FINANCIAL SECRETARY TO THE TREASURY

HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

10th October 2022

Tulip Siddiq MP and Abena Oppong-Asare MP
House of Commons
London
SW1A 0AA

Financial Services and Markets Bill

Dear Tulip and Abena,

Thank you for your contributions during the second reading of the Financial Services and Markets Bill on 7 September. In his closing speech, the Economic Secretary, Richard Fuller MP, committed to respond in writing on some matters raised in the debate which he was unable to cover due to time pressures. As the minister now responsible for the Bill and for financial services policy, I am following up on that commitment. In this letter.

Cryptoassets
You asked about the government's approach to regulating stablecoins, including the government's assessment of how stable they are, and how they could interact with central bank digital currencies.

The regulations made under the Bill will provide for the regulation of stablecoins backed by fiat currency (such as pound sterling). These types of stablecoins are a sub-category of digital settlement assets and the government considers that it is appropriate to bring them into regulation due to their potential use as a widespread means of payment. This Bill will ensure that consumers can use digital settlement asset services including stablecoin with confidence, and will create the conditions for issuers and service providers to operate and grow in the UK.

High volatility has been a notable feature of certain cryptoassets, such as Bitcoin, making them less suitable for payments and more attractive to some holders as a high-risk speculative investment. Recent market events have also highlighted risks associated with certain types of stablecoins, such as algorithmic stablecoins. As set out in its consultation response in April 2022, the government's position is that algorithmic stablecoins share characteristics with unbacked cryptoassets and are judged to be less stable as a means of payment. HM Treasury will consult on a world-leading regime for a broader set of cryptoassets, including those primarily used as a means of investment, later this year.

Both stablecoins and central bank digital currencies (CBDCs) are a new form of digital money. However, stablecoins are privately issued, whereas CBDCs would be issued by a central bank. It is likely that any future CBDC would exist alongside cryptoassets and stablecoins, as part of a competitive and innovative payments landscape. The government and the Bank of England are actively exploring the potential role of CBDCs and have not yet made a decision on whether to introduce a CBDC in the UK. HM Treasury and the Bank of England have committed to publish a consultation later in 2022 setting out their assessment of the case for a UK CBDC.

Illicit actors and misleading promotions of cryptoassets
You also asked how the government was planning on reducing illicit activity and misleading advertising and promotions, beyond regulated stablecoins. Since early 2020 the UK's Financial Conduct Authority (FCA) has been the anti-money laundering supervisor for cryptoasset firms. As a part of this process the FCA has established an anti-money laundering/counter-terrorism financing (AML/CTF) regime for the cryptoasset sector. This means a wide range of UK cryptoasset firms are required to register with the FCA, carry out appropriate checks on their customers and report suspicious activity. The government believes that having an effective anti-money laundering and counter-terrorist financing regime goes hand-in-hand with supporting British fintech firms and consumers by providing confidence that new technologies can be used both reliably and safely. The government has also introduced the Economic Crime and Corporate Transparency Bill. This will provide new powers which will enable the seizure and recovery of crypto assets.

Additionally, the government confirmed last year that it will ensure the appropriate regulation of cryptoasset promotions by legislating to bring certain cryptoassets into financial promotions regulation. The government's approach will ensure that relevant cryptoasset promotions are held to the same standards for fairness, clarity and accuracy that exist across the financial services industry more broadly.

Progress on regulating Buy Now, Pay Later
During the debate you reiterated the Hon. Member for Walthamstow's point about the need for regulation of Buy Now Pay Later (BNPL). Following the passage of the Financial Services Act 2021, the government has been working to finalise policy positions on the regulation of BNPL and develop the necessary secondary legislation. This is a complex area and must be done carefully to ensure that the regulatory regime appropriately protects consumers without creating the unintended consequences of preventing them from making use of low cost credit.

Given the complexity of the potential regulations, the government intends to consult on draft legislation by the end of 2022. The FCA will be able to consult on new rules after this and give businesses the time to prepare for the requirements of any regulation. The government is working closely with the FCA and liaising with firms to ensure these stages are concluded as quickly as possible.

Credit unions and mutuals sector
You mentioned support for the mutuals and credit unions sectors. I am personally very committed to having a thriving mutuals sector, and helping to support current and establishing further businesses which serve local communities up and down the country. The credit union sector continues to grow and appropriately serve customers across the UK. According to latest data published by the Prudential Regulatory Authority (PRA) for Q1 2022, there are currently 390 credit unions in the UK, representing over 2 million members with record-high total assets of over £4.3 billion. Despite the total number of UK credit unions falling, the number of adult members increased to 1.93 million, the highest level on record, demonstrating clear growth of the sector.

Mortgage prisoners
You also reiterated the Hon. Member for Feltham and Heston's concerns regarding 'mortgage prisoners', who are considered to be borrowers who are up to date with their mortgage payments and who may benefit from switching to a new mortgage deal, but are unable to do so due to their borrower or loan risk characteristics. The government and FCA have taken significant steps already to help mortgage prisoners, including the introduction of a 'modified affordability assessment', which allows active mortgage lenders to apply a lighter touch affordability check to eligible borrowers. Borrowers who have switched under this scheme have seen significant savings. The government has also worked with MoneyHelper to put resources in place to ensure that borrowers are able to better understand their options.

Following debates in Parliament during the passage of the Financial Services Act 2021, the FCA have conducted an extensive and thorough analysis of mortgage prisoners. Their review was laid in Parliament in November 2021. It found there were around 47,000 mortgage prisoners, as well as demonstrating the complex and varied circumstances of these borrowers. It is clear there is no single solution that will meaningfully benefit mortgage prisoners without also creating wider harm or unfairness to others.

I recognise that rising interest rates are a concern for borrowers across the market, including those paying Single Variable Rates, regardless of their lender. In this context, it is especially important to emphasise that the government is determined that lenders treat borrowers fairly and FCA guidance is clear that lenders should offer tailored forbearance to borrowers across the mortgage market if they are struggling to meet their mortgage payments. The government also provides Support for Mortgage Interest (SMI) loans to those in receipt of an income-related benefit to help them meet their mortgage costs.

Reducing the poverty premium
You asked what the government was doing to reduce the so called 'poverty premium' – the additional amount that the poor pay for essential goods and services. The government wants to ensure that people have access to appropriate and affordable financial products and services, regardless of their background or income. Since 2019, the government has chaired the Financial Inclusion Policy Forum which brings together the financial services industry, consumer groups, the regulator, and third sector, to

facilitate collaboration and provide leadership in tackling complex financial exclusion issues. The government also publishes an annual report on the government's work on financial inclusion; the most recent report was published last December and details a broad range of initiatives and ongoing work to support financial inclusion over the last year. HM Treasury also works closely with Fair4All Finance, the organisation set up to distribute funding from Dormant Assets on financial inclusion, which continues to play an important role to improve the financial wellbeing of people in vulnerable circumstances by increasing access to fair, affordable, and appropriate financial products and services. Since 2019, the government has allocated £100 million of funding from dormant assets towards financial inclusion.

It is a priority for this government that all consumers have access to suitable insurance. In 2019, the government renewed a voluntary signposting agreement with the Association of British Insurers (ABI) and the British Insurance Brokers' Association (BIBA) for motor and travel insurance for older consumers. More than 860,000 enquiries from older motor and travel insurance customers have been made due to this agreement. In February 2020, FCA published new rules and guidance to improve access to travel insurance for all consumers with pre-existing medical conditions. Included within the FCA's rules is a requirement, which came into force in April 2021, for firms to signpost consumers to a directory of specialist providers if they are declined cover, offered cover with an exclusion or charged a significantly higher premium based on their pre-existing medical condition. To tackle the loyalty premium in insurance pricing, the FCA introduced new rules in January 2022 for home and motor insurance now require insurers to offer renewing customers a price that is no higher than the price a new customer would pay. The government continues engaging with the FCA, the insurance sector and consumer groups, including Fair By Design, to ensure consumers have access to a range of insurance products to suit their needs.

Food and energy prices
You asked about food and energy prices and whether amendments to MiFID could lead to an increase in speculation on these. The government believes effective commodities markets regulation is a key part of ensuring economic stability. This is a lesson reinforced by both the food and financial crises in the 2000s. In response to G20 commitments, the EU put in place a regime that sets limits on the amounts of commodity derivatives that market participants can hold, to ensure speculation does not lead to economic harm.

The government supports the application of position limits to the most volatile commodities (including key energy and agricultural products). However, the current regime that we have inherited from the EU has aspects that are overly complicated, needlessly burdensome and poorly designed. In particular, it unnecessarily captures all exchange traded and economically equivalent over-the-counter commodity derivative contracts including those that have low levels of low volatility and risk. This undermines efficient pricing in many such contracts and creates burdens for firms.

To address this, the Bill will ensure exchanges can once again set position limits, within a framework set by the FCA. Exchanges are well placed to ensure that such position limits only apply to contracts that are subject to high volatility. Agricultural products and other key physically settled contracts such as oil and gas will remain subject to position limits. The FCA will also have powers to intervene if needs be. These changes were consulted on and received broad support and are in line with the Government's G20 commitments.

Thank you for your interest and advocacy on behalf of your constituents on these topics. In order to assist colleagues, I am also depositing a copy of this letter in the Library of the House.

Andrew Griffith MP