Academics, charities and anti-corruptions groups criticise plans for UK regulatory reform

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Government plans for the post-Brexit oversight of financial regulators risk damaging the international standing of Britain's financial services industry, a group of 37 anti-corruption, civil society groups and academics said in a joint statement today.

They are concerned about the lack of accountability and oversight measures proposed in the government's consultation, which closes next week. Financial services firms have also made public their concerns about the proposals.

The group want parliamentary oversight strengthened. The consultation proposes including some additional powers for the Treasury Select Committee. For example, both the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) will have to lay before parliament, and publish, an annual letter setting out how they are adhering to their respective remit letters from HM Treasury. This however falls well short of the scrutiny previously exercise over financial regulation by the European Parliament's Economic and Monetary Affairs Committee (ECON).

They are also concerned that HM Treasury will have too much control over the independent regulators.

"To balance new powers for the regulators and HM Treasury with increased public accountability and transparency [government should] create and resource a new financial services joint committee of parliamentarians to scrutinise legislation and regulation. Parliamentary scrutiny is necessary for democratically accountable financial sector policymaking. Given the size and importance of the industry, this will require the capacity of a dedicated committee, supported by independent research," the statement said.

Lobbying register

The group of 37 also called for a register of lobbyists.

"When a lack of transparency over lobbying leads to policy outcomes that only benefit well-funded or well-connected interest groups, millions and even billions of pounds worth of taxpayer’s money can be put at risk. It is therefore critical that the UK government develops a policy that provides for transparency regarding lobbying activities in the finance sector. This will bolster the UK’s international reputation for financial integrity, help to combat corruption, and increase public trust," the statement said.

The EU has a public database of lobbyists through which the spending by each financial services group and trade association can be obtained readily.

The 37 also want "increased stakeholder engagement in the regulatory process". They propose making 50% of each of the FCA's statutory advisory panels public interest representatives.

"The government should ensure that the voice of consumers, citizens, and small businesses are given at least equal weight to that of industry so that the interests of big finance lobbyists do not dominate the development of new rules," the statement said.

This would however require a rewriting of the Financial Services and Markets Act 2000, because the regulator's panels are set up to represent distinct stakeholder segments, such as consumers, and large financial services firms.

At present, the FCA has four statutory panels, and the PRA has one. The government is proposing increasing this to five at the FCA and two at the PRA plus an additional panel that would review cost benefit analysis across both regulators.

The new panels will be a standalone insurance panel at the PRA, at present insurance operates as a sub-panel of the PRA's practitioner panel; and the FCA's Listing Authority Advisory Panel will join its Consumer, Practitioner, Small Practitioner and Markets panels on a statutory footing.

The government has attempted to address concerns about the apparent lack of stakeholder input into account by introducing a statutory requirement for the PRA and FCA to set out in any consultation the level of pre-scrutiny that the proposals have received from their panels.

The regulators will also have to set out how they recruit new panel members on their website.

The group of 37 seems to be advocating for a set up more akin to that operated by the European supervisory authorities (ESAs). The ESAs have statutory stakeholder groups of up to 30 members drawn from academia, industry, users of financial services and consumers.

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Competitiveness objective

Where the 37 differ in their criticism of the government's proposals from financial services firms is on adding an objective for international competitiveness to the remit of the PRA and FCA. The group are not in favour.

Mick McAteer, co-director of the Financial Inclusion Centre, a signatory of the statement, said it risked compromising the independence of the regulators.

"The proposals as they stand risk compromising the independence and effectiveness of UK financial regulators, which are well respected in global financial centres. A competitiveness objective would conflict with the regulators' main duty which is to act in the public interest and would simply be a Trojan Horse for big finance to lobby for deregulation at the expense of consumer protection," said McAteer, who is a former non-executive director of the FCA.

The group called for the government to scrap its plan for an international competitiveness objective.

"The future regulatory framework must have good governance and transparency at its very heart, and it should deliver far greater scrutiny and accountability. It should be obvious to all, that financial regulators must never be tasked with becoming cheerleaders for the financial sector, because that would set them on a catastrophic collision course with their duty to protect consumers. Regulators should regulate and not act as servants to the commercial interests of those they regulate.

"There's just no sense in having highly hazardous conflicts of interest baked into the system — why risk the reputational damage, economic turmoil and catastrophic consumer detriment that such conflicts could so easily lead to?" said Andy Agathangelou, founder of the Transparency Task Force, who also signed the statement.

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