

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Seventh Delegated Legislation Committee

DRAFT PUBLIC OFFERS AND ADMISSIONS TO
TRADING REGULATIONS 2023

DRAFT SECURITISATION REGULATIONS 2023

DRAFT FINANCIAL SERVICES ACT 2021
(OVERSEAS FUNDS REGIME AND RECOGNITION
OF PARTS OF SCHEMES) (AMENDMENT AND
MODIFICATION) REGULATIONS 2024

DRAFT DATA REPORTING SERVICES
REGULATIONS 2023

Wednesday 17 January 2024

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Sunday 21 January 2024

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The Committee consisted of the following Members:

Chair: MARTIN VICKERS

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| † Afolami, Bim (<i>Economic Secretary to the Treasury</i>) | † Largan, Robert (<i>High Peak</i>) (Con) |
| † Antoniazzi, Tonia (<i>Gower</i>) (Lab) | † Menzies, Mark (<i>Fylde</i>) (Con) |
| Blake, Olivia (<i>Sheffield, Hallam</i>) (Lab) | † Morrissey, Joy (<i>Lord Commissioner of His Majesty's Treasury</i>) |
| Champion, Sarah (<i>Rotherham</i>) (Lab) | Phillips, Jess (<i>Birmingham, Yardley</i>) (Lab) |
| † Clarke, Sir Simon (<i>Middlesbrough South and East Cleveland</i>) (Con) | † Rimmer, Ms Marie (<i>St Helens South and Whiston</i>) (Lab) |
| † Fuller, Richard (<i>North East Bedfordshire</i>) (Con) | † Siddiq, Tulip (<i>Hampstead and Kilburn</i>) (Lab) |
| † Goodwill, Sir Robert (<i>Scarborough and Whitby</i>) (Con) | Trickett, Jon (<i>Hemsworth</i>) (Lab) |
| † Green, Damian (<i>Ashford</i>) (Con) | Jonathan Finlay, <i>Committee Clerk</i> |
| † Howell, Paul (<i>Sedgefield</i>) (Con) | |
| † Knight, Sir Greg (<i>East Yorkshire</i>) (Con) | † attended the Committee |

Seventh Delegated Legislation Committee

Wednesday 17 January 2024

[MARTIN VICKERS *in the Chair*]

Draft Data Reporting Services Regulations 2023

2.30 pm

The Economic Secretary to the Treasury (Bim Afolami): I beg to move,

That the Committee has considered the draft Data Reporting Services Regulations 2023.

The Chair: With this, it will be convenient to consider the draft Public Offers and Admissions to Trading Regulations 2023, the draft Securitisation Regulations 2023 and the draft Financial Services Act 2021 (Overseas Funds Regime and Recognition of Parts of Schemes) (Amendment and Modification) Regulations 2024.

Bim Afolami: It is a pleasure to serve under your chairmanship, Mr Vickers.

The draft Securitisation Regulations 2023, the draft Public Offers and Admissions to Trading Regulations 2023, and the draft Financial Services Act 2021 (Overseas Funds Regime and Recognition of Parts of Schemes) (Amendment and Modification) Regulations 2024 are made under powers in the Financial Services and Markets Act 2023, which I shall refer to as FSMA. They form part of the Government's ambitious programme to deliver a smarter regulatory framework for financial services by replacing assimilated law, formerly known as retained EU law, with an approach to regulation that is tailored to the United Kingdom. As the House will know, they are a key part of the Edinburgh reforms, which are a key part of the programme of the Treasury, the Chancellor and my office. The third of those instruments makes technical changes across the statute book to support the effective implementation of the overseas funds regime and functioning of fund recognition.

The draft Data Reporting Services Regulations 2023 establish a new legislative framework for the regulation of data reporting service providers, or DRSPs, replacing the framework inherited from the European Union. DRSPs report trade data—that is, data relating to trades that happen on financial markets—to either the public or the Financial Conduct Authority. That is essential to ensure that markets are supervised effectively and for them to operate and function properly.

Sir Greg Knight (East Yorkshire) (Con): The explanatory memorandum states that the FCA will need to make new rules under the new regime, and that the new regime will not come into force until the FCA has consulted on changes to its rules as part of the rule-making process. Can the Minister give us some idea of the timescale involved here?

Bim Afolami: I thank my right hon. Friend for that point, and I shall respond in the following way. Under the smarter regulatory framework, the broad approach is that Parliament—in this instance, this Committee—passes secondary legislation under the auspices of FSMA. Then, the detailed rulebook—which is, believe it or not, more detailed than this statutory instrument—comes in through the operation of the FCA. My right hon. Friend made a point about the consultation process. The consultation process can be long or short. I would expect that, as with various other measures under the Edinburgh reforms, the consultation process for statutory instruments as detailed as these will be quite short. We are looking for it to happen this calendar year. I do not want to be more precise than that, but I expect it to happen this calendar year.

Richard Fuller (North East Bedfordshire) (Con): I want to follow up on the comment from my right hon. Friend the Member for East Yorkshire on the role of the FCA. The Minister will be aware of the concerns of Members on the Government Back Benches about the speed with which regulators perform their duties, how much we pass on to them, and how much we trust them to fulfil the will not just of Parliament but of our representatives. That applies to the FCA. I do not expect the Minister to comment on that directly, but can he assure the Committee that he will use his position to ensure that the FCA is kept on track in implementing the reforms at pace?

Bim Afolami: I will surprise my hon. Friend by commenting directly on what he has said. Like him, I have spent a long time thinking carefully about the role of the FCA and other regulators and the speed with which they discharge their duties. We give them a lot of work to do, but we also hope that that work is conducted as quickly as possible. The FCA has made improvements in that regard, but it is my job to ensure that it works as quickly as possible. When it comes to the Edinburgh reforms, under which these reforms sit, the Chancellor has been very clear that one of my key jobs is to deliver: not just to say that we are doing things, but to ensure that those things come into practice. I am very focused on that.

There are three types of DRSPs: first, approved reporting mechanisms, which report details about transactions in financial markets to the FCA on behalf of investment firms; secondly, approved publication arrangements, which publish trade reports to the public; and, thirdly, consolidated tape providers, which collate trading data from a variety of sources and publish it in a single live data stream. The draft regulations establish a new framework for the regulation of DRSPs, under which the FCA will make the detailed requirements in its rulebook, as we have discussed.

The instrument also delivers the Edinburgh reforms' commitment to establish a regulatory framework for a UK consolidated tape. Currently, there are no consolidated tapes in this country, which means that market participants must go to various sources to get a cross-market view of trade data. That makes it expensive, burdensome and difficult for investors to access the data they need to make informed investment decisions in the UK. That is why, as part of the wholesale markets review, the Government consulted on legislative changes to facilitate the emergence of a consolidated tape in this country. There was broad support for the Government's proposals,

which this instrument delivers. A tape that collates data from multiple sources into one continuous live stream will make it easier for market participants to meet best execution requirements and manage risk. That will make UK markets more attractive and competitive.

The draft Securitisation Regulations 2023 establish a new legislative framework that replaces inherited EU law on securitisation. The introduction of the securitisation regulation in 2019 directly addressed financial stability deficiencies that arose after the global financial crisis. The Treasury conducted a review of the securitisation regulation in 2021. The review aimed to bolster securitisation standards, to increase investor protections, and to develop securitisation markets to facilitate real economy lending. The new framework established by the draft regulations will allow the financial services regulators—the FCA and the Prudential Regulation Authority—to make and further reform the firm-facing rules for securitisation with more agility and proportionality. The regulators will consider taking forward reforms in line with the outcomes of their own consultations and the 2021 Treasury securitisation review, which were received positively by industry.

The instrument also takes forward other reforms identified by the 2021 review. Those reforms include boosting the UK securitisation market's competitiveness by no longer subjecting certain overseas firms to UK requirements when investing in UK securitisation. That will make overseas firms' requirements more proportionate and increase their incentives to invest in UK securitisations, while also removing extraterritorial supervision issues for the regulators. I want the Committee to be clear on that point. The instrument also facilitates UK firms' participation in international securitisation markets, which should benefit our industry.

The draft Public Offers and Admissions to Trading Regulations 2023 deliver a key recommendation—perhaps the key recommendation—from Lord Hill's listings review to fundamentally overhaul the prospectus regime, and they mark a significant step in the Government's reforms to make our capital markets more competitive. The current prospectus regulation, as outlined by Lord Hill and industry at length in his review, is inflexible and slows the raising of capital, which is the purpose of our capital markets. The instrument creates a new framework that requires companies raising capital to publish information that is relevant and useful for investors, while removing unnecessary barriers to such information. The new regime will mean that companies raising capital are required to publish a prospectus, except where they meet a series of exceptions—for example, where a security is traded on an exchange, or where the offer of securities is fewer than 150 investors. That means that, in practice, we are removing the need for a prospectus to be published in many situations. Just so that colleagues appreciate this, the purpose of that is absolutely not to reduce information for investors but to ensure that the right level of information is appropriate for the right type of investors for the right businesses.

The instrument also establishes a new regime for securities "admitted to trading" on a regulated market or a multilateral trading facility, and creates a new regulated activity of operating an electronic system for public offers of certain securities that are above £5 million. By removing the €8 million threshold for a prospectus,

which effectively acted as a blockage for certain private-capital raising, firms can raise larger amounts of capital more easily and more quickly.

That will allow firms raising money outside of capital markets—for example, through crowdfunding platforms, which has grown in popularity over recent years—to continue to do so, but do so in a more targeted way. The FCA will be given new rule-making responsibilities to set rules that apply directly to firms, such as when a prospectus is required. That will create a simpler and more effective regime.

I will now turn to the final instrument, the draft Financial Services Act 2021 (Overseas Funds Regime and Recognition of Parts of Schemes) (Amendment and Modification) Regulations 2024—I will take away from this the need to perhaps shorten the length of the names of such regulations.

This instrument amends the statute book to support the implementation of the overseas funds regime, which is a new route allowing overseas funds from equivalent countries or territories to be recognised for the purposes of marketing participation in such funds to UK retail investors. This instrument ensures that, where appropriate, funds recognised under the overseas funds regime are treated in the same way as other recognised funds. These changes are technical, but they are necessary to allow the overseas funds regime to operate as policy intends, ahead of the first funds being recognised under it. This will be critical to continue to support a competitive funds sector for UK investors.

In closing, the first three of these SIs replace key parts of assimilated EU law, putting in place new frameworks tailored to the UK as the Government deliver a smarter regulatory framework in financial services. The final instrument, as I have outlined, makes technical changes across the statute book to support the effective implementation of the overseas funds regime and the functioning of fund recognition. I hope that the Committee will join me in supporting these regulations, and I commend them to the House.

2.43 pm

Tulip Siddiq (Hampstead and Kilburn) (Lab): It is a pleasure to serve under you, Mr Vickers. I thank the Minister for setting out the four statutory instruments under debate today, and I agree with him about shortening the names of such instruments.

As the Minister will know, I did give my full support to the Financial Services and Markets Act, and I am wholly committed to protecting the international competitiveness of the sector. That is why we will be supporting the secondary legislation today.

The draft Public Offers and Admissions to Trading Regulations 2023 are a positive development, in my opinion. The UK's attractiveness as a listing destination will benefit from a more flexible approach to prospectus rules. Likewise, the draft Securitisation Regulations 2023 are an important step forward in developing a securitisation market in the UK that contributes to growth in the real economy.

We also support the aims of the draft Financial Services Act 2021 (Overseas Funds Regime and Recognition of Parts of Schemes) (Amendment and Modification) Regulations 2024, as they will provide smoother market

[*Tulip Siddiq*]

access for overseas funds that have been determined to be equivalent to the UK's in relation to consumer protection.

Finally, I welcome the long-overdue establishment of a UK consolidated tape under the draft Data Reporting Services Regulations 2023. That will hopefully boost the international competitiveness of UK capital markets by improving efficiency and transparency, reducing trading costs and attracting more investment.

However, of course, the Minister will know that I have some questions for him on all of the legislation before us today, and I hope that he will be able to address some of my concerns. First, while the draft regulations will replace the prospectus regulation and create a new framework, the new prospectus regime is not expected to come into effect until 2025. In the meantime, the competitiveness of the UK's public markets will continue to suffer.

In addition, in the Treasury's initial review of the prospectus regime, the Government committed to introducing a new regime of regulatory deference for offers in the UK of securities listed on certain designated overseas stock markets. Despite that review being published almost two years ago, this draft statutory instrument fails to introduce a deference mechanism for prospectuses. Will the Minister please confirm whether such a regime remains under consideration and, if so, how it will be delivered and in what timescale?

I also have a question about the draft Securitisation Regulations 2023. This SI recognises simple, transparent and standardised—STS—equivalent securitisations from the EU and elsewhere. However, the EU does not recognise UK STS securitisations. What assessment has the Minister made of the impact of that? What steps is he taking to get an arrangement with the EU in the light of what I have said? Also, during the consultation on that SI, the Association for Financial Markets in Europe expressed concern regarding the lack of clarity of transitional provisions for legacy transactions. Is the Minister confident that the provisions for historical securitisations in the SI as drafted address such concerns?

On the draft Financial Services Act 2021 (Overseas Funds Regime and Recognition of Parts of Schemes) (Amendment and Modification) Regulations 2024, it is important to note that this SI is part of a wider set of measures to bring the overseas funds regime, or OFR, online. The regime will apply to funds from jurisdictions that the Treasury has deemed "equivalent", so the OFR will only become operational once those decisions by the Treasury have been made. In the light of that, will the Minister set out when he expects the Treasury to take the equivalence decisions that would enable overseas funds to utilise the streamlined approach envisioned under the new overseas funds regime?

Finally, the draft Data Reporting Services Regulations 2023 will bring us into line with the EU, as the Minister said, but it is also consulting on a consolidated tape, or CT, so I have concerns that the UK is at risk of falling behind competitor jurisdictions. The FCA has consulted on a CT for bonds, but that is unlikely to be operational before mid-2025. It has not even begun consultations for an equities CT, and the UK does not have a pre or post-trade equities CT. By contrast, as the Minister will know, the EU is racing ahead on an equities CT, so the

longer that change takes to deliver, the more that key public market listings will be lost to our competitors. The UK's status as a global financial centre will be put at risk. Will the Minister talk a bit about how he will ensure that swifter progress is made on CT reform to support the UK's international competitiveness?

I look forward to the Minister's response. We will not oppose any of the draft SIs, but I would like some answers.

2.48 pm

Bim Afolami: It will be a pleasure to answer the questions of the hon. Member for Hampstead and Kilburn. I will take them in turn, but before I get to them I will say that I have very much noted the comments of the hon. Lady and those of my right hon. and hon. Friends about the speed of implementation and that being key to what the House and the Committee want to see so that we get the changes we all need.

On the prospectus rules coming into force in 2025, the hon. Member for Hampstead and Kilburn will appreciate that this is a complicated set of changes. The Treasury and industry needed to ensure that what we are doing, when that is such a comprehensive piece of work, was the right thing and had the broad support of industry. We have got that, but I repeat that I will be working very hard to make sure that we implement these as quickly as possible. We are closely engaging with the FCA while it is beginning the complex process of reviewing its rules and changing them. The FCA is committed to completing this by the first half of 2025—not just completing the work but actually having new rules published. I will increase the speed of that if humanly possible.

On the point from the hon. Member for Hampstead and Kilburn about securitisation, I am always keen to talk with European Union friends and colleagues across a range of matters. Indeed, I will be visiting Brussels soon in order to discuss these issues and a range of others. I am happy to continue to do that. She also mentioned the legacy transactions point that was brought up by the Association for Financial Markets. We are confident that the regulations are appropriate, but I am very happy to meet with the Association if it would like to discuss any of its concerns.

On the OFR and the equivalence judgments, the answer is: very soon, I hope. I will be updating the hon. Lady and the House as soon as I possibly can, because I recognise that this is important. In relation to the consolidated tape, lots of different competitor jurisdictions are trying to do this work, which is part of the evidence that we are doing the right thing. I am confident that we are going to do this faster and more effectively than our competitors.

Tulip Siddiq: I appreciate the Minister's responses, but the EU does not recognise the UK STS securitisations. Has the Minister made an assessment of that? He says that he is going to Brussels to speak to them, but has he not already started speaking to them, or is this the first time? That is quite an oversight, considering that they do not recognise those securitisations.

Bim Afolami: The hon. Lady will appreciate that across a range of different issues there are often political reasons why the European Union may or may not do

things. We are committed to making sure that it operates in a sensible way when it comes to the UK, because we know that the UK's financial services ecosystem, regulatory regime and market make it the leading financial services centre. But I will continue to engage with the EU on that basis. To her precise point, there are a range of different issues we are talking to the European Union about at all levels of Government. Financial services is included in that, and I will continue to have those conversations.

Tulip Siddiq: Can I ask the Minister to write to me after his visit to Brussels?

Bim Afolami: Of course.

Question put and agreed to.

DRAFT SECURITISATION REGULATIONS 2023

Resolved,

That the Committee has considered the draft Securitisation Regulations 2023.—(*Bim Afolami.*)

DRAFT FINANCIAL SERVICES ACT 2021 (OVERSEAS FUNDS REGIME AND RECOGNITION OF PARTS OF SCHEMES) (AMENDMENT AND MODIFICATION) REGULATIONS 2024

Resolved,

That the Committee has considered the draft Financial Services Act 2021 (Overseas Funds Regime and Recognition of Parts of Schemes) (Amendment and Modification) Regulations 2024.—(*Bim Afolami.*)

DRAFT DATA REPORTING SERVICES REGULATIONS 2023

Resolved,

That the Committee has considered the draft Data Reporting Services Regulations 2023.—(*Bim Afolami.*)

2.54 pm

Committee rose.

