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22 March 2021

Dear Lord Holmes,

At the Grand Committee debate on the Financial Services Bill on 10 March, I committed to review our exchanges on financial technology and write to you with further detail if necessary. Given the significance of this topic, and the wide-ranging debate, I thought it would be helpful to further set out the Government's position on some of the areas you asked about – particularly Artificial Intelligence (AI) policy, digital identity, the use of distributed ledger technology (DLT) and Open Finance.

As you rightly said during the debate, this is an opportune moment to consider the future of financial technology (fintech) in the UK, following on from the recent publication of the Kalifa Review of UK Fintech. The report's recommendations include:

- Introducing a new 'fintech scale up' visa route for specialists from around the world;
- Implementing a 'scale box' to provide regulatory support for growing firms;
- Improving UK listings rules with free float reduction and dual class shares;
- Creating a £1 billion fintech 'growth fund' to help firms grow independently; and
- Establishing a private sector-led Centre for Finance, Innovation, and Technology to support national coordination and growth in fintech across the UK.

HM Treasury strongly welcomes the publication of the review, and will continue to work with industry, regulators, and other Government departments to further consider these ideas. At Budget, the Chancellor demonstrated support for the fintech sector by announcing measures in line with the Review's proposals: the introduction of a new visa 'scale up' stream to attract global talent and boost the fintech workforce, and publication of the recommendations from the recent Lord Hill Listings Review which aims to ensure the UK remains an attractive location for public listings. I want to assure you once again that, as the Chancellor set out in his November speech on the future of financial services, we want to build on the existing strength of the UK fintech sector and use technology to deliver better outcomes for consumers and businesses.

One of the major themes of your remarks was the role of AI. This is a significant issue for the Government and work is being led by the Department for Digital, Culture, Media and Sport, the Department for Business, Energy and Industrial Strategy (BEIS), and the joint Office for AI which aims to drive uptake of AI across the UK economy by creating the right foundations for adoption, including strong governance and a commitment to ethics.

The Lord Holmes of Richmond MBE
House of Lords

You may be aware that on 11 March, the Secretary of State for Digital, Culture, Media and Sport announced the Government's intention to publish a National AI Strategy later this year. The strategy, being developed by the Office for AI, will outline how the Government will make the UK a global centre for the development, commercialisation and adoption of responsible AI. It will focus on growth of the economy through widespread use of AI technologies; ethical, safe, and trustworthy development of responsible AI; and resilience in the face of change through an emphasis on skills, talent and R&D.

The National AI Strategy was a key recommendation of the AI Council's Roadmap. This independent report provides a broad range of recommendations to help the Government's strategic direction on AI including jobs for the future, the fair and ethical use of AI and the use of AI in research and development.

During the debate, you also spoke about the Centre for Data, Ethics and Innovation (CDEI), including a call for consideration of its future role. In late 2020, as part of the National Data Strategy, the future functions of the CDEI were consulted on. These were: AI monitoring partnership working with public and private sector organisations, and operationalisation of policy interventions in the tech space, such as designing and piloting a new model for data sharing. However, as I am sure you will appreciate, I am not able to pre-empt the outcome of this consultation.

I also wanted to respond to your remarks about the importance of ensuring that AI is safe, unbiased and non-discriminatory. The CDEI has been working in this area, for example through its 2020 Review into Bias in Algorithmic Decision Making, which focused on the use of algorithms in significant decisions about individuals, looking across four sectors, including financial services, to make recommendations that aim to build the right systems so that algorithms improve, rather than worsen, decision-making.

You also raised the use of explainable AI. This is an important concept and formed part of a broad piece of exploratory work carried out by the Financial Conduct Authority (FCA) that looked at the intersection of AI and financial services. The 'AI Explainability in Finance' project, co-run by the FCA and the Alan Turing Institute, is developing tools to understand the behaviour of machine learning models for financial use cases to help gain trust in AI predictions and identify faults in datasets. The Bank of England and FCA also launched the 'Artificial Intelligence Public Private Forum' in October last year to facilitate dialogue between the public and private sectors to better understand the use and impact of AI in financial services and promote the safe adoption of this technology.

Turning to digital identity, the Government's view is that digital identity products can enable people and businesses to get things done more easily and securely, speeding up and simplifying processes that require different types of personal information, and that the Government should work to establish safeguards for those wishing to operate with confidence in this new marketplace. The Government is committed to enabling a market that works for everyone, including the most marginalised groups in society. It is important that we get this right so that everyone, including the digitally excluded, can access essential services, should they choose to do so using digital identity technology.

The Government published its response to the 'Digital Identity Call for Evidence' in September 2020 and committed to creating a framework of standards, governance and legislation to enable digital identities to be used in the greatest number of circumstances. In February, the Government published the UK digital identity and attributes trust framework which sets out the Government's vision for the rules governing the future use of digital identities.

As part of this work, the Government is currently undertaking extensive engagement with the private sector, civil society and academia to ensure the future standards, governance and

legislation that will support the safe use of digital identities in the UK are developed to meet the needs of those who rely on them. The Government will formally consult on how to create an enabling legal framework for digital identity in the UK in due course.

You also spoke about distributed ledger technology (DLT). As I said in the debate, this is an area where the Government recognises the potential of technology to transform financial markets by making transactions more reliable, more efficient and less costly. The Government is keen to quickly establish an appropriate evidence base before taking action in this area, and as such, HM Treasury is currently undertaking a Call for Evidence with industry on how DLT could be effectively applied across financial market infrastructures. The Call for Evidence includes a specific request for industry views on how best to drive forward the adoption of DLT in UK markets. This could mean the use of existing schemes such as the FCA sandbox or developing new proposals for supporting innovation and development in DLT for market infrastructures. The Government will consider the responses to the consultation, which closed on 21 March, and set out next steps after that.

You also asked specifically about whether the UK will move at the same pace as the EU for the dematerialisation of securities. Now that we are outside the EU, the Government will consider the appropriate way forward, focusing on what is best for UK markets.

Finally, you raised a question about the future of Open Finance. The UK has been a world leader with regards to Open Banking and the FCA recently closed a Call for Input on Open Finance, exploring the opportunity of extending the principles of Open Banking to a wider range of financial services and products. The Call for Input will inform future regulatory strategy for enhanced access to consumer data and the FCA will publish its response in due course. HM Treasury will continue to work with the FCA on next steps. In 2020, BEIS also announced plans to bring forward legislation that will give Government powers to mandate data-sharing across sectors, including financial services.

Beyond this, the UK's payments sector is evolving quickly thanks to a rapidly changing technological landscape, creating new opportunities and risks. Through the Payments Landscape Review's Call for Evidence in 2020, the Government has sought the views of industry and consumer groups on how best to consider these. Following the Call for Evidence, HM Treasury will respond, including next steps for Government, authorities and industry, in order to ensure that the UK maintains its position as a world-leader in payments networks.

I hope that this has provided reassurance of the Government's significant activity in this area. I am copying this letter to all those who spoke in the Committee debate on Wednesday 10 March, and I am placing a copy in the Library.

Very best wishes,



BARONESS PENN