

By email to: The Rt Hon Earl Howe
Copied to: John Glen MP, The Rt Hon Lord Forsyth of Drumlean,
The Baroness Donaghy CBE FRSA, The Rt Hon Mel Stride MP

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Dear Lord Howe,

FCA accountability to Parliament and approach to sustainable finance

HM Treasury has asked that I write to you setting out the broader context of the FCA's approach to Parliamentary accountability and sustainable finance, in light of the discussions taking place around the passage of the current Financial Services Bill.

The financial services industry and the FCA face significant challenges in the coming months. The pandemic has illustrated the importance of the FCA being able to act decisively and at pace to protect consumers, businesses and firms. We must also consider how the UK's regulatory and legislative framework for financial services needs to adapt to reflect the UK's position outside the EU. Clearly these issues cut across all financial services regulation, including HM Treasury's recent consultation on the Future Regulatory Framework (FRF).

In tackling these immediate challenges, we should not lose sight of long-running issues that are reshaping financial services; or the FCA's day job as it works to meet the statutory objectives set by Parliament. All our efforts will be underpinned by our ambitious plans to transform the FCA so that we can deliver more for consumers, firms and markets.

Accountability to Parliament

We are an independent regulator, which enables us to act swiftly when necessary to meet our statutory objectives; but we are also a public body, with powers conferred by Parliament in legislation. As such, we consider that robust accountability and scrutiny is an essential part of an effective regulatory regime. We are committed to exercising our functions in an open and accountable way, and a transparent relationship with Parliament is critical to our ability to do our job well.

HM Treasury's FRF Review recently consulted on the approach to the UK's legislative framework for financial services and the accompanying accountability and scrutiny of the regulators, now that we have left the EU. We support the aims of the review, including reviewing our accountability and scrutiny processes to ensure these remain fit for purpose. We continue to work closely with our HM Treasury colleagues to ensure that we have a framework that delivers on the needs of UK financial services.

The legal and regulatory framework provides an extensive range of accountability, scrutiny, transparency and engagement mechanisms. In particular, we place a high degree of importance

on our accountability to Parliament. We give evidence, both written and oral, to select committees in both the Lords and Commons on the wide range of issues that we cover. The close scrutiny by select committees – not least the Treasury Select Committee of the House of Commons – makes us a better regulator.

Since I began as Chief Executive in October, I have given evidence to Select Committees on four occasions including a pre-appointment hearing with the Treasury Select Committee; the TSC can refer the appointment of the FCA's CEO to a debate and vote of the House of Commons.

We also routinely provide evidence and expertise to Bill committees and in policy meetings with MPs and Peers, and are keen to continue and develop this engagement as the mechanisms through which we develop regulation change in light of Brexit.

There are other forms of accountability to Parliament required by legislation. In particular, every year we report publicly on our progress through our Annual Report. HM Treasury then reports to Parliament considering our performance against our statutory objectives, and how we have dealt with major regulatory cases.

We also consult publicly on our policy interventions, to seek views from across all interested stakeholders, including Parliament, before we decide on what intervention to make. We set out our pipeline of future regulatory activity for stakeholders regularly via the [Regulatory Initiatives Grid](#), alongside the work of other FS regulators. We are committed to ensuring that Parliamentarians have the information they need to scrutinise our policy and rule proposals, particularly during consultation. I would draw your attention to our first public consultation on the Investment Firms Prudential Regime, which has been discussed at length during the passage of the Financial Services Bill. We will be publishing further consultations on this in Q2 and Q3 this year which we will share with the relevant Parliamentary committees. We are always happy to hear views on and discuss our ongoing work in more detail with MPs, Peers and Parliamentary committees if this is helpful.

In light of our objectives, the range of stakeholders with interest in the work of the FCA is broad, but it is Parliament which has conferred the powers we exercise, and it is to Parliament that we ultimately are accountable. To this end we would welcome further discussion with you and your colleagues about how we work with Parliament, the challenges we are facing over the coming years and the transformation work I am prioritising in order to meet them.

Approach to sustainable finance

There are important ongoing debates in the context of the Financial Services Bill, the next remit letter to the regulators, and HM Treasury's FRF Review about the role regulators should play in supporting the Government's policy and the UK's commitment to achieving the net zero target by 2050.

The FCA is acutely aware of the need to consider how climate change, and the steps being taken to address it, relate to its statutory objectives. To tackle the climate crisis, we need to accelerate the transition to cleaner energy and a less carbon-intensive economy; a transition in which financial services will play a central role. Good financial regulation, internationally coordinated, will be key to facilitating it. I am recruiting a dedicated Director of Environment, Social and

Governance (ESG) Standards reporting directly to me, who will lead our ambitious work programme in this important area.

The FCA wants to help market participants manage the risks from moving to a low carbon economy – while also capturing opportunities to benefit consumers. We want green and sustainable finance to be at the heart of the continued growth of London as a global financial centre. We stand ready to support the UK Government to fulfil its commitment to at least match the ambition of the EU Sustainable Finance Action Plan in the UK.

To achieve these goals, we set out some initial [priorities](#) in October 2019. We continue to deepen and evolve our work programme, with our focus currently on three main themes: improving transparency for market participants and consumers; building trust in sustainable finance products; and ensuring we provide the right regulatory tools to support firms. As part of this, we have introduced rules requiring premium listed companies to make better disclosures about how climate change affects their business, consistent with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). We will shortly consult on extending the scope of these rules and introducing similar obligations for asset managers, life insurers and FCA-regulated pension providers.

We are committed to working both with UK stakeholders and internationally, including as co-chair of a workstream on corporate disclosures under IOSCO's Sustainable Finance Taskforce. This reflects the global nature of the market and the challenge that climate change presents. The Climate Financial Risk Forum, which we co-chair with the Bank of England, is an important vehicle for collaboration between industry and regulators to drive progress in this area. This will be a priority for me personally as we all work together to address the greatest policy challenge in a generation.

I hope that this letter is helpful to you and your colleagues. I know that the work of the FCA is of great interest to a number of your colleagues in the House of Lords and I am sure I will have the chance to meet with many of them over the course of my term as its CEO.

I am copying this letter to the Economic Secretary to the Treasury and the Chairs of the Lords Economic Affairs Committee, the Lords EU Services Sub-Committee and the Commons Treasury Committee. I understand that you intend to place a copy of this letter in the House of Lords Library.

Yours sincerely



Nikhil Rath
Chief Executive