



**THE
GLOBAL
CITY**

A&O SHEARMAN

Regulating for growth: **A cultural shift for a competitive UK**

EXECUTIVE SUMMARY



Regulating for growth

The 2025 City of London Corporation's (City Corporation) analysis of UK Financial Services (FS) international competitiveness found that London remained the most competitive global financial centre. Its score dipped compared to 2024, while those of its peers such as Singapore, Paris and Tokyo increased. The City Corporation publishes this benchmarking exercise not to trumpet London's success, but to show that it is contingent on sustained action. Established and emerging financial hubs are working night and day to improve their international competitiveness and boost domestic growth. The UK needs to step up or risk falling behind.

The UK has clear strengths in established markets such as FX trading, international bond issuance and equity raising. However, we cannot rely on 20th Century markets. We need to look forward and be ready for 21st Century markets, notably digital assets and sustainable finance.

Where it is clear we need reform, we must execute quickly. Unfortunately, we do not always do this. For example, in October 2023, the Treasury published detailed proposals for the creation of a financial services regulatory regime for cryptoassets. At the time of writing the FCA is still consulting on its cryptoasset rules. Meanwhile, competitors such as Singapore are using public-private partnerships to commercialise digital assets at scale.

This is not the fault of one player, but a system-wide issue. Where the UK knows its problems – such as the digitisation of the shareholding network – progress can be stymied by lack of alignment or agreement on where the costs of change should fall. The risk of taking action often seems to outweigh the risk of muddling along with the status quo.

The UK regulatory and legal system is a critical enabler to positioning the UK financial services sector for success. However, the ecosystem - regulators, firms, Government and Parliament – has at times focused on trying to reduce risk rather than trying to boost growth.

The regulators and Government have made great strides since the passing of the Financial Services and Markets 2023 to shift this mindset. However, further progress is needed. This report aims to build on the success of the secondary competitiveness and growth objective (SCGO) and make further recommendations to change the culture of the ecosystem. The culture needs to shift from one of risk aversion to one of taking responsible risk to boost growth and innovation. This is a shared endeavour across the system. Many of the recommendations in this report lie with the regulators. But the industry is not immune to risk aversion and short termism. If the regulators are taking a more risk-positive approach then firms need to lean into this and take more managed risk themselves. Government needs to support the regulators to adopt a more pro-growth response in the knowledge that sometimes things will go wrong. And Parliament should scrutinise regulators from the starting point that some risk has to be tolerated in order to have a dynamic financial services system and economy.

This report takes a holistic and cross-sectoral approach on risk and growth. It analyses how the system as a whole can move forward to support economic growth. It seeks to move this much needed debate on risk tolerance from the abstract to the specific and makes a series of wide-ranging and interlocking recommendations that would move the dial. These recommendations are targeted and actionable. In some cases, we argue for regulators to double down on areas of reform they have already identified.

If the recommendations in this report are implemented, then over time the regulatory system will be more predictable and proportionate, which will give firms confidence to take more responsible risks to support growth. And over time, regulatory reforms need to be supported with wider appropriate policy on tax, trade and skills. If all parts of the ecosystem develop a shared understanding and trust in each other, the prize is the growth and investment we all seek.

Recommendations

The report contains recommendations grouped into three categories:

- **Tone from the top:** recommendations that will reinforce the government and regulators' commitment to competitiveness and growth.
- **Core policy reforms:** recommendations to reform core policy areas that will have a broader positive ripple effect on competitiveness and growth.
- **Day-to-day operations:** recommendations focused on the day-to-day operations of the regulators to help foster a growth mindset within the regulators, support innovation and improve the lived experiences of firms.



Tone from the top

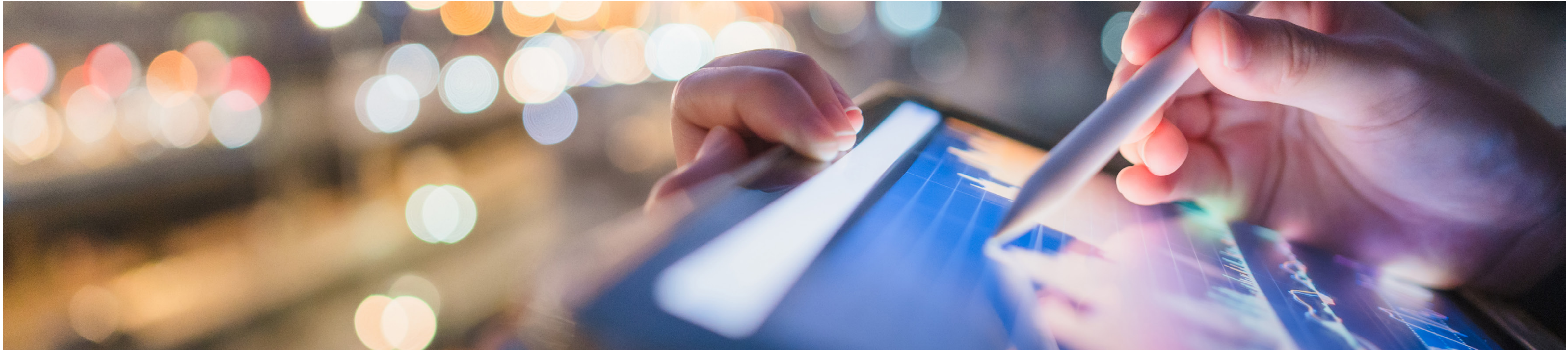
RECOMMENDATION 1: Improve the oversight and implementation of the secondary competitiveness and growth objective (SCGO).

- If the regulators are required to advance the SCGO as far as reasonably possible, then the Treasury Select Committee (TSC) should also give sufficient consideration to the SCGO when conducting inquiries.
- Given that “growth” and “competitiveness” are in part political, HM Treasury should provide clearer guidance on what is meant by each. HM Treasury should also use performance reviews to evaluate the regulators’ progress on implementation of the SCGO. These reviews may refer to performance against metrics and targets that the regulators set and report against. Those metrics should themselves be the subject of further consideration by the regulators, as discussed in Recommendations 2 and 7. In this way, the metrics the regulators use to assess their performance can be linked to the SCGO defined by HM Treasury.
- The regulators should rearticulate their interpretation of the SCGO and take steps to improve its implementation, taking account of the input given by the TSC and HM Treasury. In doing so they should refer to a set of competitiveness and growth principles (an illustrative set of which are proposed in Annex 1 of the report), which they will apply to inform their approach.
- Firms should collaborate with the regulators to translate the rearticulated SCGO into activity which supports competitiveness and growth.

RECOMMENDATION 2: Apply the secondary competitiveness and growth objective more fully in practice to supervision and enforcement.

- The regulators should open a public discussion with industry on how to embed the SCGO into supervisory and enforcement practice and should harness data and metrics to help track the impact of their supervisory and enforcement activities.





Core policy reforms	
RECOMMENDATION 3: Reform the FOS to enhance predictability of decisions and cooperation with the FCA.	<ul style="list-style-type: none">• To run their businesses with confidence, firms must be comfortable that law and regulation will be applied predictably in enforcement actions and redress schemes. To this end, the Financial Ombudsman Service (FOS) should take decisions strictly in accordance with the law and regulation. This will prevent the emergence of a shadow regulatory system, which may be perceived through the FOS’s current practice of applying a broader fairness test which only takes account of laws, codes and good practice and which may deliver decisions different to a court applying legal rules.• The FCA and FOS should enhance their own coordination by holding quarterly meetings to discuss persistent areas of complaint and should also coordinate with industry on key issues to enhance predictability on matters with significant implications.
RECOMMENDATION 4: Apply consumer protection regulation more proportionately.	<ul style="list-style-type: none">• Given the enhanced sophistication of wholesale counterparties and the need to simplify and streamline regulation in the interests of growth and competitiveness, the FCA should consider limiting or providing greater clarity on the application of the consumer duty in areas which have no relation to consumers. The FCA should also focus on the need for proportionality in wholesale regulation.
RECOMMENDATION 5: Maximise the potential of targeted support for retail investors.	<ul style="list-style-type: none">• To support investment by retail customers and enhance financial inclusion, the FCA should continue to collaborate with industry to develop workable propositions for targeted support and simplified advice; and to produce better calibrated declarations and risks of investing.
RECOMMENDATION 6: Promote international trade in financial services through regulatory cooperation.	<ul style="list-style-type: none">• In the interests of remaining open to international business and enabling UK firms to export financial services, HM Treasury should adopt a more strategic and proactive approach to obtaining mutual recognition agreements and developing deference and equivalence regimes. It should also periodically review its dialogues with other financial centres to identify emerging opportunities for collaboration and ensure that this dovetails with work that industry is doing to strengthen cross-border trade.

Day-to-day operations

RECOMMENDATION 7: Publish, more frequently, pertinent information regarding authorisations and approvals.	<ul style="list-style-type: none">• To improve firms’ lived experience of obtaining authorisations and approvals, the regulators should improve transparency and predictability on their processes in this respect. This may include better dialogue with firms on expectations for authorisations and approvals; publication of enhanced metrics on authorisations and approvals; and greater accountability of case officers.• HM Treasury should also conduct a review into how the regulators calculate their performance against statutory timelines and their interaction with applicants, with a view to speeding up authorisations and enhancing transparency.
RECOMMENDATION 8: Adopt a more balanced Senior Managers and Certification Regime.	<ul style="list-style-type: none">• Frictions arising from the Senior Managers and Certification Regime (SMCR) can deter businesses from establishing in the UK. As part of the upcoming consultation on removing the certification regime, the FCA and PRA should investigate whether they can reduce the intensity of the SMCR hurdle for individuals already approved by regulators in major financial services centres which operate in line with international standards.
RECOMMENDATION 9: Prioritise initiatives which drive innovation.	<ul style="list-style-type: none">• To build on the impressive work the UK regulators have done to support innovation and technology, the regulators should continue to identify opportunities to promote innovation, including by engaging with RegTech. They should also build on the success of sandboxes by ensuring the firms that use them have a viable route to operating in the full regulatory environment once they emerge.
RECOMMENDATION 10: Enhance the cost benefit analysis process and use of Practitioner Panels.	<ul style="list-style-type: none">• To ensure cost benefit analyses are maximally effective in assessing all costs and benefits of a proposal, they should more rigorously set out direct and indirect competitiveness and growth-related benefits, linking them to the focus areas identified in the regulators’ SCGO reports. The analyses should be conducted across the entirety of the regulators functions, including supervision and enforcement policy (instead of only for new rules and, where the FCA deems it appropriate, guidance).• The regulators are already working effectively with Practitioner Panels to discuss policy developments. These early-stage dialogues, or aspects of them, should be made public to invite industry engagement earlier in the policy- or rulemaking process.





About the Global City campaign:

The Global City campaign is the City of London Corporation's overarching initiative to promote the UK as a world-leading international financial centre. It showcases the UK as a great place for financial and professional services firms to invest, locate and grow.

www.theglobalcity.uk



About the City of London Corporation:

The City of London Corporation is the governing body of the Square Mile dedicated to a vibrant and thriving City, supporting a diverse and sustainable London within a globally successful UK.

We aim to:

- Contribute to a flourishing society
- Support a thriving economy
- Shape outstanding environments

By strengthening the connections, capacity and character of the City, London and the UK for the benefit of people who live, work and visit here

www.cityoflondon.gov.uk

Contact:

gordon.mead@cityoflondon.gov.uk

eyerusalem.masale@cityoflondon.gov.uk