FINANCIAL CONDUCT AUTHORITY

12 Endeavour Square
London
E20 1JN

Tel: +44 (0)20 7066 1000
Fax: +44 (0)20 7066 1099
www.fca.org.uk

Tim Waddell
Markets Practitioner Panel
c/o Panel Secretariat
12 Endeavour Square
London
E20 1JN

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Dear Tim

I would like to thank the Panel and all its members for their work over the past year. Your collective time, support, challenge and expertise has played a vital role in helping us to keep the markets open and orderly since the start of the pandemic.

The past year has been extremely challenging, with so much resource dedicated to Brexit, LIBOR transition and more recently the implications of coronavirus (Covid-19). The dialogue we have had has been invaluable and I look forward to our continued engagement as we approach the end of the Transition period and beyond.

You have played a critical role in representing the interests of practitioners, as well as monitoring how far we have fulfilled our statutory objectives. In line with our FSMA requirement, I would like to take this opportunity to respond to some of the key issues highlighted in your 2019/20 Annual Report and update you on relevant work.

Coronavirus response

Coronavirus has affected the lives of millions of people and the economic impact is significant.

We stepped up our market monitoring and our firm and trade body engagement to ensure that markets continued to work well. At the same time, we delayed other planned activity so that firms could focus on responding to coronavirus. We looked closely at our own work plans and postponed activities that were not critical to protecting consumers and market integrity in the short-term, to give firms time and space to support their customers.

To continue to deliver on our objectives and in the public interest, we will need to adapt to the long-term impact of coronavirus and EU withdrawal. As part of our transformation we will focus our resources on those markets where we see most potential harm and we will be clearer with firms about the outcomes we expect them to achieve. Our transformation programme is intended to make us a more efficient and effective regulator during the challenging times ahead. It will strengthen the UK financial system and in turn, will increase public confidence and enhance the UK's reputation as an international financial centre.

The UK's exit from the EU

We have now reached the end of the transition period and successfully made all the changes to our systems needed now that the UK is no longer in the EEA. Key changes include the following:

- Passporting between the UK and EEA states ended and the Temporary Permissions Regime (TPR) came into effect.
- We became the UK regulator of UK-registered and certified credit rating agencies (CRAs). This means that any UK legal entity that wishes to issue credit ratings publicly or by subscription will now need to be registered or certified as a CRA with us.
- Any Trade Repository (TR) wishing to offer its services in the UK after 31 December 2020 will also need to be registered with, or recognised by us.
- We now operate our own MiFID regime.
- We have updated our handbook and onshored EU legislation and regulatory requirements so that they work in a UK context.
- To help firms adapt to their new requirements, the Treasury has given us the power to make transitional provisions to financial services legislation. This is known as the Temporary Transitional Power (TTP), which we are applying on a broad basis until 31 March 2022.
- We have updated our website to reflect the changed position and to give clear and accurate information to firms, markets and consumers.

On your point about forbearance – this was publicly covered in our messaging around the use of the TTP, and separately in a press release of 24 December 2020, where we stated: "*Whilst much progress has been made on preparations, the FCA recognises the challenges for firms in making the systems and operational changes required. The FCA intends to take a pragmatic approach to any issues should they arise, where firms can demonstrate that they have taken all reasonable steps to prepare*."

We intend to continue to engage closely with other EU and global regulators, to help support our objectives. We have published Memoranda of Understanding (MOUs) with EU and non-EU authorities to ensure suitable supervisory cooperation.

We continue to provide technical advice to the Government on the future relationship with the EU, including on issues related to equivalence and the planned MoU on regulatory cooperation in financial services. We have said in the past that we support equivalence assessments based on regulatory outcomes as opposed to line-by-line.

The Future of Regulation

Our ongoing transformation programme is ambitious and will fundamentally change the way we work. Our Data Strategy will harness the power of data and help us understand markets and consumers better.

The Treasury is currently consulting on Phase 2 of its Financial Services Future Regulatory Framework Review, and we continue to work closely with them on this. A key aim of the Review is to ensure that regulation is agile and responsive to changing conditions, new business opportunities and emerging risks.

The proposals to delegate more rule-making powers to us for firm-facing requirements will ensure that we are able to act quickly when necessary, to adapt the regulatory framework to the needs of the different sectors, and to continue to protect consumers from harm and ensure markets work well.

We are committed to exercising our functions in a transparent and accountable way. We also support the Treasury's review of the arrangements for regulatory accountability and stakeholder engagement, including consideration of the role of the statutory panels.

LIBOR transition

Orderly transition from LIBOR remains a high priority. The transition from LIBOR should, in the long-run, increase market integrity by moving markets to more robust benchmarks.

The global approach to interest rate benchmark reform, led primarily by the Financial Stability Board (FSB), has been to develop and adopt alternative 'nearly' risk-free rates (RFRs) to replace LIBOR and other IBORs. Overnight RFRs are more robust because they are anchored in active, liquid underlying markets. This contrasts with the scarcity of underlying transactions in the term interbank and wholesale unsecured funding markets from which some IBORs are constructed. Additionally, there is no real need to capture in the reference rate a measure of term or bank credit risk premia for many of the contracts which use LIBOR.

While coronavirus temporarily affected some aspects of firms' transition plans, the UK authorities and FSB have been clear that transition away from LIBOR remains an essential task that will strengthen the global financial system. We continue to work closely with our international counterparts to achieve this.

There has been significant progress thanks to the hard work of market participants, including the industry-led Working Group on Sterling Risk-free Reference Rates (RFRWG). In Sterling markets, bond market issuance is wholly centred on the UK's alternative rate, SONIA, and liquidity has continued to build in the derivatives market. More broadly, the RFRWG's roadmap sets out a clear transition path across all sterling markets. For new business, firms should already be offering non-LIBOR alternatives to their customers, and by end-Q1 next year there should be no new issuance of sterling LIBOR cash products. For existing products, the International Swaps and Derivatives Association (ISDA) has established global consensus on a fair way to calculate fallback replacement rates for LIBOR, which the RFRWG has also recommended for cash product fallbacks. We support this approach.

As set out in the Panel's Annual Report, we have been clear that decisions about what will happen to the various LIBOR settings at the end of 2021 could be announced in advance of this date. Indeed, markets need to be prepared for potential announcements from LIBOR's administrator ICE Benchmark Administration (IBA) and us, following and subject to decisions that could be taken following completion of IBA's consultation regarding the future of the LIBOR rates, which is expected to conclude by end January 2021. Adopting the ISDA protocol (or alternative mechanisms) for outstanding derivative contracts will be a key part of their preparation.

UK authorities and the RFRWG have recognised for some time that there will likely be a pool of 'tough legacy' contracts that cannot feasibly transition away from LIBOR by end-2021. In June, the Treasury announced it intended to bring forward legislation to help deal with these contracts. This legislation was introduced to Parliament in October. Other jurisdictions have also considered legislation. All authorities recognise that any emerging legislative solutions, must sit together and complement each other, and there is ongoing close international coordination to work towards this.

While legislative solutions are a helpful part of the toolkit, market participants should continue to focus on active transition. This is the only way for them to have control over their contractual terms when LIBOR ceases or is no longer representative. Work to substitute existing LIBOR references or adopt sufficiently robust fallbacks should continue, and we welcome the Panel's continued support in progressing this.

Sustainable finance

Sustainable finance and responding to climate change are sector priorities. We know there is currently a lack of consistent and comparable green data from issuers, and that this presents challenges for firms complying with additional disclosure requirements.

In March 2020, we consulted on our proposals to improve climate-related disclosures. We proposed a new disclosure rule for premium-listed issuers aligned with the recommendations of the Taskforce on Climate-related Disclosures (TCFD). Feedback to the consultation was generally positive and we published our Policy Statement on the 21 December, introducing our rule for reporting periods beginning on or after 1 January 2021.

We received feedback from a number of stakeholders requesting further clarity on our next steps for the implementation of TCFD's recommendations. In November 2020, the government published, on behalf of a taskforce of UK regulators and relevant government departments, a Roadmap towards mandatory TCFD-aligned disclosures across the UK economy.

As part of the Roadmap, we have clarified that we plan to consult in the first half of next year on expanding the scope of our Listing Rule to a wider scope of listed issuers. We will also consider further tightening the rule, moving from 'comply or explain' to mandatory disclosure.

Also in the first half of next year, we will consult on TCFD-aligned client-/customer-focused disclosure rules for asset managers, life insurers and FCA-regulated pension schemes. Subject to this consultation, and a cost-benefit analysis, we aim to finalise rules by the end of 2021, with new obligations coming into force in 2022. This will further support information flow along the investment chain. We will consider phasing the obligations, beginning with the largest or most interconnected firms.

More generally, we are supporting efforts to develop appropriate common standards and taxonomies, including working with international regulators through the IOSCO Sustainable Finance Taskforce. We co-chair a workstream of the Taskforce that is looking at ways to improve issuers' sustainability disclosures. As part of this, we are engaging with a promising initiative underway at the IFRS Foundation working towards a Sustainability Standards Board, as well as harmonisation efforts by an alliance of leading voluntary standard-setting organisations. We are also active participants in a workstream considering asset managers' disclosures and how to tackle greenwashing.

We are keen to continue to support and enable innovation in sustainable finance. Our Green Fintech Challenge in 2019 specifically encouraged firms to apply for support for innovative financial products and services that could help the UK's transition to a greener economy and benefit consumers. Innovation also remains a theme in the work of the Climate Financial Risk Forum, which we co-chair with the Bank of England. The Forum published an industry guide in June, one chapter of which focussed on innovation.

Illiquid and less liquid assets

We have been taking steps to address the risks in open-ended funds investing in illiquid assets. New rules came into force in September 2020, improving disclosure to consumers about the liquidity risks in such funds and about the tools that fund managers would use if those risks crystallised. They also require fund managers to make appropriate contingency plans, and mandate suspension of dealing when the value of over 20% of a fund's assets is subject to 'material uncertainty'.

In August 2020, we issued a consultation paper on further rule changes for daily-dealing property funds. These would require investors to notify fund managers in advance that they want to redeem their investment. We are proposing a notice period of between 90 and 180 days. The consultation closed on 3 November 2020 and we have received numerous responses. As we consider the case for change, we are focused on the long-term interests of investors. We will explore with market participants how to address the operational challenges which would need to be resolved before a change could come into effect. If we do decide to proceed with notice periods, we would take into account the time needed to ensure the change could be implemented smoothly when setting the date on which any new rule comes into force.

We share the Panel's view on the importance of robust stress testing and have told managers of UCITS and AIFs that we expect them to abide by the liquidity stress testing Guidelines published by ESMA in July 2020. The Guidelines should help to improve the standard and consistency of fund managers' liquidity stress testing.

At the same time, we are continuing to engage with the Government and industry on ideas for improving the supply of capital for long-term investment. In February 2020, we published our Feedback Statement on patient capital and authorised funds. This found no significant barriers to investing into patient capital assets through authorised funds for professional investors. We will be considering any rule changes for authorised funds holding illiquid assets that may be recommended upon completion of the Financial Policy Committee (FPC) work later this year or early next year.

In March 2020, we published a Policy Statement with amendments to the permitted link's rules for unit-linked funds. These amended rules aim to address any unjustified barriers to retail investors investing in a broader range of long-term assets in unit-linked funds, while keeping appropriate investor protection.

We look forward to your continuing advice and support as we work to ensure that markets remain clean and orderly through the challenging times ahead.

Yours sincerely

Sheldon Mills
Executive Director, Consumers and Competition