



HM Treasury

Financial Services Regulation: Measuring Success

Response to the Call for Proposals

December 2023

Financial Services
Regulation: Measuring
Success

**Response to the Call for
Proposals**



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Chapter 1

Introduction

- 1.1 The Financial Services and Markets Act (FSMA) 2023 received Royal Assent on 29 June 2023. It seizes the opportunities of EU Exit, allowing financial services regulation to be tailored to UK markets. This will bolster the competitiveness of the UK as a global financial centre and deliver better outcomes for consumers and businesses.
- 1.2 FSMA 2023 delivers the outcomes of the Future Regulatory Framework (FRF) Review, which considered what changes should be made to the regulatory framework to ensure that, having left the EU, the UK maintained a coherent, agile, and internationally respected approach to financial services regulation that is right for the UK. As part of this, the Act introduced a number of enhanced mechanisms for accountability, scrutiny, and oversight of the regulators by Parliament and HM Treasury, and measures to strengthen the regulators' engagement with stakeholders.
- 1.3 The Act also introduced new, secondary objectives for the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) to facilitate the medium-to-long term growth and international competitiveness of the UK economy.
- 1.4 The Act requires that both the FCA and the PRA produce reports on how they have worked to embed the new objectives in their processes and practices, and advanced the new objectives. These reports must be published within 12- and 24-months of the objectives coming into force.¹ The Act also amends the requirements for the regulators' annual reports, so that the report must include information on how the regulator has, in its opinion, complied with the duty to advance the objective.

The Call for Proposals

- 1.5 On 9 May 2023, the government published the *Financial Services Regulation: Measuring Success - Call for Proposals*, seeking views on what additional metrics the FCA and the PRA should publish to track progress and support scrutiny of their work to embed and advance their new secondary growth and competitiveness objectives.

¹ The new, secondary objectives came into force on 29 August 2023.

1.6 The Call for Proposals asked two questions of respondents:

- **Do you agree with the government’s approach to the exercise of the power of direction in Clause 37² of the Financial Services and Markets Bill?**
- **What are the key metrics that the FCA and the PRA should publish in relation to their new secondary growth and competitiveness objectives?**

Overview of responses

1.7 The Call for Proposals closed on 4 July and received 56 responses. There were 23 industry organisations, 18 firms, 4 campaigning organisations, 4 other professional organisations, 1 regulator stakeholder panel, and 6 who responded as individuals.

1.8 A full list of respondents, with individuals omitted, is provided in Annex A.

² Now section 39 of the Financial Services and Markets Act 2023 and paragraphs 11A of Schedule 1ZA and 21A of Schedule 1ZB of the Financial Services and Markets Act 2000.

Chapter 2

Summary of responses

Response to Q1

Do you agree with the government's approach to the exercise of the power of direction in Clause 37³ of the FSM Bill?

- 2.1 Section 39 of FSMA 2023 provides the Treasury with a power to direct the regulators to publish information. The requirements to exercise the power include that the Treasury must consider that publication of the information is necessary for scrutiny of the regulator's discharge of its functions. The Treasury must also consider that existing available information is not sufficient for conducting scrutiny.
- 2.2 During the passage of FSMA 2023 and as part of the Call for Proposals, the government set out its approach to the exercise of this power: that the power would act as a backstop to ensure that the regulators can be directed to provide further information on their performance where required, while respecting their operational independence and expertise. It would therefore only be exercised where existing forms of engagement with the regulator had been exhausted.
- 2.3 The government will make proactive use of the existing methods of engagement with the regulators, and HM Treasury will work to ensure that stakeholders can be confident that their representations are fully considered as part of an active and ongoing dialogue.
- 2.4 75% of respondents addressed question 1. Of these, a majority were in favour of the government's approach. A minority of respondents did, however, advocate for a more proactive approach to the exercise of the power.

³ Now section 39 of the Financial Services and Markets Act 2023 and paragraphs 11A of Schedule 1ZA and 21A of Schedule 1ZB of the Financial Services and Markets Act 2000.

Response to Q2

What are the key metrics that the FCA and the PRA should publish in relation to their new secondary growth and competitiveness objectives?

2.5 Almost all respondents responded to question 2, with over 500 suggestions made for specific metrics. These suggestions fell into 10 broad themes, which are set out below with the key suggested metrics under each theme.

Themes in respondents' suggestions

Operational efficiency and Management Information

- Authorisation data split by firm type, approval and rejection rates
- Reasons for rejection

International competitiveness

- Speed of authorisations compared to other jurisdictions
- The level of support provided for applications, such as the availability and frequency of use of communication channels for authorisation support
- New entrants and exits from UK market

Regulatory burden

- Number of data requests/ reporting returns per firm
- Mean/median/average time given to respond (including *ad hoc* requests)
- Satisfaction survey on proportionality and effectiveness of regulators' actions

Policy and implementation

- Actual vs. estimated costs of policy
- Aggregate cost of new policies introduced annually
- Number of times a post implementation review is undertaken

Digital and innovation

- Number of applications to the FCA's regulatory sandbox programme
- Success rates for each stage of the programme, including conversion to authorisation when leaving the sandbox

- Number of new regulatory initiatives which facilitate the creation of, and benefit from, new technologies or similar

Supervision and enforcement

- Average number of supervisory 'touchpoints' with firms
- Number of and type of Conduct Rule Breaches reported that have led to supervisory action i.e. 'soft tools' used
- Frequency of enforcement actions

Culture, capability, and engagement

- Industry engagement (number of face-to-face meetings, roundtables convened etc.)
- Secondees to and industry/employees at FCA and PRA with industry experience
- Employee training metrics

Consumer impact

- Levels of customer satisfaction in terms of access to and usage of financial services
- Quality of products and the service delivery
- Number and growth of investment scams
- Amount of time taken for and percentage of consumers switching financial services

Environment and social impact

- Number of financial services firms making Task Force on Climate-Related Financial Disclosures (TCFD)
- Number of regulatory proposals that will facilitate the transition to net zero
- Size of sustainable finance loan issuance

Financial stability and market risk

- Rates of default of UK banks and insurers (including comparison to other jurisdictions with similar credit ratings)
- Number of, and financial consequences caused by, insolvencies of dual-regulated firms or 'near misses'

Other observations

- 2.6 Respondents also made a number of wider suggestions related to metrics. In particular, it was noted that information, where published, was not always easy to find. Respondents therefore suggested that metrics could be published in a single page online, as a 'dashboard'.

Chapter 3

Metrics for publication

- 3.1 The government shared the responses and its analysis with regulators, and following extensive discussions on which suggested metrics would be most helpful for scrutiny, the regulators intend to publish a range of metrics relating to:
- **Operational efficiency and management information**
 - **International competitiveness**
 - **Regulatory burden**
 - **Policy and implementation**
 - **Digital and innovation**
- 3.2 Given differences in the remits of the regulators, there are some differences between the lists of metrics for each regulator. This reflects the granularity of existing data, and the feasibility of additional data collection in each case.
- 3.3 An increase in reporting by the regulators should not increase the regulatory burden on firms. As such, the list of new metrics does not include metrics that would require the regulators to make significant new data requests of firms.
- 3.4 Benchmarking the performance of our regulators with their international counterparts is important. However, direct comparison is currently difficult, as other jurisdictions may not publish related data at all or published data may not be directly comparable. As such, the approach taken is to ensure that the regulators publish relevant, detailed data on their performance so as to enable others to compare with international comparators. The government and regulators will continue to consider how the regulators' efficiency and performance can be meaningfully compared to those of international comparators'.
- 3.5 The regulators expect to publish the first editions of new metrics as part of the next editions of their regular quarterly reporting, or by the first report on the new secondary growth and competitiveness objectives by Summer 2024 or, where appropriate, in their 2023-24 annual reports.

Metrics for the FCA

3.6 The FCA will publish the following metrics:

Metric		Frequency
Operational efficiency and management information		
1	<p>Total number of determinations with sector breakdown for:</p> <ul style="list-style-type: none"> • New firm authorisations • Variation of permissions • Change in Control • Senior Managers <p>Broken down by consumer investments; credit and lending; payment services/ e-money; and wholesale</p>	<p>Quarterly</p> <p>Annually for sector breakdown</p>
2	Total number of refusals for new firm authorisations, and reasons for refusal, broken down by sector	Annually
3	Total number of withdrawals for new firm authorisation applications, broken down by sector.	Annually
4	Total number of refusals for approvals under Senior Managers Regime with reasons.	Annually
5	Total number of withdrawals for applications under Senior Managers Regime	Annually
6	Total number of individuals within scope of the Senior Managers and Certification Regime – broken down by SMR and CR.	Annually
7	<p>Quartiles for time taken to complete determinations for:</p> <ul style="list-style-type: none"> • New firm authorisations • Variation of permissions • Change in Control • Senior Managers 	Quarterly

8	Satisfaction of firms based on interactions with the regulators, broken down by type of interaction ⁴	Annually
9	FTE headcount by directorate (e.g. supervision & enforcement), and aggregate turnover.	Annually
International competitiveness		
10	Number of new entrants, exits from UK market, for each sector	Annually
11	Number of listed equity entities on UK exchanges: total + change in period	Bi-annually
Regulatory burden		
12	Total value of the Equivalent Annual Net Direct Cost to Business across all CBAs for Policy Statements published in the previous year	Annually
13	Number of data requests with breakdown	Annually
14	Mean time given to firms to respond to data requests with breakdown	Annually
15	95th percentile time given to firms to respond to data requests, with breakdown	Annually
16	Satisfaction on proportionality, effectiveness, and how regulator actions affect attractiveness of UK ⁵	Annually
Policy implementation		
17	'Dashboard' showing which stage of consultation or implementation initiatives are at.	Biannually
Digital and innovation		
18	Account of new regulatory initiatives which are designed to foster innovation.	Annually

⁴ Satisfaction of firms and consumers with interactions with the Supervision Hub and wider FCA via FCA/Practitioner Panel Survey

⁵ FCA/Practitioner Panel survey questions on proportionality, effectiveness, and promoting international trade in financial services

19	No. of applications received into the FCA sandbox/innovation pathway by sector, innovation focus and location	Annually
20	Qualitative commentary on outcomes of the regulatory sandbox programme, including pathways to authorisation where relevant	Annually

Metrics for the PRA

3.7 The PRA will publish the following metrics:

Metric		Frequency
Operational efficiency and management information		
1	Total number of determinations, broken down by insurers and deposit takers, for: <ul style="list-style-type: none"> • New firms • Variation of permissions • Change in Control • Senior Managers 	Quarterly
2	Total number of refusals for new firm authorisations, and reasons for refusal, broken down by insurers and deposit takers	Annually
3	Total number of withdrawals for new firm authorisation applications, broken down by insurers and deposit takers	Annually
4	Total number of refusals for applications under Senior Managers Regime with reasons	Annually
5	Total number of withdrawals for applications under Senior Managers Regime	Annually
6	(i) 25 th (ii) 50 th (iii) 75 th percentile time taken to complete authorisations, broken down by insurers and deposit takers: <ul style="list-style-type: none"> • New firms • Variation of permissions • Change in Control • Senior Managers 	Quarterly
7	Satisfaction of firms based on interactions with the regulators, broken down by type of interaction	Annually
8	PRA FTE headcount, by area (e.g. policy, supervision & enforcement)	Annually

International competitiveness	
Number of new entrants, exits from UK market, for each sub-sector	Annually
Number of new domestic vs overseas firms authorised using the number of: <ul style="list-style-type: none"> • firms with a legal entity in the UK • firms with a legal entity in the UK which are part of a financial group based overseas (i.e. subsidiaries) • firms that are branching (i.e. legal entity outside the UK) 	Annually
Regulatory burden	
Annual qualitative summary of CBAs produced each year	Annually
Number of data requests/ reporting returns broken down by deposit takers and insurers and type of request ⁶	Annually
Mean time given to firms to respond to data requests, broken down by deposit takers and insurers ⁷	Annually
95th percentile time given to firms to respond to data requests, broken down by deposit takers and insurers ⁸	Annually
Satisfaction on proportionality, effectiveness, and how regulator actions affect attractiveness of UK	Annually
Policy implementation	
'Dashboard' showing which stage of consultation or implementation initiatives are at	Biannually
Digital and innovation	
Number of new regulatory initiatives which are designed to foster innovation. This will be accompanied with a qualitative narrative about the PRA's work to foster innovation.	Annually

⁶ This metric includes ad hoc data requests and regular reporting requirements in the PRA rulebook. Emergency requests, requests for stress testing and ad-hoc supervisory requests are considered out of scope.

⁷ Mean time might not be an appropriate measure for all data requests. In these cases, the PRA will provide an alternative relevant time metric.

⁸ 95th percentile might not be an appropriate measure for all data requests. In these cases, the PRA will provide an alternative relevant time metric.

Annex A: List of respondents

Respondents who replied in a personal capacity have been omitted.

- Association of British Insurers
- Association of Foreign Banks
- Alternative Investment Management Association
- Association of Mortgage Intermediaries
- Aviva
- Boston Consulting Group
- British Insurance Broker's Association
- Building Societies Association
- Chicago Board Options Exchange Europe
- Chartered Insurance Institute
- City of London Corporation
- City of London Law Society
- Electronic Money Association
- FCA Consumer Panel
- Financial Inclusion Centre
- Fintech Founders
- Finance & Leasing Association
- Investment Association
- Intercontinental Exchange
- Institute and Faculty of Actuaries
- Innovate Finance
- Invesco
- Insurtech
- International Underwriting Association
- Klarna

- Law Society of Scotland
- Law-7 Ltd
- London & International Insurance Brokers' Association
- Lloyds Banking Group
- Society of Lloyd's
- Lloyd's Market Association
- London Market Group
- London Stock Exchange Group
- Marsh McLennan
- Pension Insurance Corporation
- Phoenix
- Personal Investment Management & Financial Advice Association
- Positive Money
- Quoted Companies Alliance
- Quilter
- Revolut
- Regulatory Reform Group
- Santander
- Startup Coalition
- TheCityUK
- Transparency Task Force
- UK Finance
- UK Equity Markets Association
- UK Shareholders' Association
- Zurich Insurance

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