

Response to the FCA's Rule Review Framework Consultation

TheCityUK is an industry-led body representing UK-based financial and related professional services. The industry we represent is a national asset, contributing over 12% of the UK's total economic output and employing one in every 14 people across the country, with two thirds of these jobs outside London. It is the largest taxpayer, the biggest exporting industry and generates a trade surplus almost equivalent to all other net exporting industries combined. It is not only a vital asset for the UK economy, but also makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business, and protect and manage risk.

TheCityUK appreciates the opportunity to provide a comprehensive response to the FCA's draft Rule Review Framework. As a member-led industry body, our commitment to effective financial regulation aligns with the FCA's goals of transparency, accountability, and continuous improvement. This response offers insights to refine the framework and ensure a balanced, transparent, and impactful regulatory environment.

Resourcing Challenges

We acknowledge the FCA's ambitious approach to rule review and the importance of adequately staffing review functions. We echo the sentiment that comprehensive evaluations demand sufficient expertise and resources. In this context, it becomes crucial for the FCA to allocate sufficient resource to ensure effective implementation of the review framework. A well-resourced review mechanism will empower the FCA to better assess the effectiveness of rule changes and address any regulatory inefficiencies.

Transparency and Reporting

We believe that transparency is foundational to effective regulation. Publishing the outcomes of all rule reviews aligns with the transparency principle in the FCA's 'Principles of good regulation' and promotes external scrutiny. This practice enhances accountability and fosters trust between regulators, industry stakeholders, and the public. We encourage the FCA to commit to this transparency, ensuring that its regulatory decisions are subject to the necessary external checks and balances.

Stakeholder Feedback

TheCityUK expresses appreciation for the FCA's initiative to incorporate stakeholder feedback. We align with the view that harnessing diverse perspectives can enhance regulatory outcomes. However, we acknowledge the challenges posed by managing a potentially high volume of input. To effectively accommodate stakeholder views, we recommend that the FCA explores innovative mechanisms for structured and comprehensive feedback collection. Leveraging technology and data analytics can facilitate the categorisation and analysis of stakeholder input, resulting in more informed decision-making. We are advocating for these types of structured and comprehensive mechanisms for stakeholders to provide input to the rule review process. This input could include proposing specific rules that should be reviewed, or providing evidence to support reviews that the FCA is conducting. A formal systemic feedback mechanism for statutory panels to request rule reviews would add a layer of accountability to the process. By compelling the regulators to publicly state their reasons when deviating from a panel's request, this mechanism promotes a robust dialogue between the FCA and relevant stakeholders. This transparency is vital for maintaining trust and legitimacy in the regulatory process.

Quantifiable Evidence

The challenge of quantifying evidence to evaluate the impact of specific rules is a concern. We advocate for close collaboration between the FCA and industry stakeholders to address this challenge. Developing methodologies that capture and analyse relevant data, while respecting data privacy considerations, can provide a foundation for evidence-based decision-making. This collaboration can lead to more robust evaluations and targeted regulatory interventions.

High Bar for Rule Changes

We emphasise the importance of a judicious approach to rule changes. Aligning with regulatory stability, we recommend that the FCA establishes a comprehensive assessment process. This process should not only evaluate the immediate outcomes of rule changes but also consider their alignment with broader regulatory objectives. By doing so, the FCA can ensure that new interventions are pursued when existing rules fall short of achieving desired outcomes. Where the FCA proposes changes to its rules following a rule review, evaluating the timing of implementation, and providing clear expectations are paramount to market stability.

Capacity and Timelines

We recommend setting target timelines for reviews which reflect a commitment to efficient and effective regulation. By differentiating timelines based on the complexity of the review, the FCA can strike a balance between thorough assessment and avoiding protracted reviews. Providing clarity about the FCA's review capacity and committing to an ambitious number of reviews annually empowers the industry to better engage with regulatory processes and allocate resources judiciously.

New secondary objectives on medium to long term growth and international competitiveness

Recognising the FCA's new secondary objectives, we suggest prioritising reviews that advance these goals during the initial years of the rule review process. This approach aligns with the evolving focus of the FCA and underscores the importance of embedding these objectives into the regulatory landscape. By strategically prioritising such reviews, the FCA can ensure that its regulatory interventions drive positive economic outcomes while fostering market integrity.

Development of Regulatory Responses

We encourage the FCA to increase engagement with experts from across the financial and related professional services ecosystem to inform and co-design its regulatory responses. This approach has already been successfully piloted by the FCA in the 'TechSprints'. We recommend extending this model to other areas of its regulatory work in a way that allows it to engage more effectively with industry experts during the discovery and formulation phase of its work and adopt an iterative approach to identify unintended consequences and gaps in coverage more readily. This approach will not only reduce the overall development timeframe but improve regulatory outcomes and the ability of industry to implement them.

Conclusion

Our response seeks a commitment from the FCA to provide effective, transparent, and balanced financial regulation. We commend the FCA's pursuit of an improved Rule Review Framework and offer our insights to contribute to its enhancement. By addressing resource challenges, optimising stakeholder feedback mechanisms, and embracing evidence-driven evaluations, the FCA can foster a regulatory environment that maximises market integrity.

Furthermore, by setting high standards for rule changes, assessing potential adverse impacts, and managing the pace of implementation, the FCA can enhance regulatory stability and minimise market disruptions. Incorporating the suggestions related to transparency, stakeholder engagement, capacity, and prioritisation amplifies the regulatory process's accountability and legitimacy.

We appreciate the FCA's receptiveness to industry insights and value the opportunity to contribute to shaping the UK's regulatory landscape. Through ongoing collaboration, we can collectively work towards a financial market that continues to thrive on innovation, investor confidence, and sustainable growth. We look forward to the continued dialogue and partnership in realising these shared objectives.