

# Future Regulatory Framework (FRF) Review

December 2022

## Contents

About the Future Regulatory Framework (FRF) Review	3
What does the FRF cover?	3
Next steps	4
Our approach to implementing the Future Regulatory Framework (FRF)	4
How we are focusing our FRF implementation efforts	11



### Moving around this document

Use your browser's bookmarks and tools to navigate.

To **search** on a PC use Ctrl+F or Command+F on MACs.

### Sign up for our news and publications alerts

See all our latest press releases, consultations and speeches.



## About the Future Regulatory Framework (FRF) Review

---

The Treasury's FRF Review is central to the Government's vision for the future of the UK's financial services sector outside the EU. The UK now has the freedom to tailor our rules to better suit UK markets. The draft legislation on the outcomes of the FRF Review is set out in the Financial Services and Markets Bill. Once the Bill becomes law, the statutory and regulatory framework will change. It will also create a framework for further change. We have an important role in implementing the new framework so that the regulatory regime is fit for the future.

**'Preparing financial services for the future' is a key strategic commitment for the FCA, as set out in our Strategy and 2022/23 Business Plan. Implementing the FRF reforms is an important part of that commitment. It is also an important step for much of the policy under our commitment to 'Strengthening the UK's position in global wholesale markets'.**

## What does the FRF cover?

---

The FRF Review covers changes that:

- Add to our objectives and regulatory principles.
- Build on our existing accountability arrangements, improve scrutiny of our activities, and strengthen stakeholder engagement.
- Give powers to the Treasury and financial regulators to create a framework where the expert and independent regulators have greater responsibility for setting regulatory requirements that apply to firms.

## Our objectives and regulatory principles

The Financial Services and Markets Bill includes provisions that:

- create a new secondary statutory objective for both us and the Prudential Regulation Authority to facilitate the international competitiveness of the UK economy and its growth in the medium to long term,
- replace the existing FSMA regulatory principle for sustainable growth with a new UK net zero emissions principle

## Accountability, scrutiny, and stakeholder engagement

The Financial Services and Markets Bill includes several provisions aimed at strengthening our accountability to, and scrutiny by, Parliament and the Treasury, and improving stakeholder engagement. These provisions will require us to improve our Parliamentary engagement, embed further considerations in our policy-and-rule-making process, consult a new statutory panel as part of our cost benefit analysis development and report more

on what we do. There are also requirements around us consulting and notifying the Treasury on the potential impact of our rules proposals and our approaches to supervision on overseas deference arrangements (consult) and trade agreements (notify).

### **Transfer of responsibility for firm-facing requirements**

The Treasury has proposed that we have greater powers to set the rules that are currently in retained EU law, and to regulate in a way that is properly adapted to the needs of UK firms, markets, and consumers. Using a 'revoke/repeal and replace/restate' approach, set out in the Financial Services and Markets Bill, the Treasury will begin to repeal firm-facing provisions in the retained EU law, and delegate powers to the regulators to replace those deleted provisions with our own rules. This is consistent with the FSMA 2000 model of regulation, where the regulators lead on developing and implementing the regulatory requirements for firms within a statutory framework set by Parliament and Government. This work will be a significant cross-FCA project, with considerable interdependencies with the Treasury, the Bank of England, and the Prudential Regulation Authority.

### **Next steps**

---

The Financial Services and Markets Bill includes the legislation to deliver the outcomes of the FRF Review. We are preparing for FRF implementation once the Bill has Royal Assent - including implementation of changes to our objectives, duties, and accountability arrangements, and of the future transfer of responsibility for firm-facing provisions in retained EU law to us.

### **Our approach to implementing the Future Regulatory Framework (FRF)**

---

We set out below the draft FRF Review measures in the Financial Services and Markets Bill, our current approach to delivering these measures and our proposed next steps for implementation. We will adjust our implementation plans based on the legislative provisions as enacted.

FRF Review provision	Our existing approach	Our future approach
<b>Our objectives and the FSMA regulatory principles</b>		
<p><b>Growth and international competitiveness</b></p> <p>A new secondary objective on the international competitiveness of the UK economy and its growth in the medium to long term.</p> <p>A requirement for us to report annually on how we have advanced this new objective.</p>	<p>As a financial services regulator, we have an important role in the continued future success of the UK's financial services markets. This includes supporting economic growth in the wider economy, with safe, stable and open markets.</p> <p>We want to boost the key drivers of international competitiveness and growth of the UK economy, which we believe are: competition, productivity, and innovation. We aim to do this by opening markets to competition, creating incentives and opportunities to innovate and invest. Indirectly, this creates a regulatory environment that builds trust and confidence in UK financial markets and institutions.</p> <p>We consider this proposed secondary objective builds on our existing work to improve the attractiveness and global reach of our wholesale markets, and to provide opportunities for UK financial services companies to invest, innovate and expand in the UK.</p> <p>A key aspect of increasing medium to long-term growth and international competitiveness is delivering market reforms that promote innovation and investment. Our pioneering 'sandbox', for example, is a regulatory safe space to test innovative products, and now serves as a blueprint for over 40 regulators globally.</p> <p>We have sought to build trust in UK financial services in several ways. This includes through strengthening the rules on high-risk assets and crypto currencies and increasing security against fraud through our Strong Customer Authentication (SCA) work.</p> <p>We report annually on our performance against our existing statutory objectives.</p>	<p>'Our Strategy 2022 to 2025' sets out our commitment to adapting how we operate, including workstreams related to implementation, to fulfil this new objective. This includes our commitment to 'Preparing financial services for the future' and 'Strengthening the UK's position in wholesale markets'.</p> <p>We are reviewing our current approach and identifying where we need to make changes to our processes to support the healthy growth of UK financial markets.</p> <p>We will continue to build on our work to encourage innovation, and will continue our focus on building trust across financial markets.</p> <p>We are also considering how best to report and measure how we contribute to the new secondary objective. We expect to distinguish between the FCA's inputs and outputs, and the outcomes for the UK economy.</p> <p>On outputs and outcomes, we are considering measures that focus on productivity drivers, which themselves lead to international competitiveness and growth. We consider it important that the drivers we measure are those we can influence directly. These are likely to include: considering how best to measure FCA efficiency, trust and reputation of UK financial services, innovation, effective competition, market stability, and international trade. This work builds on work we have already done on metrics and increased accountability in our Strategy.</p>
<p><b>Climate change</b></p> <p>Replacing the existing FSMA regulatory principle on sustainable growth with a new UK net zero emissions principle. This will require us to take account of contributing to the Government's UK net zero emissions target.</p>	<p>Our <a href="#">ESG Strategy</a> (November 2021) outlines financial services' important role in helping the UK economy adapt to a more sustainable future and the transition to net zero.</p> <p>Our ESG work supports the Treasury's recommendation for us to 'have regard' to the Government's commitment to achieve a net zero economy by 2050. Key actions include our:</p> <ul style="list-style-type: none"> <li>• climate-related disclosure rules for listed issuers (<a href="#">PS20/17</a> and <a href="#">PS21/23</a>), asset managers and FCA-regulated asset owners (<a href="#">PS21/24</a>)</li> </ul>	<p>Our ESG Strategy outlines the actions we expect to take to deliver on our related target outcomes.</p> <p>We will continue to integrate ESG principles, including UK net zero considerations, across our functions, and policy-and-rule-making processes. This includes ensuring we have the right capabilities in place.</p>

FRF Review provision	Our existing approach	Our future approach
<b>Our objectives and the FSMA regulatory principles</b>		
	<ul style="list-style-type: none"> <li>• FCA Task Force on Climate-Related Disclosures <a href="#">Report</a></li> <li>• ongoing work within the <a href="#">Climate Financial Risk Forum</a></li> <li>• vision for listings regime rule <a href="#">changes</a> – in line with the Government’s energy security strategy</li> <li>• ongoing international work with the International Financial Reporting Standards Foundation and IOSCO to <a href="#">promote</a> the development of common global standards for corporate disclosures</li> <li>• supporting the Treasury and the UK <a href="#">Transition Plan Taskforce</a> with resources and regulatory input on sustainability disclosure requirements and labelling and classification of sustainable investment products</li> <li>• supporting the Treasury as they consult on bringing ESG data and rating providers within the FCA’s regulatory perimeter</li> </ul>	

FRF Review provision	Our existing approach	Our future approach
<b>Accountability, scrutiny, and stakeholder engagement</b>		
<p><b>Rule review</b></p> <p>A general duty for us to keep our rules under review.</p> <p>A requirement for us to publish and maintain a rule review framework (‘statement of policy’) for how we will conduct rule reviews.</p> <p>A Treasury power to require us/an independent person to review FCA rules where the Treasury believes it is in the public interest.</p> <p>A requirement for the Treasury to consult us before using this power.</p> <p>A requirement for us to provide the Treasury with a written report following a Treasury-directed review, and for Treasury to lay a copy of the report before Parliament and publish it.</p>	<p>We keep our rules under review in several ways, ranging from ongoing monitoring of how they are working to formally evaluating their impact.</p> <p>We published our <a href="#">Ex-post impact evaluation framework</a> in December 2018. This framework sets out our process for formal evaluation of rules. Since July 2018, we have published <a href="#">5 ex-post impact evaluations</a>. All of these were academically and independently reviewed.</p> <p>We also undertake post-implementation reviews of selected policy interventions. For example, we plan to review the new <a href="#">funeral plan regime</a> in 2026.</p> <p>Our thematic reviews and our market studies provide evidence of how our rules affect sector behaviours and outcomes in sectors. For example, our review into <a href="#">financial crime controls</a> at challenger banks, and our <a href="#">Mortgages Market Study</a>.</p>	<p>Building on our existing processes for review and evaluation, we plan to consult on a proposed rule review framework shortly after Royal Assent.</p> <p>Through the process of transferring responsibility for firm-facing provisions to our rulebooks, we will consider whether any changes are needed to better suit UK markets, as well as our new objectives and duties.</p> <p>We have committed to monitoring and evaluating our interventions more broadly: our Business Plan 2022/23 sets out our key areas of focus and how we will monitor our progress against these.</p>

FRF Review provision	Our existing approach	Our future approach
<b>Accountability, scrutiny, and stakeholder engagement</b>		
	<p>Independent reviews can also provide evidence on whether our rules are fit for purpose. These can be commissioned in a number of ways. For example, our Board commissioned the <a href="#">Woolard Review</a> into the unsecured credit market, and the Government commissioned <a href="#">Lord Hill's review</a> into the UK Listing Regime.</p> <p>On an ongoing basis, we:</p> <ul style="list-style-type: none"> <li>• identify harm or risk of harm - for example, through our day-to-day supervisory contact with firms, calls from consumers to our contact centre, analysing intelligence from whistle-blowers and complaints data</li> <li>• diagnose the harm's cause and scale, which may be linked to how effective our rules are</li> <li>• develop appropriate remedies, which may include making new rules or amending existing ones, and</li> <li>• evaluate the impact of those remedies</li> </ul> <p>Through formal and informal stakeholder engagement, such as discussion and consultation papers, and through our statutory panels, we learn about the practical impact of our rules, and if we need to further address these.</p> <p>The Treasury Select Committee (TSC) looks at how our rules function and we work with its recommendations, for example, its inquiry into <a href="#">economic crime</a> looked at our financial promotion rules.</p>	
<p><b>Cost benefit analysis (CBA)</b></p> <p>A requirement for us to establish and maintain a new statutory panel to provide advice in relation to cost benefit analyses, and to publish our responses to the panel's representations.</p> <p>A requirement for us to prepare and publish a framework ('statement of policy') on the preparation of cost benefit analyses.</p>	<p>We conduct CBAs for rule changes where required by FSMA. We may also do this for guidance – for example, where it is prescriptive, or prohibitive. We publish these CBAs as part of our consultation process, and update them where relevant as part of our feedback process.</p> <p>Our existing independent statutory panels provide views at all stages of our policy development process. The panels also respond formally to specific consultation papers.</p> <p>We have published a <a href="#">cost benefit analysis framework</a>. This sets out our approach to CBA. It includes why, when and how we do CBA when developing policy interventions, and how we gather evidence to support the analysis. Our framework draws on the Treasury's central government guidance on appraisal and evaluation ('The Green Book').</p>	<p>We will establish and work with the new CBA panel to continue our work to improve our cost benefit analysis.</p> <p>We will work closely with the new CBA panel to ensure we are able to respond swiftly and robustly to potential harm.</p> <p>We will consult the panel on a revised and updated CBA framework, periodically updating it to reflect the panel's recommendations.</p>

FRF Review provision	Our existing approach	Our future approach
<b>Accountability, scrutiny, and stakeholder engagement</b>		
<p><b>Deference, International trade</b></p> <p>Requirements to consider the impact of our proposed rules and general supervisory policies and practices on deference arrangements and trade agreements, and, where we consider there is a material risk that the changes would be incompatible with either arrangement, we have a duty to (i) consult with the Treasury when it relates to a specified deference decision or (ii) notify the Treasury when it relates to a UK trade obligation.</p>	<p>We support and provide technical advice to the Treasury on financial services aspects of international negotiations, including on equivalence decisions and Mutual Recognition Agreements, Free Trade Agreements, and deference arrangements.</p> <p>Where relevant, we already engage closely with the Treasury before consulting on draft rules and policies.</p> <p>Where international trade obligations are implemented in UK domestic law, we consider their effect on our rules, policies and principles.</p>	<p>We will build on our existing arrangements and will work with the Treasury to determine the best approaches to fulfilling this new obligation.</p>
<p><b>Remit letters</b></p> <p>A requirement for us to respond annually to the Treasury's remit letters.</p> <p>A requirement for the Treasury to publish our responses.</p>	<p>The Treasury's remit letters (issued under FSMA section 1JA) set out recommendations to us about aspects of the Government's economic policy to which we should have regard when considering how to advance our objectives and discharge our functions.</p> <p>Advancing our statutory objectives is our main contribution to the Government's economic policy. Our 3-year Strategy (2022 to 2025) and Business Plan 2022/23 set out how we will continue to do this, using all our regulatory tools.</p> <p>Although this is not yet a legislative requirement, we responded in July 2022 to the Chancellor's last remit letters (March 2021 and April 2022). We highlighted the FCA's activities over the past year that have contributed to the government's economic policy.</p>	<p>We will continue to consider the recommendations set out in the Treasury's remit letters.</p> <p>We will continue to respond annually to the Treasury's remit letters, including the new one published on 9 December 2022, and to publish these on our website.</p>
<p><b>Engagement with statutory panels</b></p> <p>A requirement for us to publish information about how we have engaged with our statutory panels (in annual reports, in consultation papers)</p>	<p>We are required by statute (FSMA 2000) to consult with our <u>statutory panels</u> on the impact of our work. The panels represent the interests of consumers, large and smaller regulated firms and markets. We also consult our <u>non-statutory panel</u> on our work on primary markets.</p> <p>Engagement with our panels is an important part of our policy and rule-making process, and we value the panels as 'critical friends'. The panels bring experience, support and expertise in identifying risks to the market and to consumers.</p> <p>We publish our annual letters to each panel in which we respond to key issues highlighted in their annual reports and update them on relevant work. Examples include:</p> <ul style="list-style-type: none"> <li>• <u>FCA letter</u> to the Practitioner Panel respond (October 2021)</li> <li>• <u>FCA letter</u> to the Financial Services Consumer Panel (October 2021)</li> </ul>	<p>We will build on our existing arrangements for providing information about how we have engaged with the panels.</p> <p>We will work with the panels to determine any improvements to the existing approach.</p>



FRF Review provision	Our existing approach	Our future approach
<b>Accountability, scrutiny, and stakeholder engagement</b>		
<p><b>Engagement with Parliamentary Committees</b></p> <p>A requirement to notify the relevant Parliamentary committee (for example, the Treasury Select Committee) of our consultations.</p> <p>A requirement to respond to Parliamentary Committees if they formally respond to consultations.</p>	<p>We actively engage with Parliamentarians (ministers, MPs, peers), and we regularly appear in front of parliamentary committees. Our Chair and Chief Executive give evidence before the Treasury Select Committee, as part of its ongoing scrutiny of our work, in general accountability hearings twice a year. We also regularly give evidence to other Parliamentary committees. In the last financial year (2021/22), we attended 13 evidence sessions.</p> <p>We also consider whether our communications are of interest to political stakeholders, and notify them if we think so (for example, we regularly consult Select Committee staff). Several key Select Committees are signed up to receive notifications about all our publications.</p> <p>Currently, Select Committees do not tend to respond to our consultations. But these Committees regularly scrutinise what we do, and we take our formal accountability to them seriously. We regularly respond to:</p> <ul style="list-style-type: none"> <li>• Committee reports that include formal recommendations for us</li> <li>• calls for evidence from Committees on areas for which we are responsible</li> <li>• ad hoc correspondence from Committees</li> <li>• requests for information following oral sessions with us</li> <li>• requests for written evidence to all Committees that ask</li> </ul>	<p>We will build on these existing arrangements. We are also committed to working with the Treasury Select Committee's new Sub-Committee for scrutiny of financial services regulations.</p>
<p><b>Listing Authority Advisory Panel (LAAP)</b></p> <p>A requirement for us to establish and maintain LAAP as a statutory panel.</p>	<p>LAAP is an established non-statutory panel. It advises us on policy issues that affect issuers of securities, and on policy and regulation proposals from the FCA listings function.</p> <p>We publish LAAP's <a href="#">annual report</a> on our website.</p>	<p>We will continue to engage with LAAP on issues relevant to its remit.</p> <p>We will comply with the new reporting obligations, as for the other statutory panels.</p>
<p><b>Statement of policy on panel appointments</b></p> <p>A requirement for us to prepare and publish a statement of policy on the appointment of members of our statutory panels.</p> <p>A requirement for us to consult the Treasury about the proposed statement, and to have regard to any representations made by the Treasury.</p>	<p>The different panels have specific membership needs, so our recruitment processes vary. While most of the panels need individuals from particular sectors, the Consumer Panel operates an open public recruitment process. Decisions on appointments are made by the FCA Board, and the chairperson of each panel is approved by the Treasury.</p>	<p>We will publish Statements of Policy for the appointment processes of the respective panels.</p> <p>We will publish these statements shortly after Royal Assent, following consultation with the Treasury.</p> <p>We will continue to include diversity considerations in our approach to panel member recruitment.</p>

FRF Review provision	Our existing approach	Our future approach
<b>Accountability, scrutiny, and stakeholder engagement</b>		
	<p>Our panel member recruitment policies systematically consider candidate diversity in terms of personal characteristics and expertise. We also have diversity targets for the panels, and use the same 'comply or explain' requirements that apply to listed company Boards, as follows:</p> <ul style="list-style-type: none"> <li>• At least 40% of each panel are women</li> <li>• At least one senior position (Chair, Deputy Chair or equivalent) in each panel is held by a woman</li> <li>• At least 1 member of each panel is from an ethnic minority background</li> </ul>	

### Transfer of responsibility for firm-facing requirements

The Financial Services and Markets Bill creates a legal framework for the Treasury to begin repealing retained EU law that applies to financial services and markets. This will enable the regulators to develop, and make, appropriate rules to replace or update that law in the future. This means that responsibility for requirements currently in retained EU law that apply directly to firms and other market participants ('firm-facing' rules) will be transferred to the regulators. This is consistent with the FSMA 2000 model of regulation, where the Government sets the overall policy framework, but the regulators lead on developing and implementing the detailed regulatory requirements that apply to firms.

We will work with the Treasury to identify where retained EU law should be replaced by rules, where it should be restated by the Treasury, where amendments are needed, and where it could be repealed and not replaced. In doing so, and in line with our statutory duties, we will consider the new accountability measures that the Bill will introduce, such as any new 'have regards' provisions.

We will aim to ensure an orderly transition from legislation into our Handbook. The timing for this will depend partly on ministerial decisions on the repeal and replacement of retained EU law. It will also require close co-ordination with the Treasury, the Prudential Regulation Authority (for shared legislation), and the Bank of England (as the FMI Regulator and the Resolution Authority). We are considering how best to manage the impact and the timing of the transfers on our Handbook. Longer-term, our focus remains on ensuring the Handbook is designed to be accessible and logical.

There are financial services-related activities in the retained EU law that are not 'regulated activities' under FSMA's Regulated Activities Order (RAO). These are generally activities that are carried out by entities or individuals who are not authorised by or registered with the FCA. This means that we cannot make rules to cover these activities using our existing FSMA rule-making powers. So, the Financial Services and Markets Bill includes specific rule-making powers for some of these activities. It also sets out a new 'designated activities regime' (DAR), which creates additional rule-making powers for us for those designated activities. The DAR will enable the Treasury to designate certain financial services-related activities, so that we can regulate these activities irrespective of whether they are carried on by authorised persons. Anyone carrying out a designated activity will need to follow the DAR rules for that activity.

#### Powers

Treasury powers to commence the repeal of retained EU law, and powers to restate and modify appropriate parts of it.

Powers to enable the regulators to use existing rule-making powers to replace firm-facing requirements in legislation with regulator rules.

The Treasury can also confer new rule-making powers on regulators, require regulators to make rules on specified topics, and require regulators to take account of specific matters when making rules in specified areas.

We continue to work with the Treasury on initial priorities for the transfer of firm-facing requirements from legislation into our Handbook.

A large proportion of financial services regulation affecting the UK financial markets over the last 2 decades was made at EU level. This means that we have around 40 EU files with firm-facing provisions that we will need to consider replacing with our rules. We cannot do these all at once. So, our focus is on ensuring an orderly transfer. We are working with the Treasury, and external stakeholders, on a phased prioritisation approach.

## Transfer of responsibility for firm-facing requirements

	<p>We have already begun work on the first phase. This includes areas where important changes are needed in the short-term – such as the Securitisation Regulation and the Prospectus regime.</p> <p>The next phase will also include areas where important, more immediate, changes have been identified. This includes continuing the work to implement the Wholesale Markets Review (reforming the MiFID framework), the Packaged Retail and Insurance-Based Investment Products (PRIIPs) Regulation, the Payment Services Directive, the E-Money Directive, and the Short Selling Regulation.</p>
<p><b>Requirements to make rules</b></p> <p>The Treasury will be able to require us to make rules about a specific topic (but not to mandate the content or outcome of the rules).</p>	<p>We continue to work with the Treasury to identify where new regulator rules will be needed to replace and, where appropriate, update the retained EU law.</p>
<p><b>Matters to consider when making rules</b></p> <p>The Treasury will be able to specify matters to which we must 'have regard' when making rules, either generally or in a particular area.</p> <p>There is also a requirement for us to explain how we have had regard to the specified matters when consulting on draft rules in the related area.</p>	<p>As part of our existing approach to policy-and-rule-making, the compatibility statements in each of our consultation papers explains how we have had regard to the FSMA regulatory principles and the Treasury's remit letter recommendations when considering our interventions. If the Treasury specifies additional have regard obligations, the compatibility statement will also address these.</p>

## How we are focusing our FRF implementation efforts

- Our Business Plan 2022/23 and our 3-year Strategy (2022 to 2025) set out key areas of focus for the FCA and how we will monitor our progress.
- Our FRF implementation work ('preparing financial services for the future') forms part of our overall commitment to 'promoting competition and positive change'.
- Outcomes we want to achieve:
  - We want to ensure our implementation of the FRF Review reforms support all the FCA's top-line outcomes and that it creates confidence in financial markets.
  - One way to do this is to ensure the orderly transfer of responsibility for firm-facing requirements from legislation to us. We will continue to work with the Treasury on delivering this, including assisting the Treasury with the preparation of any legislation needed to deliver the new framework.
  - We are also continuing to prepare to implement the other FRF changes. For example, changes to our objectives, accountability arrangements, and wider obligations - such as the new processes around our rule-making and cost benefit analyses.
- Measuring progress:

- We will measure our success by how effectively we respond to any change in our remit, accountability arrangements or wider obligations and how we embed firm-facing requirements from legislation into our rules. In the longer term, when any legislative changes have been fully implemented, we will also consider consumer and firm confidence in the FCA and UK financial system. This metric, and others about the whole financial system and the FCA, are affected by many other factors. We will consider other ways of assessing the effectiveness of our work in this commitment.
- We will continue to assess and monitor the regulatory pipeline through, for example, the Regulatory Initiatives Forum and Grid, to understand the impact of the transfer on firms.
- We are also committed to better identifying the metrics by which we will measure our impact.

## Feedback

We welcome feedback on our implementation plans. Please send feedback to [forregulatoryframeworkpolicy@fca.org.uk](mailto:forregulatoryframeworkpolicy@fca.org.uk). When providing feedback, please explicitly indicate whether, or not, your feedback is confidential. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure. We may also be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose a response is reviewable by the Information Commissioner and the Information Rights Tribunal.

