

Summary of the Financial Services and Markets Bill 2022 and the Chancellor's Mansion House speech

This is a summary of the recently published Financial Services and Markets Bill (FSMB) and the Chancellor's 19 July Mansion House speech – which primarily focused on the Bill – highlighting content that is key to our agenda.

In his Mansion House speech, the Chancellor announced the introduction of the Bill, which will be central to the government's delivery of its vision for the future of financial services. It is the result of several consultations over a lengthy period which aim to reshape the legislative and regulatory regime for the UK. The objectives of the Bill are to enhance the competitiveness of UK financial services, unlock growth and investment across the UK, and ensure the sector continues to deliver in the interests of British people and businesses.

The Future Regulatory Framework for Financial Services

A crucial element of the Bill is implementation of proposals arising from HM Treasury's (HMT) Future Regulatory Framework Review (FRF). This includes:

- **An international competitiveness and growth objective for the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA):** The Bill includes an international competitiveness and growth objective for both regulators, requiring them to consider the competitiveness of the UK economy, including financial services, and its growth in the medium to long term.
 - Securing this secondary objective has been a long-standing priority for us, so its inclusion in the Bill represents an advocacy win. Ensuring this is retained in the final Act, and that it is meaningful with genuine accountability mechanisms, has been, and will continue to be, our top lobbying objective for this Bill.
- **Transferring retained EU law to the regulators:** The changes in the Bill will enable the UK to delegate rule-making powers which used to sit at the EU level to UK regulators. There is a transitional power in the Bill for HMT to adjust retained EU law between Royal Assent of the Bill and repeal of the relevant EU law, in recognition of the time this could take.
 - This is another positive impact for TheCityUK, as we have been promoting the need for a future regulatory framework which maintains and enhances the UK's global competitiveness for some time. We have engaged with HMT on this issue since Brexit and contributed our policy ideas to the various consultations published on the matter.
- **A power for HMT to require regulators to review their rules:** The Bill introduces a power enabling HMT to require regulators to review their existing rules where the government considers that it is in the public interest to do so. Any changes to rules following a review would be a matter for the relevant regulator to decide. This is not to be confused with recent media reporting around HMT having a power to overhaul EU retained rules which the Chancellor outlined he is considering.
- **Regulatory principle on Net Zero:** The Bill wording has been updated with a slightly different approach to that set out in the FRF consultation, which proposed a 'sustainable growth' principle, but the effect is intended to be the same.
 - Our industry stands ready to support the transition to Net Zero. We have previously called on the government to work in partnership with financial and related professional services firms and the wider economy to deliver effective long-term policies in this area.

- **Cost Benefit Analysis (CBA) Panel:** The Panel will be consulted both pre and post publication. Pre-publication consultation will be subject to a threshold to avoid it disproportionately slowing down policymaking. The Bill also gives the Panel the option for post publication scrutiny.
 - The IRSG's response to the FRF consultation (which we co-led) supported the creation of a CBA panel and recommended pre and post publication consultation. It is positive to see this recommendation successfully adopted.
- **Strengthening transparency of the statutory Panels:** This will include an obligation for the regulators to do more to improve the transparency and member diversity of the Panels.

Our full positions on these issues can be found [here](#).

Bolstering Competitiveness

HM Government is not waiting for the FRF changes to be enacted before making amendments to key pieces of retained EU law. These include:

- **Wholesale Markets Review:** The Bill will set out changes proposed in the UK Wholesale Markets Review.
 - We support these reforms, which will lead to a more open regime that will enhance UK competitiveness. This represents a positive outcome from our advocacy.
- **Solvency II Reforms:** The Bill will implement changes proposed in the government's April consultation.
 - Following the Association of British Insurers' position, we have previously stated that the government should unleash the next wave of investment into UK innovation and sustainable infrastructure by reforming Solvency II – especially the risk margin and matching adjustment rules – to free up new capital that can bolster UK growth.
- **Prospectus Regime:** The Bill will enable changes set out in Lord Hill's review around the prospectus regime.

Additional provisions to boost the competitiveness of the UK's financial services sector include:

- **Mutual Recognition Agreements:** The Bill provides HMT with powers to implement Mutual Recognition Agreements (MRAs).
 - We support this reform. Alongside our partner in Switzerland, 'economiesuisse', we convened the UK and Switzerland-based financial and related professional services industries to help shape an innovative UK-Switzerland MRA that is currently being negotiated.
- **Levelling-up agenda:** The Bill supports the levelling-up agenda by including provisions around financial inclusion and consumer protection. This is a positive outcome. We have been working for some time to ensure that political stakeholders view our industry as a central partner in achieving levelling up. The levelling up provisions include:
 - **Access to cash:** The Bill gives the FCA powers to ensure that designated firms continue to provide services to consumers across the UK. A policy statement will follow in the coming months to inform the passage of the Bill.
 - **Protecting victims of Authorised Push Payment Fraud (APPF):** The Bill will remove EU law constraints on the Payment Systems Regulator's (PSR) ability to act on APPF and create a PSR duty to act within a certain timeframe.
 - **Credit Unions:** Will be enabled to offer a wider range of products and services.

Innovative technology

The Bill implements several changes regarding use of new technologies in financial services, with a focus on cryptocurrency, including:

- **Regulation of stable coins:** Proposals to regulate stable coins are included in the Bill, which will pave the way for their adoption in the UK and give the regulators powers to designate third parties including cloud service providers.
Regulatory sandboxes: The Bill will allow the government to establish regulatory sandboxes for financial market infrastructure (FMI) to allow firms to experiment with new technologies and practices. In particular, it is intended to allow testing of the use of Distributed Ledger Technology (DLT) by FMI.

Additional provisions

There are various other provisions in the Bill that may be of interest to TheCityUK members:

- **New Senior Managers and Certification Regime (SM&CR) for Financial Market Infrastructures (FMIs):** This will cover central counterparties, central securities depositories and payments systems recognised under the Banking Act 2009.
- **The Financial Ombudsman Service (FOS) and Financial Services Compensation Scheme (FSCS):** The Bill includes a measure to increase collaboration between these two bodies and the FCA, putting the existing framework on a statutory basis.

Expected Bill process and timetable through Parliament

- The House of Commons will hold its second reading debate on the Bill on 7 September.
- HMT expect evidence sessions to be held as part of the Committee stage of the Bill, and that TheCityUK will likely be invited to contribute.
- Royal Assent of the Bill is expected in late April/early May 2023, before the end of the Parliamentary session.