

Annual Report

2023/24



FCA

Markets
Practitioner Panel

The background is a solid blue color. In the upper portion, there are several overlapping, wavy white lines that create a sense of motion and depth. Scattered throughout the blue area are numerous small, semi-transparent white circles of varying sizes, resembling a bokeh effect or digital particles.

Chair's foreword

I am pleased to introduce this report, my first since becoming Chair of the Panel on 1 August 2023.

This report outlines MPP's main areas of focus in the past year, many of which are continuations from the previous year. Panel members, representing different sectors, bring a broad range of perspectives which helps to enhance and deepen understanding in our discussions on risks, issues and policy developments. The Panel has a close and collaborative working relationship with the FCA, and values its regular engagement with the FCA Chair, CEO, Board and Executive Committee Members.

The Panel devoted considerable time to real time market issues against a backdrop of heightened vulnerabilities in the global financial system, wider macro economic and geopolitical uncertainties, and changes to market structures. In particular, the Panel focused on the competitiveness of UK Capital Markets, the continued growth in Private Markets, as well as the opportunities and challenges from the wider adoption of new technologies and innovation.

The Panel also engaged with FCA on the impact of the Consumer Duty, the FCA's secondary competitiveness objective and the transition of the UK regulatory regime under the Future Regulatory Framework. In response to the FCA's Diversity and Inclusion Paper in September 2023 the Panel noted (and discussed) the wide-ranging views and feedback from the industry. The Panel will continue to engage further with the FCA. More recently, the Panel also highlighted the industry's concerns regarding FCA's proposed approach to enforcement and provided views on the plan to name firms under investigation, as set out in the March 2024 paper.

In early 2024 the Panel prioritised the following areas of work for the coming year, whilst also maintaining its focus on market issues, developments, and near-term risks.

- Data, technology and operational resilience
- International Competitiveness
- Intergenerational differences
- Private Markets
- Environmental, Social and Governance (ESG)
- Implementing the FCA's Strategy

We remain agile and responsive to emerging developments as priority areas can evolve during the course of any year, according to where our engagement and insights are of value to the FCA.

I would like to take this opportunity on behalf of myself, and the Panel to thank the FCA for their efforts in continuing to deliver an ambitious reform agenda for our capital markets, progress made during the last year and for supporting the Panel in playing its role as 'critical friend' of the FCA.

Panel members have generously contributed their time and expertise throughout a busy year of policy developments. The market environment and reform agenda continue to provide a challenge to the financial services industry, and we know the FCA appreciates the Panel's engagement on strategic and forward-looking themes, as well as more immediate and current matters. I would also like to personally thank all my fellow Panel members.

Clare Woodman
Chair, FCA Markets
Practitioner Panel

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Introduction

The Markets Practitioner Panel (MPP) is a statutory panel of the FCA. It is one of six panels that the FCA is required to establish and maintain under the Financial Services and Markets Act 2000 (as amended).

The Panel represents the interests of financial market participants, and its work focuses on secondary markets and broader wholesale sector issues. Formal Panel meetings are held six times each year, and the Panel may convene ad hoc meetings on specific topics as required, as well as other strategy and planning meetings.

The Panel also benefits from some of its members belonging to other panels,

namely the Practitioner Panel and the Listings Authority Advisory Panel (LAAP). Members may participate in any cross-panel meetings as appropriate, with members of LAAP and other Panels.

Where there are interests in common, the Panel may respond jointly with LAAP to FCA consultation papers. During the period, a joint response (with LAAP) was provided on the FCA's CP 23/10 and CP23/31 on Primary Markets Effectiveness Review. The Panel also responded (jointly with LAAP) to the UK Government's Call for Evidence on UK Investment Research Review and will engage with the FCA as it takes forward a number of Recommendations from this review.

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Capital Markets Reforms and UK Competitiveness

In its response to the FCA's consultation on UK Investment Research, the Panel stressed that research provisions were important for the attractiveness of UK markets. The Panel supported optionality of payment methods and suggested that it should be for market participants to decide how to pay for research (respecting transparency requirements and with the agreement of their clients). However, the Panel argued that improving research provisions alone is not sufficient and needed to be part of a broader suite of regulatory reforms which when cumulatively applied, might help create a more competitive and efficient ecosystem.

The Panel was strongly supportive of the FCA's work on the Listing Rules Reform. The Panel understood there were many conflicting views both among industry and even within firms. It encouraged active engagement with stakeholders to reach a position of compromise that both the FCA and industry could support. The Panel believes it is now crucial that market behaviours evolve to allow for the success of the regime.

The Panel observed the growth of financial centres outside the UK, particularly where innovation and emerging technologies are seen as being more actively promoted, noting that the UK faces competition for a limited talent pool from other centres.

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The Future Regulatory Regime & FCA Transformation

The volume of reforms continued to be a source of concern for the Panel, in regard to both the FCA's and industry's capacity to manage effectively. In the Panel's view, a strategic and holistic approach is needed to manage the intersection of the government and regulatory agenda.

The Panel welcomed the FCA's relationship management with industry and how it had engaged with stakeholders, specifically noting the innovative and extensive approach the FCA had adopted to gathering feedback to the Sustainability Disclosure Requirements (SDR), which included the establishment of a dedicated advisory group of industry experts, and extensive ongoing engagement with industry stakeholders. The Panel provided initial views regarding the enforcement agenda, as set out in the March 2024 Consultation Paper. This will continue to be a focus during the year ahead.

The Panel believes it would be helpful to see future metrics measuring the volume of automated data flow by means of interface between industry and FCA, which could also go some way to supporting the FCA's data strategy. The Panel stressed that measurement of competitiveness requires a long-term approach and aggregation of a wider range of information and data including 'softer' feedback gathered from market participants on their 'lived' experience.

The Panel believes the Senior Managers and Certification Regime (SM&CR) has played a useful role in driving individual accountability but shared concerns around the extension of the certification regime. The Panel

welcomed the improvements being considered and stressed the importance of proportionality in the regime's scope and implementation, particularly in conjunction with other initiatives such as the Consumer Duty. The Panel looks forward to seeing further progress in this area.

Referring to the Money Market Review (MMR), the Panel encouraged the FCA to promote the coordination and consistency of standards to boost the attractiveness of the UK, recognising that EU and US policy changes would have a far broader impact on money markets. The Panel highlighted the importance of a full cost benefit analysis that included potential impacts of policy changes: it was important to balance the benefits of reducing Money Market Fund (MMF) vulnerabilities and financial stability risks against lower market liquidity, reduced attractiveness of MMFs and the potential for higher funding costs across the market.

The Panel also discussed relevant initiatives outside the FCA's direct remit, and in which members had a part to play as industry stakeholders. These included the Digitisation Taskforce on modernising the UK's shareholder framework (dematerialisation) which the Panel supports, and HM Treasury's Accelerated Settlement Taskforce (ASTF) considering whether the UK could move to a T+1 settlement. Now that the ASTF has published its Report and recommended the UK commits to a move by the end of 2027, the Panel will engage with the FCA as plans develop to ensure risks and complexities are well understood.

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Implications of Macroeconomic and Geopolitical Factors

The macroeconomic and geopolitical environment set the backdrop to discussions during the year. The ongoing war in Ukraine, conflict in the Middle East, and the number of forthcoming elections all warranted close monitoring for impact on financial markets. The Panel shared ongoing concerns from domestic and global economic uncertainties, sustained high interest rates and the impact on debt structures, highlighting the growth of Private Markets (see below) and the real estate sector.

The speed at which issues could arise and spread through markets, as evidenced in early 2023 by the failures of a small number of banks, added, the Panel felt, an additional risk factor to address. The Panel stressed that markets would continue to require close monitoring, and sectors remain vulnerable to stress and uncertainty, even if inflation fears receded slightly.

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Private Markets

During the year, the Panel maintained a continued dialogue with the FCA on the growth of Private Markets and in particular regarding transparency, liquidity, leverage and asset valuations.

The Panel noted that the migration of credit from regulated firms to Private Markets continued to increase in size and scope. Furthermore, the types of companies accessing finance through these markets tended to be smaller size, with fewer opportunities to access to other sources of funding. Whilst this was a global trend, particularly in the US, it was also growing in the UK and Europe.

The Panel and FCA focused on the importance of identifying data gaps in reporting and data quality and reducing regulatory fragmentation as key steps towards the monitoring of the sector. The Panel was keen to explore the topic of exposure data further with the FCA in the context of public versus private disclosures.

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Digital Assets and Innovation

The Panel remains supportive of innovation and the development of technologies that bring efficiencies and enhancements to the financial sector and wider society but recognises the need for international coordination to ensure consistency and comprehensiveness in the approach to governance, ethics and transparency.

Regulatory interventions and several high-profile failures in recent years appeared to have temporarily reduced demand for digital assets. At the start of 2024, the US Securities and Exchange Commission (SEC) authorised its first Spot Bitcoin Exchange Trading Funds (ETFs), marking a change in approach by regulators. The Panel will keep watch on developments in this area, particularly as regulatory regimes continue to evolve with varying degrees of focus on wholesale and retail market participation.

During the year the Panel heard from the FCA on their work in several innovative initiatives including tokenisation of assets, the Digital Sandbox, and Digital Securities Sandboxes. The Panel was encouraged to see the commitment to supporting and fostering new types of products, services and infrastructure.

The Panel considered the rapid acceleration of capabilities and use of Artificial Intelligence (AI). The Panel discussed the opportunities for AI and new technologies to contribute to productive gains and operational efficiencies within this sector. There was also, however, a concern about the unforeseen consequences of its deployment inadvertently, or deliberately in the hands of hostile agents, e.g., in the facilitation of cybercrime or market manipulation. Whilst noting regulatory frameworks and guidance were developing across various jurisdictions, the Panel was concerned that these were still at relatively early stages and the pace of establishing regulatory controls was in stark contrast to the speed at which generative AI capabilities appeared to be emerging. The Panel also highlighted the need for rapid upskilling for both industry and regulator alike, to ensure that the speed of development in these areas can be responded to appropriately, and that the UK remains competitive.

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Environmental, Social and Governance (ESG)

In discussions about the FCA's work on ESG, the Panel reiterated its support for the FCA's active role in the numerous initiatives underway. The focus for industry is also shifting to include thinking about transition planning and the trade-offs involved. The Panel also noted the volume of change, and the need for early communication with the industry. The Panel emphasised the importance of positioning the Sustainable Disclosure Requirements (SDR), encouraging the use of positive messaging on opportunities and benefits of the regime to avoid undermining trust in industry.

The Panel was pleased to see the FCA's plan to promote global consistency and for the UK to set the tone for adoption of the standards into other jurisdictions. Differences in approach, interpretation and attitudes, adds complexity for the industry and increases the risks of inadvertent 'non-compliance', mis-selling or 'greenwashing' accusations whilst frameworks are evolving. The Panel encouraged the FCA to work proactively with international policy makers to mitigate the risks that might occur while frameworks are developing.

The Panel was encouraged by the progress in developing frameworks for ESG data and rating providers, and in non-financial reporting standards. These are welcome steps towards reducing inconsistencies in "green" criteria, differing methodologies and limited competition.



Culture and Conduct

During discussions with the FCA, the Panel agreed that promoting healthy cultures would attract and retain the best talent and agreed with the FCA's focus on the effect that instances of non-financial misconduct had on firm cultures.

Culture was discussed as a fundamental component of how well an organisation functions.

The Panel suggested that how often, and in what capacity Boards discussed the culture of their business was one indicator, but it was often difficult to identify specific issues (gather appropriate data to do so), without being in the organisation.

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Panel Diversity Statement

The FCA has agreed to adopt diversity targets for all the FCA's Independent Panels. These targets reflect those introduced by the FCA in April 2022 for the board and executive management of listed companies and are as follows:

- At least 40% of each Panel are women
- At least one of the senior positions (Chair, Deputy Chair or equivalent) across the Panels is held by a woman
- At least one member of each Panel is from an ethnic minority background

Against these targets, we can report that as of 31 March 2024¹:

- 20% of the Markets Practitioner Panel are women.
- At least one senior position across the Panels is held by a woman.
- All 5 Independent Panels meet the target that at least one member is from an ethnic minority background

The Panel supports the FCA in its objectives of improving diversity in the appointments it makes to all the Independent Panels.

¹ These figures are based on the data disclosed. Disclosure of diversity information is voluntary. Data is reported across all Panels where disclosure on an individual Panel basis would lead to the release of personally identifiable information.

Members of FCA Markets Practitioner Panel

(1 April 2023 – 31 March 2024)

Clare Woodman

Chair (from 1/08/2023;
Dep Chair from 1/4/22-31/7/23)
Head of EMEA and CEO, Morgan
Stanley & Co. International Plc

Michael Findlay

(former Chair from
01/07/2021 – 31/05/2023)
Non-Executive Chair, London Stock
Exchange plc

Mark Austin

Corporate Partner, Latham & Watkins
Member of the FCA's Listing Authority
Advisory Panel.

Philippe d'Orgeval

Chief Executive Officer, Amundi UK

Marisa Drew

(term ended 31/07/2023)
Chief Sustainability Officer, Standard
Chartered

Suvro Dutta

(term ended 31/03/2024)
Partner, Financial Services, KPMG LLP

Steven Fine

Chief Executive, Peel Hunt LLP

Richard Haas

Member of the Boards of Cape View
Azri Funds

Peter Harrison

(term ended 31/03/2024)
Group Chief Executive, Schroders

David McD Livingstone

Chief Client Officer, Citi

Hannah Meakin

Partner, Norton Rose Fulbright LLP

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FCA

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