How the UK will regulate for the future

Speech by Nikhil Rathi, our Chief Executive, delivered at the Peterson Institute for International Economics.

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Highlights

- Intensive dialogue between our nations is essential to ensure we deliver consistent outcomes.
- Having departed from the EU, we now have a vital opportunity to adapt our regulatory system to respond to today's challenges and to bolster the global reach of our wholesale markets.
- We have invested heavily in data and technology and scan 100,000 websites for fraud every day.
- The US and UK will deepen ties on crypto-asset regulation and market developments – including in relation to stablecoins and the exploration of central bank digital currencies.
- Our largest graduate cohort ever is joining and we are on course to welcome 1000 new colleagues by the end of the year.

Good morning, it is fantastic to be here among peers, counterparts and friends. Let me tell you, when you're a regulator, you're not always at the top of the invitation list so friendships are to be cherished.

Regulatory engagement as part of that friendship between the US and the UK is critical: We have two of the largest and globally interconnected financial centres in the world.

The US is the single largest destination for UK financial services exports. The UK is a major hub for overseas clients, in terms of investment management second only to the US, with US clients having $1 trillion (£860bn) under UK management. Between us we are responsible for the supervision of 11 out of the 30 largest banks [1] in the world (GSIBs).

We both insist on high standards and engage actively in international fora. We both pursue a transparent, proportionate response to regulation. Both our countries have a thirst for innovation. Our legal systems are rigorous in holding us as regulators to account. And we share a language. Or do we?

You call your banknotes bills. Yet in the UK, if someone wants to hand you a bill, your instinct is to head for the exit.

A cross walk is something my son performs when I tell him to switch off the Xbox because it's bedtime.

You have attorneys and we have barristers or solicitors. At the end of the day, we can all agree to call them lawyers and that they cost a heck of a lot.

These are just some of the linguistic minefields a trans-Atlantic tourist has to navigate – and let's leave to one side the whole 'driving on the wrong side of the road'.

And while we have the same shared values and desire to have free and safe markets, well regulated, the way our legal arrangements and remits are organised can vary widely. Therefore intensive dialogue is hugely valuable to help ensure we deliver consistent outcomes and common goals.

Lessons from the past, lessons now

Just over a decade ago world leaders, finance ministers, central bank governors and regulators came together facing what was then described as the greatest global economic threat of our times.

I was working on financial stability then, when we were dealing with the collapse of the banking system on an unprecedented scale and had to innovate at incredible speed with a range of exceptional interventions, as also happened in the United States.

As a result of that crisis regulation changed significantly. Tougher, more robust standards. Whether it be in relation to capital, leverage, liquidity, recovery and resolution planning, Derivatives markets and transparency governance, culture, remuneration, retail and wholesale conduct, anti-money laundering and countering terrorist financing, systemic risk and macro-prudential policy.

And the FCA, reconstituted after the Global Financial Crisis, has been at the forefront of many of these.

We have also taken far reaching steps to fix elements of the global financial infrastructure that were inadequate.

Our strategy to replace LIBOR in 2017 [2] was greeted with much scepticism at the time but this week I was delighted to be at the NY FED on Monday as, with market participants we marked the next phase in the so far successful execution of that strategy, with the deadline for winding down USD LIBOR now set at June 2023 and encouraging progress being made towards that goal.

In the case of sterling, less than 1% of contracts now reference sterling LIBOR, so the transition is possible and necessary. London's success so far has been built on its international markets, allowing access to global pools of liquidity.

Having departed from the EU, in the UK, we now have a vital opportunity to further adapt our regulatory system to respond to the challenges we are seeing today and also continue to bolster the global reach of our wholesale markets.

But while we should never forget the lessons of past crises, that a different type of regulation was required, recent years have shown us that a different type of regulator is required.

A different type of UK regulator

We are redesigning our operational platform so that we can better adapt and collaborate, to address the threats, mitigate the shocks, and embrace opportunities. Not just address issues after significant harm or risk has become embedded.

We are investing in our data and tech platforms [3] to improve how we use analytics and insights to support our decision-making. This is helping us to take a more proactive stance and, crucially, spot harm and intervene more quickly and more broadly.

Last year we moved some of our core systems to the cloud. This enabled us to transfer over 50,000 firms and tens of thousands of users to a new regulatory data platform. Using our data lake, we aim to more swiftly identify, connect and react to firm and market issues.

Our analytics tools are speeding up case management and providing improved visibility of risk in each firm. We are rolling out new analytics screening tools to help ensure firms are implementing robust controls to comply with sanctions effectively. As part of this, we have developed an automated tool to test firms' systems and assess their ability to identify sanctioned entities effectively.

We are automatically scanning 100,000 websites every day [4] for fraudulent or scam activity targeting UK consumers, taking down hundreds every year.

There is and must remain a laser focus on the quality of data coming in, in the first place. And this is an area where we are holding firms increasingly to account. We are examining what potential systemic risks are posed by our financial services sector relying upon the resilience of services provided by a small number of critical third parties – including cloud providers - and will soon publish a joint discussion paper with the Bank of England setting out potential new measures. In this work cross-border cooperation will be key.

We are embarking on a new approach to digital regulation in the UK through our Digital Regulators Cooperation Forum [5] bringing us together with our communications, privacy and competition regulators.

We are testing our powers to the limit and where we lack them, using our influence and other means to affect change. We secured agreement from Google [6] that it would not permit non-FCA verified firms to advertise financial products on its platform.

We sounded the alarm over supervising Binance [7] and placed restrictions on it so it could not undertake any regulated activity in the UK without written consent.

Many of the issues we face also require an international response. We greatly value ongoing enforcement cooperation between the FCA and US agencies, including the SEC, CFTC and DOJ in particular, which has created an important set of precedents that demonstrate the ability to act effectively on a global basis.

Crypto

One area of global focus is crypto, both opportunities and risks – a new product, easily accessible and able to operate cross-border, raising issues of consumer protection, market integrity, data privacy and financial crime and more.

Currently, our remit is limited to Anti-Money Laundering rules for platforms. We have applied those strict rules as we would to any other firm that wants to operate in the UK market. A significant number of firms who passed our requirements to register did so only after we worked with them to improve their controls and systems.

This approach should not be surprising. Many of you will be familiar with our regulatory sandbox – a safe space to test regulation around innovative new products. It has been widely emulated and has supported the development of dozens of UK blockchain firms.

We have had hundreds of firms come through our Innovate programme including firms wanting early and high growth oversight where we offer extra tailored support to allow them to grow quickly but safely.

Earlier this year we held CryptoSprints [8], as we continue to prepare financial services for the future. These Sprints – which drew nearly 200 participants -- provide an opportunity for regulators, academics, industry experts and investors to thrash out policy solutions.

Participants told us they wanted a regulatory regime for cryptoassets as a high priority – a matter that is not up to us to decide. They also want regulation phased in over time, to allow firms and investors to prepare and for the rules to fit the evolving crypto assets.

In the past, innovative firms would have been pleading for less regulation. Now they understand and appreciate that rules are there to help provide certainty.

Separately, the UK and US also held talks as part of the US-UK Financial Innovation Partnership [9] in London several weeks ago. We agreed to deepen ties on financial innovation after exchanging views on crypto-asset regulation and market developments – including in relation to stablecoins and the exploration of central bank digital currencies.

The UK, US and Singapore also announced the launch of the IOSCO taskforce on decentralised finance and crypto market integrity risks this week.

These conversations are vital. We are demonstrably supporting responsible use cases for the underlying technology while ensuring it is not at the expense of appropriate consumer protection or market integrity.

Trust in ESG

Investors are also increasingly paying attention to where the firms and funds they back put their money. Our environmental, social and governance (ESG) strategy [10] sets out our target outcomes and the actions we will take to deliver these. Our aim is to support the financial sector in driving positive change, including the transition to net zero.

The UK was the first major economy to mandate climate-related disclosures. We are now working with international partners as they develop their policies, to support the global efforts to transition to a low carbon economy.

Recently, we published our response on ESG integration in capital markets [11] and will later this year release our Sustainability Disclosure Requirements. We support the case for regulating ESG data and ratings. It is essential for enhancing transparency and promoting stronger governance.

In the UK, we are now working closely with the Treasury as they consider extending our remit to cover such providers. In the meantime, we will support industry to develop and follow a Voluntary Code of Conduct informed by IOSCO's recommendations.

Diversity and inclusion to mitigate harm

As investors also look carefully at the senior composition of the firms they invest in, enhancing transparency at Board and executive management level will help hold companies to account and drive further progress

In April, we introduced new rules for listed companies [12]which require them to declare their diversity metrics against common targets on a comply or explain basis, including that at least 40% of the members of the board are women, at least one of the senior board positions is a woman and at least one member of the board is from a non-white, minority ethnic background.

We are continuing to consider further regulatory interventions on diversity and inclusion. This is a priority area of work given the clear links we see between improving diversity and inclusion and meeting our regulatory objectives.

We are keen to promote diversity of thought and have been clear that diversity and inclusion is a regulatory issue. A failure to shape more diverse and inclusive leadership teams risks bias and left unchecked, can result in poorer risk management. Improved board effectiveness supports better conduct and reduces market harm.

We have set even higher standards for our own organisation and will give an update on how we are doing later this summer – but we are well on the way to meet our target for a gender balanced Senior Leadership Team by 2025.

UK Consumer Duty

An outcomes-focussed approach also requires setting and testing higher standards where needed.

We want to break new ground with our New Consumer Duty [13], which will ensure all firms take account of the actual impact of their services and product suitability on the consumer. Selling someone the right product, easily understandable with suitable customer service is hardly controversial but, too often, even established firms aren't delivering.

Those firms who do the right thing and show leadership should welcome action to tackle competitors who drive down standards, and we anticipate fewer rule changes as a result, lowering costs to good firms operating in the UK.

I know many peers will watch how this policy develops and we look forward to sharing insights in collaboration with you.

Recent market events

I will finally say a few words about recent market events. We regulate the London Metal Exchange [14] (LME) trading venue and our colleagues at the Bank of England regulate LME Clear, its clearing house.

We are both undertaking reviews of the cancellation of trades and temporary suspension of the nickel market following an extreme price spike earlier in the year, including what lessons might be learned from that.

It is a positive step that the LME has decided that members will now need to report Over The Counter positions on a weekly basis. We are also participating actively in the work at the FSB on commodities markets vulnerabilities in considering the changes that are needed.

Changing times at the FCA

I've set out how we are becoming more innovative, adaptive, assertive and proactive. We are just at the foothills of this journey, but have already changed our operational posture, are running more quickly to tackle complex issues, even if they are outside of our jurisdiction. And by maintaining high global standards, we remain a world leader in enabling innovation.

I am delighted that we will be joined in January by Ashley Alder [15], currently CEO of the Hong Kong Securities and Futures Commission and Chair of the IOSCO Board, as our new Chairman.

We are growing as an organisation as we take on new responsibilities and the balance of our skills and capabilities is changing. We are also pleased that we have our largest graduate cohort ever joining us as well as far more data scientists and colleagues from the tech disciplines than ever before.

We are expanding outside of London with hundreds of colleagues working in Edinburgh, in Scotland and in Leeds in the north of England. So far this year, 500 new colleagues have joined us and we expect nearly 1000 to have done so by the end of the year.

And when I attended the launch of the UK's Investment Futures Summit in New York earlier this week, I was encouraged to hear how many US financial services firms are actively looking to build presence in Scotland and the wider regions of the UK, to tap the high-quality expertise and skills base they offer.

Collaborate to regulate

It is an exciting and crucial time to be a regulator because of the challenges and opportunities we face. And given the scale and nature of those challenges and opportunities, international collaboration has never been so vital.

And we will continue to work closely with you to create a global financial system that, yes, promotes innovation, competition and economic growth – but always in the interest of the consumers.

No matter where they live in the world or what side of the road they drive on.

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Links

- [1] https://www.fsb.org/2021/11/2021-list-of-global-systemically-important-banks-g-sibs/
- [2] https://www.fca.org.uk/news/speeches/the-future-of-libor
- [3] https://www.fca.org.uk/publications/corporate-documents/data-strategy-update-2022#lf-chapter-id-introduction
- [4] https://www.ftadviser.com/fca/2022/06/23/fca-scans-100-000-websites-daily-to-identify-fraud/
- [5] https://www.gov.uk/government/collections/the-digital-regulation-cooperation-forum
- [6] https://www.goodwinprivacyblog.com/2021/12/22/the-uks-newly-assertive-fca-pushes-google-to-check-fintech-companies-drive-into-europe/

- [7] https://www.fca.org.uk/news/news-stories/consumer-warning-binance-markets-limited-and-binance-group
- [8] https://www.fca.org.uk/firms/cryptoassets/cryptosprint
- [9] https://www.gov.uk/government/publications/joint-statement-on-the-us-uk-financial-innovation-partnership-meeting-29th-june-2022
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