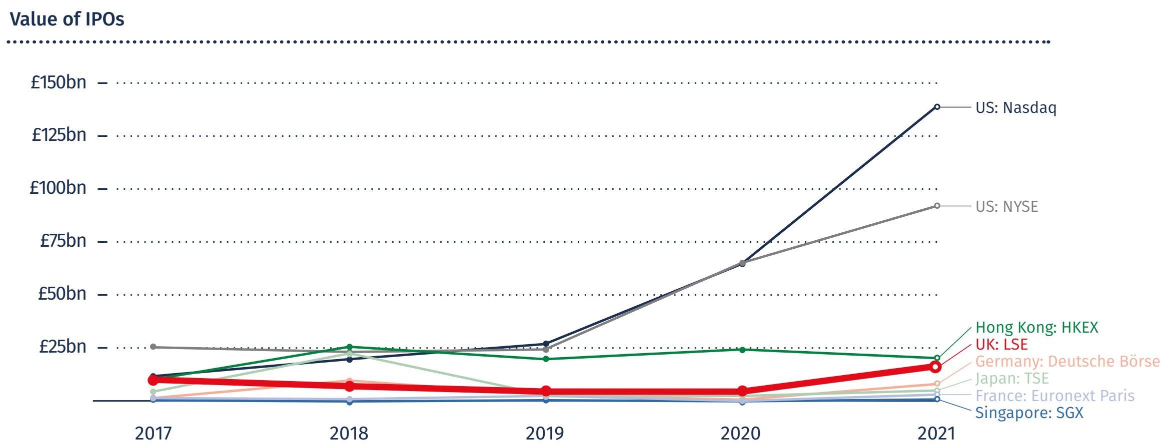


Chart 5: the UK is the world's largest centre for OTC derivatives trading.

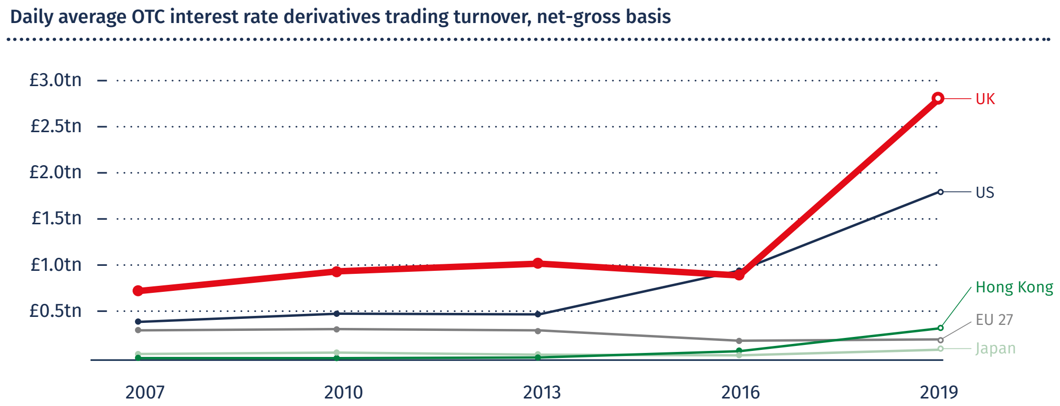
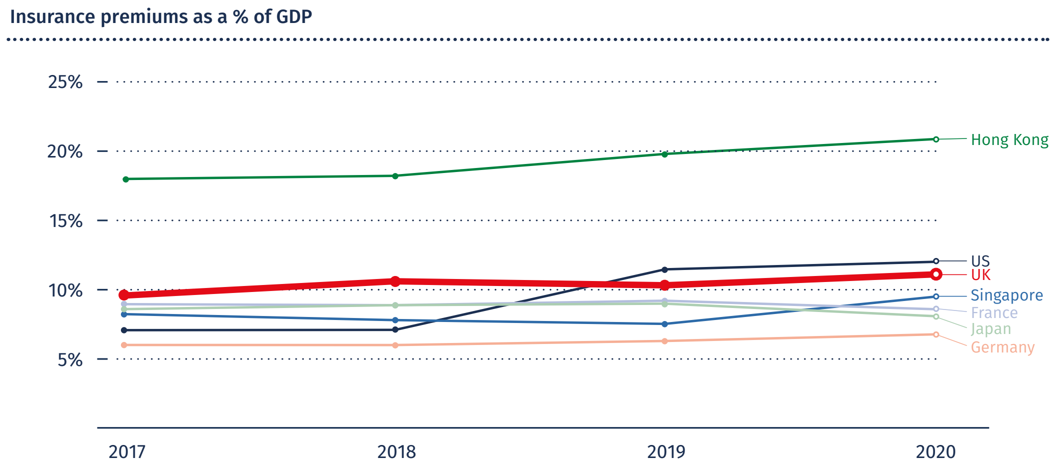


Chart 6: the UK's insurance sector is relatively more important than in other major European economies.



To strengthen the UK in this area, the government:

- Commissioned **a review of the listing rules.** The review was independently run by Lord Hill. Together with the FCA, the government implemented the review's recommendations to make the UK's listing regime more competitive. This included introducing a targeted form of dual class share structures within the premium listing segment. In addition, it reduced the free float amount from 25% to 10%.
- Taken forward a fundamental **overhaul of the Prospectus Regime.** The government has consulted on proposed changes to the UK Prospectus Regime, which were all positively received by industry. The Prospectus Regime will be among the first set of rules to be reformed using the Future Regulatory Framework powers set out in the landmark FSM Bill.
- Commissioned a **Secondary Capital Raising Review,** independently led by Mark Austin. This aims to ensure listed companies wishing to raise more capital can do so more effectively and efficiently, in a manner inclusive of existing shareholders.
- Undertaken a major programme of **reform of the regulatory framework for secondary markets,** as proposed in the Wholesale Markets Review. This will deliver a rulebook that is fair, outcomes-based and supports competitiveness, whilst ensuring the UK maintains the highest regulatory standards.
- Continued its **review of the UK funds regime.** Responses to the call for input from 2021 were published in February 2022. The summary of responses set out propositions to be taken forward by the government and the FCA. These include a new tax regime for qualifying asset-holding companies, which has already been legislated for, and further reforms to tax rules for real estate investment trusts (REITs).

Started to reform **the regulatory framework for secondary markets.**

- Explored **the simplification of fund taxation** as part of the UK Funds Regime Review – for example, on genuine diversity of ownership (GDO) requirements. It has also explored the expansion of the range of investment products in the UK, including in relation to authorised fund structures permitted to distribute capital, and promotion of the UK fund regime abroad.
- Supported **the launch of the Long–term Asset Fund structure,** a new type of open-ended fund to facilitate investment in long-term illiquid assets, for which the FCA published final rules in October 2021. Complementing this, the industry-led Productive Finance Working Group – convened by HM Treasury, the FCA and the Bank of England – published recommendations in September 2021 for addressing barriers to investment in such assets.
- Continued to **evolve the UK's strong insurance-linked securities (ILS) regime,** mirrored by other markets. The aim is to achieve swifter approval times by the PRA and easier issuance conditions to attract more ILS and catastrophe bond activity.
- Established **a high-level Crypto Asset Engagement Group** with representatives from HM Treasury, industry, the FCA and the Bank of England.
- **Is bringing in an equivalence regime for Simple, Transparent and Standardised (STS) securitisations.** To improve choice for UK investors, enabling them to realise the capital benefits from investing in STS securitisations and supporting the overall liquidity of the market, the government will introduce an equivalence regime for recognising overseas STS securitisations. The UK will continue to support the development of robust securitisation frameworks internationally.

Will reform the **Prospectus Regime.**

The financial services sector sees strengths and further opportunity in:

- **Further reform and innovation for fund structure offering in the UK.** One specific opportunity is the listing of alternative funds in line with Singapore's recent offering.
- **Enabling and popularising access to private markets** to a broader spectrum of investors. One potential route is tokenisation, but this needs to be supported by thorough regulatory work and scrutiny.
- **A new investment culture in the UK** to unlock more investment in growth companies favouring innovation and long-term growth over dividends, especially to support young tech firms. This is a challenge the industry itself could lead on.
- **Swifter action following reviews and faster acting regulators** – for example, on the speed of response on ILS, to make use of the strong frameworks in place.

A new investment culture in the UK to unlock more investment.

A once-in-a-generation opportunity to become more nimble, agile and proportionate

The UK's framework for financial services regulation is internationally respected and plays a major role in the UK's attractiveness for global businesses. With market-leading ideas such as regulatory sandboxes and open banking, the UK has been a pioneer in embedding innovation in regulatory frameworks. HM Treasury has consulted on the Future Regulatory Framework Review and proposed reforms including growth and international competitiveness secondary objectives for the PRA and the FCA. The reforms offer a once-in-a-generation opportunity to ensure the regulatory framework in the UK stays agile, coherent and competitive, while delivering better outcomes for consumers and businesses. Seizing this opportunity requires expert and professional regulators with adequate resourcing and efficient supervisory processes.

Beetham Tower, Manchester

We are monitoring activity in:

- **FCA authorisation turnaround times.**[19] In 2021/22, 72% of all Approved Persons Customer Function applications were responded to within deadline – down from 74% in the previous year. For Senior Manager Function (SMF) cases, applications that were responded to within deadline were down from 74% (2020/21) to 72% (2021/22). Following some significant challenges brought about by very high volumes of applications where the Senior Managers Regime was extended to cover solo regulated firms, the FCA has increased case handling capacity by recruiting new staff. The FCA plans to reduce backlog and improve case handling timescales in FY 2022/23 (Chart 7).
- **Perception of financial services regulation.**[20] In 2021, the UK was perceived as having the world's preferred regulatory regime for financial services (Chart 8). The perception of the UK's and Singapore's regulatory regimes improved between 2020 and 2021, whereas the perception of the US declined.
- **Perception of government effectiveness.**[21] There has been a sharp decline in the perception of government effectiveness, the quality of public services, and the ability of governments to formulate and implement policies and regulation that promote economic growth. This applies both in the UK and worldwide. During 2020, the UK government was rated more effective than governments in Germany, the US and France, but only because the latter three experienced an even more pronounced drop in satisfaction (Germany -11%, US -11%, France -9%) than the UK (-7%). Singapore (+5%) was the only market where perception of government effectiveness significantly increased during the pandemic.
- **Perception of regulatory quality.**[22] Assessments of regulatory quality and the ability of governments and regulators to formulate and implement policies and regulation that promote economic growth paint a similar picture. The UK was rated better than Japan, the US and France, but satisfaction with its regulatory quality fell 9% between 2019 and 2020 (Chart 9). Hong Kong's administration is still rated better than the UK's, but its ability to foster private sector development through effective regulation saw a 17% lower rating in 2020 than it did in 2016.

31%

of financial services executives said they **preferred the UK's regulatory regime for financial services** – more than the US and Singapore.

[19] FCA Annual Report and Accounts 2021/22 (upcoming).
[20] Kroll Global Regulatory Outlook (2021).
[21] Worldwide Governance Indicators (2021).
[22] Worldwide Governance Indicators (2021).

Chart 7: the FCA sees long approval times for approved persons applications.

Average processing time in days recognised at case closure

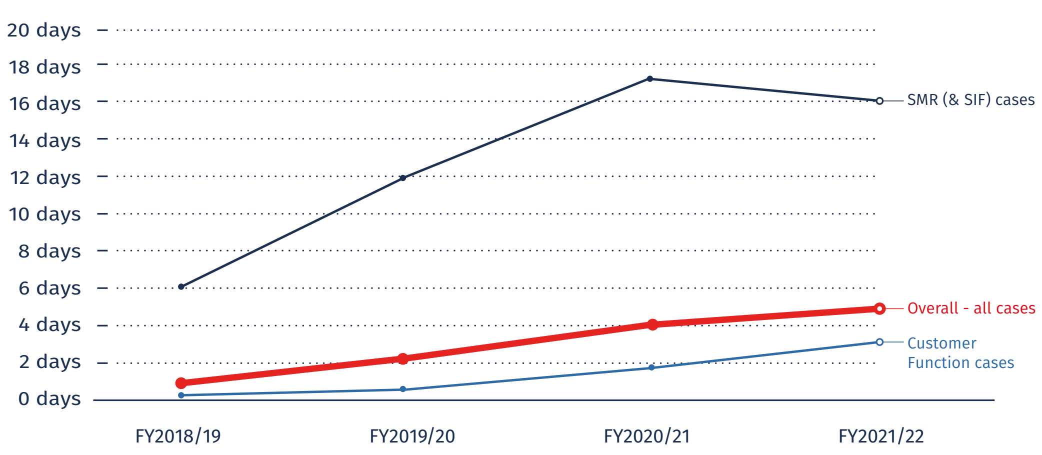


Chart 8: the UK remains the world's preferred regulatory regime for financial services.

"In your view, which market currently has the most favourable regulatory regime for financial services?"

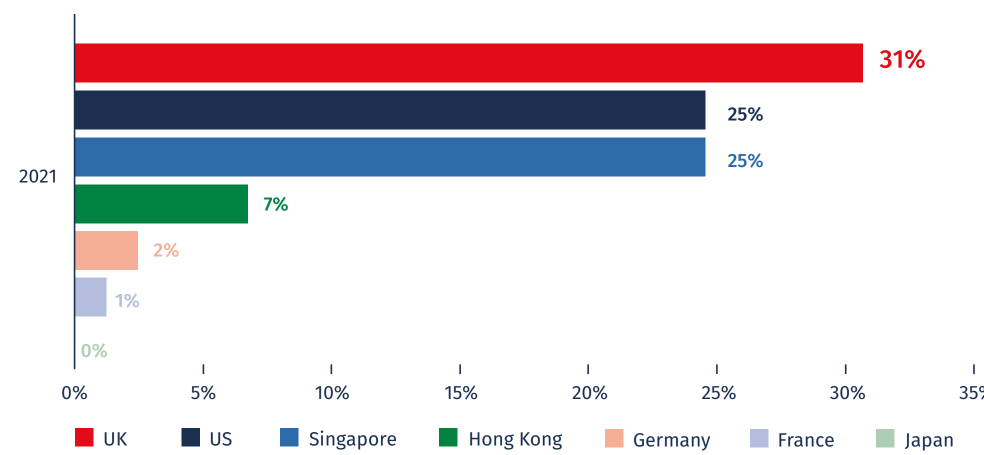
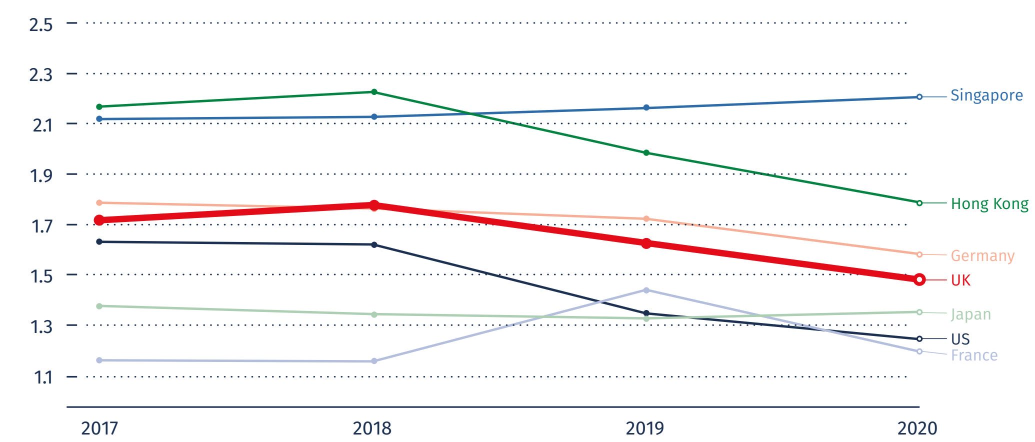


Chart 9: governments around the world, including in the UK, need to renew business confidence.

Perceived regulatory quality on a scale of -2.5 (worst) to 2.5 (best)



To strengthen the UK in this area, the government:

- Introduced a **Financial Services and Markets (FSM) Bill** to make important updates to the financial services regulatory framework. This will maintain and enhance the UK's position as a global leader in financial services and ensure the sector continues to deliver for individuals and businesses across the country.

- Launched a wealth of **reviews, including the Future Regulatory Framework and Wholesale Markets reviews.** These identify where financial services regulation in the UK can be better targeted to its domestic markets and ensure that the UK maintains a coherent, agile and internationally respected approach to financial services regulation that is right for the UK. The proposed growth and competitiveness secondary objectives are intended to drive a change in the regulators' approach that complements rather than detracts from their primary objectives.

- Supported the FCA's continuing **Transformation Programme,** which seeks to make the FCA a more innovative, adaptive, and assertive regulator. The Programme is wide-ranging and includes significant investments in the FCA's systems and technology as well as organisational changes.

- Concluded a successful **pilot for Early Stage and High Growth Oversight Functions.** These provide enhanced supervision for firms as they become accustomed to their regulatory status. They also help them understand their obligations so they can meet standards as they grow. The FCA is expanding the function to 300 firms, demonstrating that the UK is building an enabling environment for innovation in financial services, while ensuring that consumers remain protected.

- **Will bring forward draft legislation to implement the outcome of the Buy-Now-Pay-Later (BNPL) Regulation consultation.** The government will consult on draft legislation to implement a proportionate approach to the regulation of BNPL at the end of the year. This approach will enable firms to continue to offer innovative BNPL products that suit the needs of borrowers while increasing customer protection. This follows the government's publication of its response to the consultation on the regulation of BNPL on 20 June.

Launched a wealth of reviews, including the Future Regulatory Framework and Wholesale Markets reviews.

- **Will consult on reform of the Consumer Credit Act 1974 (CCA).** On 16 June, the government committed to reform the CCA to ensure it is fit for purpose and keeps pace with technological advancements and changing consumer needs. A consultation on the direction of reform, which intends to move much of the existing legislation to the FCA rulebook, is expected at the end of the year.

- **Is boosting consumer confidence in financial promotions through the financial promotions gateway.** To ensure investors are better informed when making decisions about investments, the government will empower the FCA to better oversee the financial promotions of those firms not authorised by the FCA.

- **Is further enhancing regulatory cooperation on issues with wider implications.** To ensure effective cooperation on complex issues affecting the wider financial services market, including those which span the remits of multiple authorities, the FSM Bill will introduce a statutory duty for the FCA, the Financial Ombudsman Service (FOS) and the Financial Services Compensation Scheme (FSCS) to cooperate on issues with wider implications.

- **Is legislating to protect access to cash.** To ensure that people continue to have access to withdrawal and deposit facilities. The FSM Bill establishes the FCA as the lead regulator for ensuring the reasonable provision of cash access and grants the FCA with appropriate oversight powers. The Bill also provides the Bank of England with the necessary powers to oversee the wholesale cash industry to ensure it remains effective, resilient and sustainable, and can support continued access to cash into the future.

- **Is expanding the Central Counterparty (CCP) Resolution Regime.** To protect financial stability, the government will expand on the UK's CCP resolution regime to ensure that the Bank of England has a full suite of powers to stabilise a CCP in the event of its failure. The new powers will bring the UK in line with international standards, and ensure the UK remains a global leader in providing clearing services, underpinning our competitiveness as a global financial centre.

- **Is replacing the Cash Ratio Deposit (CRD) scheme with the new Bank of England Levy.** To deliver a more reliable and stable funding scheme for the Bank of England's monetary policy and financial stability functions, meaning the Bank no longer funds the income shortfall through its own capital and reserves. The levy will also provide increased certainty to payers over the size of their annual contribution.

- **Is allowing regulators to take action against formerly authorised firms.** To allow the FCA and PRA to use their existing powers to investigate, sanction and require redress in relation to firms who commit misconduct but then become unauthorised.

Introduced a Financial Services and Markets Bill during this Parliamentary session.

The financial services sector sees strengths and further opportunity in:

- **Regulatory reform,** where needed, which is focused on ensuring the UK's regulatory framework is tailored to the specific needs of the UK markets. It is recognised that there are opportunities for the UK to take its own path on some regulatory points, such as Solvency II, with rules that are better calibrated to the UK market's specific needs.
- A clear commitment to set out how the FCA and PRA will deliver on their new **growth and competitiveness secondary objectives** and monitor progress. For example, they could make comparisons with regulators in other jurisdictions, such as the Monetary Authority of Singapore, and undertake more promotional activity.
- **Parliamentary scrutiny** of the regulators' actions to ensure they advance their statutory objectives and consider what impact this is having on the UK.
- Reinforcing the importance of **proportionality in regulation.** Regulatory and reporting requirements should be proportionate and suited to business size and retail or commercial activity. Any burden or restriction that regulators impose on a person, firm or activity should be proportionate to the benefits expected as a result. The PRA's 'strong and simple' programme is one example of how this could work.
- Improving the speed of **FCA authorisation turnaround times.** This will require increased capacity, adequate resourcing and talent retention.
- Embedding **innovation experts** in regulatory and supervisory teams, for teams focussed on companies at different stages of growth, and throughout policymaking teams, so that every part of the regulators is more pro-innovation. Understanding and using data and technology will not only help the regulators oversee products and activity in these areas, but also make supervision and policymaking more efficient and effective, further boosting innovation and growth.
- Establishing **regular reviews** to evaluate whether regulation is still appropriate for a rapidly changing economy.

Improving the speed of FCA authorisation turnaround times.

A sector at the **forefront of innovation**

The UK is a leading global fintech hub. It brings together innovative minds, supportive policymakers and the finance required for ideas to take off. Pioneering innovative ideas laid the foundation for a thriving ecosystem. The right policy support and culture change will deliver further growth, support scaling businesses and drive the adoption of technology across the sector. Opportunities in fintech lie not only in the number of new businesses being set up, but also in the implementation of new technology within incumbent firms and regulators. This will help them streamline existing processes and free up resources to use elsewhere.

Bullring & Grand Central, Birmingham

We are monitoring activity in:

- **The number of fintechs in the economy.**[23] The UK is the leading fintech hub in Europe. In 2021, more than 3,000 fintechs were headquartered in the UK. The UK has seen consistent growth in the number of fintechs based here since 2017, demonstrating the attractiveness of the UK environment to these innovative firms. The number of UK fintechs is second to the US, but about four times more than Germany and France each, and 4.5 times more than Singapore.
- **PE and VC investment in fintech.**[24] Between 2020 and 2021, fintech PE and VC investment in the UK grew faster than in the US, Germany or France, exceeding £16.9bn (Chart 10). While the US leads in absolute terms, this highlights the attractiveness of the UK as a location to set up innovative firms in financial services – especially given the UK's status as an international fintech market compared with other major economies (Chart 11).
- **Number of unicorns in the economy.**[25] More than half of all UK unicorns are fintech firms – a higher share than in any other financial centre. The UK has seen a consistent growth in the number of unicorns, which drive innovation, create jobs and stimulate the UK economy. Germany is Europe's second largest unicorn hub, registering a 213% growth between 2020 and 2021, but sees considerably fewer fintech unicorns.
- **Technology IPOs.**[26] Scaling firms struggle to secure the funding they require in the UK via public markets. Despite LSE growth in this area – 37 tech and consumer internet companies went public, raising £6.6bn in 2021 – Nasdaq and the NYSE remain the preferred destinations for technology IPOs.

800+

international fintechs were operating in the UK in 2021.

59%

of all UK unicorns in 2021 were fintechs.

Chart 10: the UK is the leading hub for fintech investment in Europe.

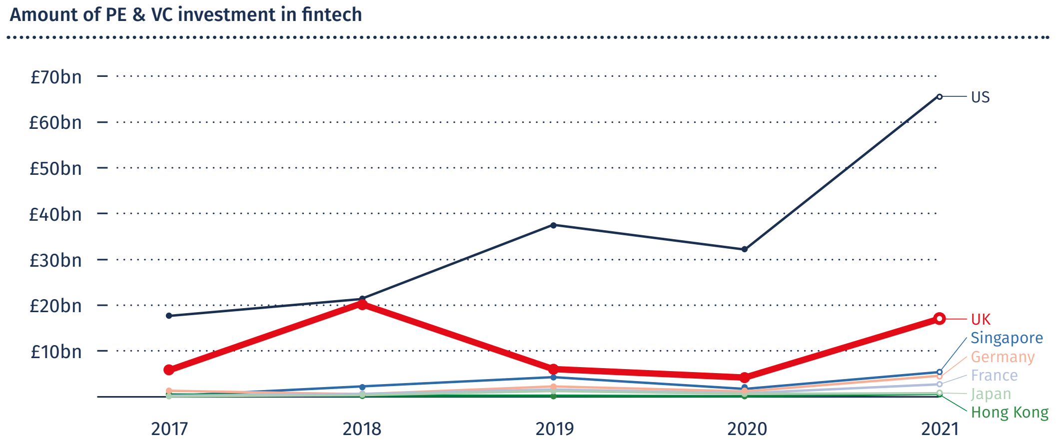
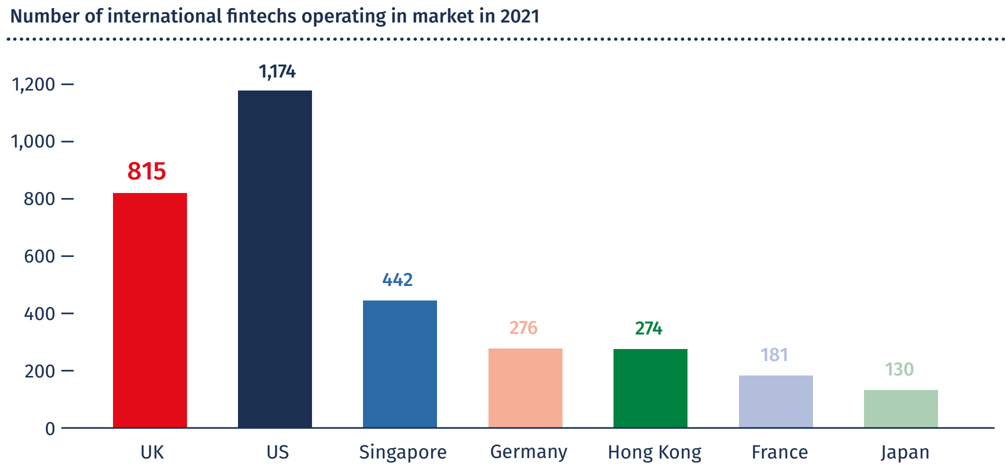


Chart 11: the UK is one of the most international fintech markets.



[23] Pitchbook (2022). Includes firms classified as providing 'financial software', 'fintech', and 'insurtech' services.
[24] Pitchbook (2022).
[25] CB Insights (2022).
[26] Refinitiv (2022), GOV.UK (2022).

To strengthen the UK in this area, the government:

- **Continued to build on the UK's reputation** as a global hub for fintech through the implementation of proposals set out in the Kalifa Review of UK Fintech.
- Announced the creation of a **Centre for Finance, Innovation and Technology (CFIT)**. CFIT will be a private sector-led body focused on driving forward financial innovation in the UK. It will bring together experts from across the finance and technology ecosystem to identify and address opportunities and barriers to growth in UK financial innovation.
- Supported the **development and adoption of technology solutions** to help solve problems more quickly. In the retail sector, fintech solutions provide consumers with more and better choices. In wholesale, technology creates better and more efficient processes. The UK is a leading market in this area.
- Announced the **UK's strategy on crypto assets** and underlying blockchain technology. This includes: committing to consult on a future regulatory regime later this year; legislating to bring stablecoins into payments regulation; setting up a minister-chaired Crypto Asset Engagement Group of key figures in industry; working with the Royal Mint to create a non-fungible token (NFT); and exploring ways of enhancing the competitiveness of the UK tax system to encourage further development of the crypto asset market in the UK.
- Announced that HMT is working with the Bank of England and FCA to develop a **Financial Market Infrastructure (FMI) Sandbox.** This would support firms wanting to use new technologies and practices in providing the infrastructure services that underpin markets, by enabling temporary modifications to be made to legislation. The FMI Sandbox will be up and running in 2023.

Announced the UK's strategy on crypto assets and underlying blockchain technology.

- Established a joint **HM Treasury and Bank of England Central Bank Digital Currency (CBDC) taskforce** to coordinate the exploration of a potential UK CBDC. On 9 November 2021, the government published a written ministerial statement outlining its future timelines for this work, including a joint consultation in 2022 setting out their assessment of the case for a UK CBDC. The government and Bank of England have not yet made a decision on whether to introduce a CBDC in the UK.
- **Will explore how Distributed Ledger Technology (DLT) could be applied across the issuance of a sovereign debt instrument.** The government will undertake a feasibility study examining the legal and regulatory issues surrounding a sovereign debt transaction using DLT, as the first phase of a multi-year research programme that will seek to understand and capture the potential benefits of deploying DLT in sovereign debt markets.
- **Is bringing activities facilitating the use of certain stablecoins used as means of payment into the UK regulatory perimeter.** This will enable the UK's regulators to set firm-facing requirements in a framework set by government and Parliament, primarily by amending existing e-money and payments legislation.
- **Is introducing a Senior Managers & Certifications Regime (SM&CR) for certain Financial Market Infrastructures (FMIs).** To enhance the accountability of senior managers and encourage effective governance within firms, the Financial Services and Markets Bill introduced a Senior Managers and Certification Regime (SM&CR), which can be applied to four FMIs: Central Counterparties (CCPs), Central Securities Depositories (CSDs), and potentially, following consultation, to Credit Rating Agencies (CRAs) and Recognised Investment Exchanges (RIEs). This regime closely follows the existing SM&CR that is applied to many firms regulated by the PRA and FCA, and will have three key elements: a Senior Managers Regime, a Certification Regime, and Conduct Rules.

Will explore **how DLT could be applied across the issuance of a sovereign debt instrument.**

The financial services sector sees strengths and further opportunity in:

- **Ensuring momentum in fintech is maintained** and recommendations from the Kalifa Review of UK Fintech are implemented at pace. These should address challenges businesses face when trying to scale, adopt innovative solutions such as cloud or launch products such as crypto and other digital assets.
- **Adopting innovative solutions** such as Software-as-a-Service (SaaS), artificial intelligence (AI), cloud, blockchain in public and private markets, payments, regtech, cyber, and technology solutions to ESG data and analytics across the industry. This will require a regulatory cultural change that shifts the focus from risk to opportunity when assessing new products and services while still protecting consumers and financial stability.
- Implementing a **data strategy** that achieves the right balance between data protection and enabling firms to use data to maintain and build their competitive offer. The future will be data-led. Businesses will use data to offer better and cheaper products. Regulators will use data to make decisions faster. Both will require an understanding of what data, why and when.
- **Safeguarding the future of cross-border data flows** to ensure the UK becomes a more competitive and stronger data hub. Facilitating safe and practical methods to ensure that data is protected requires the development of new tools to support the reality of global and dynamic data flows.
- Continuing to ensure we have **access to data and analytical expertise,** as this will enable businesses to develop innovative products and services. It will also enable regulators to fully understand the products they regulate, and for consumers to fully benefit from new products. However, for this to work, the regulators will need to be curious and the industry will need to share information about its technological advances.

Ensuring **momentum in fintech** is maintained.

A sector **greening the world's financial system**

The future of finance is green. COP26 reaffirmed the UK's ambition to be the best place in the world for sustainable finance. The UK remains the only financial centre that leads in both conventional and green financial centre rankings. Now is the time to develop and strengthen a market where global participants can find the fullest spectrum of services and products. This represents not only an opportunity for the UK to gain an advantage. It will help achieve a sustainable future and a healthier planet.

SEC Armadillo, Glasgow

We are monitoring activity in:

- **Green and ESG bonds.**[27] Sustainable finance activity in the UK is growing across asset classes – bonds, loans, funds, mergers and acquisitions. This is providing funding for zero-emission buses, offshore wind farms and schemes to decarbonise homes and buildings. In 2021, UK issuers raised nearly £27bn using green bonds (Chart 12) – a 484% year-on-year growth. This was 6% of total global green bond issuance.
- **PE/VC investment in greentech.**[28] The UK is the second largest market for PE and VC investment in clean and climate tech. In 2021, greentech firms in the UK raised £6.1bn in investment, up from £2.2bn in 2020 and £1.2bn in 2019 (Chart 13). The US, however, invests considerably larger amounts in this field.
- **Responsible assets under management.**[29] The share of assets under management in the UK defined as "responsible" is increasing. This demonstrates UK investor interest in sustainable finance and provides funding for low-carbon or ethical projects such as green infrastructure (Chart 14). In addition, data collected based on the Investment Association's Responsible Investment Framework illustrates that almost half of the assets managed by their members were applying ESG integration in 2020, up from 37% reported in the prior year.[30]
- **Adoption of sustainable finance principles.**[31] The UK leads the league tables for signatories to the Net Zero Banking Alliance, part of the UN Environment Programme Finance Initiative (UNEPFI). More UK financial services firms have science-based net zero strategies than those in other markets. Businesses seeking funding for sustainability projects can find investors with the appetite and expertise to invest in green in the UK.

6%

of 2021's **global green bond issuance** was issued in the UK.

£6.1bn

PE and VC funding was secured by **UK clean and climate tech firms** in 2021.

[27] Refinitiv (2022).
[28] Pitchbook (2022).
[29] The IA (2022).
[30] The IA (2021).
[31] UNEPFI (2022), Science-based Targets Initiative (2022).

Chart 12: in 2021, the UK issued 6% of total global green bond issuance.

Green bonds issuance

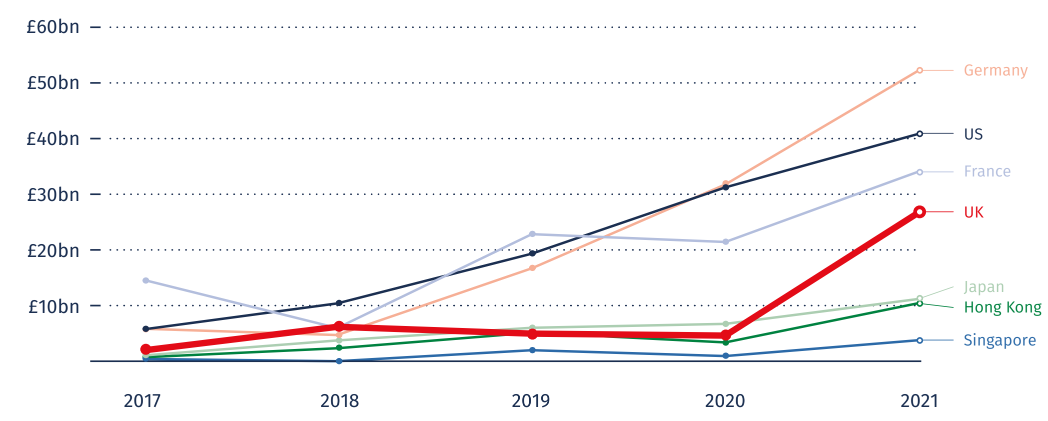


Chart 13: greentech investment in the UK is growing.

Amount of PE & VC investment in greentech

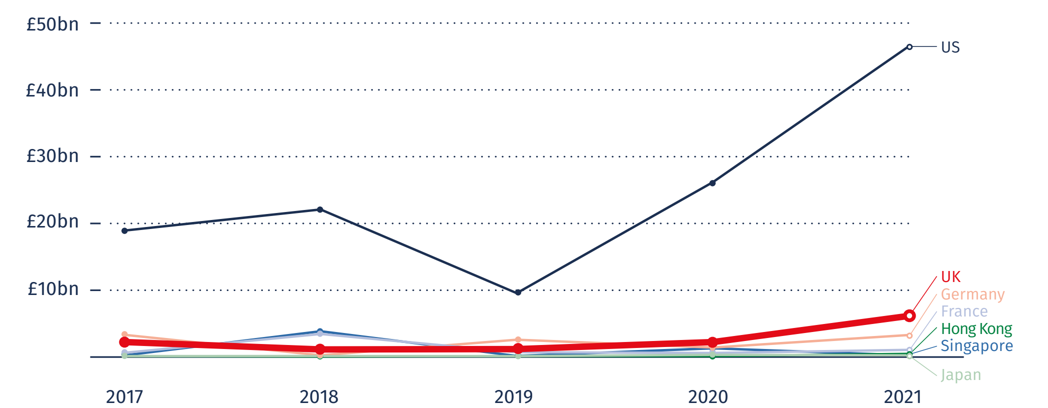
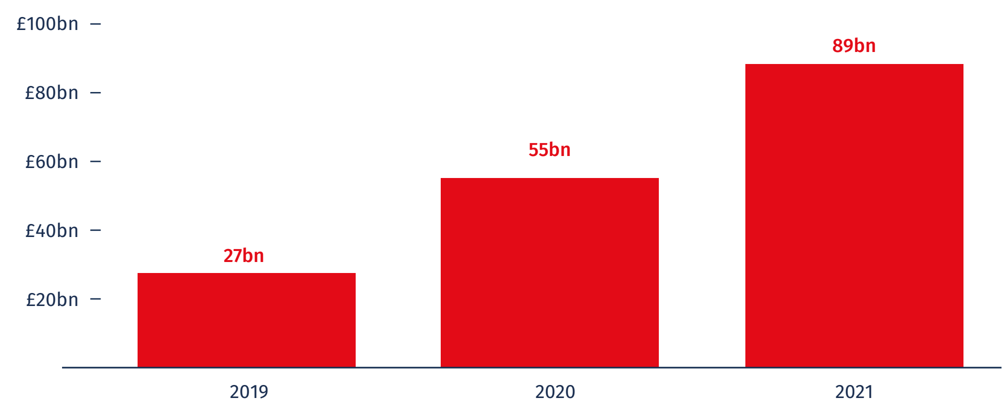


Chart 14: UK investors are increasing their allocations to responsible investments.

UK investors' funds under management defined as "responsible investments"



To strengthen the UK in this area, the government:

- Hosted and supported **the setup of global initiatives to help achieve net zero ambitions** such as COP26, the Glasgow Financial Alliance for Net Zero (GFANZ), the Sustainable Markets Initiative (SMI) and the International Sustainability Standards Board (ISSB). They provide forums for major financial institutions to accelerate the transition to a net zero global economy. The ISSB will be leading the development of global sustainability standards.
- Committed to the UK being the **world's first net zero aligned financial centre.** There are plans to make it mandatory for financial firms to publish transition plans. A Transition Plan Taskforce has been established to set the gold standard in this area.
- Delivered on its **green finance roadmap.** Currently in its first phase, this will deliver new economy-wide Sustainability Disclosure Requirements. The roadmap sets out implementation pathways for different sectors of the economy.
- Continued working with the UK industry and regulators to implement the recommendations of the **Asset Management Taskforce's stewardship report** which seek to enhance and embed stewardship across the investment chain. This supports the world-leading stewardship standards set out in the Financial Reporting Council's UK Stewardship Code 2020. In March 2022, the Code had 199 signatories including asset managers with £33tn in global assets under management.
- Promoted **global consistency and comparability** in sustainability reporting, enhanced climate-related financial disclosures and improved transparency in ESG. This will not only make the transition easier and more cost-effective for businesses but will also help drive the change needed to achieve net zero.

Committed to the UK being the **world's first net zero aligned financial centre.**

- Continued to **develop the UK's green taxonomy,** which sets out the thresholds at which specific economic activities count as environmentally sustainable.
- Made it **mandatory for firms across the economy to disclose their climate-related risks and opportunities** – the first G20 country to do so. The FCA introduced new climate-related disclosure rules for listed companies in 2021, aligned with Task Force on Climate-Related Financial Disclosures (TCFD) recommendations. New Companies Act requirements came into force from April 2022, making climate-related disclosures mandatory for large UK-registered companies, including private companies.
- Continued to **invest and grow voluntary carbon markets.** The UK Voluntary Carbon Markets Forum was established in April 2021. It will put into action the recommendations of the global Taskforce on Scaling Voluntary Carbon Markets (TSVCM) by providing a high-integrity market ecosystem that aims to develop verifiable and effective offset solutions.
- **Will publish an updated Green Finance Strategy** later this year setting out how the UK will go further on green finance.
- **Will raise a total of £10bn in green gilt proceeds** throughout 2022-23.
- **Will take forward work to deliver Sustainability Disclosure Requirements** – the Government intends to legislate on this when parliamentary time allows.
- **Will rally other countries around the work of the ISSB.** This was launched at COP26 to develop a global standard for sustainability reporting. The ISSB has published its first exposure draft standard in March 2022.
- **Will continue work to integrate climate change in financial regulation,** for example, by making a decision this year about whether to bring ESG ratings agencies into the regulatory perimeter.
- **Will consult on draft Technical Screening Criteria for the UK Green Taxonomy's** climate change mitigation and climate change adaptation objectives.

Will **rally other countries around the work of the ISSB.**

The financial services sector sees strengths and further opportunity in:

- Engaging to **facilitate international standards and global alignment.** Each geographical market will have its own framework, but ensuring these frameworks are compatible will play an important part in the future of sustainable finance and ESG. There is room for the UK to collaborate with international stakeholders, potentially leading the way. This will need to include a renewed focus on just transition. It will go hand in hand with the industry's capacity to actively engage in the field, and the increased capacity of regulators to implement new rules.
- Using **the Transition Plan Taskforce** to develop an operating model for transition finance and gold-standard transition plans. The UK has an opportunity to lead on transition finance, especially given its existing strengths in voluntary carbon markets disclosures. Transition finance is an area where the UK green taxonomy can be tailored to its domestic markets. There is an opportunity to consider whether regulation could include transition plan templates to encourage comparability.
- Ensuring the UK's financial services industry is making full use of its potential to help achieve net zero by having a **holistic and cross-sectoral green finance strategy.** A focus on sustainable investment is right but understanding climate risk and the implication for insuring activities is just as important – which the PRA rightly highlights.
- Promoting a deeper appreciation of the **financial materiality of nature and biodiversity-related risks and opportunities,** and how these interact with climate-related issues. Many UK firms are participating in the Taskforce on Nature-related Financial Disclosure (TNFD) beta-stage testing, which will inform relevant and actionable reporting requirements in this area. There is further opportunity for firms to cultivate in-house expertise on nature and biodiversity to inform product development and support their clients in understanding these issues.

Engaging to **facilitate international standards and global alignment.**

A sector with access to **the right talent and expertise**

The UK is a world-leading financial centre because of its people. The expertise, talent and skills available in the UK are nearly unrivalled. There are more than 2.3 million jobs in the sector - 1.1 million in financial services and just over 1.2 million in related professional services. Financial services firms in the UK can hire from a multitude of backgrounds and experience. But the world is changing. Now is the time to ensure we have the right skills going forward, remain attractive to highly skilled international talent and continue to provide expertise across the economy.

Queen's University, Belfast

We are monitoring activity in:

- **Jobs.**[32] The number of jobs in financial services is growing. More than 2.3 million people in the UK work in the sector – 1.1 million in financial services and just over 1.2 million in related professional services. Two out of three of these jobs are outside of London.
- **Attractiveness to international talent.**[33] The share of international workers in financial services is increasing – 20.5% of workers in financial services were born outside of the UK (Chart 15). International workers complement the UK's domestic workforce and help businesses establish relationships with clients and partners from around the world. However, the wider perception of the UK as an economy attractive to highly skilled international talent is in decline (Chart 16). The UK remains more attractive than France and Japan but lags behind Singapore and the US.
- **Employee training.**[34] Employee training is a lower priority in companies in the UK than in other markets, according to a perception-based survey. Despite re- and upskilling efforts, the perceived importance of employee training in the UK has stagnated in recent years. Germany, Hong Kong, and Singapore are markets where employee training is perceived as a high priority.

2.3m

people in the UK **work in the financial and related professional services sector.**

20.5%

of workers in financial services **were born outside of the UK.**

Chart 15: London attracts a relatively higher number of international workers in financial services than the rest of the UK.

Share of international workers in financial services

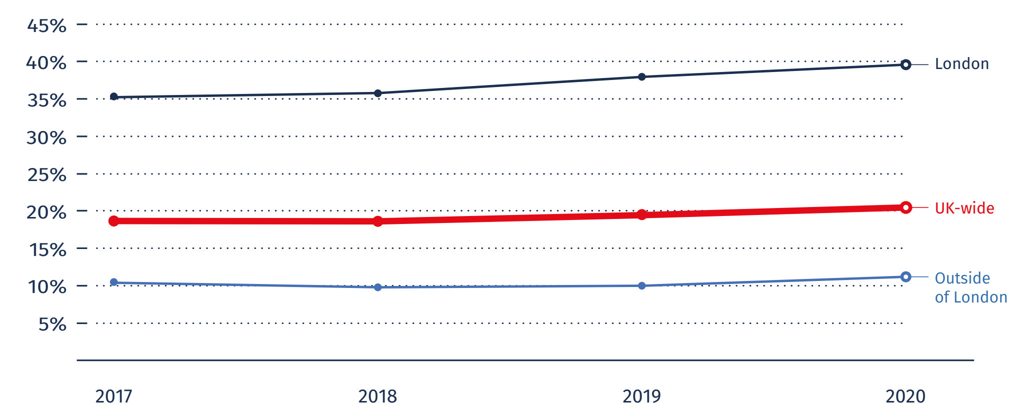
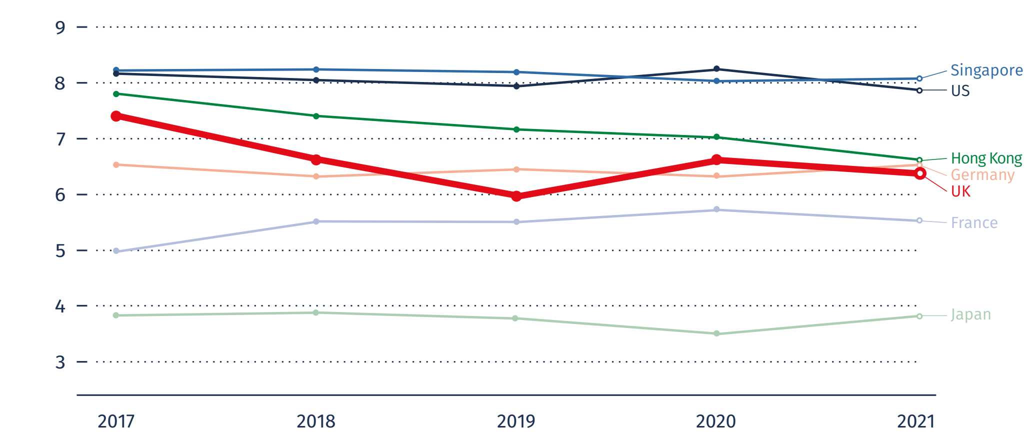


Chart 16: the wider perception of the UK as an economy attractive to highly skilled international talent is in decline.

Perceived market attractiveness to highly skilled, international talent on a scale of 0 (lowest) to 10 (highest)



[32] ONS (2022).
[33] ONS (2022), IMD World Talent Ranking (2021).
[34] IMD World Talent Ranking (2021).

To strengthen the UK in this area, the government:

- **Established the Financial Services Skills Commission,** which uses a dedicated training framework to better identify and address skills gaps in the sector.
- Understands that a **reformed immigration system is a key lever** in sustaining a world-class business environment, with various visa routes which will further streamline businesses' access to specialised international talent – such as those below.
- Continued to introduce **improvements to the apprenticeship system,** making it more employer-led and easier for businesses of all sizes and sectors to access high-quality training for their employees that meets their business needs. While there will not be a formal review of the Apprenticeship Levy, the government will consider whether further intervention is needed to encourage employers to offer the high-quality training the UK needs. This will include examining whether the current tax system – including the operation of the Apprenticeship Levy – is doing enough to incentivise businesses to invest in the right kinds of training.
- **Collaborated with FutureDotNow,** an industry-backed coalition of leading companies and civil society groups working to help people and businesses across the UK boost their digital skills.
- **Introduced the High Potential Individual visa route** for those who have recently graduated from a non-UK university ranked in the global top 50, which provides a fast and flexible visa to work in the UK.
- **Introduced the Global Business Mobility visa.** For the first time, teams of workers will be able to undertake assignments connected to a business's expansion to the UK, thereby facilitating inward investment, whilst the new provision for secondments is a world-first in enabling collaboration between UK and international businesses.
- **Will launch the Scale-up visa** – to help fast-growing UK businesses bring in the talent they need to grow and drive innovation. This matches leading offers from Singapore and France with simple criteria and flexible provisions for successful applicants to work in the UK.

Expanded the immigration routes available to skilled talent.

The financial services sector sees strengths and further opportunity in:

- **Developing expertise in digital skills.** Businesses need to continue to have access to the expertise and skills required to grow and thrive. The financial services sector can complement government efforts via industry partnerships and collaboration with educational bodies.
- **Supporting and investing in apprenticeships,** which are jobs with training for anyone of any age and stage of their career. Skills need to be developed across the entire ecosystem – in firms, regulators and government – to offer better products and services and get supervision, regulation and policymaking right.
- Encouraging greater levels of **investment in employee training,** both for apprentices and employees more generally.
- Considering a route that allows **international workers** to enter the UK for short-term, productive activity without requiring a visa. This would create further opportunity to ensure the UK remains an attractive destination for global talent.
- Providing employers with **different ways to pay the Immigration Skills Charge** and allowing medium sized employers to pay the same fees that currently apply to small employers.
- Supporting **new ways of working** to open the financial services sector to a wider and more diverse talent pool. Firms can benefit from flexible policies that balance office presence with remote working. Government can explore the benefits of cross-border remote working, which could offer businesses an even wider talent pool and position and advertise the UK as a truly open and global market.

Considering a route that allows **international workers to enter the UK for short-term, productive activity** without requiring a visa.

Conclusion: next steps

One of the key findings of this report is that the UK is already a tremendously successful financial services hub. And there is broad agreement across and industry as to the future direction of travel needed to maintain the UK's place as a world-leading financial services centre.

However, there are a number of opportunities identified in this report where the industry and government can look to do more to secure the future success of the UK financial services sector. Delivering on the government's ambitions for the sector will require close collaboration – and constructive challenge – between industry, government, and the regulators.

As highlighted in this document, there is a significant programme of work being taken forward by government and the regulators to realise the opportunities presented by EU Exit and build the coherent, agile and internationally-respected framework of financial regulation that is tailored for the UK's markets.

A particular focus of the government in the immediate future will be the passage of the Financial Services and Markets Bill. As the government has set out, this will be a wide-ranging Bill focused on strengthening the UK's financial services sector. It will cut red tape to make the UK an even more attractive place to invest and do business, and harness the opportunities of innovative technologies in financial services – all while ensuring that high standards are maintained. It will also update the objectives of the financial services regulators to ensure a greater focus on growth and international competitiveness.

This report has also noted opportunities where industry should look to take a leading role in driving work forward. And the City of London Corporation and HM Treasury together are delighted to welcome the new Capital Markets Industry Taskforce, which is being taken forward by Julia Hoggett, CEO of the London Stock Exchange Group. This Taskforce, operating independently of government, will work to ensure that our markets continue to evolve in a way that allows the next generation of companies to flourish here. There are suggestions within this report on issues this Taskforce may consider, and its conclusions could help to inform future editions of this report.

Annex 1: list of contributors

The City of London Corporation and HM Treasury would like to thank all organisations who contributed and provided insights for this report.

Alternative Investment Management Association
American International Group
Association for Financial Markets in Europe
Association of British Insurers
Aviva
Bank of China
BlackRock
British Private Equity & Venture Capital Association
Cboe
ClarusFT
Clifford Chance
Confederation of British Industry
Credit Suisse
Deutsche Bank
Euroclear
Fidelity International
Freshfields Bruckhaus Deringer
Google
HSBC
ICE Futures Europe
Innovate Finance
International Regulatory Strategy Group
International Swaps and Derivatives Association
Invesco
Investment Association
Klarna
KPMG
LexisNexis
Linklaters
Lloyd's
London Market Group
London Stock Exchange Group
M&G
MarketAxess
Marsh
Moody's
Morgan Stanley
Ninety One
OakNorth
Oliver Wyman
Prudential
PwC
Revolut
Schroders
SIX Group
Société Générale
Standard Chartered
Starling Bank
Stripe
The Carlyle Group
TheCityUK
Tradeweb
UK Finance
WTW
Zurich

Annex 2: actions the UK Government is taking to deliver on its vision for the financial services sector

The contents of this table reflect how the government is delivering its vision for an open, green, and technologically advanced financial services sector that is globally competitive, as set out at Mansion House 2022.

completed | in progress | future work

Theme	Government actions	Status
An open and global financial hub	Negotiating a landmark **Mutual Recognition Agreement (MRA) with Switzerland.**	Negotiations to conclude by end 2022. Implementing provisions in the Financial Services and Markets (FSM) Bill 2022.
	Legislating to provide a **mechanism for implementing MRAs** with overseas partners, including the outcome of ongoing Swiss negotiations.	Included in the FSM Bill 2022.
	Incorporated **financial services provisions in trade deals with Australia and New Zealand.**	FS Chapters agreed in FTAs with Australia signed in December 2021 and New Zealand in February 2022.
	Negotiated **agreements with high-growth markets such as Saudi Arabia, Chile and Kenya.**	Financial services MoU with Saudi Arabia to be signed later in 2022.
	Pursued financial services interests as part of wider ongoing DIT-led FTA negotiations with several jurisdictions and preparing for the launch of other negotiations.	Ongoing FTA negotiations with India, Canada and accession to CPTTP. Recently launched negotiations with Mexico, GCC.
	Established the **UK-Japan Financial Regulatory Forum** and used the inaugural meeting to set up working groups on shared priorities across fintech, insurance and sustainable finance.	Inaugural Forum was held in June 2022. Next Forum due to take place in 2023.
	Signed a **Financial Partnership Agreement with Singapore** in June 2021 **and legislated for a Digital Economy Agreement.**	Regulatory cooperation MoU underpinning Financial Partnership signed in June 2021. Digital Economy Agreement came into effect in June 2022.
	Negotiating a **revitalised UK-Singapore Fintech Bridge.**	Negotiations due to conclude in 2023.
	Established the **US-UK Financial Regulatory Working Group** (FRWG) - a comprehensive dialogue between the world's two leading global financial centres, as well as the US-UK Financial Innovation Partnership (FIP).	Further dialogues scheduled. The next FRWG meeting is due to take place in summer 2022.
	Ensured the UK continues to take action to ensure it is a safe and competitive place to locate financial services business and activities through **delivery of our Economic Crime Plan (ECP).**	41 of the 52 actions set out in the ECP are complete. Work on the remaining actions is well underway.
	Cemented the UK's status as the leading western hub for Islamic Finance through the **issuance of a second Sovereign Sukuk.**	Second Sovereign Sukuk issued in 2021.
	A Call for Evidence on the **Overseas Framework** has been completed and a consultation will be launched later in 2022 on options to make the framework more coherent and easier to navigate.	Consultation to be launched in the second half of 2022.
	Legislated to **ensure the UK can meet its G20 commitments to implement the remaining global Basel reforms.**	Secondary legislation to support implementation of Basel 3.1 in the UK to be introduced when Parliamentary time allows.

Theme	Government actions	Status
A sector at the forefront of technology and innovation	Bringing cryptoassets into **financial promotion regulation.**	Secondary legislation planned for 2022.
	Bringing stablecoins which reference their value from fiat currency, where used as a means of payment, **within the UK regulatory perimeter.**	Included in the FSM Bill, with secondary legislation to follow.
	Putting in place a **Financial Market Infrastructure Sandbox,** to be up and running in 2023, which will enable firms to experiment with the use of new technologies like DLT in providing the services that underpin financial markets.	Included in the FSM Bill, with secondary legislation to follow.
	Protecting access to cash by providing the FCA with powers to ensure the continued provision of cash withdrawal and deposit facilities across the United Kingdom.	Included in the FSM Bill.
	Establishing an oversight regime that provides the Bank of England with powers to **ensure that the wholesale cash network that supports the public's continued access to cash is effective, resilient and sustainable.**	Included in the FSM Bill.
	Replacing the Cash Ratio Deposit, which funds the Bank of England's monetary policy and financial stability functions, with the new Bank of England Levy to ensure sustainable funding for these functions in future.	Included in the FSM Bill.
	Increasing the range of products and services Credit Unions in Great Britain can offer their members, including hire purchase, conditional sale agreements, and insurance distribution services.	Included in the FSM Bill.
	Enabling the Payment Systems Regulator to require **reimbursement for victims of APP scams.**	Included in the FSM Bill.
	Creating a regulatory 'gateway' to **improve the quality of financial promotions.**	Included in the FSM Bill.
	Funding the establishment of a Centre for Finance, Innovation and Technology (CFIT); a private sector-led body focused on identifying and addressing barriers to growth of the UK fintech sector.	The CFIT Steering Committee is finalising proposals for CFIT's priorities, objectives and operational requirements.
	Launching the Scale-up visa – to help fast-growing UK businesses bring in the talent they need to grow and drive innovation. This matches leading offers from Singapore and France with simple criteria and flexible provisions for successful applicants to work in the UK.	Launching August 2022.
	Established the Bank of International Settlements UK Innovation Hub to foster collaboration on fintech.	Hub launched June 2021.
	Published the Payments Landscape Review response, setting out the government's future priorities to ensure the UK's payments sector remains world leading.	Review published October 2021.
	Commissioning the Royal Mint to **create a Non-Fungible Token.**	Royal Mint to share further details in due course.
	Exploring the use of **Distributed Ledger Technology** in sovereign debt issuance.	HMT and the UK Debt Management Office are commencing a research programme in summer 2022.
	Committing, alongside regulators, t**o building on the initial success of Open Banking** to help unlock and realise further benefits for consumers, businesses, and the wider economy.	A Joint Regulatory Oversight Committee has been established and will engage with stakeholders. It will set out recommendations in due course.

Theme	Government actions	Status
A world leader in green finance	Committed to the UK being a **net zero aligned financial centre** through moving towards mandatory publication of transition plans.	The Transition Plan Taskforce has been established and published a Call for Evidence earlier in the year. The Government will set out a 'net zero transition pathway' in the Green Finance Strategy update in the second half of 2022.
	Provided a common framework to define which economic activities count as environmentally sustainable through a **green taxonomy.**	The government will publish a consultation in summer 2022.
	Committed to making disclosures aligned with the Task Force on Climate-related Financial Disclosures mandatory across the economy by 2025, with most requirements in place by 2023.	These rules have now been introduced by the FCA, BEIS and DWP. Rules for FCA-regulated asset managers and asset owners, and for issuers of standard listed shares were published in December.
	The government will require businesses to disclose their risks and opportunities from, and impact on, the climate and the environment through implementing coordinated S**ustainability Disclosures Requirements (SDR).**	Published Greening Finance Roadmap in October 2021 to set out expectations. Legislation will be introduced when Parliamentary time allows.
	The government will work with the FCA to introduce a **sustainable investment label.** This will cover retail investments using information provided through the SDR.	The FCA have published a discussion paper and are planning to consult in 2022.
	Introduced the **world's first sovereign green savings bond** which allows savers to contribute towards the government's green initiatives.	Launched in October 2021 through NS&I.
	Supported international standard-setters to ensure the integrity of carbon credits and sustainability claims involving **Voluntary Carbon Markets.**	One of the standard setters has published draft guidance for consultation, with the other to be published in summer 2022.
	Successfully issued the first two sovereign green bonds ('green gilts'), setting several market records, the first in a series of issuances as the UK looks to build out a green yield curve in the coming years. Having raised £16.1bn last financial year, the UK has committed to raising a further £10bn in green gilt proceeds in 2022-23.	Three green gilts have now been issued following the inaugural issuance in autumn 2021.

Theme	Government actions	Status
A competitive marketplace promoting effective use of capital	Made changes to the **bank surcharge,** in order to maintain the UK's financial services competitiveness and that the tax system is supportive of growth within the UK banking market.	Included in Finance Act 2022.
	Passed the **Financial Services Act 2021,** including measures to enhance the UK's world-leading prudential standards, promote openness to international markets, and maintain the effectiveness of the financial services regulatory framework so that the sector continues to deliver for consumers and businesses.	The Financial Services Act 2021 gained Royal Assent in April 2021.
	Legislated to introduce **the Investment Firms' Prudential Regime,** creating a framework for the FCA to deliver a tailored regime for non-systemic investment firms with more proportionate capital requirements.	New FCA rules came in on 1 January 2022.
	Legislating to implement the outcomes of the **Future Regulatory Framework (FRF) Review,** ensuring that having left the EU, the UK maintains a coherent, agile, and internationally respected approach to financial services regulation that is right for the UK.	Included in the FSM Bill.
	Worked with regulators to implement a range of reforms in line with Lord Hill's **UK Listing Review** recommendations.	The FCA changed its rules on a range of issues in December 2021. A second FCA discussion paper on Primary Markets Effectiveness Review was published on 26 May 2022.
	HMT will use the Future Regulatory Framework to deliver reforms to the UK's **Prospectus Regime** to make capital raising on public markets more efficient, improve the quality of information available to investors, and make regulation in the area more agile.	Consultation response published on 1 March 2022.
	Commissioned and accepted recommendations from Mark Austin on the **Secondary Capital Raising Review,** speeding up secondary capital raising for UK listed firms and helping firms to access finance.	Secondary Capital Raising Review report published alongside Mansion House.
	Announced a review of the **VAT treatment of fund management** and established an industry working group to examine the case for reviewing the VAT treatment of financial services.	Work on both workstreams is ongoing.
	Supported the establishment of the **Financial Services Skills Commission** to develop the talent and skills for the future of the sector.	The FSSC is taking forward four workstreams to develop and attract talent, identify future skills gaps and promote diversity and inclusion.
	Promoted long-term investment by supporting the **Productive Finance Working Group** and the FCA's creation of the **Long-Term Asset Fund** structure.	FCA rules for the structure came into effect in November 2021.
	Support a dynamic and diverse UK banking sector with **streamlined prudential regulations.**	The FSM Bill will enable the implementation of the PRA's Strong and simple regime for smaller banks and building societies.
	Delivering key reforms from the **Wholesale Markets Review** consultation, including removing the share trading obligation and the double volume cap to give firms greater choice about where they can trade and therefore get the best prices for investors.	Included in the FSM Bill.
	Published the response to a call for input for the **UK Funds Regime Review,** setting out conclusions and which measures will be progressed or explored further.	Review published 10 February 2022.
	Bringing in an equivalence regime to recognise overseas **Simple, Transparent and Standardised securitisations.**	Included in the FSM Bill.
	Creating a new **Senior Managers & Certifications Regime** to be applied to Central Counterparties and Central Securities Depositories, to enhance the accountability of senior managers and encourage effective governance within these systemically important firms.	Included in the FSM Bill.

Theme	Government actions	Status
A competitive marketplace promoting effective use of capital	Expanding the **Central Counterparty Resolution Regime,** giving the Bank of England the additional powers to stabilise a CCP firm in the event of failure. This will protect financial stability and limit risks to public funds, while cementing the UK's reputation as a hub for global clearing services.	Included in the FSM Bill.
	Updating the **Insurer Insolvency Regime,** expanding the powers available to UK regulatory authorities and courts to better enable them to manage an insurer in financial distress in an orderly manner, protecting policyholders and preventing value destruction.	Included in the FSM Bill.
	Amending the **Reinsurance (Acts of Terrorism) Act 1993** to ensure that public sector bodies extended a guarantee from HMT under the Act will comply with relevant Government controls (e.g. managing public money, annual estimates process etc.).	Included in the FSM Bill.
	Consulting on proposed reforms to **Solvency II,** the prudential regulatory regime for insurance firms, to spur a vibrant and competitive insurance sector without compromising high standards of policyholder protection.	Consultation closes 21 July 2022.
	Taking forward the next phase of work to **regulate Buy-Now-Pay-Later (BNPL),** through a consultation on draft legislation.	Second consultation to be launched at the end of 2022.
	Launching a consultation on the reform of the **Consumer Credit Act 1974,** following a Government announcement in June 2022.	Consultation to be launched at the end of 2022.

This publication is available at www.gov.uk/offcial-documents

Any enquiries regarding this publication should be sent to us at public.enquiries@hmtreasury.gov.uk

About the Global City campaign:

The Global City campaign is The City of London Corporation's overarching initiative to promote the UK as a world-leading international financial centre. It showcases the UK as a great place for financial and professional services firms to invest, locate and grow.

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CITY OF LONDON

THE GLOBAL CITY

About the City of London Corporation:

The City of London Corporation is the governing body of the Square Mile dedicated to a vibrant and thriving City, supporting a diverse and sustainable London within a globally successful UK.

We aim to:

- Contribute to a flourishing society
- Support a thriving economy
- Shape outstanding environments

By strengthening the connections, capacity and character of the City, London and the UK for the benefit of people who live, work and visit here.

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