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Dear Michael,

I would like to thank the Panel and its members for the ongoing support, challenge and insight over the last year. Your engagement, advice and expertise have helped us to keep the markets open and orderly through the pandemic. Our ongoing engagement with you will help us consider the pandemic's long-term impacts, particularly in fulfilling our market integrity objective to ensure market stability and resilience.

In line with our FSMA requirement, I would like to respond to some of these key issues you highlighted in your annual report and update you on relevant work.

Coronavirus

We will continue to engage with you to make sure we consider the long-term impacts of the crisis in all aspects of our work. In particular, the need to carefully unwind consumer and market forbearance measures to ensure sustainable debt repayment as the UK looks to its economic recovery.

We, and industry, need to be flexible and agile as we assess the effectiveness and implications of market interventions and longer-term impact of the pandemic on liquidity and markets.

FCA Transformation, Strategic initiatives and Future Regulatory Framework

We are grateful for your continuing support and advice on our Transformation and strategic initiatives, particularly on our wholesale strategy, primary market effectiveness and listing reviews and LIBOR transition. Our transformation will ensure we can make fast and effective decisions, prioritise the right outcomes for consumers, markets and firms and reform our approach to intelligence and information-sharing.

As you suggest in your report, we must consider whether UK regulation is targeted and proportionate. Within the context of the [Government's wider economic policy](#), the

Treasury's FRF review seeks to adapt the UK's legislative and regulatory framework now that the UK has left the EU. We must also have regard to the 'relative standing of the UK', international standards, equivalence, and climate change. These are in addition to the existing FSMA regulatory principles, which include proportionality, and the further recommendations in the Chancellor's current remit letter, including economic growth, competitiveness and trade.

You highlighted our need to develop and maintain collaborative relationships with the EU and global counterparts. We continue to contribute to international engagement and global standard-setting – for example, through our membership of the International Organisation of Securities Commissions (IOSCO), and its various Committees. FCA officials currently chair and vice chair two IOSCO committees (Market Intermediaries, and Investment Management), and chair IOSCO's Task Force on Financial Benchmarks.

In early 2022 we will publish our Wholesale (and Retail) strategies and look forward to working with the panel to make sure we focus on developing effective regulation for these markets as we undergo our transformation. We have welcomed early engagement from the Panel already on the development of these strategies.

Climate Change and Sustainable Finance

You have encouraged us work with relevant stakeholders and take a leading international role to drive the development of common global standards for transparency.

Developing successful global solutions, such as those needed for sustainable finance, requires effective international collaboration. So, we are pleased that IOSCO's Sustainable Finance Task Force (SFTF), has brought together market regulators to look at a number of important relevant topics. These include disclosures by issuers and asset managers, greenwashing and investor protection, and the role of Environmental, Social and Governance (ESG) ratings and data providers.

We have a leading role in this work. In the IOSCO SFTF, we co-chair a workstream on improving sustainability disclosures by issuers. This work has engaged closely with the IFRS Foundation and an alliance of leading global standard setters to influence the development of a common global baseline of reporting standards under the IFRS Foundation. Looking forward, our work with IOSCO will consider supervisory strategies and tools, and the role of audit and assurance in enhancing the quality of sustainability reporting.

We agree with the Panel that ESG ratings are subjective. ESG performance is by its nature multi-dimensional. Each ESG rating provider makes different choices about which ESG factors to consider in its methodology, about which metrics to use to measure performance and on how these metrics should be weighted and aggregated.

IOSCO is considering the issues that varying ESG methodologies and ratings present. For our part, we explore these points more fully in [CP21/18](#). This consultation invites industry to share how they use the information from ratings providers and whether we have characterised potential harms correctly. We look forward to stakeholder feedback on the case for regulation in this area, and what would constitute a proportionate and appropriate regulatory response.

Culture and Conduct

You raised the impact of the pandemic and Brexit on working arrangements for wholesale firms, along with the risks for onboarding staff.

We agree with the Panel that Covid-19 and Brexit have had and will continue to have significant cultural implications for firms. We explored the challenges around remote working, including staff onboarding, in an [Insight article](#) last year. We also held a Webinar on [leadership and culture](#) in a post-Covid world.

More specifically in terms of Markets, in our [Market Watch newsletter](#) in May 2020, we set out areas of focus for firms to manage remote working arrangements effectively. Our [2019/2020 roundtable engagement](#) with the Wholesale Banking sector also focused on culture and the importance of fostering an environment where staff feel safe to speak up.

These issues are an ongoing priority and we continue to look for ways to develop our engagement with firms and thought leaders to bring a shared understanding of the challenges and opportunities of culture.

We look forward to working with you over the next year as we undertake our Transformation and continue to ensure that markets remain stable.

Yours sincerely,

Sarah Pritchard

Executive Director, Markets