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Rt Hon Keir Starmer KCB KC MP
The Prime Minister
10 Downing Street
London, SW1A 2AA

16 January 2025

Dear Prime Minister, Chancellor, and Secretary of State,

<u>RE: A NEW APPROACH TO ENSURE REGULATORS AND REGULATIONS SUPPORT GROWTH</u>

I welcome your letter of 24 December 2024, along with the Chancellor's recommendations on growth. We want to collaborate with you in a fundamentally different way to support the growth mission. To achieve the deep reforms necessary, your acceptance that we will take greater risks and rigorously prioritise resources is crucial.

I have appreciated your backing for our work on growth. This includes reforming listings rules, bolstering investment research, revolutionising provision of financial advice, launching long term asset funds, reforming the value for money framework for pensions targeting better long-term returns, and reforms to fixed income and commodity markets to sustain UK market leadership. With the Prudential Regulation Authority (PRA) we removed the bonus cap and proposed pro-competitiveness changes to the remuneration regime. Record financial crime prosecutions also contribute, given crime impedes growth and drives compensation levies.

Growth will be a cornerstone of our strategy, through to 2030.

We already had significant work in train for this year which I set out below, along with new proposals which go further. We have listed ideas to test with you and through wider consultation, which we would do as quickly as possible, including with our statutory panels. This will be supported by academic research we have commissioned to better understand the links between financial regulation and growth. As you suggested, we have also set out areas where further Government action could enhance our collective efforts.

Unlocking capital investment and liquidity

We already planned ambitious reform of wholesale markets this year to:

- Implement a new prospectus regime, with shifts in thresholds and liability. We will ease retail access to corporate bonds and enable a new market for private companies.
- Enable savers to invest more effectively, improving access to help and simplifying product information.
- Reduce conduct requirements for wholesale insurers.
- Streamline regulatory requirements on the asset management sector.
- Launch a consolidated tape so fixed income data is accessible.

We will go further by accelerating a review of capital requirements for specialised trading firms to improve liquidity.

Accelerating digital innovation to enhance productivity

As other countries pull ahead, we need a UK financial services digital infrastructure plan, to dovetail with your ambitious AI plan. We stand ready to play a leading role, embracing a digital first approach, and with our work spearheaded by a new Executive Director for Payments and Digital Finance who will also lead the Payment Systems Regulator. Accelerating adoption of securities settlement in one day (T+1) and a bold approach to move to an electronic form of securities will make markets more efficient.

This year, we already planned to:

- Progress a digital securities sandbox and a roadmap for digital assets starting in asset management.
- Improve credit information with changes to industry governance.
- Reform online tools explaining pensions, improving pension transfer times, and finalise next steps on pension dashboards.
- Avoid additional regulations for AI by relying on existing frameworks.

Alongside delivery of the National Payments Vision, in 2025, we will go further and:

- With the PSR, introduce a new open banking payment method – variable recurring payments - increasing competition and choice.
- Use powers anticipated under the Data (Use and Access) Bill to develop open finance, potentially prioritising SME lending.

We could also:

- Remove the £100 contactless limit, allowing firms and customers greater flexibility, drawing on US experience, and levelling the playing field with digital wallets.
- Set new digital service standards, for example requiring firms to accept electronic verification of death to speed up bereavement claims in insurance.

Government action in three areas could help: digital identity authentication/verification could unlock huge gains; enhancing the quality of the Companies House database would reduce costs for business; and digitisation of court systems should reduce delays.

Reducing the regulatory burden

We are already working to remove unnecessary regulation and reduce how much data some firms must provide, and planned in 2025 to:

- Streamline our handbook following industry input on rules which could be removed or simplified; and improve accessibility and efficiency with a machine-readable version.
- With the Bank of England/PRA, continue reducing reporting burdens for firms.
- Make the Senior Managers and Certification Regime more flexible.

We will now go further and:

- Remove the need for a Consumer Duty Board Champion now the Duty is in effect.
- Ensure future consultations on consumer protection ask if the Consumer Duty is sufficient rather than new rules.
- Begin simplifying responsible lending and advice rules for mortgages, supporting home ownership and opening a discussion on the balance between access to lending and levels of defaults.
- Consult on removing maturing interest-only mortgage and other outdated guidance.
- Work with Government to remove overlapping standards, e.g. the Mortgage Charter.
- Review the proportionality of reporting requirements and remove redundant returns, initially expected to benefit 16,000 firms.

We could go even further and, with Government support, reduce costs of anti-money laundering measures, relaxing know your customer requirements on small transactions. The Treasury also commenced modernisation of the Consumer Credit Act in 2022. If accelerated, we could reduce burdens further and faster.

Making it easier for firms to start up and grow

The process and speed to authorise a firm can affect how quickly they start up and grow. We meet statutory timelines in 98.5% of cases and will continue to improve our service. We already intended to do more to digitise our authorisations process to reduce timescales and cost and we will go further and:

- Provide a dedicated case officer to every firm in our regulatory sandbox.
- Support more early and high growth firms, with 50% more dedicated supervisors.
- Extend pre-application support to all wholesale, payments and crypto firms.
- Indicate more frequently that we are 'minded to approve' promising start-ups to help them secure funding.

Some innovative start-ups find it hard to meet all the threshold conditions immediately and therefore don't secure our approval to operate. We want to work with the Treasury to create a legislative framework that enables relevant firms to conduct limited regulated activities with streamlined conditions.

Improving exports and inward investment

We will continue our leadership in international fora and we will work with the Government, City of London Corporation and others to promote the UK – both for firms seeking authorisation and for firms exporting. We recognise that major international investors want easier access to us and so we are establishing a presence in the United States. We will now go further and do this in Asia too.

Certainty and predictability

Certainty and predictability underpin business and investor confidence. Subject to Supreme Court and other legal timetables, we will provide clarity on potential motor finance redress this year. We can never rule out firms having to pay redress for serious misconduct. However, through proactive management of issues, and improved coordination with the Financial Ombudsman Service, we aim to prevent further significant FCA-led consumer redress exercises. As part of that, we are considering reforms to the redress framework which may need legislation.

Enabling more informed risk-taking requires enduring acceptance, as the Chancellor has recognised, that we need to prioritise resources and that there will be failures. This acceptance needs to be shared across all our accountability mechanisms, including in Parliament. We will not stop all harm when making risk-based choices about the cases and intelligence we pursue, and we increasingly deploy technology to make those choices with speed and at scale. Metrics for tolerable failures within the overall system could help to support this.

I trust this letter underlines our continued strong commitment to support growth, alongside our primary objectives of consumer protection, market integrity and competition in the interests of consumers. We look forward to working with the Government and partners to rapidly progress this work.

Yours sincerely,

Nikhil Rathi
Chief Executive