FCA's national and international response to coronavirus (Covid-19) and Brexit

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Highlights

- In response to the pandemic, the FCA has been working with partners nationally and internationally to keep markets open and orderly, help firms continue to operate, protect consumers and small businesses, and to maintain high standards of conduct
- It will be important to get the post crisis recovery right, and to leverage off the experience of working through the pandemic
- We continue to prepare for the end of the Brexit transition period. Working closely with the Treasury and the Bank of England, we are doing whatever we can within our remit to prepare for a range of scenarios, and ensure as smooth a transition as possible
- Firms should continue to consider what actions they need to take to be ready for the end of the transition period, and what this will mean for their customers

Thank you for inviting me to speak here today.

We are all operating in exceptional circumstances. None of us could have imagined, when this event was first arranged, that the focus of this conduct risk conference would be on coronavirus, the greatest economic challenge of a generation – and that we would be meeting today remotely, through this webinar in the seventh week of lockdown.

The effects of the coronovirus pandemic are profound, and are being felt by millions of consumers and businesses, both here in the UK and across the world.

At the FCA, we have been working with our partners here and abroad, to keep markets open and orderly, help firms continue to operate, protect consumers and small businesses, and to maintain high standards of conduct - no-one will want to see a tail of misconduct post coronavirus.

The effects of the coronavirus pandemic are profound, and are being felt by millions of consumers and businesses, both here in the UK and across the world. At the FCA, we have been working with our partners here and abroad, to keep markets open and orderly, help firms continue to operate, protect consumers and small businesses, and to maintain high standards of conduct.

And at the same time, having left the EU in January this year, we all – the FCA and firms - need to continue our preparations for the end of the transition period, set for 31 December this year.

So today, I will focus on:

- our national and international response to coronavirus,
- some thoughts on future regulatory issues,
- preparing for the end of the transition period,

and what this means for you.

The FCA's response to the coronavirus outbreak

Over the course of the past weeks, we have been continuing to deliver in the public interest, for the benefit of consumers and markets. As stated in our Business Plan which we published last month, this means focussing on:

- Ensuring fair treatment for consumers and small firms – making sure that firms give strong and clear support to customers, recognising challenges that everyone is facing;
- Protecting the most vulnerable – ensuring that they can get the financial services and the help they need;
- Tackling scams – helping consumers avoid the scams that spring up as the pandemic develops;
- Keeping markets working well – ensuring that markets remain orderly;
- Mitigating firm failures – mitigating the impact on consumers where firms fail in these challenging circumstances.

For consumers and small businesses, we have worked to build “financial bridges” to help them adjust to the impact of the pandemic, and until longer-term Government support is in place. For example:

- Supporting users of credit products, such as personal loans, credit cards, motor finance and overdrafts, who are in financial difficulty because of the outbreak;
- Issuing new guidance on the Government’s Coronavirus Business Interruption Loan and Bounce Back Loans Schemes; and
- Warning consumers of the increased risk of scammers trying to exploit the current uncertainty.

For firms and markets, our focus has been to keep markets open and orderly. This has meant easing operational pressures on firms where appropriate. For example:

- We provided flexibility over some regulatory requirements, gave some firms more time to publish their annual reports, and have provided forbearance on best execution reporting;
- We modified our rules to facilitate some equity and debt capital raising, so firms can provide finance to businesses and aid the recovery; and
- We delayed existing deadlines for Consultation Papers, such as our proposals to enhance climate-related disclosures.

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We have stepped up market monitoring and firm and trade body outreach, which are essential to informing our response. This includes efforts to identify pressure points for firms and consumers. We also continue to engage with firms on their financial and operational resilience.

Whilst we have provided this support to firms, firms need to continue to treat their customers fairly, and to operate with integrity. We have been encouraged by the positive steps firms have taken to help their customers.

Equally, if we identify potential concerns with how firms might be acting, we will not hesitate to point this out and make clear our expectations, as we did in our Dear CEO letter last week, on ensuring fair treatment of corporate customers preparing to raise equity finance.

We are clear that the Senior Managers and Certification Regime obligations continue to apply, and that Senior Managers have a crucial role to play to ensure their firms continue to act appropriately and with integrity.

No-one will want to see a tail of misconduct appearing after this crisis abates. And if we suspect there may have been serious misconduct, we will investigate and where appropriate, take action.

The FCA's international work on coronavirus

Responding to the outbreak is at the forefront of our priorities, and will continue to be so for the foreseeable future.

In that, we are not alone: regulators and central banks around the world are doing the same. We have been working with them to provide clarity to firms where we can, share insights on market developments, and coordinate responses where necessary. This is crucial, as our markets are global, and interconnected. For example:

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- We have been engaging closely with many counterparts in the US to coordinate views on the relief measures both the US and the UK have taken, as well as to reach common agreement on the potential implications of coronavirus for LIBOR transition. On LIBOR, many of you will be aware that we published a statement alongside the Bank of England last week reiterating our central assumption that firms cannot rely on LIBOR being published after the end of 2021. There has been no change and that should remain the target date for all firms to meet.
- The global standard-setting bodies - such as the Financial Stability Board and the International Organisation of Securities Commissions (IOSCO), in which we are active participants - have had a key role to play as well. We worked with our fellow members of these bodies to publish coordinated statements in March and early April to call for markets to remain open and orderly, so that they can continue to perform their essential role in supporting businesses, governments, jobs and the broader economy. We have further worked within these global bodies to ensure global coordination and appropriate regulatory action.
- We have also worked closely with our European partners and the European Supervisory Authorities in coordinating the response to coronavirus. Within the new parameters of the EU-UK Withdrawal Agreement, we have been invited to work together in close collaboration, to discuss issues we are seeing in our respective markets, and to pragmatically and openly address common challenges. For example, the approach both we and the Prudential Regulation Authority (PRA) have taken to regulatory reporting, corporate financial reporting, and accounting treatments of payment holidays are closely tied to EU law and had to be coordinated with relevant EU bodies.

Overall, as here, the focus of the international response has involved offering supervisory flexibility where appropriate, delaying some scheduled rule changes which would have placed additional operational burden on firms at this extraordinary time, as well as re-prioritising non-essential supervisory work.

Emerging trends in international financial regulation

Although we are only a few months into this crisis, in our international work, we are beginning to look at its medium- to longer-term implications. This is likely to have implications for the markets we regulate in the UK, and our regulatory framework in the years to come. We are beginning to see the emergence of areas of future focus:

- First, while the financial system is more resilient and better placed to deal with the challenges we are seeing today than it was ten years ago, markets and their participants, from the largest globally-active firms through to locally-focused

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small businesses, will face growing funding and lending challenges as the economic impact of this health crisis is felt over time. We must remain vigilant to any problems in the financial markets and the effect on consumers and the real economy.

- Second, firms' operational resilience has come under a new focus. Given the UK's large global markets and the outsourcing arrangements of many UK firms with significant operations in other countries, it is particularly important for the FCA and the UK in general to identify and address any increased vulnerability to disruption from unexpected events.
- Third, the interconnectedness of the global financial system highlights that the ability of financial intermediaries to manage their liquidity risks depends on continued credit flows, their ability to raise capital, and a willingness of lenders to keep lending during times of uncertainty. The UK's position as a hub for financial services exposes the system to global risks, so it is a global 'public good' for the FCA, as well as the Bank of England and PRA, to stay ahead of evolving risks to ensure ongoing financial stability and market integrity.

Across these three areas, cooperation and close coordination with regulators, global standard-setting bodies and EU bodies will help us get to the right answers over time. As we move on from the initial crisis response, we will be looking more closely at these and other issues that have emerged in this crisis.

It will be important to get the post crisis recovery right, and to leverage off the experience of working through the pandemic.

During this period, we have seen that we have had to work differently, moving to new way of working – whether through digital financial services platforms, or dispersed working - and it is important not to lose this energy when we come out of this crisis experience.

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We need to focus on areas that will not only help the global economy to recover, but also help to advance it further in the future. In that context, we should expect continued regulatory focus on areas such as fintech, green finance and operational resilience.

We will continue to work with our regulatory partners, and indeed you, the industry, to develop this important regulatory framework for the future.

Our work on Brexit

As you will know from recent press reports, the negotiations for a future EU-UK partnership are ongoing. The Government has been clear that the transition period is set to end on 31 December of this year. Here at the FCA, we continue to prepare for all scenarios.

Today it is worth taking stock of where we are in those preparations, and what firms need to focus on in the coming period.

Working closely with the Treasury and the Bank of England, we have continued to do whatever we can within our remit to prepare for a range of scenarios, and ensure as smooth a transition as possible:

- We have put in place transitional regimes, or 'Temporary Permissions Regimes', so that EEA firms and funds, which are currently doing business from the EU into the UK through passporting, can continue to have access to UK markets at the end of the Transition Period.
- We have ensured that we have a functioning regulatory regime for when we leave the transition period by onshoring EU rules into our UK rules and legislation. To date, the Treasury has laid 62 Statutory Instruments, and we have published 1808 pages of rules. We continue with this process during this year, with new instruments such as EMIR 2.2 and amendments to EU prospectus, money laundering and low carbon benchmarks legislation being onshored in the coming months.

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- To help firms adapt to this new regime, we will make use of the power that the Treasury has given us to waive or modify new rules, the so-called 'Temporary Transitional Power (TTP)'. This means that, up to 31 March 2022, firms will generally not need to prepare now to meet the changes to their UK regulatory obligations resulting from onshoring. We updated our website last week, explaining that we will use the flexibility it provides to apply it widely to a broad number of rules, although it is important firms realise that there are necessarily some exceptions. Our use of the TTP will minimise the risks of disruption due to firms' adjustments to the new UK regime and ensure that consumers remain appropriately protected.

There are, however, some Brexit related risks which need multilateral or reciprocal action – they are not within our remit to address alone. Broadly, these fall into two categories:

- First, issues that could be resolved through reciprocal equivalence (such as the overlapping UK and EU share and derivatives trading obligations), and I will come back to equivalence in a moment.
- Second, issues that cannot be resolved through equivalence, including broader contract continuity issues and the continued provision of retail financial services by UK firms to EU consumers. Whilst the FCA has put in place transitional regimes for EEA firms, the situation for UK firms in the EU is not the same. Their continued operations after the end of the transition period will depend on the regulatory regimes of individual EU member states. Whilst many of these member states had put in place temporary transitional regimes in the event of a 'no-deal' exit, the majority of these have now lapsed.

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So firms should continue to consider what actions they need to take to be ready for the end of the transition period, and what this will mean for their customers.

As ever, we will continue to engage closely with firms, trade and consumer bodies on preparation for the end of the transition period over the course of this year.

Now turning to our future relationship with Europe, and our future regulatory framework:

The Political Declaration last year, which sets out the ambition driving a future EU-UK relationship, commits both parties to assessing each other for equivalence by end-June 2020, across all relevant EU and onshored legislations.

We are continuing to work closely with the Treasury on this issue, and will continue to provide technical advice as requested. Our work on this remains on track.

We have publicly called for equivalence assessments to be done on an 'outcomes basis', in line with the EU's stated approach – in other words, that each country's rules and supervision lead to equivalent outcomes, rather than needing to be identical.

Our work to onshore the EU rulebook also means that on 'day one', the UK will have the most equivalent framework to the EU of any country in the world. This provides a strong basis for the EU and UK to find each other equivalent across the full range of issues.

We also continue to advise the UK Government on EU-UK Free-Trade Agreement negotiations, on issues related to financial services, and regulatory and supervisory cooperation.

We continue to have strong relationships with our European counterparts, and will continue that going forward - as we have now, in tackling coronavirus.

We stand ready with the Bank of England, the Treasury, and with our international colleagues to tackle challenges over next period, pragmatically and at pace, whether relating to coronavirus, or for the end of the Brexit transition period. We will take whatever steps we can to keep markets open and orderly, protect consumers, and to smooth the transition. Firms must play their part and continue to treat their customers fairly, and to operate with integrity.

Conclusion

So, to conclude.

We stand ready with the Bank of England, the Treasury, and with our international colleagues to tackle challenges over next period, pragmatically and at pace, whether relating to coronavirus, or for the end of the Brexit transition period. We will take whatever steps we can to keep markets open and orderly, protect consumers, and to smooth the transition. Firms must play their part and continue to treat their customers fairly, and to operate with integrity.

As well as tackling the immediate issues, we will play our part in shaping the national and international regulatory agenda for some time to come. With our international partners, we are considering the impact of the current crisis, what our forward focus should be, to economic recovery and beyond.

Finally, Brexit reminds us that there is a set of issues beyond coronavirus. We all - the FCA and firms - need to continue to take steps to ensure a smooth exit out of the transition period.

Thank you.