

18 October 2019

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

Submitted via email to: [FRF.Review@hmtreasury.gov.uk](mailto:FRF.Review@hmtreasury.gov.uk)

**RE: Financial Services Future Regulatory Framework Review**

BlackRock<sup>1</sup> is pleased to have the opportunity to respond to the Financial Services Future Regulatory Framework Review, issued by HM Treasury.

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs.

We welcome the opportunity to comment on the issues raised by this consultation and will continue to contribute to the thinking of HM Treasury on any issues that may assist in the final outcome.

We welcome further discussion on any of the points that we have raised.

Yours faithfully,

**Enda McMahon**, Head of EMEA  
Compliance  
[enda.mcmahon@blackrock.com](mailto:enda.mcmahon@blackrock.com)

**Antony Manchester**, Head of UK  
Public Policy  
[antony.manchester@blackrock.com](mailto:antony.manchester@blackrock.com)

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<sup>1</sup> BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

## Executive summary

It is important to recognise that financial services regulation in the UK is highly sophisticated and of a world-leading standard. In our experience, the FCA's approach to regulation is principles-based and collaborative, while maintaining an independent mind-set and robust, high standards. In an international context, it is distinguished by pragmatism and a strong focus on outcomes and market integrity in its application of regulation and supervision. Therefore the objective in future should be to refine the regulatory framework, rather than overhaul it.

As such, while the UK should by no means compromise on the standard or robustness of its regulation and supervision, it could consider how to achieve the same regulatory outcomes more efficiently and with a lower overall cost and burden on supervised firms. As we set out below, the cumulative impact of supervision and regulation can often be a significant source of cost for firms, and one which does not always generate incremental benefits in terms of conduct or consumer outcomes.

In addition, given the increasing role financial services play in people's lives – in particular saving for retirement – it is important that policymakers and regulators consider how regulation can enhance and facilitate people's access to low cost, efficient savings and investment products in the context of the objectives consumers are seeking to achieve.

## Responses to questions

- 1. How UK bodies, including the Treasury and regulators with jurisdiction over the financial services sector, work together to coordinate regulatory interventions for financial services firms ('regulatory interventions' includes regulatory changes, regulatory initiatives, publications, consultations and data/information requests), including:**
  - a. how UK bodies balance the benefits to consumers of financial services (both individual and businesses) of timely regulatory action against the impact on firms of meeting potentially challenging timeframes on requirements;**
  - b. how UK bodies understand and assess the overall impact of simultaneous regulatory interventions on firms, particularly in the way these are sequenced and how they consider the wider regulatory landscape;**
  - c. whether UK bodies request the right amount of information from firms as part of the policy-making process, and whether these processes provide an adequate opportunity for firms to highlight the impact of proposed changes.**

Overall, in terms of regulation, albeit not supervision, we feel there is a good amount of coordination between HM Treasury and the regulators with whom we regularly interact in the UK: the FCA and PRA. This is, for instance, evidenced by the regular secondments that take place between each of the agencies, which helps to improve coordination, and some awareness of the UK's overall regulatory agenda. Duplicative work between regulators is rare. Moreover, the consultation process in the UK – on the part of the FCA in particular – is one of the best designed among global regulators. It seeks the right level of information and frequently responds to concerns raised.

However, this is not the pattern post-implementation, where it is less clear that there is a willingness to respond to feedback by 'switching off' or revising regulation that is not working. To take an example, the implementation of PRIIPs is widely recognised by both industry and the FCA itself to be confusing and counter-productive, but the requirements continue to apply. Taking on board and responding to feedback in policies should be made a central part of the UK regulatory system going forwards.

In terms of supervision, it is not clear that where firms have dual supervisors (as BlackRock does, with the FCA and PRA) there is coordination on supervisory activity and information

requests. An example of this is the recent work authorities have been conducting on firm's preparedness for LIBOR transition: the FCA and PRA have both issued information requests, looking at substantively the same issues. Duplication such as this places a burden on firms' resources, which could be better allocated elsewhere. Where firms are subject to dual supervision, it would be beneficial to encourage greater connectivity and data sharing between regulators.

Indeed, we feel there could be a greater degree of planning and forethought around how to approach the supervision of individual firms. Supervision activities span interviews, meetings, on-site visits, information requests, and more. Clearly, engagement with these activities are part of the costs of conducting business in regulated industries, and it is right that UK regulators carry them out. Intensive day-to-day supervision of large regulated entities has an impact on firm's cost base and on management time, and more could be done to plan in advance how to reduce this where possible. This is particularly relevant for information requests: it is important that these are well thought-through, targeted, with clear objectives and appropriate deadlines. It is important to recognise the demands of such requests, particularly when made urgently, place on management time and firm resources. In short, we would encourage that requests are subject to careful analysis and consideration beforehand.

It would be even more beneficial if forward planning of supervisory activity was integrated with considerations around the sequencing and layering of general regulation. In the past, it has not been clear that UK regulatory bodies have looked to understand and assess the overall impact of regulation, taking into account timing and the obligations placed on firms. Often, policies are not given time to bed down and to be subject to analysis before further, similar measures are applied. To take one example, a variety of remuneration policies are applied under CRD, MiFID, AIFMD, Solvency II, and UCITS, which makes it difficult to set group level policies, while introducing operational costs and risks. In future, the FCA could make more use of the discretion it is permitted when implementing regulation to effect greater coherence. Indeed, we note a positive example of this from the FCA recently, when they took the decision to postpone the Call for Input on accessing and using data in wholesale markets, recognising the resources that firms were dedicating to preparing for the UK's withdrawal from the EU.

- 2. How firms and the regulators can work together to make authorisation, supervision and enforcement more efficient, including:**
  - a. how might firms and the regulators take advantage of new technology to make supervisory reporting more efficient, flexible and less burdensome;**
  - b. how might firms allow or facilitate data sharing between regulators to improve regulatory coordination;**
  - c. how firms go about making sufficient investment in their systems and controls to ensure these are fit for the future.**

Our view is that efficiencies are best achieved firstly by ensuring consistency and continuity in firms' supervision, and also by seeking to reduce any duplicative or unnecessary reporting. In recent years, high staff turnover has reduced efficiency and increased duplicative costs: firms must spend time and resource bringing new supervisors up to speed on the business, which often involves management time, and sharing data and documentation provided to their predecessors. A similar problem can occur when interacting with divisions of the FCA that have different specialisms: it is not clear that there is information sharing between teams – remedying this would lead to greater efficiencies overall. Greater efficiencies could also be found by, wherever it is possible, ensuring that firms and regulators are able to share information rather than submitting information that is similar or the same to multiple requestors.

## **Conclusion**

We appreciate the opportunity to address and comment on the issues raised by this consultation and are happy to continue engaging with HM Treasury on any specific issues which may assist in its work.