

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

First Delegated Legislation Committee

DRAFT FINANCIAL SERVICES AND MARKETS
ACT 2023 (ADDITION OF RELEVANT
ENACTMENTS) REGULATIONS 2024

Monday 9 December 2024

No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor’s Room, House of Commons,

not later than

Friday 13 December 2024

© Parliamentary Copyright House of Commons 2024

This publication may be reproduced under the terms of the Open Parliament licence, which is published at www.parliament.uk/site-information/copyright/.

The Committee consisted of the following Members:

Chair: VALERIE VAZ

† Bailey, Mr Calvin (*Leyton and Wanstead*) (Lab)
† Buckley, Julia (*Shrewsbury*) (Lab)
Collinge, Lizzi (*Morecambe and Lunesdale*) (Lab)
Cooper, Daisy (*St Albans*) (LD)
† Davies, Shaun (*Telford*) (Lab)
† Garnier, Mark (*Wyre Forest*) (Con)
† Jones, Clive (*Wokingham*) (LD)
† Jopp, Lincoln (*Spelthorne*) (Con)
† Nichols, Charlotte (*Warrington North*) (Lab)
† Ribeiro-Addy, Bell (*Clapham and Brixton Hill*) (Lab)

† Siddiq, Tulip (*Economic Secretary to the Treasury*)
† Slinger, John (*Rugby*) (Lab)
† Stainbank, Euan (*Falkirk*) (Lab)
† Stephenson, Blake (*Mid Bedfordshire*) (Con)
† Wakeford, Christian (*Bury South*) (Lab)
† Walker, Imogen (*Hamilton and Clyde Valley*) (Lab)
† Wild, James (*North West Norfolk*) (Con)

Sanjana Balakrishnan, *Committee Clerk*

† **attended the Committee**

First Delegated Legislation Committee

Monday 9 December 2024

[VALERIE VAZ *in the Chair*]

Draft Financial Services and Markets Act 2023 (Addition of Relevant Enactments) Regulations 2024

4.30 pm

The Economic Secretary to the Treasury (Tulip Siddiq): I beg to move,

That the Committee has considered the draft Financial Services and Markets Act 2023 (Addition of Relevant Enactments) Regulations 2024.

It is a pleasure to serve under your chairmanship, Ms Vaz.

The draft regulations will add four pieces of legislation to the list set out in section 17(3) of the Financial Services and Markets Act 2023 so that legislation can be temporarily modified as part of financial market infrastructure sandboxes. The Treasury was granted the power to make provision for FMI sandboxes by section 13 of FSMA 2023, and the list of legislation that the Treasury can temporarily modify in an FMI sandbox is set out in section 17(3).

An FMI sandbox is designed to provide a controlled regulatory environment in which existing legislation and regulation is temporarily removed or modified. FMI sandbox participants can test new and developing technologies and practices that would otherwise be inhibited by existing legislation outside of the sandbox. If activity in an FMI sandbox is successful, and only after laying a report before Parliament, the Treasury can make permanent changes to legislation by introducing a further affirmative statutory instrument.

The testing of new technology and practices is inherently uncertain and will evolve over time, meaning that it is likely that the list of legislation in scope will need to be added to. For that reason, the Treasury has the power to add further legislation to the list in section 17(3) of FSMA 2023, as set out in section 17(6). Through the testing of new technologies and practices in an FMI sandbox, we are likely to identify additional legislative modifications, and the ability to add further legislation to the list is a way of ensuring that the FMI sandbox regime can be kept up to date.

The draft regulations exercise the power set out in section 17(6) of FSMA 2023, so that the four items of legislation can be added to support two FMI sandboxes, namely the existing digital securities sandbox, which I will refer to as DSS, and the future private intermittent securities and capital exchange system sandbox, also known as the PISCES sandbox—we love acronyms in the Treasury. The DSS will enable firms to test new and innovative technology across financial market infrastructure activities, and the PISCES sandbox will allow private companies to have their shares traded on an intermittent basis on a new type of stock market.

The draft regulations will bring the following legislation into scope of the power to make temporary modifications in FMI sandboxes: the Stock Transfer (Gilt-edged Securities) (CGO Service) Regulations 1985, which I will refer to as “STRs”; the Government Stock Regulations 2004, which I will refer to as “GSRs”; the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, which I will refer to as “MLRs”; and regulation (EU) 2017/1129 of the European Parliament and of the Council, also known as the prospectus regulation, which we inherited from the EU.

Temporarily modifying the STRs and GSRs will enable us to support the issuance of a digital gilt instrument through the DSS. I and the Financial Secretary to the Treasury set out further details of that pilot in written ministerial statements to both Houses on 18 November, which hon. Members may have seen. The MLRs will be modified to facilitate an exemption from the cryptoasset regime in the MLRs for DSS participants, on the basis that activity in the DSS will involve securities, such as bonds and equities, that are already regulated, so conventional anti-money laundering legislation will be applied in the normal way. The prospectus regulation will be modified as part of the PISCES sandbox so that prospectus requirements can be disapplied in favour of bespoke disclosure requirements in that sandbox.

I should note at this point that the draft regulations do not make any temporary changes to the four specific items of legislation. Under the procedure stipulated by FSMA 2023, that will be done as part of further negative SIs to be laid before Parliament, which will provide all the relevant explanatory information for the changes being made to each enactment. The Government published a draft of the instrument that will set up the PISCES sandbox in November for public comment ahead of its being laid before Parliament in May. The DSS was established by a statutory instrument laid last December, although changes to the MLRs will require a further statutory instrument, which is to be laid before Parliament in January.

I recognise that this is a very technical measure, but the draft regulations will make changes consistent with the powers established by FSMA 2023—the Conservative party led the introduction of that Act, and we supported it when we were in opposition—and support the continued development of the DSS and of future FMI sandboxes, such as the PISCES sandbox. The Government believe that this will help to support innovation through each of these FMI sandboxes. I hope that the Committee will feel able to support the draft regulations and their objectives, and I commend them to the Committee.

4.36 pm

Mark Garnier (Wyre Forest) (Con): I think this is the fourth or fifth time that the Minister and I have met across a Committee room, and yet again I do not think we are going to have any problems at all. At the last of our meetings in one of these rooms, I asked her a number of questions, and I am incredibly grateful to her and her office for getting back to me so quickly. I think that illustrates the very good working relationship between the Opposition and the Government in this respect.

The Opposition are delighted with all these measures. I was struggling to work out some complicated questions in order to make the Minister work for her office, but

the only one I could come up with is on the timeline. She made reference to some further statutory instruments that will be introduced, and it would be very helpful if we had an idea of the timeline for when the process will be completed.

Aside from that, we are very happy to support the draft regulations and I thank the Minister very much for all those acronyms—I am learning more and more each time we meet.

4.37 pm

Tulip Siddiq: I thank the shadow Minister for his comments about our constructive relationship. I am sure there will be many fights in these rooms, but they are not happening yet. He will be delighted to know that we will be back here at 6 o'clock to consider a similarly simple statutory instrument.

We intend to lay the statutory instrument providing the legal framework for the PISCES sandbox before Parliament by May next year. As the shadow Minister will probably know, the testing of new technology and practices is uncertain, so there may be further FMI sandboxes with a different focus that require changes to legislation that have not been considered previously. Therefore, it is not really possible to set out a timeline, but the statutory instrument for PISCES will be laid by May 2025.

As I am sure the shadow Minister will recognise, the draft regulations are an important step forward in the development of the digital securities sandbox and future financial market infrastructure sandboxes such as PISCES, which is world leading and very impressive for our Government, and will be a good thing for the financial services sector. The draft regulations will ensure that FMI sandboxes are able to facilitate innovation while ensuring that all the risks are proportionately managed, as well as ensuring that firms are incentivised to participate.

The changes will be laid out in detail in a negative statutory instrument that we intend to lay before Parliament. We will be modifying the money laundering regulations to ensure that activity in the digital securities sandbox is not caught under the definition of cryptoassets in the MLRs. We will also provide the shadow Minister with a timeline on that, if that makes sense.

I thank Members for participating in the debate. I hope they found it informative, I hope they will learn all the acronyms, like I have, and I hope they will join me in supporting the draft regulations.

Question put and agreed to.

4.40 pm

Committee rose.

