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Financial Services

Statement made on 9 December 2022

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Statement made by

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Statement

In the Autumn Statement, I set out the government's strategy for boosting growth by investing in our people, in the infrastructure that connects our country, by creating the right environment for business investment, and by supporting our world-leading financial services companies and innovators. Alongside this, I identified five growth sectors – one being financial services – for which the government will prioritise the review of retained EU law, to ensure we identify changes that will support these sectors to grow.

I am today setting out a bold collection of reforms taking forward the government's vision for an open, sustainable, and technologically advanced financial services sector that is globally competitive and acts in the interests of communities and citizens. These reforms will create jobs, support businesses, and power growth across all four nations of the UK.

The UK is one of the world's leading financial centres and our financial services sector is one of the engines of the UK's economy. Financial and related professional services employ over 2.3 million people, two thirds of whom are outside of London, with hubs in Belfast, Birmingham, Cardiff, **Edinburgh**, Glasgow, Leeds, and Manchester.[1] In 2021, the financial services sector contributed £173.6 billion to the UK economy, 8.3% of total economic output.[2]

The announcements being made today build on the reform agenda the government is taking forward through the Financial Services and Markets (FSM) Bill. The government's approach recognises and protects the foundations on which the UK's success as a financial services hub is built: agility, consistently high regulatory standards, and openness. This approach will ensure that the sector benefits from dynamic and proportionate regulation, and that consumers and citizens benefit from high quality services, appropriate consumer protection, and a sector that embraces the latest technology.

I have set out below details of the measures being taken forward, which I look forward to delivering in close collaboration with our vibrant financial services sector.

A competitive marketplace promoting effective use of capital

Building a smarter regulatory framework for the UK

The government has today published its policy statement *Building a smarter financial services framework for the UK*. A copy will be deposited in the Library. This is an ambitious plan for repealing retained EU law in financial services and replacing it with a new framework tailored to the UK, embracing the new opportunities presented by our position outside the EU.

Our approach includes:

- Publishing draft Statutory Instruments to demonstrate how the government can use the powers within the FSM Bill to reform the prospectus and securitisation regimes and to ensure the Financial Conduct Authority (FCA) has sufficient rulemaking powers to regulate payments services and e-money. Overhauling the prospectus regime will enable the government to implement recommendations from Lord Hill's UK Listing Review, helping to widen participation in the ownership of public companies, simplify the capital raising process for companies on UK markets, and make the UK a more attractive destination for Initial Public Offerings. The government is also committed to working with the FCA and Prudential Regulation Authority (PRA) to bring forward relevant reforms identified in HM Treasury's 2021 review of the Securitisation Regulation.
- Plans to repeal the regulations for the European Long Term Investment Fund (ELTIF), without replacement. This reflects the fact that no ELTIFs have been established in the UK, removing unnecessary retained EU law, and that the newly established Long Term Asset Fund (LTAF) regime provides a fund structure better suited to the needs of the UK market. Firms have already begun to seek FCA authorisation for funds taking advantage of this new structure.
- Publishing the *Short Selling Regulation Review*, a Call for Evidence on the UK's regime for regulating short selling, with the aim of putting in place a regulatory regime tailored to the UK, which supports market integrity and bolsters the competitiveness of UK financial markets.
- Publishing *PRIIPs and UK Retail Disclosure*, a consultation on a proposed alternative framework for retail disclosure in the UK. Following the repeal of the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation, the new framework for retail disclosure in the UK will work more effectively with the UK's dynamic capital markets and foster more informed retail investor participation.
- Publishing the *Information Requirements in the Payment Account Regulations Consultation* which examines proposals to remove unnecessary customer information requirements related to bank accounts imposed by the EU in the Payment Accounts Regulations. This would reduce unnecessary regulations on banks, freeing them up to better meet the needs of UK customers.

Updating banking regulation and the ring-fencing regime

The government will bring forward secondary legislation in 2023 to improve the functionality of the ring-fencing regime. These reforms, in response to the independent review on Ring-fencing and Proprietary Trading, will benefit customers, the financial services industry, and the economy, while maintaining appropriate financial stability safeguards. The government will also issue a public Call for Evidence in the first quarter of 2023 to review the practicalities of aligning the ring-fencing and resolution regimes.

The PRA intends to consult on removing rules for the capital deduction of certain non-performing exposures (NPEs) held by banks. This would allow the PRA to apply a judgement-led approach to address the adequacy of firms' provisioning for NPEs, help to simplify the UK rulebook and avoid the unnecessary gold plating of prudential standards. Such an approach would be possible only because of our regulatory freedoms outside the EU.

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Ensuring a regulatory focus on growth and competitiveness

The government is legislating through the FSM Bill to introduce new secondary objectives for the FCA and PRA to provide for a greater focus on growth and international competitiveness while maintaining their existing primary objectives. To further support this aim, I will today lay before Parliament new remit letters for the FCA and the PRA which will set clear, targeted recommendations for how the regulators should have regard to the government's economic policy.

Separately, the government and regulators will separately commence a review of the Senior Managers & Certification Regime in Q1 2023. The government will launch a Call for Evidence to look at the legislative framework of the regime, and the FCA and PRA will review the regulatory framework. The government's Call for Evidence will be an information gathering exercise to garner views on the regime's effectiveness, scope and proportionality, and to seek views on potential improvements and reforms.

Wholesale markets reforms

The government is committed to strengthening the UK's position as a world-leading wholesale capital markets centre, and is taking forward reforms to the Markets in Financial Instruments Directive (MiFID) framework through the Wholesale Markets Review.

Measures in the FSM Bill deliver key elements of this. To further support this agenda, the government:

- Will today lay before Parliament The Markets in Financial Instruments (Investor Reporting) (Amendment) Regulations 2022, which will remove burdensome EU requirements related to reporting rules. This also builds on the reforms brought forward through The Markets in Financial Instruments (Capital Markets) (Amendment) Regulations 2021 laid in June 2021.
- Will bring forward secondary legislation in Q1 2023 to remove burdens for firms trading commodities derivatives as an ancillary activity, for example, when manufacturers seek to fix the future price of their purchases of specific raw materials.
- Is committing, alongside the FCA, to having a regulatory regime in place by 2024 to support a consolidated tape for market data. A consolidated tape will bring together market data from multiple platforms into one continuous feed. This will improve market efficiency, lower costs for firms and investors, and make UK markets more attractive and competitive.
- Will launch the Investment Research Review: an independent review of investment research and its contribution to UK capital markets competitiveness. The review is part of the government's wider commitment to enhance the UK's ability to attract companies to list and grow.
- Will establish a new industry-led Accelerated Settlement Taskforce to explore the potential of faster settlement of financial trades in the UK. Reducing settlement times from the current industry standard of two days could reduce counterparty risk and increase operational efficiency. The taskforce will bring together industry stakeholders to recommend an approach that works for the UK.

Unlocking investment to drive growth across the whole economy

The UK's financial services sector is an engine for growth across all four nations of the UK. The government is therefore bringing forward measures that will unleash the sector to drive investment and growth.

The government set out its plans to reform Solvency II at Autumn Statement, unlocking more than £100bn pounds for UK insurers to invest in long-term productive assets. HM Treasury is working with BEIS to deliver the recommendations made to government as part of the Secondary Capital Raising Review, and more broadly on reforms to corporate governance, to further enhance the attractiveness of UK public markets.

Going further, the government announces today that it:

- Will, in early 2023, consult on new guidance to the Local Government Pension Scheme (LGPS) in England and Wales on asset pooling. The government will also consult on requiring LGPS funds to ensure they are considering investment opportunities in illiquid assets such as venture and growth capital, as part of a diversified investment strategy.
- Is committed to accelerating the pace of consolidation so that no pension savers are left in poorly governed and underperforming schemes. In the new year DWP will lead the way by consulting on a new Value for Money framework, alongside the FCA and the Pensions Regulator, which will set required metrics and standards in key areas such as investment performance, cost and charges and quality of service that all schemes must meet.
- Will amend the tax rules for Real Estate Investment Trusts (REITs). With effect from April 2023, new rules will remove the requirement for a REIT to own at least three properties, where they hold a single commercial property worth at least £20 million; and amend the rule that applies to properties disposed of within three years of significant development activity, to ensure that this rule operates in line with its original intention.
- Has today published a technical consultation, *VAT treatment of fund management: consultation*, which sets out proposals for legislative reform intended to codify existing policy to give legal clarity and certainty, not to make policy changes. The consultation seeks input on whether the proposed changes achieve this objective.

A World Leader in Sustainable Finance

The government is ensuring that the financial system plays a major role in the delivery of the UK's net-zero target, and is acting to secure the UK as the best place in the world for responsible and sustainable investment. The UK is the world's premier financial centre for sustainable finance. The government is acting to ensure the UK retains global leadership in this rapidly growing sector. To deliver on its commitment align the financial services sector with Net Zero and to support the sector to unlock the necessary private financing, the government:

- Will publish an updated Green Finance Strategy early 2023.
- Will consult in Q1 2023 on bringing Environmental, Social, and Governance (ESG) ratings providers into the regulatory perimeter. HM Treasury will also join the industry-led ESG Data and Ratings Code of Conduct Working Group, recently convened

by the FCA, as an observer. These services are increasingly a component of investment decisions, and the government wants to ensure improved transparency and good market conduct.

A sector at the forefront of technology and innovation

Our regulatory framework for financial services must support innovation and leadership in emerging areas of finance. To ensure the sector is prepared to embrace and facilitate the adoption of cutting-edge technologies, the government is:

- Setting up a Financial Market Infrastructure Sandbox in 2023, and is legislating to implement this in the FSM Bill. This will enable firms to test and adopt new technology and innovations, such as distributed ledger technology, in providing the infrastructure services that underpin markets.
- Working with the regulators and market participants to bring forward a new class of wholesale market venue, which would operate on an intermittent trading basis. This highly innovative approach would be a global first and would act as a bridge between public and private markets, boosting the UK as a destination for all companies to get the investment they need to create jobs and grow.
- Legislating in the FSM Bill to establish a safe regulatory environment for stablecoins – which may be used for payments – and ensure the government has the necessary powers to bring a broader range of investment-related cryptoasset activities into UK regulation.
- Publishing its formal response to the consultation on expanding the Investment Manager Exemption to include cryptoassets, which will facilitate their inclusion in the portfolios of overseas funds managed in the UK. The government intends for this change to be made through HMRC regulations this year
- Bringing forward a consultation in the coming weeks to explore the case for a central bank digital currency – a sovereign digital pound – and consult on a potential design. The Bank of England will also release a Technology Working Paper setting out cutting-edge technology considerations informing the potential build of a digital pound.

Delivering for consumers and businesses

The government is committed to a financial services sector that supports the real economy and will continue to work with the regulators and industry to ensure that the sector is delivering for people and businesses across the UK. The government:

- Has published a consultation, *Reforming the Consumer Credit Act 1974*. By modernising the regulation of consumer lending, reform will update consumer protections and ensure they work well in a modern and increasingly digital economy. It will also increase accessibility of credit products by allowing firms to better serve consumers through more innovative credit products.
- Has consulted on reforms to remove well-designed performance fees from the pensions regulatory charge cap and will lay regulations early in the New Year. This will provide clarity for industry and ensure pension savers can benefit from investing in UK innovation.
- Is committed to working with the FCA to examine the boundary between regulated financial advice and financial guidance, with the objective of improving access to helpful support, information and advice, while maintaining strong protections for consumers.

I am confident that the measures announced today, in tandem with the work taken forward through the FSM Bill, will deliver for this key growth sector, and the people and businesses that rely upon it.

Documents relating to all announcements can be found on GOV.UK www.gov.uk/government/collections/financial-services-the-edinburgh-reforms

[1] State of the Sector Report (July 2022) available at: [State of the sector: Annual review of UK financial services 2022 - GOV.UK](https://www.gov.uk/state-of-the-sector-annual-review-of-uk-financial-services-2022) (www.gov.uk).

[2] House of Commons Library ‘Financial services: contribution to the UK economy’: <https://commonslibrary.parliament.uk/research-briefings/sn06193/>

Statement from

Treasury

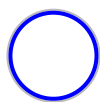


Linked statements

This statement has also been made in the House of Lords

Treasury

Financial Services



[Baroness Penn](#)

The Treasury Lords Minister

Conservative, Life peer

Statement made 14 December 2022

HLWS437

Lords