PARLIAMENTARY DEBATES

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GENERAL COMMITTEES

Public Bill Committee

FINANCIAL SERVICES BILL

Second Sitting

Tuesday 17 November 2020

(Afternoon)

CONTENTS

Examination of witnesses.
Adjourned till Thursday 19 November at half-past Eleven o'clock.
Written evidence reported to the House.

PBC (Bill 200) 2019 - 2021

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Saturday 21 November 2020

The Committee consisted of the following Members:

Chairs: PHILIP DAVIES, †DR RUPA HUQ

† Baldwin, Harriett *(West Worcestershire)* (Con)
† Cates, Miriam *(Penistone and Stocksbridge)* (Con)
† Creasy, Stella *(Walthamstow)* (Lab/Co-op)
† Davies, Gareth *(Grantham and Stamford)* (Con)
† Eagle, Ms Angela *(Wallasey)* (Lab)
† Flynn, Stephen *(Aberdeen South)* (SNP)
† Glen, John *(Economic Secretary to the Treasury)*
† Jones, Andrew *(Harrogate and Knaresborough)* (Con)
† McFadden, Mr Pat *(Wolverhampton South East)* (Lab)
† Marson, Julie *(Hertford and Stortford)* (Con)
† Millar, Robin *(Aberconwy)* (Con)
† Oppong-Asare, Abena *(Erith and Thamesmead)* (Lab)
† Richardson, Angela *(Guildford)* (Con)
† Rutley, David *(Lord Commissioner of Her Majesty's Treasury)*
† Smith, Jeff *(Manchester, Withington)* (Lab)
† Thewliss, Alison *(Glasgow Central)* (SNP)
† Williams, Craig *(Montgomeryshire)* (Con)

Kevin Maddison; Nicholas Taylor, *Committee Clerks*

† attended the Committee

Witnesses

Chris Cummings, Chief Executive, Investment Association

Emma Reynolds, Managing Director, Public Affairs, Policy and Research, TheCityUK

Catherine McGuinness, Deputy, and Chair of the Policy and Resources Committee, City of London Corporation

Adam Farkas, CEO, Association for Financial Markets in Europe

Constance Usherwood, Prudential Director, Association for Financial Markets in Europe

Gurpreet Manku, Deputy Director General, British Private Equity and Venture Capital Association

Peter Tutton, Head of Policy, StepChange

Public Bill Committee

Tuesday 17 November 2020

(Afternoon)

[DR RUPA HUQ *in the Chair*]

Financial Services Bill

2 pm

The Committee deliberated in private.

Examination of Witness

Chris Cummings gave evidence.

2.2 pm

The Chair: I remind members of the Committee sitting on this side of the room, or in the Public Gallery, to use the standing mikes when posing their questions. Our first witness this afternoon is Chris Cummings from the Investment Association. Mr Cummings, welcome.

Chris Cummings: It is a pleasure to be here. Thank you for your time.

The Chair: We have until 2.45 for this session. Mr Cummings, can you first of all introduce yourself for the record?

Chris Cummings: Good afternoon. My name is Chris Cummings. I am chief executive of the Investment Association, the representative body for UK-based fund managers, an industry now of some £8.5 trillion pounds, based here in the UK. Our products and services are used by three quarters of UK households, and we are deeply grateful for the opportunity to give evidence to your Bill session this afternoon.

The Chair: Thank you. We will start with the Minister, John Glen.

Q57 The Economic Secretary to the Treasury (John Glen): Chris, it is good to see you. Thank you very much for addressing the Committee. Obviously, the Bill has a large number of measures, some of which will be of more interest to your members than others. I think it would be useful for the Committee if you could set out the significance to consumers of introducing a more proportionate regime for overseas funds to access the UK based on equivalence, and why it is important for consumers to be able to access funds based outside the UK. Perhaps you could tell us what your members feel about that measure and whether you have any reservations about it.

Chris Cummings: Thank you for the opportunity to speak to one of the most central parts of the Bill. May I take a moment to congratulate you and your team on introducing the Bill? It provides much-needed reassurance to my industry, so thank you for that.

The industry is very pleased to see the overseas funds regime introduced as part of the Bill. Around 9,000 funds are currently available to UK investors as a result of the current regime. The reason we feel it is in the interests of UK savers and investors to have access to such a variety of funds is that it brings to the market not only choice but much-needed competition. It means that individual investors have greater choice and an ability to tailor their portfolio in a way that makes sense to them and reflects their risk profile. It is really the foundation of why the UK is the pre-eminent fund centre, not just in Europe, but globally. As the Minister knows, the UK has long enjoyed a reputation for being an attractive centre for fund management. That is built on the ability of UK investors to access an innovative and ever-adapting fund market.

We support this measure in the Bill wholeheartedly. At the moment, as the Minister knows, we manage around 37% of Europe's assets, which is enabled through measures such as this. It is important for UK savers and investors; having such a variety of funds goes to the heart of having such a sophisticated savings environment in the UK.

It is important to note that if there was a cliff edge—if UK investors were not able to access these funds—that would constrict consumer choice. In trying to replicate something akin to what we have at the moment, we would bring a heavy burden of extra costs on to the industry and greater bureaucracy. It would reduce significantly the number of funds to which UK investors could have access. That is why we believe that the overseas fund regime is material.

It is worth contrasting that with what we see at the moment. In order to help navigate these turbulent waters through the Brexit period, I was delighted that the Government heard our calls to introduce a temporary permissions regime with the Financial Conduct Authority. I am pleased to note that the Bill extends the period from three to five years for that requirement, which is very good. It also allows us to tackle two particular issues wrapped up in the overseas funds regime.

First, there is a review of section 272, which is the current structure by which a fund sponsor or investment management company would seek to have their fund recognised by the FCA—our regulator here in the UK. Section 272 is okay, but it is rather cumbersome. It does not stand up well compared to international comparators. It is a rather lengthy form, which takes a while to complete and gives the FCA a six-month period to look at approving that particular fund.

The proposals in the Bill take us to a completely different level, where the FCA is able to look at fund structures across the piece rather than at each individual fund. We feel that is a big step forward. While section 272 could be reviewed and reformed, there is a different category of opportunity presented by the Bill and that is why our industry is so keen to see the Bill come forward and have the overseas fund regime baked into it as a measure that goes ahead. I will pause there in case there are comments before I move on to comment on equivalence, as you were kind enough to mention.

Q58 John Glen: It would probably be worth talking about equivalence. I am keen at this point to get an explanation of the measure for the Committee. I am sure others will want to probe some of the weaknesses or disadvantages that they may perceive.

Chris Cummings: Currently, we enjoy unfettered marketing right across the whole of Europe and the EEA. Post Brexit, naturally, that will come to an end. The way that the regulatory authorities assess whether a particular fund is suitable is to judge the equivalence of the regime of the sponsoring organisation or where the organisation is based. Having that judgment of equivalence has been one of our industry's clear calls throughout the Brexit process.

We were pleased that the Chancellor took a step forward in recognising and granting equivalence to a limited measure in the House of Commons in his statement last week. We think that was absolutely in the right direction. We have been unstinting in our calls for the European Commission and our European regulator, the European Securities and Markets Authority, to respond to those in kind and move forward so that the equivalence determination could have been made by now and be working. We were sorely disappointed that in June ESMA decided not only not to make a decision on equivalence, but to defer it for a period of time until after the IFR comes into effect.

We feel that that was a missed opportunity to settle the fact that the UK and the EU would be equivalent, which we currently are, having adopted, rather in full vigour, the European rules under which our industry labours. We are hopeful that continuing industry efforts to encourage ESMA and the European Commission to recognise the UK as equivalent will come through, but we are more than pleased with the steps that the Chancellor announced and the comments that are carried forward in the Bill. At the moment, we see that as a first step, but we look forward to greater work being done on this in the months and years ahead.

John Glen: Thank you very much, Chris, and thank you, Chair.

Q59 Mr Pat McFadden (Wolverhampton South East) (Lab): Chris, good afternoon and thanks for giving evidence today. I want to continue to ask about the same things.

The Bill does lots of different things, but I would like to mention two. First, it onshores or incorporates a significant body of EU law through different directives into UK law and gives the governance of those to the UK regulators. Secondly, it sets up this overseas fund regime, by which it grants equivalence on a country-by-country basis. It says that the Treasury will make these equivalence decisions as well. The Chancellor announced the direction of travel last Monday.

How do you see the relationship between these two different parts of the Bill? In theory, in future, having onshored the body of EU law and the directives, we are now at liberty to depart from them if we so choose. Do you see a relationship between that debate around divergence and the degree of divergence that the UK decides to opt for and the equivalence decision that we now need from the rest of the EU?

Chris Cummings: It is worth reflecting on the good work that has been done so far in trying to bring the different regimes together and match equivalence. Looking to the future, there is a strong argument for the UK to continue to bolster its presence in the international standard-setting fora, whether that is the Financial Stability Board, the International Organisation of Securities Commissions, Basel, and so on. Our authorities can continue to play a very strong role in arguing for what our industry would prefer, which is global and international standards.

We continually push for international standards as a global industry because that allows us to operate with reduced bureaucracy and by taking costs out of the organisation so we can really focus on looking after client needs. The UK has an outstanding track record of having its policymakers and regulators taken seriously in those international fora, because of the scale of the market that we have in the UK and the sophistication of our capital market in particular. At that level, if we can push for international standards in an international environment, that reduces some of the potential friction between the EU and the UK or other jurisdictions about where divergence may or may not be happening. That is the first thing we would like to stress—the international nature.

Secondly, something that has become part of the discussion in terms of the future relationship of the UK and the EU, and which our industry thoroughly supports, is a much clearer focus on outcomes and outcome-based regulation. It is noticeable that across the EEA there are different approaches in different European jurisdictions, all of which have been judged equivalent so far. Recognising that different jurisdictions will walk up to the same issue from different directions, yet seeking to achieve the same thing, that is the material part.

The third area I would just point to, if I may, is the depth of relationship between the UK authorities and those across the EU, not just in ESMA, our European regulator, but in the national domestic regulatory authorities. It is still absolutely the case that the UK policy-making apparatus—the UK regulatory bodies—is seen to have considerable expertise to offer. So just because we start in different places, it does not mean that we should not see the UK taking a little leadership and the EU tacking towards us in terms of lessons learned because of the sophistication of the market that we can offer. That was one of the reasons why we in the IA, among many other organisations, through the Brexit process was keen to press for a regulator to regulate a dialogue, which could be technically oriented, focused on bringing market and regulatory understanding to bear and making sure that there was a no-surprises, keeping-markets-open focus through the process that we have been through.

So I do not see equivalence and divergence as axiomatically pulling in different directions. I think what we will undoubtedly see is a period where the definition of equivalence needs to be—we need to have a thoughtful discussion, actually, about the substance of equivalence, moving away from its ephemeral nature and the fact that it can be granted or dismissed within a 30-day notice period. We need to have a much more joined-up and mature discussion about how two major markets can keep on doing business together, particularly in investment management when, as I mentioned earlier, 37% of Europe's assets are managed here in the UK and when, for certain member states, whether it is the Dutch pensions industry or something else, the quality of investment management conducted here in the UK is seen as a prized asset and something that they want to learn from and continue to enjoy the benefit of.

Q60 Mr McFadden: What would be the practical implications for UK-based investment companies—your members—if we stayed where we are now, with the UK having granted equivalence recognition to EU-based companies but not having a reciprocal recognition in return?

Chris Cummings: We have been helping our members prepare for all shades of Brexit outcome over the last four years. Firms have taken the decisions that inevitably they would take, so they have set up extra offices, they have recruited further staff, they have gained the necessary permissions and licences from the national competence authorities. At the moment, even with, perhaps, no deal or a rather thin deal, we are as well prepared for that outcome as it is possible to be. We are giving much more thought to the companies that we invest in—everything from life sciences to technology, to transport and infrastructure, to make sure that those companies are well prepared for the Brexit outcomes, but from our industry's point of view, recognising the equivalence decisions that have been made today, we are set as fair as any industry can be. I am trying not to over-promise, but suggesting to you that the industry has thought long and hard about potential outcomes, and we are as prepared as we can be for immediate issues.

Q61 Mr McFadden: Thanks. Can I slightly switch subjects now, to ask you about packaged retail investment and insurance-based products? The Bill removes the requirement for performance scenarios on PRIIPs. Could you just set out for us, in as simple terms as possible, what is wrong with these performance scenarios, and why there is a desire to remove them? If they are removed, what kind of information should be provided to consumers to help them make as informed an investment choice as people can?

Chris Cummings: Thank you for the question. You have touched on such an important issue for our industry. Through the consultation on PRIIPs we highlighted to EU policy makers and regulators, to our own Financial Conduct Authority and others, the dangers that we saw in the PRIIPs key information document, the PRIIPs KID. Because of how the methodology for PRIIPs was created—taking a rather avant-garde view of the calculation basis—it meant that we could have negative transaction costs. Somebody could trade in the market and it would not only not cost them any money; they could actually lose money by making a trade. That led to some perverse outcomes that were pro-cyclical in the presentation of the information they gave.

Let me give you an example by reflecting back on a new fund that has had just two or three years' experience. Imagine if, over the course of its life, that fund had had a very strong performance; it had done very well over a three or four year period. Because of the pro-cyclicality of how it had to report performance scenarios—looking to the future—it would have to present a potential investor with scenarios that were entirely positive and that generated levels of return that nobody in the industry would seriously put in front of a retail investor to suggest that this was what they could actually get. They were being forced to do it because of the methodology—the calculation basis—which reflected only that, if you had a few good years of performance, your fund would continue to have good years of performance. Similarly, if your fund had had a few bad years of performance, all you could project was that that bad performance would just continue and continue. That was because of the calculation basis and the way that the rules were written.

As an industry, we kept drawing this issue to the attention of the policy-making community in order to say that, if nothing else, when it comes to disclosure and investment, we have managed to convey the central message that past performance is no guarantee of future performance. Please let us keep on reminding people that past performance is no guarantee of future performance. Sadly, that requirement was taken away. The new calculation basis was introduced, which led to the industry ultimately being forced by its regulator to produce this pro-cyclical—and deeply misleading, in our view—information.

We continued to lobby against the wider introduction of the PRIIPs KID, arguing first that it should not be introduced. Secondly, having lost that argument and seen that that it was introduced only to closed-ended funds, we argued that it should be kept there until the wider implications were seen and not extended into the world of undertakings for the collective investment in transferable securities, because of the scale of UCITS and how many millions of people across the UK and Europe rely on them.

We were genuinely heartened when the Treasury announced that, post Brexit, it would be undertaking a review of the PRIIPs KID. What we hope to see, actually, is a wider-scale review of disclosure, whereby we can start from a different position. Given the technologically advanced world that we are living in today—the greater use of mobile phones, applications and computers, and just understanding that people engage with financial services in a very different way—could we have a rounder discussion about how we can do the thing that we want to do as an industry? We want to have a more engaged client base and to help them understand the different funds that are available and the different risk profiles of those funds, so that they can invest with more confidence, and certainly with more clarity about likely outcomes, rather than having to give false performance scenarios that simply nobody trusted in the industry.

Q62 Alison Thewliss (Glasgow Central) (SNP): I have a couple of questions on equivalence. Equivalence is a bit of a point in time. How far do you feel that the limits of equivalence could go? How much change would happen before that was withdrawn?

Chris Cummings: I think this is a "two ends of the telescope" question, if you pardon the analogy. We tend to think a lot about the UK changing rules and changing approaches, and there are one or two examples of that in the Bill—we have just mentioned PRIIPs KID. There always seems to be a sense that it would be the UK moving away from the central European view of regulation. Of course, that need not be the case. There are a number of regulatory reviews that are timetabled to be considered by the European Commission. There is the alternative investment fund managers directive. There is the review of PRIIPs and so on. Looking two or three years out, there are quite a few opportunities where, actually, the UK may stay still because the rules work in practice and it could be the European Commission that is drifting away from the central scenario that we are in today. That is perhaps almost inevitable, looking 10 years out; there are bound to be changes to the regulatory architecture and the regulatory regime, because the UK will need to modernise its approach to regulation, and not only here and across Europe, but more globally, every economy is thinking about growth-oriented policies as a result of the covid crisis.

That is why, for us, we approach the discussion around equivalence very much from a point of view of saying, "Okay, even if the words on the page change, how can we make sure that the bandwidth is agreed by all sides, so that minor degrees of divergence from equivalence are not the straw that breaks the camel's back?" That is why I come back to the point I was making just a moment ago about having a regulator to regulate a dialogue—a set, established forum where the FCA and the Prudential Regulation Authority can meet the European Securities and Markets Authority and the European Central Bank and so on, in order that information can be shared, regulatory approaches can be discussed and data can be shared as well, on a "no suprises" policy, so that we can make sure that in the UK and Europe there is a commonality of view, or a commonality of outcome certainly, that is being laboured towards.

I am confident that that would make sure that any discussions on equivalence are structurally much more sound and that we remove the political overlay. Across the industry, there is a concern that equivalence could be used as a political process rather than a regulatory one, which perhaps does not really lead to an outcome that is in the interests of savers and investors.

Every time a new rule is introduced that is different in the European Union from the UK, that adds costs to the industry, because we have to navigate our way through two sets of rules, which might not contradict, but simply do not join up. There are different reporting deadlines for data and so on. That is why we would really like to make sure we move to an outcome-based approach, rather than to a prescriptive, words on the page, exact phraseology, which will simply prove a headache for all.

Q63 Alison Thewliss: That is a good point about equivalence working on both sides; even though we have got off the bus, we might need to try to catch up with the bus to make sure we are still going in broadly the same direction. In your earlier answer, you mentioned other jurisdictions having more experience, having dealt with this for longer. Are there any particular examples that you feel would be useful, which the UK could learn lessons from?

Chris Cummings: Our friends in Switzerland have been navigating these waters for a period of time. The Investment Association continues to cultivate deeper relationships with our Swiss opposite number to see how it has mapped the terrain. We should make sure that we learn the lessons from how the US and the EU have negotiated when it has come to major directives. We have had a few instances where either the US was trying to apply its rules extraterritorially, into the EU, or where the EU sought to apply its standards and approaches outside the EU.

A really noticeable one was around costs of research. The EU, as part of the MiFID approach, suggested that all research had to be paid for. Investment managers had to pay for research produced by investment banks; in effect, we had to hand over cash. In the US, those payments were illegal. So the two regulatory regimes, both trying to protect consumer interests, found themselves at loggerheads.

Through industry intervention and working very closely with the regulatory authorities in the UK and in Europe and the SEC in the US, we were able to come up with a reasonably uncomfortable but workable compromise that has lasted over three years now, which gets reviewed on an ad hoc basis, but which allows both markets to function, even though the rules do not align. It is that kind of approach that makes you think, well, it works but it is sub-optimal. It feels ephemeral and, from an industry point of view, it is something else that is a distraction from the work of looking after our clients and investors. That is why we think that an openness and transparency around regulatory initiatives and regulatory thinking will help cement relationships into the future.

Q64 Alison Thewliss: Thank you. That is useful. Is there anything else that you expected to see in the Bill or that you would like to see in the Bill?

Chris Cummings: Actually, I think the Bill is a rather comprehensive document. I would defer to others who may have different opinions, but from the investment management industry, there is a good discussion about the overseas fund regime, which was essential for us; the future of passporting; a review of section 272, which we felt very strongly about; and of course equivalence. If anything, it goes towards what is most essential for our industry, which is protecting the delegation of portfolio management, because our industry in the UK is underpinned by an ability to manage the clients' investments—yes, from the UK, but across Europe and much more internationally. Ensuring that ability to protect and preserve delegation is simply mission critical for the investment management industry, which is one of the few UK growth success stories that we have seen really expand over the past decade.

Q65 Alison Thewliss: Thank you. Lastly, are you clear enough on what happens for existing investors if equivalence is withdrawn?

Chris Cummings: This is a matter that we have been working on very closely with our regulator, the FCA, and talking to Treasury about. It is part of the reason why, in firms' preparations for—forgive the terminology—a no-deal or a hard-deal Brexit, the industry had to do the thing that we exist to do, which is look after our clients. So that has led to more substance, regulatorily speaking, being established in other jurisdictions, particularly in Luxembourg and Ireland, which have traditionally been the places where most investment management back-office work has been done, with the UK, of course, being the centre for fund management and the actual investment aspect of the industry.

Alison Thewliss: Thank you.

The Chair: I have second the shadow Minister, Abena Oppong-Asare.

Q66 Abena Oppong-Asare: Thank you, Chair. Thank you for coming to speak to us. There are four audit firms and one of the allegations is that they are very close to each other and cosy with big companies. What are your thoughts on that? In the Bill, it is not very clear that that has been addressed.

Chris Cummings: I am terribly sorry. I was having an IT glitch and I missed your question. I do apologise. Can I ask you please to repeat the question?

Q67 Abena Oppong-Asare: The four audit firms: there are concerns that they are very cosy with each other and are very close with the big companies. The Bill does not essentially address that kind of issue. It does not seem very clear to me. Do you have any thoughts on how that could be addressed in the Bill to strengthen it so that there is better transparency and the relationship is less cosy?

Chris Cummings: Thank you for the question. We take the very strong view that we, as investors, rely entirely on public information. The quality of information produced by management is pivotal to the investment decisions that we make as investors. That has led to the point now where the investment management industry has a stake in more than a third of the FTSE. We think long and hard about investing in any particular company, listed or unlisted, and that is why we believe that it is the investor who is the client of the audit. A company pays for the audit, but it is the investment community that is the client of the audit. That is why we are so outspoken in pushing for better quality audits, and ensuring that the chairs of the audit committee take their responsibilities towards their investors seriously.

We absolutely worry about too close a relationship between an auditor and the company that they are auditing. That is why we feel that audits should be reviewed and we are constantly striving to have a more competitive ecosystem in the audit world, so you raise a very good point. If I may, I will offer to review that section of the Bill in more detail, and if we see anything that strikes us as being too weak or in need of strengthening, I will write to you with our proposals on that very quickly.

Q68 Abena Oppong-Asare: I want to follow up on that, because I recently read your comments about a new audit regulator in the *Financial Times.* The proposals gave me the impression that you felt that it would be able to ensure better reporting, and essentially hold the governance authority accountable to Parliament. Are you able to explain further about that?

Chris Cummings: Indeed. The audit profession has been through three major reviews recently. We entirely support the proposals to bring ARGA into existence. The work the FRC has been doing to prepare for the transition to ARGA has been commendable, but we need to go one step further and actually encourage policy makers to ensure that ARGA is brought into being as quickly as possible. Personally, I have been impressed by the new head of the FRC's ability to convene and cajole the audit companies to exercise some soft power, to encourage them to improve the quality of audit. Still, it is not the same as having that statutorily recognised independent regulator, and we encourage this Committee—and other parliamentarians—to push for the establishment of ARGA as soon as possible.

Abena Oppong-Asare: Thank you, Chair.

The Chair: I call Gareth Davies. Gareth, I think you will have to move to the microphone over there.

Q69 Gareth Davies (Grantham and Stamford) (Con): First, Mr Cummings, thank you for your comments about the extended permissions and the overseas regime, which I would agree with. However, can I specifically ask about these 9,000 funds? My understanding is that around 75% of all EU-domiciled funds are a SICAV vehicle, and I have two questions on that. First, what is your assessment of the demand level from UK investors for the SICAV vehicle, given that typically, historically, they have been much more expensive than the UK-domiciled equivalent? Secondly, can you explain more about the complementary nature of these funds to our market, specifically as relates to money market funds?

Chris Cummings: You are right in saying around 75% are UCITS. UCITS have become a global brand. It is a high watermark, at least currently, in an investor-centric investment vehicle, and rightly recognised by jurisdictions across Europe and internationally. In thinking about how the UK develops its own UK fund regime, which is some work that the IA has put forward to the Treasury and the FCA, we have taken the UCITS regime as our benchmark to think about how it can be expanded upon; how can it be modernised given the experience with UCITS over the last few years.

One of the core issues that the industry takes very seriously is better governance of funds. That is one of the reasons why we supported our regulator, the Financial Conduct Authority, in stipulating that, at fund level—not at company level—there must be an independent, non-executive director who asks the big questions about governance of the fund, and ensures that there is a clear value for money assessment at least annually, to drive down costs for investors and to ensure that investors are getting a better deal out of those funds. In terms of modernisation, we think that a great deal is already happening in the industry, with more to come.

Although money market funds are used by some retail investors, they are seen more as a capital markets instrument. Given their brevity, they tend to attract a lot of overnight money. Their particular structures are perhaps for more sophisticated professional and institutional investors. They are a useful counter, but really for us UCITS are the gold standard at the moment. We are naturally keen to extend the UCITS regime, especially post Brexit.

That is why we brought forward our own proposals for a long-term asset fund, which we think will not only modernise the UK fund regime but draw together some of the more interesting parts from other fund regimes. It has the benefits of an open-ended fund, and some of the advantages of a closed-ended fund, with an extra layer of governance. It will allow UK savers and investors, institutional as well as retail, to invest more in infrastructure, taking a longer-term view, and in what traditionally have been higher-growth companies—technology companies, life sciences, biotech and so on—taking a much longer-term perspective. We think that the long-term asset fund will be a great complement to the existing UK and European fund family.

The Chair: Does anyone else on the Committee wish to catch my eye in the remaining four minutes? In that case, thank you very much, Mr Cummings, for your evidence.

Examination of Witnesses

Emma Reynolds and Catherine McGuinness gave evidence.

2.42 pm

The Chair: We move on to our second panel of the afternoon, and the fifth in total. We have Emma Reynolds, formerly of this parish, now at TheCityUK, and Catherine McGuinness from the City of London Corporation. We have until 3.30 pm for this panel, and I will pull the plug if it goes over. Emma and Catherine, could you first introduce yourselves for the record, please?

Emma Reynolds: I am Emma Reynolds from TheCityUK. We represent the UK-based financial and related professional services industry, which employs 2.3 million people, two thirds of whom are based outside London. We are the largest taxpayer, biggest net exporting industry and contribute over 10% of the UK's total economic output.

Catherine McGuinness: I am Catherine McGuinness, policy chair at the City of London Corporation. We are the local authority for the square mile. In addition, we work very closely with the UK's financial and professional services sector, which carries our name even though, as Emma says, it is a UK-wide sector.

The Chair: Thank you. We will start with the Minister, John Glen.

Q70 John Glen: Emma, I will come to you first. Obviously, TheCityUK represents, as you said, a range of institutions and firms. It would be helpful for the Committee if you could set the context by summarising the industry's reaction to the Bill, and try to give us the widest possible view of the industry's reaction to the measures in it and what the consequences would be if we did not pass it. Afterwards, I will come to Catherine separately.

Emma Reynolds: Thank you, Mr Glen. We support the measures in the Bill, and both the overarching and the stated objectives. It is absolutely right that the UK Government are onshoring the regulations. There are obviously other measures within the Bill that are extraneous to that, which we support. The Bill is a welcome first step, but we look forward to working with the Government to develop an overall strategy for the financial services sector that could pull all the different strands together, building on what the Chancellor said last week, which was very welcome.

Q71 John Glen: Would you like to spell out where you think anything is missing from the Bill? The second part of your answer seems to suggest that there is a lack of an overall strategy. Is that what you are seeking to say? Obviously this has been contextualised as a first step, as we get towards the end of the transition period. I have indicated, as the Minister, that there will be subsequent legislation in future Sessions. Would you like to set out in more detail where you think there are specific gaps at this point?

Emma Reynolds: It is a very welcome first step. All I would say is that we, as an industry, have a broader agenda about our industry's long-term competitiveness going forward. I would not have expected to see that in this Bill. We had a very good relationship with Government, particularly with the Treasury, but some of the other issues that we are concerned about relate more to other Departments, whether it is access to skills and talent from abroad or green finance or other issues that are not in the Bill. It is a welcome first step.

Q72 John Glen: May I turn to Catherine? Thank you for giving evidence. One of the issues that has come up generally is an apprehensiveness about the capacity of the regulators in terms of their technical expertise to implement detailed rules such as the Basel rules. I have been fortunate enough to have been a Minister for a while and I recognise the complexity of the dynamic between the Treasury and the regulators. There is an intimate relationship, but could you give us a view on how you see the role of the regulators in the context of this Bill? Do you see any risk that they are being asked to do something that stretches them beyond what they should normally be able to do? Could you give the Committee a sense of that responsibility and how well placed they are to do what we have asked them to do?

Catherine McGuinness: Thank you for inviting me to give evidence. I cannot answer on the technical ability of the regulators in detail, other than to say that, in our experience, they are very capable of adapting and innovating. Indeed, we heard last week at Mansion House from both the Financial Conduct Authority and the Prudential Regulation Authority about their plans. Obviously, the regulators will be gaining significant powers under the Bill. It is important that we look at how those powers are scrutinised, including by Parliament.

On that front, the International Regulatory Strategy Group, which both TheCityUK and the City Corporation support, has suggested that parliamentary scrutiny be strengthened and reordered, and that the role of the Treasury Committee be complemented by setting up a joint Select Committee on financial regulation to look in detail at specific pieces of financial services regulation. That would be important to strengthen scrutiny, as we hand more responsibility to the regulators. It would also be useful—and the IRSG has recommended it—to increase the transparency of decision making by both the Treasury and the regulators, and to improve scrutiny. I am not sure if I have fully answered your question.

Q73 John Glen: You are referring to the response of both yourselves and TheCityUK to the consultation on the future regulatory framework, separate and additional to the Bill?

Catherine McGuinness: *indicated assent.*

Q74 Mr McFadden: Good afternoon, Emma and Catherine. It is very nice to see both of you. Emma, I want to come to you first. You are the fifth panel to appear and there is beginning to be a pattern to the questions that we have asked. I feel that I have asked this of a few people.

The Bill does lots of different things but two big things are that it transposes, or onshores, lots of different parts of EU regulation from many different directives. It gives powers to the UK regulators to govern all that. In doing that, as we come to the end of the transition process, there is greater freedom for either the Treasury or the regulators to diverge from that body of EU law. The Bill does that, but it also has this overseas markets vision, which is granting equivalence on a country-by-country basis, to the 9,000 funds that are domiciled overseas but which operate in the UK. I want to talk a bit about these two different parts of the Bill. Starting with you, Emma, what do you think your members' attitude is to onshoring this body of EU law? Do they broadly regard it as something that they would like to stick with or are there areas that they would quite quickly want to diverge from and, if so, what would be the most prominent areas?

Emma Reynolds: We were delighted that the Government took the unilateral decision last week to grant the EU equivalence in a number of different areas. We are still hopeful that the EU might follow suit. We have been calling for a technical outcome-based approach to equivalence for some time now. Within that, you could have different rules but the same outcomes. Even if there are pinch points around Solvency II—only some elements of Solvency II—you could have different rules in the UK that achieve the same objective.

From now until 1 January, we will remain technically equivalent. Inevitably, over time, there will be some changes in regulation, both on our side in the UK and in the EU. The EU is currently reviewing some of its own directives, MiFID being a case in point, but there are others too. We do not want to see divergence for divergence's sake. We would like to encourage a strong dialogue between regulators in the UK and the EU. There already is that dialogue, but we would like to see a framework for that plan. If you are a member of ours who trades across borders, you want similar or the same rules.

Q75 Mr McFadden: You referred to the equivalence decision announced by the Chancellor last week. That is one end of the telescope; the other end is hoping—I am sure the Chancellor hopes, too—that this is reciprocated. Do you see a relationship between the degree of divergence, which may occur and the decision-making process from the other end of the telescope on equivalence for UK firms trying to sell into EU markets? In other words, Mr Barnier talks a lot about the level playing field, but if it looks like we are departing from a level financial playing field, will that impact on those equivalence decisions you hope for?

Emma Reynolds: We are still hopeful that the EU might take a similar decision to what we saw last week. We would not like to see divergence for divergence's sake. There is no immediate appetite for great divergence from EU rules from our members. Does that answer your question?

Q76 Mr McFadden: Yes. Catherine, can I turn to you on the question of regulators? This gives a huge amount of new powers to the regulators. I have a two-part question. One, do you think they can handle it? Two, returning to what you said about a new Select Committee on financial services regulation—or whatever the exact title was—do you think that is an important part of a new accountability regime for the regulators, given the enhanced powers that the Bill gives them?

Catherine McGuinness: First of all, I do think the regulators can handle this, but I think it is important that we look at the right degree of scrutiny. Yes, when we speak to practitioners with the International Regulatory Strategy Group, it is their view that a joint Select Committee on financial regulation, which could look in detail at pieces of financial services regulation, would be a useful way of enhancing and embodying that scrutiny.

Mr McFadden: Thanks very much. I have no further questions.

The Chair: For the Scottish National party, first of all, their spokesperson, Alison Thewliss.

Q77 Alison Thewliss: Just to pick up where Pat left off on the idea of scrutiny, Catherine, I think you mentioned that the City of London has a joint committee on that. Could you tell me a bit more about how that operates and whether there is something Parliament can learn from that?

Catherine McGuinness: Actually, what I was mentioning was the International Regulatory Strategy Group, which is a cross-sectoral group of practitioners, who come together to look at a number of issues and make recommendations. We can provide the Committee with their recommendations in this space. As I said, they are suggesting that we look at a joint Select Committee on financial regulation in Parliament. I am happy to share with the Committee more details about the International Regulatory Strategy Group and its current programme of work, if that would be useful, and to provide copies of the paper in this space.

Q78 Alison Thewliss: That is really helpful, thank you. I think I share some of the nervousness that people have about all of these regulations being introduced and not having that level of scrutiny. Are there any particular areas where you feel that more scrutiny is necessary?

Catherine McGuinness: Regulation is a complicated issue. I think that if we are handing powers to the regulators to make regulation, when over the past few years we have made regulation through the EU, where there is level after level of consultation and development, we need to look at how we replicate that and put in the appropriate level of scrutiny as we take things forward ourselves.

I have to say that we very much welcome this Bill as a step in the right direction in getting the framework in place but, as people have said, it is a first step. We think it is then important to move on and look at the next round in the Treasury's consultation on the regulatory framework, as well as how to implement—to stray a little from your question—the Chancellor's statements in his announcement last week.

Q79 Alison Thewliss: Thank you. Emma, are there any particular aspects that you feel require additional scrutiny and transparency over decision making within the regulator's new powers?

Emma Reynolds: I would agree with Catherine and echo what she has said. Obviously, there are significant transfers of powers to the regulators, given that we are onshoring this regulation. In an EU context, we had the European Parliament's Committee on Economic and Monetary Affairs, which is a sizeable Committee with huge resources and an enormous amount of time to write and draft amendments in this area.

It is not in the tradition of our Parliament to have such Committees. In a way it would mean this Bill Committee sitting permanently. In Parliament, working with industry and Government, we need to work out exactly how we will do it, bearing our traditions in mind. That is why the IRSG, which is a point of contact between us and the City of London Corporation, came up with some of the ideas in the paper, which Catherine mentioned. We are very willing to share that with the Committee.

Q80 Alison Thewliss: Thank you very much. One of the recommendations within TheCityUK briefing that was sent round was around working towards implementing EU capital regulation requirements and requiring further guidance on that. Do you feel that you have clarity since the briefing was sent, or do you still require more clarity?

Emma Reynolds: Yes, we sent that briefing out. Thank you for referring to it. Yes, we would like to see more guidance and clarity from the Government as to whether the UK's version of the so-called CRR II—Capital Requirements Regulation II—is going to differ in any substantial way from the EU's CRR II. Some of our members have put resources and time into planning for that. It is just a question of ensuring that we have the most efficient planning for what comes next.

Alison Thewliss: That is useful. I will hand back to my colleagues.

The Chair: I saw Angela Eagle indicate she wanted to speak.

Q81 Ms Angela Eagle (Wallasey) (Lab): Catherine, you said that the City of London welcomes the Bill. What more would you have liked to see in it that is not in it?

Catherine McGuinness: The Bill must be viewed as part of a package with what we then heard from the Chancellor's announcement. It is a first step, but it does not set out an ambitious overarching strategy for financial services for the future. This is a critical part of our economy and we would suggest that we need that strategy as we move forward. The Chancellor's announcement last week and the emphasis on openness, innovation and green seem to us to be a significant next step, but we need to look at an overall direction for this important part of the economy.

Q82 Ms Eagle: Emma, does TheCityUK have any thoughts on the same question?

Emma Reynolds: We agree entirely with what Catherine has just said. I think the Chancellor has made a start prior to the consideration on Second Reading of the Bill. He obviously set out certain key reforms in certain areas, most notably in green finance. He also launched a number of calls for evidence and taskforces. Working in partnership with Government, industry would like to see the Government come forward with a strategy that pulls all of that together. That is not an easy thing to do, but we are a world-leading financial services sector in the UK, and we want to see that continue. This is a question of partnership with the Government. We are not saying we want it done to us without us being in the room, but we do think there is probably more to do to create a more coherent strategy for going forward.

Q83 Ms Eagle: There is this tension between equivalence, which you fairly unambiguously said you wanted a few minutes ago, and the argument made that we should leave the European Union so that we can have competition and—this argument is made implicitly—make our own regulations, so that we can make ourselves more competitive. Do you think that divergence could make us more competitive, or is it more likely to be destructive to UK financial services' ability to trade globally?

Emma Reynolds: If you are a global company that trades across borders, not just in the EU but in other jurisdictions, what you really want is the same or a similar set of rules. You certainly want global norms and standards on which those rules are based. There is no clamour for significant divergence from what we have. It is worth saying that although we are technically equivalent right now, and that will not change until 1 January, there will need to be responses from regulators, in terms of new regulation going forward.

We have the rise of FinTech, which brings its own challenges, but is a great asset to the UK. We have green finance, as well as some of the socioeconomic trends that have been accelerated by covid. All of these bring new challenges, and so our regulation cannot afford to sit still. We want to avoid unintended divergence when the EU and the UK are facing some of the same challenges. We may go about making our rules in a very different way, but if we could achieve broadly the same outcomes, that could mean we were equivalent, and that would provide advantages to those of our members who trade here and in the EU.

Q84 Ms Eagle: Thank you. Catherine, we are coming out of the European Union, where we used to wield great heft in the technical discussions around this regulation. I assume that is still the case. I speak from my experience as Treasury Minister. Are you worried that, untethered, the EU will go off in a different direction and regulate in a way that makes it much harder for us to trade into the single market?

Catherine McGuinness: I would say two things here. First, if we are not at the table helping to shape the regulation, there is, of course, the risk of divergence from either side as we exercise our own autonomy. I think that global standards are going to be critical for all of us, because we are talking about markets that operate across borders. It is in all our interests—the EU's, ours and the institutions in the sector—to have a set of global standards around global issues. So, yes, there is a risk of divergence from either side. Keeping the conversation going as the regulation develops is going to be critical.

Taking the green question, for example, we have the EU, which is fairly advanced with its own taxonomy. We are now going to be looking at our own taxonomy, and I think that is a great thing that we should be doing. I also think that green finance is an area in which we can really lead the way, including in regulation. It will be important that we look at how those systems mesh together, and this is a conversation that the sector is encouraging our regulators to have with other countries, too—not simply the EU. I was nearly late because I came from a panel in the US speaking about the importance of a regulator-to-regulator discussion about some of these issues, and the role the sector might play in helping to develop thinking. It is possible that we may diverge, but it is in the interest of customers and businesses that there should be well regulated financial markets, with consistent rules and regulations over cross-border challenges.

Q85 Ms Eagle: With our leaving the EU, there has already been some competitive behaviour on the part of certain countries in the EU that shall remain nameless, which are trying to grab some of our business. Emma, do you think that that kind of dynamic, competitive, semi-predatory behaviour is going to trigger a kind of race to the bottom? Would whether or not there is a deal in the next few weeks make any difference to how you would contemplate that activity?

Emma Reynolds: I hope you do not mind if I take your last question first, because I think it sets the scene for the rest of your questions. There is very little in the deal for financial services, if there is a deal. However, our industry thinks it is incredibly important that there be a deal, because that would leave the door open for the EU granting equivalence in certain areas of financial services, and for other agreements that are essential to services more generally, such as provisions around data; frankly, if there is not a better agreement on that between the two sides, that could be very difficult, not only for our members, but for other service industries, too. I hope that answers your question on deal versus no deal.

There is nobody in our industry I could name who wants a race to the bottom. That is not the way to make yourself more competitive. We view the UK's high standards as giving us an competitive edge. We have some of the highest standards in the world. We do not think that there will be a race to the bottom in that way.

On your question about protectionism, I think there is a live debate right now in the EU. One EU interlocuter put it to us very succinctly the other day as the trade-off between location and efficiency. European business has access at the moment to deep and liquid capital markets in the UK, which they find very useful, and which they cannot find in the EU currently. We would like to see that continue—that is in the interests of businesses not only here, but on the continent—but you are right that there is a live debate about what happens next, and whether location is more important to the EU. That debate is going on not only in the EU; covid has accelerated the trend towards protectionism, which is why it is so good to see that the UK Government are taking such an open approach in the Bill. We would encourage that to continue, because we think it is one of our strengths, and it gives us that competitive edge.

Q86 Ms Eagle: Thank you, Emma. Catherine, I know this is a slightly invidious question, but I am going to ask it anyway. Do you think the FCA is properly equipped and resourced to take up the duties that the Bill confers on it?

Catherine McGuinness: Yes, but I think it is welcome that the FCA, under its new leadership, is also carrying out a review. That is appropriate. Clearly, we are asking a new role of it, and it is absolutely appropriate that it should review how it operates as it takes that on. I am very confident in our regulators, but I am also pleased to hear that the FCA is carrying out its review. Secondly, I would go right back to my point around the need for scrutiny and challenge in that space. That should involve not just the Joint Select Committee, but looking at the Treasury's role.

May I revisit the question about how the UK can retain its voice in setting standards?

Q87 Ms Eagle: Please do.

Catherine McGuinness: I feel I missed a couple of points there. It is true that part of the way we will retain our global leadership in standard setting is by bilateral dialogue and co-operation, regulator to regulator, with other countries. There is also the question of how we work with the multilateral organisations. We need to take a good look at how we engage, on our new footing, with the Basel committee—how we engage with other global standard setters. We have a good story to tell. I think next year gives us a very good opportunity, as we take up the presidency of the G7 and with COP26 coming up. I have already mentioned our potential leadership on green standards. We should really look at next year as part of this new chapter for financial services, and look at how we can make clear our place in standard setting, and in that conversation around global standards.

Q88 Stella Creasy (Walthamstow) (Lab/Co-op): My colleague, Angela, has asked most of the questions that I wanted to ask. I just want to get a bit of clarity. Clearly, there is the question of whether your members are thinking about how the Bill will affect the future landscape for their operation. Could you give us some sense of how you feel the Bill will affect the many who are thinking about whether to stay in the UK or go overseas? What issues around the regulatory framework would be the tests for them? Are there things that we could do in the Bill to make it even more likely that people will commit to the UK, and are there things that would make it less likely?

Emma Reynolds: There are measures in the Bill that do, as I understand it, reflect some of the measures that the EU has taken around prudential requirements. In the past, there has been a bit of a one-size-fits-all for different sizes of companies. For smaller companies that carry a smaller risk, you need to take a proportionate approach to regulation. That is by no means saying that we want lower standards, or a race to the bottom; it is about considering firms of different sizes and the risks that they bring.

Obviously, there are challenges every time there is a significant change such as this, and 1 January will look and feel very different, but there are some opportunities, too. For example, we will be in a position where the UK is making laws and regulations for one member state. I mentioned the fast-moving challenges coming up, involving socioeconomic changes to do with covid, FinTech and green finance; the UK will have more flexibility and agility, and so can perhaps act more quickly than before, or than the EU can, operating with 27 member states.

Catherine McGuinness: I think that is right. To add to what Emma has said, the Bill is very helpful in demonstrating the planned way forward. People will be looking for an ongoing commitment to high standards—and, yes, agility in how we make our rules, but also a rigor in that. We cannot stress often enough the importance of this country's openness to welcoming trade and business, and to high standards, against our strong regulatory backdrop.

It is very welcome that the Treasury will be looking at the strong patchwork of the bases on which people can come into the UK and operate here—the overseas persons exemption and so on. The Treasury will look at how that whole framework can be knitted together in a more coherent manner, as I understand it. What people will be looking for is an ongoing commitment to high standards and the ability to do their business.

The Chair: Are there any further questions? In that case, I thank our two witnesses on this fifth panel. Emma and Catherine, thank you for your evidence.

Examination of Witnesses

Adam Farkas and Constance Underwood gave evidence.

3.14 pm

The Chair: For this third afternoon evidence session—the sixth in total—we have Adam Farkas and Constance Underwood from the Association for Financial Markets in Europe. It is our first panel in person. We have until four o'clock for this session. Adam and Constance, do you want to start by introducing yourselves for the benefit of the Committee, and for the record?

Adam Farkas: Good afternoon. Thank you for inviting us both. We are delighted that we decided to come physically. We did not know what the other invitees would decide. I am Adam Farkas, CEO of the Association for Financial Markets in Europe. AFME is a pan-European trade group representing a broad array of European and global participants in the wholesale financial markets. Our members include banks headquartered in various jurisdictions, spanning from Japan to the United States, and inside and outside the EU. What they have in common is that they all do business in the UK and the EU. Our purpose is to serve as a link between capital markets, participants and policy makers across Europe.

My experience in the financial services sector spans over 30 years, covering both private and public sector bodies. Prior to joining AFME this February, I was executive director of the European Banking Authority for nine years, and before that, I acted as executive chairman of the Hungarian financial supervisory authority. In my capacity at the EBA, I also served on the Basel committee for eight and a half years. I should note that there are a few topics directly related to my prior position at the EBA that I am not permitted to address today because of my restrictions, but Constance will address those as appropriate.

Constance Usherwood: I am Constance Usherwood, director of prudential regulation at AFME. My experience also covers both public and private sectors. I also worked at the European Banking Authority some time ago, and have worked for a globally systemically important bank. I am very grateful for the invitation to be here with Adam today to give evidence. I hope that that is helpful to the panel.

Q89 John Glen: Welcome to the Committee, and thank you for giving evidence. Adam, may I start with you? We have heard a number of references today to the role that the UK has played in the EU financial services legislation process. Given the wide experience that you have just mentioned, it would be useful if you could explain how you see the UK, in terms of the role that it has played. In the context of the investment firms review, do you think it is right that we should be implementing a more proportionate regime for investment firms?

Adam Farkas: I will try to answer the first part of the question, but then I will leave it to Constance. because this is one area where I was personally involved, and I am not allowed to comment.

On the first part of the question, it is beyond doubt, and everybody in the public and private sector recognises it, that the UK as part of the European Union was playing a leading role in shaping and forming financial services regulations in the Union. That is clearly evidenced by the leading role of London and the UK more broadly as the financial services centre or hub of the Union. That is beyond any doubt. It was respected as such, and had a very strong voice in shaping the different regulatory initiatives. For the future relationship, it is important to have engagement and openness, and that a co-operative attitude, or co-operative setting, is retained, with two autonomous decision-making jurisdictions, in which the two sides can co-ordinate, exchange views and possibly even influence each other's new initiatives or the evolution of their respective regulatory frameworks, with the potential aim of maintaining as much consistency as possible and practicable. On the investment firms regime, I pass the floor to Constance, because I was part of the development of the standards at the EBA, so I must refrain from comment.

Constance Usherwood: With the investment firms prudential regime, the UK authorities have played a key role in the development of the prudential regime that is specifically targeted to the business models of investment firms and making sure that it is proportionate. In that respect, we fully support the approach that is being taken today. In terms of the application to the different prudential frameworks and of the regimes versus the CRR, the bulk of our membership will probably not be directly impacted by the regime due to their size and activities. That would also tally with the approach that the EU has taken.

Q90 John Glen: If I may probe just a little further, you are saying that this proportionate change for the UK is in line with your members' expectations and does not offer any serious threat to the integrity and reputation of the UK in this area?

Constance Usherwood: Yes, I would agree with that, absolutely.

Q91 John Glen: May I ask you about the LIBOR benchmark? This is a complex area, as we have already heard today. Do you agree with the approach that we have taken in the Bill? What would be the implications if we did not take this approach, and can you say what other approach we could take if you disagree with it?

Constance Usherwood: I am going to apologise, but I think that Adam is probably best placed to come in on this one.

Adam Farkas: We very strongly support the clear and oft-repeated message of the UK authorities that active transition by transaction parties to the new risk-free rate is the only way to achieve certainty of outcome in the transition. We have promoted this message regularly and we have developed market standard language to support it that can be used by investors to assist them in this process.

A very difficult part of the transition process relates to what happens to legacy contracts already in place that reference the old LIBOR rates that are being phased out. Within legacy contracts, there are the so-called tough legacy contracts, which are very difficult to repaper or change the reference in. They cause the most complex challenges for end users as well as for members of AFME or other financial services providers. We therefore very much welcome the provisions of the Financial Services Bill that give the FCA new powers to mitigate that risk by directing the administrator to change the methodology of LIBOR if doing so would protect the consumer and market integrity. That would enable the FCA to stabilise certain LIBOR rates during the wind-down period so that their limited use in legacy contracts can continue. The answer is yes, we are very supportive. None the less, we welcome the further clarity which, I think, will be forthcoming on 25 November from the FCA and the Treasury on what steps the authorities are planning to further this objective, because there are some outstanding questions that require clarification. I would be happy to go into them, but in the interests of time, I will stop there.

Q92 John Glen: Just to be clear, there is no substantively different path that you anticipate that we could have taken on this matter that would give us a better outcome than the one that we are headed for, notwithstanding the need for the further clarification that is in train?

Adam Farkas: That is a difficult question to answer because we have not speculated on different outcomes, but certainly the path that the Bill is taking is something that we can very strongly support.

Q93 Mr McFadden: Thank you for coming today. I want to start with our current situation on equivalence, where we had an announcement from the Chancellor that the UK will grant equivalence recognition to companies based in current EU member states but we have not got a reciprocal equivalence recognition for UK companies selling into EU markets. What are the practical implications for UK-based financial services companies if that situation continues to exist for some time?

Adam Farkas: Very briefly, equivalence determinations provide the major legal framework for different jurisdictions to provide access to service providers that are licensed and supervised in each other's markets. To answer your question, if equivalence determinations by the EU are not forthcoming, or not brought forward at pace or with the width that is expected, that will put limitations on the access of service providers—financial services companies and firms—to the EU market. This is really an issue of market access.

Q94 Mr McFadden: Can you give us some practical examples of what kind of barriers companies could face and of what decisions they might have to take to overcome them?

Adam Farkas: In very simple terms, if a company is licensed in the United Kingdom and does not have access, or loses access, to the EU—of course, that is completely free under passporting regimes—it will find limitations in serving clients or trading with counterparts in respect of the financial services that it provides in the other jurisdiction, which would be across the channel in this case. A lack of equivalence has been a risk throughout the process of the negotiations, so authorities have made significant efforts to prepare regulated entities—financial firms—and to force them to prepare for all eventualities. In other words, everyone is hoping for the best but preparing for the worst.

AFME members—of course, our membership is tilted towards the large players—have made extensive preparations over the years to get ready for the worst outcome, which would limit direct market access from the United Kingdom to the EU, by way of setting up entities, moving activities across the border and making all necessary arrangements to allow them to continue to serve their clients across the European market. Of course, if equivalence is granted and access is provided on that basis, it would improve the general situation of market access between the EU and the UK, so we welcome the Chancellor's announcement and the UK Government's determination last week to grant equivalence within a certain scope to third countries, including EU countries.

Q95 Mr McFadden: So the main mechanism for preparation, as you put it, is to establish an operation inside the EU if you have not already got one.

Adam Farkas: With a lack of equivalence. If no market access is provided on another basis, the main mechanism is to establish entities that are licensed, capitalised and supervised in the other jurisdiction, meaning that that entity can have access to the market, but that involves costs and operational implications.

Q96 Mr McFadden: Can I ask you about LIBOR? We have heard that the Bill facilitates a move away from LIBOR. The weaknesses and manipulation of LIBOR are well documented. The L in LIBOR stands for London—it is the London interbank rate. Are there any implications for London's status as a global financial centre from a move away from LIBOR towards different kinds of benchmarks?

Adam Farkas: It is a very difficult question. We all know the history of what happened. What is important is what happened afterwards and how the authorities decided to move away from the possibility of manipulating these rates. There is a global co-ordination effort and a long-standing global discussion on transitioning out of the old way of setting different financial benchmarks.

Regulations were put in place, changes to methodologies were put in place and public institutions took a stronger role to make sure that benchmarks are more robust and not prone to manipulation or potential distortions. I think, in that sense, this issue of reputation and the credibility of these benchmarks has been very strongly addressed by the authorities globally, and also in the UK by the authorities. I believe strongly that this will lead to a much sounder and more credible framework once the transition is completed.

Q97 Mr McFadden: Finally, I would like to ask if you a question about future direction. We have heard today about British influence on the EU directives that govern financial services—that there has been quite heavy British influence over the years in designing this set of regulations, which this Bill onshores back to the UK as a result of Brexit. That means that, come the end of the year, we will be very closely aligned with what has been developed over the years so far.

What is your view of what will happen on the EU side, absent a British influence, as financial services regulation inevitably evolves and develops? We no longer have one table, if you like. We have two tables—a British one and a European one. Does that mean, inevitably, that the two sets of regulations gradually spin off in different directions, or is that not the case?

Adam Farkas: Before I answer the bilateral question, I think that there are other forms of international co-ordination of financial services policy. One is multilateral in the form of the FSB, IOSCO—that is on market rules—and the Basel committee, which deals with prudential rules. Both the EU and the UK are significant players and participants in this global co-ordination. In the interest of having open, transparent, and well-functioning financial markets and maintaining international flow in capital movement, allowing both banks and corporates to manage their risks cross-border, these multilateral engagements are extremely important. They actually provide a very good platform to co-ordinate the major direction of financial regulation globally.

Now, the bilateral co-ordination will change, because it will take the form of the so-called bilateral regulatory dialogue—or whatever similar term the EU uses—with third countries, which provide a platform. Inevitably, if two jurisdictions take a separate course in legislation, there will be some divergence between the rules. What is very important is that if that happens, it is transparent to this multilateral setting as well as in the bilateral context; it is well-explained and co-ordinated as much as possible; and it is only done if there is a real justification for it.

Mr McFadden: Thank you. Constance, do you want to add anything?

Constance Usherwood: I would add that in the context of the Basel framework, that does allow for some adjustments or tailoring for jurisdictions when it comes to implementing that in law. That is certainly something that we would expect the PRA to look at, going forward—such things as mortgages and trade finance. There are little aspects of the Basel framework that already allow for some consideration of how that is best tailored to the market in which it is being implemented.

The Chair: We will now move on to the SNP spokesperson, Alison Thewliss.

Q98 Alison Thewliss: Thank you very much, Chair. I was having a look at the policy recommendations of the Association for Financial Markets in Europe for the EU-UK relationship. To what extent do you feel the Bill achieves those recommendations?

Adam Farkas: The Bill provides the possibility to achieve those recommendations. It provides the framework for future UK financial regulation. It provides the possibility, delegated to the respective regulatory authorities, to shape the UK's financial regulation. However, if it is going to be a transparent process, as it is expected to be under the Bill, that opens up the possibility of retaining co-ordination with the EU in a new setting. The Bill sets the foundation to meet the policy recommendations that we put forward, but it does not guarantee it.

Q99 Alison Thewliss: So we are still some way from finding out what the building looks like.

Adam Farkas: Yes.

Q100 Alison Thewliss: With regard to the point that you made about legacy contracts and LIBOR, to follow up on the questions I put to Chris Cummings of the Investment Association earlier, do you think that there is merit in having something in the Bill, rather than having FCA rules on this matter?

Adam Farkas: I am probably not qualified to answer that. I am allowed, but I am probably not qualified. I think the FCA, as an authority, has been playing a leading role globally in the whole transition process and the whole global co-ordination process. The Bill's intention to give a strong role for the FCA in defining the last steps of what happens with the legacy contracts and with LIBOR as a benchmark is pointing in the right direction, but I will not go further than that.

Q101 Alison Thewliss: That is fair enough. I was trying to get at whether there is stronger ground if it is in legislation, rather than dependent on rules, for any disputes that might arise.

Adam Farkas: That is probably a legal question.

Q102 Alison Thewliss: Constance, if I am right, you have been responsible for working on some green finance work. Do you think that there should have been more in the Bill to look at those things, rather than waiting for a later stage? Is this a good opportunity to perhaps look at some of the green finance issues, rather than waiting until later?

Constance Usherwood: The Basel 3.1 aspect, in particular, is about ensuring that banks hold capital commensurate with the risks that they take. As such, the Basel framework that it seeks to emulate in UK law does not consider climate risk as a risk. That is not to say that that work is not under way in international forums. The Network for Greening the Financial System is certainly looking at how to incorporate climate risk—or whether it can be incorporated—into prudential regulation. It is at a very nascent stage. I think the work that the PRA is doing in that forum is very positive, as well as such things as climate risk stress testing.

That is something that the PRA might want to open the door to later, once it is more considered and technically advanced. Certainly, the sustainable lending aspect is an important mandate that it has to look at. We remain interested in how it develops that mandate in its consideration of the rules.

Alison Thewliss: Thank you very much.

Q103 Angela Richardson (Guildford) (Con): Adam, in your earlier comments you said that London is the financial services hub of the EU and that it has been a strong voice in shaping the EU's regulatory framework. First, do you believe that we will continue to be a strong voice in global regulator-to-regulator discussions? Secondly,

[Angela Richardson]

do you agree that the Financial Services Bill will increase the UK's resilience to economic shocks, while meeting our international commitments on protecting the global financial system?

Adam Farkas: Answering the first question involves a bit of speculation into the future. Given the importance of the City of London as a global financial centre, and given the weight and experience of UK authorities in global standard-setting bodies, I would be inclined to confirm that yes, the United Kingdom is expected to remain a strong voice in multilateral standard-setting bodies and in multilateral discussions on financial stability, as well as in micro-financial regulation, markets, insurance and prudential banking regulation.

There is probably no conclusive answer to your second question, but the Bill certainly opens up the possibility of creating a framework within the United Kingdom that will delegate a lot of rule-making powers to the respective authorities—the PRA and the FCA. It will provide a well-defined, clear and transparent framework, and it will also define an accountability regime with that framework. In my view, that will establish the possibility—subject to the detailed rules that will then be adopted—that financial regulation as a whole will continue to ensure financial stability in a global financial centre.

Angela Richardson: Thank you.

Q104 Gareth Davies: My understanding is that the British Government have so far filled out something like 2,500 pages of questions from the European Union, all of them to strict deadlines. What do you think has caused the delay in the EU granting equivalence or making any public statement on that? Clearly the UK is equivalent, so what is causing the delay?

Adam Farkas: I do not know. What I can say is that the equivalence determination process consists of two stages. One is a technical assessment that involves a detailed assessment of the rule book for the set of regulations, with questions and interactions. In every jurisdiction there is a second stage, which is the determination itself after the technical assessment. That stage is a much more political decision, or is a decision of a more political nature; it considers other aspects in addition to the interests of the jurisdiction making the determination. The answer probably lies there, but I have no information on why equivalence decisions have not yet been made on the EU side. It is not true to say that no equivalence decisions have been made; some have been determined and published, even if on a temporary basis.

Q105 Gareth Davies: But there is still the big question mark on overall equivalence for the United Kingdom. You hit the nail on the head when you referred to the potential for politicisation of the regulatory process. Looking at what happened recently with Switzerland, my understanding is that the Swiss stock market had its equivalence removed because the Swiss Government had the temerity to put Swiss citizens first in new Swiss labour laws. My fear is that the EU will politicise the process, and I would love your view on that.

Adam Farkas: I do not think I would like to express a view. One point of correction I would make is that there is no such thing as overall equivalence; unfortunately, the equivalence decisions are very technical and made bit by bit. There are equivalence provisions in different parts of the EU legislation, and there are equivalence decisions possible in parts of the UK legislation. Looking at the announcements from the Chancellor, it is very specific and is focused on certain activities or institutions that are deemed equivalent to the domestic regime. There is no overall equivalence, and there will probably not be.

On the Swiss equivalence case, I will refrain from commenting, if you will allow that.

Gareth Davies: Dr Huq, can I ask one more question?

The Chair: We have until 4 o'clock for the entire session, so you can ask a quick question.

Q106 Gareth Davies: Given that in your opening remarks you said the UK had played a significant part in the formation of regulation as a major financial centre, to what extent are you worried that the European Union will now take a more localised, protectionist stance?

Adam Farkas: As an association, we are very strongly advocating the openness of markets, both in the United Kingdom and in the EU. We are very strongly advocating maintaining the co-ordination of dialogue and the consistent implementation of global standards. Of course, it is very difficult to speculate which way the EU will go. What I can say is that our members have a very clear view on this issue, and we are—

The Chair: Adam, can you please speak into the microphone? For the recording, you need to be in the right place.

Adam Farkas: Yes, of course.

Our position on this issue is very clear, and we have been open and transparent about our members' position on arguing for market openness, maintaining consistency and, on the basis of constituency, maximum market access and flow of capital and services between the UK and the EU.

The Chair: Constance, do you have anything to add?

Constance Usherwood: Generally, we hope that the EU and the UK will establish a close, co-operative and stable long-term relationship for financial services, and it is very important to underline that that should be the long-term goal. I think the Bill leaves the door open for doing that.

Q107 Julie Marson (Hertford and Stortford) (Con): Constance, when he was the interim chief executive officer of the FCA recently, Chris Wollard made the point that having the highest international standards of regulation and doing the best for the markets are certainly not mutually exclusive. You might even go further and say that they are actually vital for each other. To what extent do you feel that the Bill achieves those two objectives—having the highest standards and the best framework for the markets?

Constance Usherwood: It is very clear that the UK Government's intention is that the UK should maintain high, consistent and global standards. From my knowledge of interaction with the PRA, it is committed to doing that. That was also made clear last week by Sam Woods in his Mansion House speech—it is not about a race to the bottom. In so far as a jurisdiction maintains a predictable, open and transparent rule-making process—we expect the PRA to do that with consultation processes—and operates a high, globally consistent standard, that is a really good competitive base from which global banks can operate out of.

Q108 Ms Eagle: Adam, I wonder whether there is anything that you would have liked to see in this Bill that is not there, given that it is an initial first step. Is there anything that you think should have been paid attention to and dealt with in this Bill that has not been?

Adam Farkas: Given that it is providing a framework for the future regulatory architecture in financial services, I am not suggesting that these are missing, but I will list what is important for the industry: that the framework is predictable—that is key for the players—that the framework provides transparency, so that when the rule making is happening under the Bill, the process is transparent; that it is possible for the industry to engage, so when different rules or pieces of the rules are consulted on, there is sufficient accountability provided, but that is not for us to decide on; and that sufficient time is provided for implementation—that is always a critical issue for the industry.

I think that what is proposed in the Bill goes very far on all those points. In that sense, it is difficult to give a definite answer of what else would need to be in the Bill. Those are the points that we are looking at with great interest in relation to the final adoption of the Bill.

Q109 Ms Eagle: We heard earlier today about the shift away from the LIBOR benchmark—which is obviously another part of the Bill—by the bond markets, and that they want continuity of contracts to be in the Bill, particularly for tough LIBOR contracts that cannot be phased into something else. They also want a safe harbour provision to minimise the possibility of legal challenges on how LIBOR is interpreted as it exists. Do you agree with that?

Adam Farkas: I agree that this is an issue that will need to be addressed. There is a question as to whether it needs to be addressed in this particular Bill or in the context of the future rule making by the FCA, but the points raised are valid ones and we also agree with them.

Q110 Ms Eagle: The Bill also contains powers for the PRA and the FCA to create a prudential regulation; an entire new system for credit institutions and investment firms. Do you represent such companies?

Constance Usherwood: Yes, we do.

Q111 Ms Eagle: So are you happy with the framework that has been set out in this Bill? Given that it is only a framework and you do not know the details yet, I am assuming that you think the details will be fairly similar to the European directives that the UK had so much input in forming.

Constance Usherwood: Yes, I think we support it. One thing that I would note is that there are a lot of rules to implement; the Basel III framework that is going into this part of the Bill is over 160 pages long, so there is a lot of technical detail that will need to be considered. We hope that the full impact assessment is therefore done on that basis for the UK banking sector, and also that the consultation process allows the industry to have a meaningful input. I notice that there have been a couple of smaller consultations done recently by the PRA that have only required a month or two months for consultation, and certainly that is something we hope will be fully considered when they put the rules before industry.

Q112 Ms Eagle: Is that what you mean when you are talking about accountability—to the companies that are regulated rather than the consumer? Clearly a great deal of detail will have to be decided by the regulatory authorities; we simply cannot do it in primary legislation. Do you think the Bill gets the balance right between setting a framework in primary legislation and allowing the regulatory authorities to do the detailed work?

Constance Usherwood: Yes, I think that is probably the best way forward and I agree with the approach that has been taken. The other alternative is that it would all have to come before you and you would have to look at all these pages. I think that the regulatory authorities are best placed, and the most technically capable of really assessing it, and doing the impact assessment that will ensure that it is tailored to the UK banking sector.

Q113 Ms Eagle: In what period do you expect the impact assessment to arise after the rules have been specified in a consultation period? Is that the kind of process that you would like to see the FCA follow?

Constance Usherwood: Usually we would expect the impact assessment to be done before the rules are formalised, but it is a fluid process and I would not be certain what the PRA has in mind. We imagine it would take place at some stage prior to any finalisation of the rules.

Adam Farkas: Normally when detailed rules are produced there is some sort of obligation on the authority to provide an impact assessment with it, on the basis of the draft rules. Then, typically, there is a consultation, so opinions are sought from different stakeholders, and then the rules are finalised. The impact assessment is clearly a key feature of financial services rule making, at EU level and at national level. It is part of the broader accountability, which is very important.

Ms Eagle: Thank you.

The Chair: If there are no further questions, I thank our two witnesses for their evidence.

Examination of Witness

Gurpreet Manku gave evidence.

3.57 pm

Q114 The Chair: We move on seamlessly to Gurpreet Manku from the British Private Equity and Venture Capital Association, who is joining us remotely. We have until half-past four. We are three minutes early; we have made up some time. Gurpreet, could you introduce yourself for the record and for the Committee, please?

Gurpreet Manku: I am Gurpreet Manku, the deputy director general and director of policy at the British Private Equity and Venture Capital Association. The BVCA represents more than 300 private equity and venture capital firms in the UK, ranging from the smallest venture firms investing in start-ups, all the way through to growth-capital and mid-market firms investing domestically. We also have a number of larger pan-European and global fund managers.

The Chair: Thank you very much. We are going to follow the time-honoured tradition of going first to the Government, then to the Opposition, and then to other members of the Committee. We will start with the Minister, John Glen.

Q115 John Glen: Thank you very much, Gurpreet, for coming before us to give evidence. I will start by addressing one of the key headline measures in the Bill that enables the FCA to implement a more proportionate prudential regime for investment firms. I would like you to give us your perspective on that measure, how you think it could be helpful, what you are looking to see come out of it, and whether you expect to see improvements based on the discretion that the FCA will have.

Gurpreet Manku: We welcome the Financial Services Bill as it implements a prudential regime for investment firms that is tailored to the specificities of the UK market while maintaining world-class regulatory standards. To give you some context, the UK has already regulated private equity and venture capital firms. Broadly, there are two categories. First, we regulate the managers of private equity and venture capital funds. Those entities are regulated under the alternative investment fund managers directive. We also regulate advisory entities under MiFID. Those firms will be most impacted by the investment firms prudential regime. These advisory firms advise on and arrange private equity transactions for other regulated fund managers, sometimes within the same group. Those other managers tend to be based overseas, including in the US, Asia and Europe.

That is important because the fact that the UK has a lot of those advisory entities signifies that the UK is a global hub for private equity and venture capital. Many international firms choose to make the UK a base for carrying out UK, European and, in some cases, international investment and fund-raising activity. Since the inception of the investment firms review, the BVCA has been in dialogue with both the FCA and the Treasury about its implementation.

We welcome the introduction of a tailored regime that appropriately covers the activities of these firms, as well as their size, and the relative risk they pose to the financial system when compared with other banks and financial institutions. The new regime will lead to additional requirements for some of those firms, particularly the advisory entities that I mentioned, including higher capital requirements. We submitted feedback to a recent FCA discussion paper on the need to calibrate these new requirements for the risk posed by those firms. Our key ask for the FCA and the Treasury is that an appropriate transition period is available to those advisories.

Interestingly, the FCA's discussion paper acknowledges that while there are transition provisions in place for other categories of investment firms, there is a gap for the category that includes these private equity advisers. That FCA category in the UK is known as exempt CAD—capital adequacy directive—firms. That is not just an issue for private equity and venture capital firms. There are many other types of firms in this category. My understanding is that they tend to be smaller financial services firms, such as corporate finance advisory boutiques and other consultants. That reflects the UK market, which has a huge number of financial services firms at the smaller end.

We think that the omission of this transitional period in the EU text was not deliberate and was just a mistake. The category of advisers that we are referring to should also have a transition period. The benefit of the Financial Services Bill is that it will enable the FCA to correct this omission and ensure that all types of investment firms benefit from transition rules.

Finally, I welcome the confirmation that the target implementation date is January 2022, because I think that will give sufficient time for the FCA to consult on the detailed rules and we need that lengthy consultation period. It will also give firms the time that they need to implement them.

Q116 John Glen: Thank you. I will follow up with one question. You have helpfully set out the context of the range of firms and the different and proportionate levels of capital requirements that are required. Can I ask about your level of confidence in the FCA's ability to implement the appropriate regime with the degree of customisation and detail, in terms of competence? Do you have any reservations about their capacity to do that? How comfortable is your working relationship with them?

Gurpreet Manku: Interestingly, we have been speaking to the FCA about this since 2016. The need for a special investment firms prudential regime emanated out of discussions in the UK, because there was a recognition that regulatory requirements that apply to banks do not necessarily work in an investment firms context.

The FCA does understand the breadth and variety of firms that operate in the UK. The confirmation that there will be a bit more time to think through how the detailed rules will operate in practice is really welcome. If I had one ask, it would have been for more time to look at the details of what would follow.

John Glen: Thank you.

The Chair: I call the shadow Minister, Pat McFadden.

Q117 Mr McFadden: Good afternoon, Gurpreet. Thank you for speaking to us today. Does the Bill mean that your members will have to hold less capital against their activities than would otherwise be the case?

Gurpreet Manku: No, actually they will be holding more. The bulk of the members most affected are in that category known as exempt CAD. It is an odd category that exists in UK legislation. At the moment, that broad category of firms is required to hold a level of capital set at €50,000. Under the new regime, the calculation methodology will change to a quarter of their fixed annual overheads. For many firms, that will lead to an increase in capital requirements, which is why I referenced the need for a transitional period. A few years ago, we recognised that this was coming, and the transitionals were always going to be a feature of this regulation. In terms of what it means in practice, for some firms, there would have been a fixed requirement of €50,000, and that will move to several million pounds; for others, it might not be much of a jump. There is a wide variety of firms out there in the UK market. Those that might not be in my constituency could also be significantly affected.

Q118 Mr McFadden: Looking to the future and the onshoring of all this EU regulation, from your members' point of view, what do you think needs to change in order for the UK to become more competitive in the BVCA field?

Gurpreet Manku: What I have seen in recent years is that other jurisdictions have tried to emulate what we have here. That is because the UK has always been an attractive jurisdiction, because of its highly regarded legal and regulatory framework, as well as the quality and depth of the financial and broader professional services ecosystem. In practice, that means that global institutional capital can be raised from here. So when it comes to the onshoring and the development of regulation in the future, we would be looking for continued high standards, but clear and effective regulation.

Q119 Mr McFadden: What are the EU regulations that you would most like to get rid of? What is on the bad list?

Gurpreet Manku: Sorry, I had not thought about that for this session. Interestingly, one of the regulations that probably caused the most concern was referred to earlier—the PRIIPs regulation. Most of our members will market to professional institutional investors rather than to retail ones, but where that particular regulation is relevant, it has led to information that many have felt is misleading. Seeing that changed and the changes being introduced in the Bill is welcome.

The investment firms regime is probably one of the biggest changes to come—we are implementing that now. If we are looking ahead a few years, we want to look at how the alternative investment fund managers directive changes. The way it was implemented in the UK historically—through the work that our authorities and regulators have done—has meant that it was implemented in a proportionate and sensible way. We want that to continue.

Q120 Mr McFadden: Finally, we have heard about a difference in philosophical approach between the European approach of codifying lots of financial services regulation in very detailed directives—often lengthy and dense documents—and the more independent British regulator approach, which it has been argued is more flexible. From the point of view of the BVCA, what would you rather be dealing with—the UK regulators or the traditional European directive approach?

Gurpreet Manku: Throughout the past few years, we have continued to work with both the Treasury and the regulators. Given the body of legislation that has come to the UK's shores and the work that we have done historically, it makes sense for the policy-making and rule-setting process to sit within the regulator, and there is an appropriate accountability framework around it.

Mr McFadden: Thank you.

Q121 Alison Thewliss: You have talked about the importance of having clear and effective regulation, which all of us around the table can probably agree with. Have you any concerns about the transparency issues around the regulations, with the regulator taking on so much more of the responsibility?

Gurpreet Manku: I think that what will be important to see over the next year and in future is sufficient time for consultation, because that leads to further transparency. The documents that the FCA publishes are generally quite good and detailed, but I have seen some cases in recent years, and not just domestically, where there were very short windows to respond to quite technical consultations. Ensuring that there is sufficient time to review and digest any changes and to sit down and speak to the regulator about them will be helpful, and will also support the transparency objectives.

Q122 Alison Thewliss: What kind of time period would you be looking at? You mentioned that some of the firms that you represent are quite small, so obviously there might be capacity issues in making sure that they can turn responses round.

Gurpreet Manku: A typical consultation process is usually three months, which is usually enough time for us to gather the feedback from our members, whether they are large or small firms, and turn it into an industry-wide submission.

Q123 Alison Thewliss: That is useful. A lot has been reported about the impact on venture capital of the uncertainty around Brexit, with money going elsewhere and all the rest of it. Do you feel that the Bill gives enough confidence to the sector for people to continue to invest money in the UK?

Gurpreet Manku: Yes, I believe it does, because robust regulatory standards and a clear and stable legal and tax framework attract global investors. While I recognise that there are concerns about Brexit, over recent years we have seen the continued ability of our members here to raise international capital and invest it.

Q124 Alison Thewliss: Lastly, is there anything more that you can tell me about the impact of equivalence decisions within your sector?

Gurpreet Manku: Equivalence is important for us as well. I agree with all the feedback that has been provided to you throughout the day; I have been listening in on some of the sessions. Our members are prepared for all eventualities, which in practice means looking at setting up additional structures and obtaining additional licences in Europe to cover a period where equivalence decisions might not be available. Thinking about institutional fundraising more broadly, there are other ways to access EU investors, and some firms will have been looking at those routes in the absence of equivalence.

Alison Thewliss: That is useful. Thank you.

The Chair: If there are no further questions from Members, let me thank Gurpreet—who did a panel all on her own, remotely—for her evidence.

Examination of Witness

Peter Tutton gave evidence.

4.13 pm

The Chair: We will now move on to our final panel of the afternoon. It is another one-man virtual panel, with Peter Tutton from StepChange joining us remotely. We have until 5 o'clock, when we must adjourn. Peter, could you introduce yourself for the record and for the members of the Committee?

Peter Tutton: Good afternoon, everyone, and thanks for inviting me. My name is Peter Tutton; I am head of policy at StepChange Debt Charity.

Q125 John Glen: Thank you very much for joining us and giving your input this afternoon. I think that there are probably two measures that would be of most interest to your organisation—please correct me if I am wrong—in the statutory debt repayment plans and the measure to transfer the Help-to-Save bonus. May I ask you about the first one? Obviously, your organisation has been a key consultee and driver of the moratorium that we introduced in May. The statutory debt repayment plan is a key option during that eight-week period. How do you think this will work and what do you see as its challenges? How does it sit within the context of what is available at the moment for people who get into difficulty?

Peter Tutton: That is a good question. We are delighted that the two new debt schemes are going forward. We think that they will be a very important help for people who are struggling. What we think they will do is partly driven by our experience of being a deliverer of the debt advice scheme in Scotland. From when we have spoken to our clients, we know that the protections that both the breathing space scheme and the statutory debt repayment plan will offer—a sort of guarantee that if you keep up with your payments you will have protection from your debt spiralling, from collections activity, with people asking you to pay money that you cannot afford, and the threat of enforcement action—deal with the things that frighten people and make them stressed and anxious. They damage people's health and lead them to do things like borrowing more to cope with unaffordable demands. The lack of a guarantee of forbearance can really impede people's recovery from debt and financial difficulty.

We are very pleased: those protections have existed in England and Wales for insolvency solutions for some time but not for people who are able to repay their debts. Very often, clients will come to us after an income shock. As we sit here now, people are losing their jobs, having income reductions or falling ill. Their income will drop significantly for a time, but then it takes time for them to recover and get back on track. In those cases, these kind of schemes, first the breathing space scheme to help people to get advice and then the statutory debt repayment plan to help people pay their debts off within that safe space, will be really important in helping people. A lot of the fine detail about how they will work has still to be worked out. It will be important to ensure that they are accessible and that they fit together.

One thing we are interested in is when someone gets to the end of their breathing space scheme. If someone is still recovering, as we call it, from their financial difficulties, will they be able to go into the statutory debt repayment plan, where it may not be apparent that they can pay their debts within their long-stop period at that point, but where we have good reason to believe that their income will recover and that they have a good chance of getting back into work? It would be useful if the two schemes aligned so that people do not, first, get protection, then fall out of protection and only come back into it later. There could be a position where creditors could all pile in to take enforcement action or debts could begin to grow again. That is one of the things where we are keen to see the detail to ensure that the two schemes align and that we can move people from one to the other, with a long-stop on "How long is a reasonable period to repay their debts?" but one that is not worked out very strictly at the beginning while people's circumstances are still fluid.

There is lots of fine detail to work out. We are going through the process at the moment with the Insolvency Service creditors and debt advice. Agencies are working out the detail of how the scheme will work in practice. What is important for both schemes is that we as debt advisers need to be able to administer them without significant extra cost. We might come to that later. With breathing space, there is no direct funding so the cost situation is very important. If it is very burdensome for us to deliver, it may be hard to do. We then need to do some work still with the creditors to make sure that everyone is getting the information that they need to get protection quickly to people who need it. There is a bit more work to be done there. Likewise, with regard to the way in which the statutory debt repayment will work, there are practical details such as how people will go into the scheme; how the "fair and reasonable" test will work—there is a need to make sure that it is not too cumbersome, and that it is effective and cannot delay protection unduly—and ensuring that creditors do not abuse the right to object, although they must have that right, in a way that can slow the whole scheme down. These are the sorts of things we will need to work out.

Q126 John Glen: Thank you. I appreciate the work that you and your organisation have done, and Phil Andrew as well. On my second question, can I ask you about the Help-to-Save provision, under which people can save up to £50 a month for four years, and after two years, if they have saved up £1,200, they have £600 transferred to them by the Government? As you know, the provision makes sure that that money can be transferred to a NS&I account. Could you set out your understanding of why this would be necessary and how people become disengaged? Why is this measure, which may appear to some unnecessary, needed?

Peter Tutton: I think this is a necessary measure. We should cast our minds back to the child trust fund. In some ways that was similar, as it was a way of encouraging people to build up savings, although in that case the savings were for their children. As you may remember, one aspect of the child trust fund is that people got a voucher and then had to put it somewhere. A huge number of those vouchers ended up in default. We know that, especially among people who are less experienced in using financial services and in lower income households, it can be quite daunting when a choice has to be made between a number of different savings products that they do not really understand, and when they do not really know the difference.

That can create inertia. It makes a great deal of sense to give a safe way of moving people automatically into a successor product so that we do not have that problem of trying to contact them to get them to make a decision. The clause is worded so as still to allow people to make their own decision, which is quite right, and having safeguards seems sensible. We are big supporters of the Help-to-Save scheme, which is a cracking scheme. Our own research shows that having a pot of precautionary savings can significantly reduce people's chances of falling into debt. If I had one criticism—

John Glen: Go for it.

Peter Tutton: It would be that at the moment not enough people—

John Glen: I agree with that. We are trying to do what we can to improve awareness and get people to use small amounts; I think they can put by up to £1 or £2 minimum.

Peter Tutton: But it is a good scheme, and it is sensible to allow people who have saved into the scheme to put their savings somewhere else. They can make a choice if they want to, but we know that some of the people whom the scheme is designed to attract may struggle to choose between superficially similar financial service providers and get stuck in the middle. This makes sense.

John Glen: Thank you very much indeed, Peter.

Q127 Mr McFadden: Peter, we are talking about things that have broad support: the debt respite scheme, Help-to-Save and so on. The Minister and I debated some regulations about these matters about a month ago. This is really just a short question. You have looked at how these things have been set out in the Bill and you have been very warm about them today. Is there anything you would change, given what you have seen in the Bill? Are there any gaps or any changes you would suggest to the way in which these things have been set out in the Bill?

Peter Tutton: In an ideal world, we would like the breathing space period to be longer. We can understand why it has been set up as it has. It is very good that it includes, for instance, Government debt; it is a new thing that people will have protection from Government and local government debt; things like council tax are a very big problem for our clients. We can see that the Government may be nervous about a longer scheme. Perhaps if there was a way of looking again soon, once we are satisfied that it works okay, we could give that breathing space a bit more time. There are two things that the breathing space can do. There is what it does at the moment, which is largely about allowing people to get advice and get into a debt solution, but there is also time during which people need to recover.

As I said earlier, when people come to us they are often still in quite a degree of difficulty and their circumstances have not resolved themselves. We cannot always instantly put them into a stable long-term solution. One of the things that might help that would be a longer period of breathing space while they are recovering. In lots of cases, there is an obvious solution to put people into; if their circumstances are not going to improve and debt relief is the right solution, we will put them into that. We may be able to deal with that by articulating the statutory debt repayment plan and the breathing space such that there is a gap in the middle. Ideally, a longer period would be good. There may be a way of effecting that just by making sure those two things align, so that people whose circumstances are still recovering—they come to us and have a very small amount of money, but we believe that they will back into work, and for a lot of our clients that is what happens—can keep that protection going through until their circumstances improve and they can get back on the track of repaying their debts. That would be the one thing, instantly, that we would think about changing.

Another thing is that in the Treasury policy statement, including this legislation, there is a provision for funding the statutory debt repayment plan. The Treasury policy statement talks about that funding for debt advice providers being around 9% if you distribute funds as well. That is something that may need to be looked at again—not a lot, but a bit. That 9% is a bit less than the funding that we currently get from what is called fair share funding, which is *[Inaudible]* funding we get for helping clients with debt management plans. That funding actually allows us to do a lot of things.

One of the things that we are not yet sure about and are not able to model is what the additional costs of the statutory debt repayment plan will be. For instance, there is a provision in there for creditors to have a vote as a safeguard before a plan can be accepted. If we have to administer that vote in some way, for instance, it would mean an extra cost. There are some bits and pieces around that that may need looking at a bit more once the precise details of the debt repayment plan scheme are better understood.

Q128 Mr McFadden: Thank you. Covid has had a paradoxical effect this year because, on the one hand, some people have become better off as the year has gone on because they are still getting paid but are not spending as much as they would normally—that is why we have seen bank deposits going up around Europe—while on the other hand, there has been an increase in unemployment and a lot of people with increased debt burdens and so on. Does anything about the covid impact suggest to you that there should be changes in the timing order of the introduction of the proposals and their content?

Peter Tutton: That is a really good question. I agree that that is what we are seeing—we put a report out last week. We see a growing number of households struggling because of covid—those who have lost their jobs. Furlough may be picking up 80% of their wages, but if you are on low pay, that is a big jump and a big cut can put people into difficulty.

You are absolutely right: this is growing. In an ideal world, it would be great if we had those breathing space protections tomorrow so that people had a safe place to go and we could start getting them back on the road towards control of their finances and stopping their debts growing. For practical reasons, I do not think that it will be possible to put that in place tomorrow. For the scheme to work and for us to be able to do it at the scale that we think it would need, it needs to work as an online remedy.

It also needs to work for advisers, to make sure that where we capture information or when someone inputs information into our online system debt help tools, for example, we do not then have to copy that again into the Insolvency Services portal, which is incredibly expensive. That is something that happens with DROs and can be very expensive. The software and APIs need to be developed so that there is a seamless process and the cost is minimised for the scale that we need to get people into this. I do not think it is possible to do that or for us, as debt advice providers, to be organised to do it on the scale that we would need to, much before the implementation date.

Bringing the scheme forward, for practical, implementation and software reasons—all that kind of stuff—is going to be hard, but I think there are things that the Government can do, in the areas that we are really worried about at the moment, to bring forward the protections, if not the breathing space scheme. One of the things that our polling estimates, and other people have said the same thing, is that a large number of people have fallen into rent arrears. Those people *[Inaudible]* in the private rented sector have relatively little protection against eviction for rent arrears. There are longer notice periods, but that will start unfolding quite soon—it probably already is—so are there protections? Similarly with council tax, there are people falling behind who may be subject to enforcement by bailiffs, which we know can be intimidating and expensive and can make people's problems worse.

It seems to me that the Government and Parliament supported breathing space. There was cross-party support for the idea that people in financial difficulty need protection from unaffordable collections and enforcement that make their problems worse, so I think there is something the Government can do. That may not be through the breathing space scheme itself now, but it is in the spirit of those protections, particularly for key debts: things like rent arrears and council tax, and maybe other types of debt enforcement that will have lasting, harmful consequences if they are not addressed. That is something that the Government should be looking at now, to make sure that in the coming months people are not worrying more and more about what will happen to their house if their incomes do not recover, or worrying about a bailiff for council tax. Those are things that can be done by Government without the whole breathing space scheme, so I agree: with covid, there is a pressing need to look at the different things that Government may be able to do to help people through this period. Otherwise, we are likely to see some of those harsh enforcement actions starting to happen, and people experiencing harm because of covid. No one really wants to see that.

Mr McFadden: Thank you.

The Chair: For the Scottish National party, Alison Thewliss.

Q129 Alison Thewliss: Can I ask about help to save accounts? I think there is somewhere in the region of 222,000 of those accounts, with about £85 million in them, and you are dealing with people who are very much on the brink of things. Can you tell me how you think it would be best for the Government to communicate with those people about what is likely to happen to their account and what they need to do?

Peter Tutton: That is a very good question, and I am not sure I have a complete answer for you off the top of my head. First, the Government have some communications routes: those eligible for help to save are effectively those people who are in receipt of universal credit and tax credits, so these are people whom Government can identify and should be communicating with anyway.

To a certain extent, the thing about the transition is that because it is automatic, it is about ensuring that people know where their money is. I do not have an answer straight away when it comes to the best way of doing that. We know that it can be difficult to communicate and get people to engage. It is one of these things where we need a trial wording approach, communicating, and making sure that that communication is very clear that this is something that is happening to your benefit: "Here it is, and here is how you can get at it." At the same time, there need to be more comms, perhaps to recipients of universal credit—the numbers of whom have grown quite a lot recently, as you will know—about the fact that this scheme is available to help them, and that if they put some money into it now they will get a bonus, which they may be able to use quite soon to deal with their difficulties. Those are the two things that spring to mind immediately.

Q130 Alison Thewliss: Is there an argument for continuing the accounts and allowing them to keep earning some interest, rather than closing them after four years?

Peter Tutton: I think that is a good idea. There is a maximum amount of savings, so if you can afford to save the full £50 a month, you will get the full bonus. If you are only able to save £20 a month, you will not, but if you allow the £20 savers to save for longer, they would get more of a bonus. There is definitely an argument there to say, "If we want people to build up a precautionary savings pot, we should give those who have started saving the best opportunity to build that savings pot where possible, albeit by leaving the accounts open a bit longer within the scheme." That sounds sensible.

Q131 Alison Thewliss: I have had it flagged via Macmillan that they think there is a bit of a weakness in the FCA's reliance on guidance. They are arguing for a legal duty of care for all financial services providers. Do you think that would be helpful when it comes to getting ahead of people getting into trouble?

Peter Tutton: Yes, we are supporters of a duty of care as well: we have spoken with Macmillan about this, and we can see the point. It is an interesting one to attach to the Bill. The FCA said that it is due to reply to a consultation on a duty of care. That response probably will not come until Q1 next year, so it has been a bit delayed. That is a bit unfortunate, because if there is a need to legislate or it concludes that there is a need to legislate, the opportunity of doing so through this Bill will have passed.

We agree that there is a need for a duty of care. There has been a succession of problems over the years with financial services. The FCA does a good job: it does rules, and it is getting on top of some of the wide-ranging historical problems we have seen, from unauthorised overdraft charges to payday lending, other bits of high-cost credit, aggressive collections, and a whole range of things in my areas of interest. It is starting to get on top of these.

We think the measure could still be clearer. We think a duty of care, or at least being specifically required by a rule-making power to think about a duty of care and what that means, and empowering the FCA to make rules would be helpful. We have a particular take on duty of care. There are lots of definitions of it. One thing that we see is the idea of having regard to consumer protection. A duty of care could also help better define the consumer protection definition.

We still see too many cases where people who are vulnerable or face constraint choices because of lower incomes and are forced to use credit and things like that or because of behavioural biases built into products. People are in a situation where effectively there are firms exploiting those circumstances. This is the sort of thing that we think a duty of care could deal with. We need a more explicit statement in the legislation about the way firms need to understand the measure. In vulnerability guidance, we would make that more explicit and biting on the way firms have to think about their products and services, and making sure that they do not have the effect of exploiting vulnerable consumers.

We are not quite there yet with financial services, because these problems keep happening. It would sharpen that up and give a better line between what is regulatory policy and what is social policy. We would start to be able to have a better debate about when it is reasonable for someone on a low income to be on credit, the sorts of credit they may be offered that make their debt problems worse and why that is happening . That may help to stop that happening. For lots of reasons, we are supportive of the idea of a duty of care. It would sharpen the focus on vulnerability. It would sharpen the focus on the kind of detriment that people face when they are using financial circumstances as a sort of distressed purchase. For us, the measure is a good thing and something we would like the FCA to take forward.

Alison Thewliss: Thank you very much.

Q132 Andrew Jones (Harrogate and Knaresborough) (Con): Peter, thank you for your evidence and written submission, which has been circulated to the Committee. One thing you say in that is that your evidence points to the importance of statutory protections as a key way to alleviate the harm of problem debt. Could you tell us a bit more about that evidence?

Peter Tutton: We spend quite a lot of time looking at the experience of our clients, and we survey our clients and poll them to see what has happened to them. When we were looking, back in the day, at breathing space we were trying to understand what brought our clients to advice and what helped them to recover. What we found was that our clients often had multiple creditors. On average, they would have about five or six. Typically, we find that some creditors, even most, will be very good, but it only takes one creditor to defect from good practice and to push for more money to destabilise people's financial situation and restart the process of juggling bills and borrowing more to deal with a particularly aggressive, unaffordable payment demand.

There was a very strong message from clients that that impeded their ability to recover. At the same time, we spoke to our clients who were in the debt arrangement scheme in Scotland, and we got a very clear message from them that that kind of guarantee—the statutory framework that the debt arrangement scheme in Scotland gave them—reduced their anxiety and gave them a really good, strong and solid platform for recovery. They knew that if they paid what they could afford to pay and kept doing that, nothing else bad would happen to them in terms of unaffordable demands and escalating enforcement.

In that sense, we have known for a long time that people need protection from their creditors in certain circumstances. Both the experiences of clients who do not have that protection in England and Wales outside of insolvency and the experiences of clients who do have it in Scotland persuaded us that what has become breathing space in the statutory debt repayment plan was a necessary additional protection that we did not have at the time.

Q133 Andrew Jones: That is very interesting. Do you have any data that can quantify some of the anecdotal evidence that you have just been giving us? If you can, could you please circulate it around the Committee?

Peter Tutton: Yes, I will dig some out.

Q134 Stella Creasy: Peter, thank you for articulating so clearly all the different challenges that we face in trying to prevent debt as well as deal with its consequences. I have a couple of questions about the Bill and some of its provisions, and then about your sense of where we might be able to make some progress in strengthening the protection for consumers from unaffordable debt.

With the debt repayment schemes, I think all of us recognise that the breathing space is a very positive development. First and foremost, I want to ask for your view on the midway review element. Do you have any thoughts on what impact that might have as currently drafted?

Peter Tutton: It is a good question. We were very concerned initially about the midway point, simply because it could be very expensive and hard to administer the debt advice. The provision is now not quite as onerous, so we are not having to do full outbound calls and things like that. We are now reasonably comfortable with it as something that is a touching point, where clients touch in with us to ensure that they are still engaged with the process. That is something we do anyway. If someone has come for advice and there is a recommendation that the next step of a particular debt solution requires them to do further things for us to help them, we will follow up and keep in contact with them to ensure that they do not drop out of the process and that they have some help. The initial relief of having spoken to someone about it can lead people to think, "Well, I've got that out that way," whereas it is important to keep going and get people into the debt solution.

There is some element of the midway review that is not dissimilar from the kinds of things that we would do anyway. The important thing is that the way it is done in practice should not become an onerous burden that does not really have any practical use to it. I think we are sort of there. We are talking to the Insolvency Service about the guidance and the way it will work. I think we will get to a place that we can live with. My operational colleagues who are implementing this are not saying it is unworkable at the moment, so we are reasonably comfortable with it, but time will tell. *[Inaudible.]* If, six months in, it turns out to have been really onerous with no practical effect, that is something we would ask the Treasury to come back and look at again.

Q135 Stella Creasy: I ask because I wonder whether you can give us your professional opinion on whether there is a point at which a breathing space should stop. It might become apparent in the review process that somebody is in a level of debt for which a breathing space is not suitable. If it becomes apparent that the person will not be able to repay under the terms of the breathing space, do you perhaps have in mind a length of time over which it would be appropriate to look at some other form of intervention? Do you have a view about when to end the breathing space, essentially?

Peter Tutton: That is a good question. Our starting point here is that we would end the breathing space scheme as soon as it is no longer needed. At the moment, people come to us in a variety of different situations, and a number of different debt solutions are appropriate for them. If the most appropriate solution for them is a debt relief order, which is a type of insolvency for people with very low incomes or with disposable incomes and no assets, and they want to do it, we would put them into that as quickly as we can. If that can be done—sometimes it can, and sometimes it cannot—before the breathing space period ends, the breathing space will end.

There is actually a provision in the Bill that means that if you are in a debt solution before the review, it will end. It certainly is not a case of putting people in breathing space until it comes to the end of its 60 days, and then putting them in a solution. We will always try to get people into the right solution as quickly as they can. The other end of your question is that there might sometimes be cases whereby there is a debt solution but, for whatever reason, it takes a bit longer to get them into it. In exceptional circumstances, there might be a case to extend the breathing space, if for some reason it takes us longer to get someone into a DRO or something like that.

There is another question about this. One of the problems with debt relief solutions at the moment—debt relief orders and bankruptcy in particular—is that they have fees. These people are so poor and their debts are so big that they need to go into insolvency, but they have to find a fee, and the fee is hundreds of pounds for bankruptcy. Very few of our clients could afford that; they would have to save up for a year or two years to meet the fee.

There is a bit here that Government will need to think about, in relation to breathing space, if someone has come for advice and we have given them protection and worked out that the best thing for them is bankruptcy, but it will take them ages to find the fee to actually go bankrupt. They will fall out of that statutory protection, as it were, back into the mosh pit before they can get their protection in bankruptcy.

So you raise a really good question. There are two ends to it. One bit is that we would not keep people in longer than we needed to; that is a case of getting them into the debt solution they need. But there may be other people who will not be able to progress to the right debt solution for them, for a variety of reasons, before the breathing space runs out. That is something that Government may look at. Perhaps we need to build some evidence of that problem as we go along, but it would be good to do a quick review to see whether there are circumstances where the period needs to be extended or, indeed, whether elsewhere in Government we need to look at things like the barriers to accessing debt relief that mean it is not a good option, either because of the cost of getting into it or because it is still quite a stigmatising process and puts people off. There is another need, elsewhere in Government, to look at how the whole debt relief thing is working.

Q136 Stella Creasy: I am conscious that I have one other element that I want to ask you about, but just on that, let me ask this. You have talked about debt relief orders. Obviously, you can access them only if you have less than £50 left after all your outgoings. You seem to be saying that actually the cost of moving into some other forms of debt relief that might be part of this would be something that would be helpful to make the breathing space work. Is it worth looking at those thresholds, as part of making the breathing space process work, so that people can move in, rather than being stuck in a breathing space or, possibly, stuck in a position where you get to the point where you need to write off a debt entirely?

Peter Tutton: The particular issue with the insolvency schemes for England and Wales—well, one of the issues—is the application fee. That is a point that is slightly different from the threshold; that is an issue about people having to find money to pay for those solutions.

Q137 Stella Creasy: Yes, but my question was particularly on the debt relief orders, because you have to be on such a low income for them to be possible. Is there a case, from what you are saying, in terms of making this legislation work, to be more flexible about that threshold—to make it, say, the bottom two deciles, rather than the bottom one decile of income before you can access a debt relief order?

Peter Tutton: It makes some sense to look at this, because a debt relief order is so much cheaper than bankruptcy. Debt relief orders have a restriction on debt size and, as you say, a restriction on disposable income, both of which are to safeguard the creditors, because the Insolvency Service will not do a full investigation. The idea is that it is the people who have really got no money, no assets, and so if we let them into insolvency without an investigation, there is nothing squirreled away that otherwise would benefit creditors.

DROs have been running for many years now, and I think you are right: it is time to look at whether we could have an easier route into them rather than bankruptcy, which might mean lifting the disposable income threshold a bit or the debt threshold a bit, or both. There is now a bunch of people for whom we would be advising bankruptcy who are never going to get into bankruptcy because they cannot afford it, and often it is the debt size as well.

I think it is the right time for the Government to do this. Given what we might see after the fallout from covid of more households, more people, facing financial difficulty, it is a good time to review how these debt solutions work at the moment and to see what can be done to increase accessibility for those who need that help.

Q138 Stella Creasy: May I be cheeky and ask one final question? Obviously, we are talking about where debt has occurred. I would very much welcome your professional opinion about where you see debts being generated by particular products and what you think has worked to prevent that. You and I have previously talked about the benefits of capping forms of credit to prevent people from getting into debt in the first place. We have seen in the last six months concern about the "Buy now, pay later" industry, which currently is not regulated by the FCA but is a form of credit. What is your experience of where the best interventions are to prevent debt and whether there might be things that we could do in this Bill to help that in the first place, before we get to a debt breathing space?

The Chair: Order. Can we be a little briefer? We are slightly straying from the scope of the Bill. A very quick answer, please, Peter Tutton.

Peter Tutton: That is a good point. There are things we can do. There are a number of interventions, from lending rules to product features and price. Also, on the relationship between who is using high-cost credit, there is a social policy point here. Is there more to be done to give people affordable alternatives, so that they do not have to go to those products? It would be good to talk more about all of that, because it is absolutely key.

We estimate that survival borrowing under covid—people having to borrow to make ends meet—is up to about £6 billion. There is a big pile of debt building there, which people will not be able to afford to pay down. Some action now to give them an alternative and think about how to deal with that debt is timely and important. We should try to do something now before it gets much bigger.

The Chair: If there are no further questions, let me thank Peter Tutton. A few times we thought that your technology would fail us, but we got through, so thank you. I thank all our witnesses from our eight evidence sessions today. That brings us to the end of the oral evidence for today. The Committee will meet again in the same room at 11.30 am on Thursday.

Ordered, That further consideration be now adjourned. —*(David Rutley.)*

4.51 pm

Adjourned till Thursday 19 November at half-past Eleven o'clock.

Written evidence reported to the House

FSB01 StepChange