



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

8 March 2017

Andrew Bailey  
Chief Executive  
Financial Conduct Authority  
25 North Colonnade  
London  
E14 5HS

Dear Andrew,

## **RECOMMENDATIONS FOR THE FINANCIAL CONDUCT AUTHORITY**

The Financial Services and Markets Act 2000 ("the Act"), requires the Treasury, at least once in each Parliament, to make recommendations to the Financial Conduct Authority (FCA) about aspects of the economic policy of the 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 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 and the accompanying annex constitute the recommendations for the FCA.

I confirm that the government's economic policy objective is to achieve strong, sustainable and balanced growth. Price and financial stability are essential pre-requisites for strong, sustainable and balanced growth in all regions and sectors of the economy. The specification of the government's economic strategy to deliver this objective, found in section A of the annex to this letter, has been updated to reflect the new fiscal framework announced at the Autumn Statement and reiterated at today's Budget.

The FCA's main contribution to this economic policy is, working with the Bank of England's Financial Policy Committee and the Bank of England acting in its capacity as the Prudential Regulation Authority, to protect consumers, promote competition in financial services and to protect and enhance the integrity of the UK financial system. A strong and stable financial system supports economic growth, helps achieve improved outcomes for consumers, facilitates productive investment and underpins the UK's position as an important global financial centre.

Central to this government's economic policy is our proposed industrial strategy, which aims to build a high-skilled, competitive economy that benefits people throughout the UK. The *Building our Industrial Strategy* Green Paper sets out ten pillars. Of particular relevance to the FCA are the pillars relating to:

- **supporting businesses to start and grow** where the FCA is central to ensuring that effective competition in financial services can create the right conditions for access to finance and long-term investment and new ways of raising capital;
- **investing in science, research and innovation, and cultivating world-leading sectors**, where the FCA has a role in ensuring there is a diversity of business models within the financial sector and competition that works in the interest of consumers, which can help create the conditions for industries in the UK, such as the growing fintech sector, to prosper and remain competitive;
- **encouraging trade and inward investment** by considering carefully how your regulations could impact on growth and making sure that the cost of regulation is justified by the benefits, and that regulation is consistent and transparent so as to give investors confidence that the regulators act in a proportionate way.

The government also has a clear objective to support ordinary working families, where the FCA plays an important role in ensuring consumers are appropriately protected and supporting financial inclusion by promoting competition.

The government is committed to UK financial services being effectively regulated; securing the right balance between a financial sector that is globally competitive, works for consumers, and is secure over the long-term.

The FCA supports this vision by working to promote competition in financial services – lowering barriers to entry, supporting innovation through its world-leading Innovation Hub, and adding flexibility to the regulatory framework. In particular, the establishment of the New Bank Start-up Unit has been instrumental in helping prospective new banks enter the market and through the early days of authorisation. I support the FCA's commitment to look in more detail at high cost

credit, including overdrafts, from a consumer protection as well as a competition perspective, using its full range of powers.

I also welcome the work the FCA has done to improve the functioning of the UK's primary debt markets and reviewing the structure of listed markets more generally to ensure they continue to best serve the needs of the modern economy.

As you will be aware, the government will soon begin the formal process of leaving the European Union (EU). While the UK's strong and dynamic economy means we are well-placed to make the most of the opportunities presented by withdrawing from the EU, there may be challenges as well.

The government acknowledges these challenges and is determined to minimise any legal uncertainty by ensuring that there is a fully-functioning legal and regulatory framework for financial services at the point the UK leaves the EU. It will be vital that government and regulators continue to work together closely so that the government can ensure a smooth transition and maintain the UK's position as the world's leading provider of financial services for the good of the UK and broader EU economy. The expertise of the regulators will be critical during this period, and I look forward to working with you on these issues over the coming years.

I am grateful to you and all at the FCA for your continuing good work and dedication.

A handwritten signature in black ink, appearing to read 'Philip Hammond', with a stylized flourish at the end.

PHILIP HAMMOND

## 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. The FCA also has three operational objectives:

- 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.

In discharging its general functions, the FCA must have regard to the regulatory principles 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 3B of the Act sets out the regulatory principles, which are:

- the need to use the resources of each regulator in the most efficient and economic way;
- the principle that a burden or restriction which is imposed on a person, or on the carrying on of an activity, should be proportionate to the benefits, considered in general terms, which are expected to result from the imposition of that burden or restriction;
- the desirability of sustainable growth in the economy of the United Kingdom in the medium or long term;
- the general principle that consumers should take responsibility for their decisions;
- the responsibilities of the senior management of persons subject to requirements imposed by or under this Act, including those affecting consumers, in relation to compliance with those requirements;
- the desirability where appropriate of each regulator exercising its functions in a way that recognises differences in the nature of, and objectives of, businesses carried on by different persons (including different kinds of person such as mutual societies and other kinds of business organisation) subject to requirements imposed by or under this Act;
- the desirability in appropriate cases of each regulator publishing information relating to persons on whom requirements are imposed by or under this Act,

or requiring such persons to publish information, as a means of contributing to the advancement by each regulator of its objectives;

- the principle that the regulators should exercise their functions as transparently as possible.

Section 1JA of the Act allows the Treasury to make recommendations to the FCA about aspects of the economic policy of Her 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 in section 1B(4) (duty to promote effective competition in the interests of consumers),
- the application of the regulatory principles in section 3B, 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 discharges the Treasury's duties 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 for strong, sustainable and balanced growth in all regions and sectors of the UK 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;
- a credible fiscal policy, returning the public finances to health, while providing the flexibility to support the economy;
- addressing long-term economic weaknesses in order to sustain high employment, raise productivity, and improve living standards for people across the UK; and
- continuing to strengthen the financial system, improving the regulatory framework to reduce risks to the taxpayer and building resilience, so that it can provide finance and financial services to the real economy and realise better outcomes for consumers, supporting sustainable economic growth and encouraging productive investment.

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

When the Financial Conduct Authority 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. Competition

The government is keen to see more competition in all sectors of the industry, particularly retail banking. This includes minimising barriers to entry and ensuring a diversity of business models within the industry.

### ii. Growth

The government wishes to ensure financial services markets make a positive contribution to sustainable economic growth in the UK economy in the medium and long term, through the facilitation of finance for productive investment and as a productive sector of the UK economy.

### iii. Competitiveness

The government wishes to ensure that the UK remains an attractive domicile for internationally active financial institutions, and that London retains its position as the leading international financial centre. The government considers that achieving this aim will support its aims for sustainable economic growth.

### iv. Innovation

The government is keen to see innovation in the financial services sector and how this can support the wider economy, through new methods of engaging with consumers of financial services and new ways of raising capital. This includes recognising differences in the nature and objectives of business models, promoting effective competition and ensuring burdens are proportionate.

### v. Trade

The government aims to encourage trade and inward investment to the UK that can help boost productivity and growth across our economy. This can be supported by improved competition opening the UK to new ways of doing things and being seen as an attractive place to do business.

### vi. Better outcome for consumers

The government wants to see financial services work in the best interests of the consumers and businesses they serve. This includes securing better outcomes for all consumers through improved competition in the interests of consumers and

having regard to the needs of different consumers who use or may use financial services.