



HM Treasury

# Recommendations for the Financial Conduct Authority

**December 2022**

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Presented to Parliament pursuant to section 1JA(3) of the Financial  
Services and Markets Act 2000



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

8 December 2022

Nikhil Rathi  
Chief Executive  
Financial Conduct Authority  
12 Endeavour Square  
London  
E20 1JN

Dear Nikhil,

## RECOMMENDATIONS FOR THE FINANCIAL CONDUCT AUTHORITY

In accordance with section 1JA of the Financial Services and Markets Act 2000 (the Act), this letter makes recommendations to the Financial Conduct Authority (FCA) about aspects of the government's economic policy 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 replaces the previous letters sent to you under section 1JA of the Act and will be presented to Parliament pursuant to section 1JA(3) of the Act.

The specification of the government's economic policy and its recommendations to the FCA can be found in the annex to this letter. These recommendations represent a clear and targeted approach to how the regulators can have regard to the government's economic policy, while building on the important themes of competition, growth, competitiveness, innovation, trade and better outcomes for consumers from previous letters.

The government is determined to unlock the full potential of the UK financial services sector. In order to achieve this the government is committed to the operational independence of the FCA and the financial regulators, balanced with clear accountability, appropriate democratic input and transparent oversight.

I am grateful to all at the FCA for your continued good work and I look forward to working with you in the period ahead.

I am copying this letter to Harriett Baldwin MP, Chair of the Treasury Committee.

Best wishes,

A handwritten signature in blue ink that reads "Jeremy Hunt". The signature is written in a cursive style with a large initial 'J' and a stylized 'H'.

RT HON JEREMY HUNT MP  
Chancellor of the Exchequer



## 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 set out in section 1B(2) of the Act. The FCA also has three operational objectives, set out in section 1B(3):

- 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.

The Act will be amended by the Financial Services and Markets Bill which introduces a secondary objective for the FCA to facilitate, subject to aligning with relevant international standards, the international competitiveness of the UK economy (including in particular the financial services sector) and its growth in the medium to long term which will be set out in section 1B and 1EB of the Act.

In discharging its general functions, the FCA must have regard to the regulatory principles set out in Section 3B of 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.

Section 1JA of the Act allows the Treasury to make recommendations to the FCA about aspects of the economic policy of His 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,
- the application of the regulatory principles, 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 contains the Treasury’s recommendations to the FCA 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;
- responsible fiscal policy where debt as a proportion of GDP falls over the medium term, supported by strong and independent institutions, and a credible macroeconomic framework maintaining sustainable public finances, while providing the flexibility to support the economy;
- supply side reforms to promote investment, skilled employment, infrastructure, and enterprise to create a more pro-growth environment in all parts of the UK, increasing long-term energy security and delivering Net Zero;
- maintaining a resilient, effectively regulated, and internationally competitive financial system that supports the economy, while protecting consumers and safeguarding taxpayer interests.

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

When the FCA 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. Supporting the government's objective of medium to long-term economic growth in the interests of consumers and businesses

The government is committed to boosting growth rates to ensure the enduring health and prosperity of the UK economy with an active supply side reform agenda to encourage investment, innovation, and entrepreneurship. The government considers that the financial services sector has a key part to play in delivering sustainable economic growth which benefits consumers and businesses across the country.

The FCA should therefore have regard to supporting the government's ambition to encourage economic growth in the interests of consumers and businesses including:

- the government's desire to facilitate investment in productive assets, particularly venture and growth capital to support UK scale-up companies that face a particular finance gap.

- the government's ambitions for the provision of sustainable finance and the supply of long-term investment to support UK economic growth, including the supply of finance for infrastructure projects.
- the government's commitment to securing better outcomes for all consumers, including through improved competition in the interests of consumers and having regard to the needs of different consumers who use or may use financial services.
- the government's ambition to foster a well-functioning housing market that contributes to wider economic growth including helping first-time buyers access the mortgage market.
- the government's aim to deliver smart regulatory reform.

ii. Supporting the government's objective to promote the international competitiveness of the UK

The government, through the Financial Services and Markets Bill, will ensure financial services regulation will be tailored to UK markets in order to bolster the competitiveness of the UK as a global financial centre and deliver better outcomes for consumers and businesses.

The FCA should have regard to the government's strategy to promote competitiveness including through, once enacted, the FCA's new secondary objective to facilitate, subject to aligning with relevant international standards, the international competitiveness of the UK economy (including in particular the financial services sector) and its growth in the medium to long term. As part of this, the FCA should have regard to the government's priorities including:

- the government's desire to swiftly implement the outcomes of the Future Regulatory Framework Review, in a planned and sequenced way, through enacting the repeal of retained EU law with rules designed for the UK.
- the importance of the government's agenda to encourage trade, including through the development and maintenance of deference arrangements, and to promote inward investment into the UK.
- the government's commitment to ensuring that the UK is attractive to internationally active financial services firms and activity.
- the government's support of innovation and new developments in financial markets and active embracing of the use of new technology in financial services, such as crypto technologies, artificial intelligence and machine learning.