



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

Nikhil Rathi
Chief Executive
Financial Conduct Authority
12 Endeavour Square
London
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14 November 2024

Dear Nikhil,

RECOMMENDATIONS FOR THE FINANCIAL CONDUCT AUTHORITY

Growth is the defining mission of this government and is the only route to improving the prosperity of our country and the living standards of working people. The UK financial services sector has a fundamental role to play in delivering this growth, both as an engine for growth and investment throughout the economy, and driving UK prosperity in its own right as a world-leading, dynamic financial centre.

The financial services regulators are key to driving forward this mission: we must have proportionate, effective regulation that allows firms of all sizes to compete, innovate and grow, creates a stable, attractive environment which encourages businesses to establish and expand in the UK, and adequately protects consumers. A thriving, internationally competitive financial services sector, regulated by independent expert regulators with a global reputation for promoting stability and facilitating innovation, is essential for creating the conditions for businesses and consumers to invest with confidence.

I recognise the good work the FCA has already undertaken to support the government's growth mission, including the bold and ambitious approach to reforming the UK's Listings Rules, and our work to launch Private Intermittent Securities and Capital Exchange System (PISCES). I also welcome the FCA undertaking a review of its Handbook, to understand where existing regulation could be streamlined, and look forward to seeing the outcomes of that work.

However, there is more to do to build momentum, with the FCA playing an important role in the government's growth mission. It is vital that you continue to fully embed the secondary international competitiveness and growth objective throughout your organisation, accelerating its adoption so that growth and competitiveness are appropriately considered across all of your policymaking, and in your approach to supervision and the experience of firms in their interactions with the FCA.

While pursuing your operational objectives of securing an appropriate degree of protection for consumers, protecting and enhancing the integrity of the financial system, and promoting competition in the interests of consumers, you should also consider how you can enable informed and responsible risk-taking by authorised firms and customers. It also means continuing your important work to tackle financial crime, given the impact that this has on victims, and the wider impact on growth through costs to businesses. These are all prerequisites for growth, and for ensuring that everyone across the UK can benefit from that growth.

We need to enable and support more responsible and informed risk taking across the economy. Financial regulation has an important role to play here, by maintaining a sound and stable financial system with appropriate protections for consumers, particularly those who are vulnerable, without preventing sensible risk-taking. I recognise the ongoing work of the FCA to protect and enhance the integrity of the UK financial system and ask you to explore opportunities to facilitate innovation by the financial services sector, and to allow consumers to make informed choices including where they choose to take on higher levels of risk. I recognise that there are difficult trade-offs to make, and I commit to the government supporting you in this. Ultimately, we must trust in the systems that we have put in place to manage the impact when things do go wrong – so that problems with one firm don't create wider risks, or lead to an over-correction in future.

I am particularly keen to ensure that:

- Innovative new firms are supported to enter the market, and existing firms are enabled to innovate and invest in new technologies, including the safe adoption of Artificial Intelligence, thereby raising productivity;
- Customers can access appropriate advice and products that will allow them to benefit from economic growth;
- UK financial services firms are supported to play a significant role in supporting the Net Zero transition globally, and to benefit from the opportunities that brings;
- Firms have a positive experience of engaging with the FCA from the point of initial application or inquiry, and that administrative burdens on firms are streamlined as far as possible, while maintaining high regulatory standards and a reputation as a responsive and agile regulator; and

- The UK demonstrates international leadership on key regulatory issues and continues to engage effectively in relevant international forums and with partner jurisdictions.

Co-design is a cornerstone of this government's approach to policy development and delivery. We are therefore committed to working closely with you and other stakeholders, including industry and consumer groups, to deliver the government's economic policy. As part of this, the government is developing a financial services growth and competitiveness strategy, which will consider how to drive the growth of the sector over the next decade. I look forward to working with you as this strategy is developed.

Alongside this letter, I have written jointly to you and the Managing Director of the Payment Systems Regulator setting out the aspects of the government's economic policy to which the FCA and the Payment Systems Regulator should have regard when fulfilling their functions in relation to payments.

I look forward to continuing to engage with you on this important work as it progresses. I would be grateful for updates through your response to this letter, the second report on embedding your international competitiveness and growth objective, and your ongoing regular engagement with Treasury Ministers and officials.

This letter is issued under section 1JA of the Financial Services and Markets Act 2000 and replaces previous letters. A copy will be laid before Parliament.

I am copying this letter to Dame Meg Hillier MP, Chair of the Treasury Select Committee and to the Rt Hon. the Lord Forsyth, Chair of the Financial Services Regulation Committee.

Yours,
Rachel Reeves

RT HON RACHEL REEVES MP
Chancellor of the Exchequer

Recommendations for the Financial Conduct Authority

A. The government's economic policy

The government's economic policy objective is to restore broad-based and resilient growth built on strong and secure foundations. Price and financial stability are essential pre-requisites to achieve this objective.

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

- maintaining a stable macroeconomic environment, key to which is operationally independent monetary policy, responsible for maintaining price stability and supporting the economy;
- supporting investment through the effective management of public finances and overseeing sustainable taxes and borrowing, to deliver long-term growth and accelerate the transition to a climate resilient, nature positive and net zero economy;
- supply-side reform and targeted industrial strategy to remove the barriers to our productive capacity and increase productivity-enhancing investment, increasing access to high-quality jobs across the UK;
- growing the financial services sector and increasing its international competitiveness, while enhancing its role in financing growth, safeguarding financial stability and consumer protection, and supporting the transition to a net zero economy.

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

The FCA should have regard to the government's policy towards the financial services sector, where the government's top priority is to promote its growth and international competitiveness.

As part of this, the FCA should have regard to:

- The **vital contribution of the financial services sector to overall economic growth** and in supporting the real economy through sustainable lending, and by attracting and mobilising increased investment and encouraging trade;
- Creating a **regulatory environment which facilitates growth** through supporting competition and innovation, and encouraging newer and more innovative firms to start-up, scale-up and remain in the UK;
- Maintaining and enhancing **the UK's position as a world-leading global finance** hub and a destination of choice for international financial services business, including by demonstrating leadership in international regulatory forums;
- **Leading the world in sustainable finance**, including by unlocking the full potential of the financial services sector to fund the green transition; making the UK a global hub for

sustainable finance activity, and delivering a world-leading sustainable finance regulatory framework;

- Ensuring the **UK's capital markets are competitive and support UK growth**, including through the ongoing Pensions Review that aims to unlock billions of pounds of investment for UK businesses with high growth potential; and
- Reinforcing **financial inclusion and supporting home ownership** to enable individuals to access the financial services and products they need to fully participate in the economy, including the government's commitment to making home ownership more accessible by fixing the planning system and building 1.5 million more homes, and supporting first-time buyers who struggle to save for a large deposit.

