

14 July 2023

Secondary international competitiveness and growth objective

This statement introduces our new secondary international competitiveness and growth objective. It sets out our view of how our work to support the 'key drivers' of productivity will support delivery of the secondary objective and explains how we plan to report on our progress in facilitating the new objective in future. We also explain our approach to updating key processes and documents in light of this change.

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A. Introducing the secondary objective

On 29 June 2023 the Financial Services and Markets Bill became law (it is now the Financial Services and Markets Act 2023), introducing significant changes to the regulatory framework for financial services in the UK. One of these changes is that the Act gives the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) a secondary objective to facilitate the international competitiveness of the UK economy (including, in particular, the financial services sector), and its medium to long-term growth, subject to aligning with relevant international standards.

Our work to advance our primary objectives already plays an important role in creating a safe, trusted and stable environment for firms to compete and innovate. Doing so instils trust and confidence in UK financial services, makes the UK an attractive market for firms and investors, and consequently supports the international competitiveness and medium to long-term growth of the UK economy.

The new objective is an important change, and we are working hard to ensure that we will effectively advance it when making rules and policies. The new objective only applies when advancing our existing objectives so we will ensure that our strong focus on consumer protection, market integrity and effective competition is maintained. The new objective will also not apply to individual firm or enforcement decisions. Rather, it applies to our general functions, which include rule-making (considered as a whole), giving general guidance, and determining general policies (for example our approach to regulatory and innovation sandboxes) that govern how we exercise particular functions under the Financial Services and Markets Act 2000. It also includes functions of a general nature under certain other legislation.

We have already begun to review key external documents and internal processes to ensure they reflect the new secondary objective. Our timeline, subject to subsequent reprioritisation, for the initial stages of this updating process is set out in this statement. While the update process is underway, existing statements of our own policies and procedures, and our Mission and 'Approach to' documents in particular, should be read alongside this statement and in the context of the new secondary objective.

In line with our statutory reporting duties, we will report each year on how we're complying with the new secondary objective, both in our annual report and on our [Outcomes and Metrics Webpage](#). We will also publish reports providing greater detail on our embedding and advancement of the new objective in each of the first two years after commencement.

HM Treasury published a 'Call for Proposals' on 9 May 2023 inviting views on which metrics the FCA and the PRA should publish when reporting on the new objective. As we examine the responses to this Call for Proposals, our approach to measurement may evolve.

i) Key terms

Explanations of key terms used in this statement	
Primary and secondary objectives	<p>In this statement, 'primary objectives' means both our strategic objective of ensuring markets function well, and the three existing operational objectives of the FCA: consumer protection, market integrity and effective competition in the interests of consumers. The competitiveness and growth objective is secondary to our primary objectives. It cannot be advanced on its own: it shapes how we advance our primary objectives.</p>
International competitiveness	<p>We consider international competitiveness to be a measure of how attractive the UK is for businesses, consumers and investors. It measures how well the UK economy as a whole achieves sustainable, positive economic outcomes, attracts international businesses to the UK, and enables UK-based firms to compete effectively in international markets.</p> <p>Competition, on the other hand, is a process of rivalry between firms seeking to win customers' business which, when it works effectively, leads to better prices, service and quality for consumers.</p>
Medium to long-term growth	<p>This is the growth of the UK economy as a whole in the medium to long-term. The competitiveness and growth objective relates only to this type of growth. It does not require us to facilitate short-term economic growth or to seek to grow the financial services sector where that may not lead to, or may adversely affect, competitiveness and growth of the UK economy in the medium to long-term.</p>
Subject to international standards	<p>The secondary objective must be facilitated subject to aligning with relevant international standards. This primarily means international standards developed and adopted by recognised international standard-setting bodies such as the International Organisation of Securities Commissions or the Bank for International Settlements.</p>

B. Key drivers of productivity

Productivity is a core contributing factor to both international competitiveness and growth within financial services and the wider economy. The FCA can, through its actions, influence productivity and therefore international competitiveness and growth.

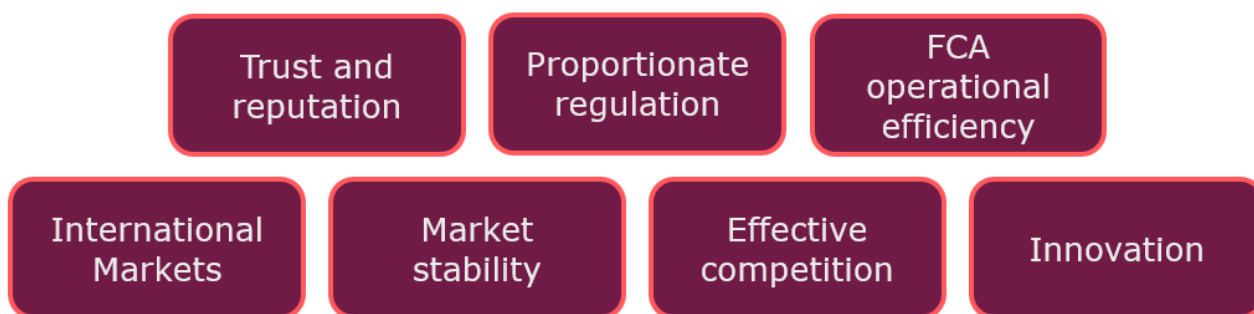
Financial services contribute to UK productivity growth in two ways: (1) directly, through financial services firms improving their own productivity, and (2) by arranging and providing financing and financial intermediation services to the rest of the economy.

Creating the right conditions for firms, both in financial services and the wider economy, to innovate and to invest also helps lead to a more productive, open economy that can compete with other economies for growth opportunities. Improving international competitiveness is also primarily about increasing the productivity of the UK economy. We seek to create a regulatory environment that attracts new firms and consumers to the UK market, while also creating conditions that allow UK-based firms to compete in markets outside the UK.

Financial services play a vital role in contributing to the productivity of the wider UK economy, through the effective provision and allocation of services and capital that are greatly relied upon. Examples of this include the appropriate provision of credit, realisation of investments in assets, and efficient payment mechanisms.

The new secondary objective is important for consumers. By enabling the drivers of productivity, we can facilitate medium to long-term growth and competitiveness in a way that can secure better outcomes for all consumers, including through greater variety, price and quality of products and services. Increasing trust in UK financial markets will also encourage consumers to actively engage with these markets through spending, borrowing and investing, leading to increased economic activity and growth.

In our [2023/24 Business plan](#), we outlined the following 7 key drivers of productivity. All our policy decisions must be based on the full range of relevant considerations for each situation, but these drivers provide a framework for us to consider our new secondary objective when, for example, we develop policy interventions or issue guidance.



The drivers reflect the areas we can most directly influence within financial services. We have identified them through research on the key factors that are capable of increasing productivity, and through engagement with our statutory panels.

When markets are efficient and proportionately regulated - including by us drawing on any relevant international standards - and firms can compete and innovate in a safe, trusted, and stable environment, consumers, firms and

investors benefit. This also ensures the UK continues to be a competitive global financial centre, and the financial services sector supports growth of the wider UK economy.

We believe these drivers contribute to growth and competitiveness in the following ways:

Driver	Contribution to competitiveness and growth
FCA operational efficiency	Smart regulation promotes efficient and stable financial markets. Increasing the speed and efficiency of the FCA’s decision-making and administrative procedures, whilst maintaining high standards, facilitates regulated firms’ productivity and the ease/attractiveness of doing business in the UK.
Proportionate regulation	Proportionate regulation seeks to ensure that regulatory costs or restrictions on firms are proportionate to the expected wider regulatory benefits. This should also make the UK financial services industry a more attractive place to participate in, thereby improving competition and the UK’s competitiveness as a financial hub.
Trust and reputation	Trust and reputation increases investment and confidence to do business in the UK, supporting productivity and growth, and making the UK more internationally competitive. Increasing trust can also enhance the depth and liquidity of UK financial markets, which helps market participants to optimise costs. Greater trust from consumers in financial services firms encourages take-up of appropriate financial services products and services, which helps underpin economic growth.
Innovation	The commercial application and flow of ideas through innovation is key to long-term productivity, growth and international competitiveness.
Effective competition	Effective competition lowers prices for consumers and market participants, increases the quality of goods and services, and provides greater product variety. Competition is also one of the key drivers of innovation. Effective competition drives firms to be more efficient.
Market stability	Market Stability protects investors and consumers and builds confidence in UK financial markets and institutions. This provides a stable foundation for increasing investment in the UK, which, in turn, supports productivity and market growth.
International markets	Playing a leading role in setting international standards and enhancing the attractiveness of UK markets supports our position as a world-leading place to invest and for businesses to raise capital. Attracting foreign and multi-national firms to participate in the UK’s finance sector can also help facilitate greater and more efficient business investment in the wider domestic economy, increasing capital formation and productivity.

We recognise that the drivers are not mutually exclusive and there is overlap between them, but they provide a common framework for future use and flexibility depending on how markets and the economy develop. For example:

- Improved FCA operational efficiency, for example by ensuring authorised firms have high standards at the outset and being assertive in rejecting in a timely manner those that don't, can facilitate greater trust and the reputation of UK financial markets.
- Being proportionate in how we expect costs and charges disclosures to look while raising overall standards through the consumer duty will allow firms to be more innovative in how they engage with their customers and therefore also foster effective competition.
- UK market stability can encourage more investment from international markets as well as underpin many of the other drivers by reducing the likelihood and impact of major negative growth events.

When we assess our contribution to competitiveness and growth including the impact of FCA rules and guidelines, and in our broader reporting and measurement, we intend to focus on these 7 key drivers of productivity. We will use them alongside 'causal chain analysis', which aims to demonstrate, in simple form, how we think our actions and outputs are likely to link through to international competitiveness and medium to long-term growth. This will focus our policy thinking, including around the possible unintended consequences, while providing a tool for us to foster increased transparency and accountability.

C. Reporting outcomes and metrics

We welcome increased accountability and transparency through the use of metrics and we will update our existing [Outcomes and Metrics framework](#) to take the new objective into account. We will carefully consider feedback to HM Treasury's Call for Proposals on metrics as we evolve our framework.

Specific metrics of productivity, international competitiveness and medium to long-term growth depend on many factors – many of which are beyond our influence and require action from many other actors.

For example, overall financial services gross value added (GVA) is affected by measurement issues from product and services innovation, quality adjustments, defining what constitutes a unit of output, any large revisions and aspects of law and policy beyond our control. Many measures will be affected by wider government policy (including in relation to tax, international trade, skills and infrastructure), monetary policy, and economic conditions. It is important that any metrics are ones that we have the powers and tools to influence and are most relevant to our policy decisions.

Any metric we use will be informed by the National Audit Office's guidance on '[Performance measurement by regulators](#)' (November 2016), which sets out some characteristics of good performance measures.

It will also be important for the PRA and FCA approaches to be consistent, where possible and relevant.

The Financial Services and Markets Act 2023 requires us to publish reports 12 and 24 months after the secondary objective comes into force. This must cover how we have ensured that the competitiveness and growth objective is embedded in our operations, processes and decision-making relating to our general functions, and how any rules and guidance that we make over each period facilitate the objective.

In line with our annual reporting calendar, we expect the first reporting on this new objective to be published with our 2023/24 annual report. We plan to describe our impact using input measures (what we do internally), output measures (what action/direct effect this has externally), and outcomes (the cumulative impact of our actions on competitiveness and growth).

D. Building on our existing work

The secondary objective builds on our existing work to improve the attractiveness and global reach of our wholesale markets, and to provide opportunities for financial services companies to invest, innovate and expand in the UK. Examples of this work include:

- [Progressing priority retained EU law files](#) (e.g. MiFID reforms, Securitisation, Prospectus, PRIIPs) that will create the opportunity to consider how best to facilitate international competitiveness, whilst advancing our primary objectives, through our commitment to market excellence.
- [Our work to reform the listing regime for firms](#) in the UK supports our 'international markets' driver. Enhancing the attractiveness of UK markets supports our position as a world-leading place to invest and for businesses to raise capital.
- [Promoting innovation through our pioneering Sandbox platforms](#). The FCA Regulatory Sandbox allows firms to test the impact of innovative products and services in real market conditions and with regulatory oversight. The FCA Digital Sandbox equips early-stage firms with synthetic data in a secure environment, allowing firms to develop Proofs of Concept to accelerate their innovation life cycle. We are in the process of establishing the new Financial Market Infrastructure sandbox.
- [The new consumer duty](#) will raise product and service standards across financial services, improving trust in the sector and therefore facilitating greater participation in the sector from consumers. Outcomes based regulation like the consumer duty should, in time, allow for there to be fewer prescriptive rules, fostering innovation.
- [Our ESG Strategy for Positive Change](#) is building transparency and trust in an innovative, competitive area across the whole of financial services. Trusted markets and a flow of reliable information will help the financial services sector in progressing the ongoing transition to a more sustainable future.

- [Our work to improve our own operational efficiency](#), such as through enhancing our authorisations processes towards smart application forms, will also promote the reputation of the UK Financial Sector more widely.
- [Launching the new Long Term Asset Fund \(LTAF\) regime](#) created an environment where investors can more easily and efficiently invest in long-term illiquid assets such as unlisted securities and interests in property and infrastructure.

E. What will change and what to expect next?

We are embedding the new secondary objective in our approach to both creating and considering policy options. This is not about lowering the standards that underpin trust in our work and the reputation of the UK financial sector more widely; it is about facilitating the new secondary objective when advancing our primary objectives of consumer protection, market stability and effective competition in the interest of consumers.

The new objective will make us explicitly consider the impact our policy options might have on the key drivers of productivity which support international competitiveness and medium to long-term growth of the UK economy as a whole (including, in particular, the financial services sector). We will consider policy options that better enable firms to thrive and innovate or compete effectively abroad and options that promote accessible markets here at home.

We will update some key FCA documents to ensure they reflect the secondary objective and other wider changes to the regulatory landscape, especially those documents that contradict or significantly omit the new objective. As part of this work, we may decide to retire documents and replace them with other existing content. Any revision to, or retirement of, a document may be driven by the new secondary objective and/or more general efforts to consolidate and update our policies.

Section 1K of FSMA 2000 requires us to publish guidance about how we intend to advance both our primary and secondary objectives in discharging our general functions in relation to different types of authorised person or regulated activity. This commencement statement sets out how we intend to advance the secondary objective, and we already have a statement on our website relating to our primary objectives. We will update our website to ensure these are brought together in due course, taking full account of s. 1K of FSMA 2000.

Stakeholders should expect the following:

- We will update our [‘About us’](#) page to describe our approach to how we advance our objectives going forward, retiring the [‘The FCA’s approach to advancing its objectives’](#) document from 2015. This update is expected to be completed in Q4 2023.
- We will review [‘Our mission’](#) (2017) and associated approach to documents, such as [‘Our approach to competition’](#), as part of our formulation of our 2025-

2028 strategy which is expected by April 2025, and confirm any revisions or decision to retire the documents.

- We will review other key documents as part of formulating our 2025-28 strategy. The need to consult on any proposed changes will be assessed on a case-by-case basis.
 - We will update our guidance on how we undertake cost benefit analysis (CBA) to ensure that potential impacts on international competitiveness and medium to long-term growth from our proposals on the UK economy can be captured and communicated transparently to stakeholders through our published CBAs.
 - We plan to launch a consultation on our updated rule review framework in the near future. When we make rules, it is important that they work well and have the intended effect. Undertaking reviews to ensure they work as intended builds trust in our rules and is therefore aligned with our secondary objective to facilitate the international competitiveness of the UK economy and its growth in the medium to long term. We have developed this draft rule review framework to explain how we monitor and review how our rules are working in practice.
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