

# Priorities for UK Financial Markets

July 2024

## Contents

---

<b>Introduction .....</b>	<b>3</b>
About us .....	3
Introducing our priority reforms.....	3
<b>Principles for Better Financial Regulation.....</b>	<b>4</b>
High-quality regulation .....	4
International competitiveness and economic growth.....	4
Regulatory independence and agility .....	4
Avoiding negative consequences of uncertainty and fluidity .....	5
International standards.....	5
<b>Tackling Current Issues in Financial Services.....</b>	<b>6</b>
<b>In more detail .....</b>	<b>7</b>
<b>Financial regulation and compliance .....</b>	<b>7</b>
FCA guide to enforcement.....	7
Anti-money laundering regulation.....	7
Senior Managers and Certification Regime (SM&CR).....	7
<b>Tax .....</b>	<b>7</b>
<b>Bank resolution.....</b>	<b>8</b>
<b>Technology and Digital Finance .....</b>	<b>8</b>
Artificial Intelligence .....	8
Issuance of DLT-based digital securities.....	9
<b>Equity markets .....</b>	<b>9</b>
Accelerated Settlement (T+1) .....	9
Consolidated tape – pre-trade data.....	9
Investment Research .....	10
Private Intermittent Securities and Capital Exchange System (PISCES).....	10
Capital market reforms .....	10
<b>Changes to bond transparency .....</b>	<b>11</b>
<b>Sustainable finance .....</b>	<b>11</b>
Transition finance .....	12
Transition plans.....	12
UK Green Taxonomy.....	13
ESG Rating Providers .....	13
<b>Securitisation .....</b>	<b>13</b>
<b>Diversity and inclusion in the financial sector.....</b>	<b>14</b>
<b>Revising the UK-EU Relationship.....</b>	<b>16</b>
EU-UK cooperation via the MoU and the Regulatory Forum .....	16
Strengthening the dialogue .....	16
Dedicated sub-groups to share best practices .....	16
Greater cooperation in the international arena .....	16
Exploring areas of equivalence .....	17

# Introduction

---

## About us

The Association for Financial Markets in Europe (AFME) is the voice of Europe's wholesale financial markets, providing expertise across a broad range of regulatory and capital markets issues. Our members are headquartered in the UK, the United States, Switzerland, Japan, and the EU and are the lead underwriters of 89% of European corporate and sovereign debt, and 79% of European listed equity capital issuances.

## Introducing our priority reforms

AFME welcomes the new Government's commitment to UK capital markets<sup>1</sup>, as the UK can only achieve significant economic growth with well-functioning, deep and liquid capital markets. Our priority reforms seek to maximise the contribution our capital markets can make to this core government ambition and address some of the major challenges that the UK will face in the coming years.

This paper therefore presents our vision for the UK's capital markets and focuses on three key elements for building effective capital markets, including overarching principles for better financial regulation, tackling current issues, and defining the relationship between the UK and the EU.

We first outline key principles that will help create deep, integrated, and sustainable markets that serve the needs of companies and investors alike. The second part of this paper explores the specific challenges and opportunities that lie ahead, including the implications of recent regulatory developments. The third part of this paper looks at defining and shaping the relationship between the UK and EU.

AFME firmly believes that wholesale financial markets have the potential to help meet the challenging agenda that the new Government has established, and we are thankful for the chance to share our vision. We are committed to working with the Government, Ministers, and officials to ensure that UK capital markets continue to thrive in a rapidly changing global landscape.

---

<sup>1</sup> Financing Growth: Labour's plan for financial services

## Principles for Better Financial Regulation

---

By considering the following principles when creating policy and legislation, the Government can help ensure that the regulatory framework for financial services is clear, keeps business compliance costs proportionate, and ensures high standards across UK markets. AFME supports ongoing policy development based on regular dialogue and consultation between policymakers and industry, providing the clarity, certainty, and predictability that international businesses and investors need.

### **High-quality regulation**

Industry supports the continuation of the Financial Services and Markets Act 2000 (FSMA) model of independent regulators acting to advance objectives set for them by Parliament as the most appropriate legislative framework. However, it is also proper that regulators should be held accountable by democratically elected policymakers in Parliament.

High-quality regulation will, in and of itself, help capital markets' growth and competitiveness, to the benefit of the wider economy. The regulatory framework for financial services, and how regulators apply regulation, have an important role in how competitive the UK is as an international financial centre. A high-quality regulatory framework that can best support this goal is a mix of careful, strong, and simple regulation along with compliance with high quality international standards wherever they matter to global markets.

Regulation should be clear for the industry and its users, keep business compliance costs proportionate, and sustain trust in UK financial markets. Regulation should, whenever possible, match the risk involved. The advantages of regulation, and any changes to regulation, should outweigh the costs – which are ultimately borne by investors.

### **International competitiveness and economic growth**

AFME supports the new secondary objective for financial services regulators in the Financial Services Market Act to boost international competitiveness and economic growth. This will keep high regulatory standards and focus on competition. The way regulators apply and monitor regulation affects UK competitiveness. Growth and competitiveness does not come from low regulation, but from a good financial services ecosystem overall.

The primary and secondary objectives of the regulators are compatible, as market efficiency and customer protection depend on having a competitive and growing industry. The secondary objective joins the existing primary objectives of protecting consumers, enhancing market integrity, and promoting competition. The secondary objective will help to, for example, welcome new entrants and products in the UK market, which are crucial for the UK economy and both objectives. Given the importance of the objective, it is important that the regulators can demonstrate how they are meeting it through the policy decisions they are undertaking.

### **Regulatory independence and agility**

Regulators should be independent within the mandates given to them and have powers to react to market developments in a timely manner wherever justified. Good regulation should be tailored to the UK market, support the industry's ability to compete internationally, and evolve to meet changing needs and international standards. The UK's reputation and success as a global financial centre depends on high standards of regulation, and a stable and independent regulatory regime.

## **Avoiding negative consequences of uncertainty and fluidity**

AFME members would value the development of a structured timetable for the completion of the work under the smarter regulatory framework, noting positive developments with the recent publication of the Regulatory Initiatives Grid and the approach to splitting the repeal of retained EU law within the FSM Bill into tranches. We note the delay in publishing this grid due to the early summer General Election and hope to see an updated version as soon as practical.

Regulatory volatility and uncertainty harm competitiveness and growth. AFME members would welcome clear timelines and clear outcomes from future policy work. A piecemeal approach can cause unhelpful and damaging regulatory change and therefore, policy makers should consider the impact of all regulatory changes together. Minor tweaks with little benefits should be avoided.

## **International standards**

UK regulation should keep-pace with global changes in regulation, to ensure the UK does not diverge from other major overseas jurisdictions, or international standards and best practice. Changes to the regulatory landscape should be considered alongside the effect that they will have on the UK's growth and competitiveness compared to other jurisdictions.

A consistent international level playing field and the prevention of both excessive regulation and the fragmentation of capital across different jurisdictions are vital to cross-border institutions and their client base who benefit from open, liquid, and transparent global financial markets. Therefore, the type of regulatory framework described above will also enable the sector to grow and compete effectively.

# Tackling Current Issues in Financial Services

---

## Overview

In this section we take an in depth look at the issues and challenges facing capital markets and market participants.

Our priority policy outcomes, outlined below, aim to increase the role of capital markets across the competitiveness and growth agenda, and address key challenges for the UK at present and in the coming years:

**Challenging the FCA's proposed approach to enforcement** - We have concerns about the FCA's proposed enforcement approach in CP 24/2, which could set the UK apart from other G7 countries and harm investors' confidence in the UK, making us less attractive for business.

**A stable and favourable tax environment** - Our members want a favourable tax and investment environment in the UK, which helps both the financial sector and the wider economy. We ask for a clear tax policy plan for the next parliament, highlighting the need for a stable tax regime to maintain UK competitiveness. The new Government should focus on encouraging long-term investments for the net-zero transition and consider removing the Stamp Duty Reserve Tax (SDRT) to promote capital market investment.

**Caution on bank recapitalisation** - We have consistently voiced our objection to any deviation from the established 'polluter-pays' principle. It would be preferable for smaller banks to adhere to the minimum requirements for own funds and eligible liabilities (MREL) as a first line of defence.

**A commitment to DLT-based securities** - The development of DLT-based capital markets has reached a critical point, and we are now able to significantly grow DLT-based capital markets over the next couple of years. Public-sector issuers of debt instruments can play a key role in this process of scaling DLT-based capital markets through increasingly deploying DLT solutions in their issues.

**A joined-up approach on accelerated settlement** - We understand the difficulty of moving to a T+1 settlement cycle, as some markets in the Americas have already done. We support a joint EU and UK study of regional alignment benefits for T+1 implementation, to reduce risk and complexity.

**Making the UK a leading centre for green finance** - We emphasise the role of capital markets and private finance in helping finance the transition to meet climate, environmental, and social goals. We welcome the Government's Green Prosperity Plan and the goal to make the UK a leading centre for green finance.

**A revitalised securitisation market** - Securitisation can help transfer assets and their related credit risk from banks to markets, freeing up capacity on banks' balance sheets and allowing more lending to the real economy. A stronger securitisation market can fund more lending to SMEs and could also help finance the net-zero transition. Currently only 1.7% of outstanding UK loans are securitised, compared with 3.4% in Spain, 2.7% in France and 2.4% in the Netherlands.

## **In more detail**

A comprehensive overview of the key issues we are working on follow, organised by general themes.

### **Financial regulation and compliance**

#### **FCA guide to enforcement**

We ask that the Government follows the lead set by the previous Chancellor in expressing concern over the approach to enforcement that the FCA outlined in CP 24/2.

At present there is no other G7 country that currently takes the approach on enforcement that the FCA is proposing. This would therefore make the UK an international outlier in terms of its enforcement guidance. This could have real and tangible consequences as investors are likely to be dissuaded from considering the UK in future.

There has been a considerable reaction against the proposals from across the financial services industry. Firms believe that the proposals will have a negative impact on their valuation, could put at risk the wellbeing of individuals, and have the potential to destabilise financial markets. The plans as they stand are likely to have damaging consequences for the competitiveness and growth of the UK's financial services sector as investors are put off, as well as leading to worse outcomes for customers.

It is also important to highlight that the FCA's CP does not set out evidence as to why the current approach to publicity is not working, or how the revised policy being proposed would improve the efficacy of the FCA's enforcement activity. There does not appear to be a strong evidence base for what would be important changes in the way that the FCA carries out its enforcement work, as a cost benefit analysis will not be carried out.

#### **Anti-money laundering regulation**

The reform of money laundering regulations, where a consultation is underway, is centred around the need for proportionality and harmonisation with global standards. AFME members advocate for due diligence requirements that align with the Financial Action Task Force (FATF) recommendations, which would support operational efficiency for firms in the UK.

#### **Senior Managers and Certification Regime (SM&CR)**

We appreciate HMT, FCA and PRA's review of the SM&CR and their invitation for feedback. Members have mostly seen positive outcomes from the SM&CR, such as executive accountability and firm-wide conduct standards. They do, however, have concerns around the general tendency to add additional responsibilities to the SM&CR without proper consultation which does not allow the industry to comment on any new requirements.

Some parts of the SM&CR also affect the UK's competitiveness, such as the delays to Senior Manager approvals, problems with obtaining Regulatory References and criminal records checks from overseas, personal liability concerns and the UK's variable remuneration approach. These comments were communicated to HMT's call for evidence which we responded to in May 2023. We welcome the upcoming consultation and look forward to responding.

## **Tax**

AFME and its members collectively advocate for a stable and favourable tax and investment climate in the UK, which would be beneficial for both the financial services sector and the broader economy. AFME members would welcome a clear vision and outline for tax policy over the next parliament, emphasising the need for a stable tax regime, so that business can plan and invest with confidence, and in turn maintaining

UK competitiveness. This would involve creating a tax environment that is conducive to business and investment, ensuring that corporate, indirect, and personal taxes are aligned and predictable.

The Government should also prioritise the incentivisation of long-term investments to support the net-zero transition, and creating an investment culture that can support innovative industries and companies that are looking to expand. As part of this, the Government should also consider removing disincentives to invest in capital markets, where a key part of this would be the phasing out of the Stamp Duty Reserve Tax (SDRT) as a long-term goal to encourage investment in capital markets.

## **Bank resolution**

We note with caution the inclusion of a Bill on bank resolution in the King's Speech. On bank resolution, we have previously stated that we would oppose a move away from the long held 'polluter-pays' principle, which would force others to pay for the negative externalities. Ideally, smaller banks ought to maintain minimum requirements for own funds and eligible liabilities (MREL) in line with the 'polluter pays' principle.

AFME and its members could only support this Bill and the approach outlined by the Government if economically viable safeguards are put in place, for example if the Bill ensures the FSCS is only used for resolution where that is less costly than insolvency.

To this extent, we believe the public interest test should be reviewed to ensure that it is fit for purpose in the context of the new regime, in particular that the test be calibrated to ensure that it remains possible for banks to go through insolvency / modified insolvency rather than being supported through this new mechanism.

## **Technology and Digital Finance**

AFME's approach to digital finance focuses on embracing global innovation while ensuring clarity in the regulatory framework. We recognise the importance of maintaining openness to global sources of innovation, standards, and markets, and the importance of digitisation in the broad global context.

We continue to encourage the UK Treasury to specify relevant exclusions to the legislative framework work for digital assets to prevent overlap with existing regulations of other asset classes and to avoid confusion among different types of digital assets. This clarity is crucial as the legislative framework for digital assets continues to evolve.

We urge the Treasury and other regulatory bodies to be ambitious and swiftly develop a comprehensive regulatory regime for cryptoassets and digital finance. This includes progressing with initiatives such as the UK Digital Securities Sandbox, which will help contribute to the UK becoming a global hub for digital finance.

## **Artificial Intelligence**

We have previously fed into the discussion around the UK's approach to Artificial Intelligence (AI) and Machine Learning (ML) in financial services and believe that the current approach of regulating based on outcomes and not technologies is better than having specific rules for AI. This results in there being no current need for a sectoral definition of AI.

Furthermore, any oversight of AI use in financial services should be based on principles and risk levels of each AI application and how the user (i.e. the firm) deals with them, rather than having one regulation for all AI uses. As AI frameworks evolve, we would welcome increased dialogue and guidance on the expectations of policy makers, for example, on using AI for anti-financial crime and anti-fraud.



Through our consideration of the use cases of AI, we have found that some aspects of data regulation raise concern for AI development, for example data localisation requirements and the lack of harmonisation in Open Finance and Data Sharing.

## **Issuance of DLT-based digital securities**

We encourage the continued development of an ecosystem and enabling regulatory framework for securities tokenisation, including through and outside of the UK Digital Securities Sandbox. In parallel, a number of initiatives to enable cash settlement for DLT-based securities are currently being developed in UK and internationally, and DLT-based bond issues have been settled using different cash leg solutions. These have included both on-chain and off-chain cash settlement, as well as settlement in both commercial and central bank money.

AFME believes, and published in a [recent paper](#), that any future regulatory regime should allow for a wide array of solutions to be available to market participants and eligibility of payment instruments should be based on analysis of settlement-related risks. For example, while central bank money is the preferred cash settlement solution of most Sovereign, Supranational and Agency debt issuers, and risk-free for intermediaries and counterparties, commercial bank money and qualified stablecoins have low settlement-related risks due to high reserve backing requirements and should be made available for use at least in the absence of permanently available on-chain central bank money.

## **Open Finance**

We note the introduction of a Digital Information and Smart Data Bill. An Open Finance framework, if designed correctly, can facilitate cross-sectoral technological innovation, and create value for end clients. We view that any roadmap towards developing an Open Finance framework must be grounded in robust and granular impact analysis on benefits and market demand and segmented by products and services.

## **Equity markets**

### **Accelerated Settlement (T+1)**

Shortening the settlement cycle to T+1 represents a significant and complex undertaking for the global financial industry. Several markets in the Americas, including the US, Canada, and Mexico, have already moved to an accelerated settlement timetable of T+1 in May 2024.

The “Geffen Report” recommends that the “UK, EU, and other European jurisdictions should continue to explore opportunities for close collaboration to see if they can align their moves to T+1”. However, the report also acknowledges that while alignment with the EU would be preferable, it may not be achievable within the UK’s desired timescale.

Ahead of ESMA’s expected report to the European Commission later this year, we would strongly support the UK, EU and Switzerland jointly considering the advantages of similar regional alignment of a possible move to T+1 across geographical Europe. An early indication that the UK Government would seek to open this dialogue would reassure market participants whilst also signalling the Government is committed to the pragmatic and cooperative approach to working with the EU as outlined in the Financing Growth white paper.

Given the interconnected nature of European securities markets, an aligned implementation date would reduce the complexity and scale of work needed to be undertaken by market participants (whilst recognising the scale of work needed to adjust settlement times on a harmonised basis), avoid a risk of increased settlement failure and reduce the potential impacts of a misalignment of settlement cycles between highly interlinked jurisdictions.

## **Consolidated tape – pre-trade data**

AFME has supported the development of a consolidated tape (“CT”) and the role it plays in improving data quality since HM Treasury announced the Edinburgh Reforms and committed to establishing a regime for a consolidated tape.

AFME believes that an equities CT with pre-trade data has many more use cases and would attract more potential market participants and that the benefits of including pre-trade data on the CT would significantly outweigh any costs, technical or otherwise, associated with its inclusion. With more accessible prices on UK markets, investors will be more likely to trade on UK markets. Similarly, having a consolidated view of executed volumes and open interests in UK-traded securities will provide a complete view of the depth of liquidity in the market to issuers and investors.

The CT, if it is designed to include pre-trade data, will also improve the resilience of UK wholesale markets by establishing a universally trusted source of bids and offers. In the event of a market outage, the CT will become an essential element in a network of systems and controls that will enable trading to move to alternative trading venues with minimal disruption. This will be possible because the provision of pre-trade data would enable secondary market trading to continue as smoothly as possible if an outage were to occur on a primary market (pre-trade data would show market participants which venue would be the best alternative at any point in time).

The ‘sell-side’ and ‘buy-side’ are aligned in their views regarding the scope and features of the tape for equities and ETFs, and we understand that the FCA is due to provide an update on its work by the end of this year. We would welcome an acceleration in the timeline to create a UK consolidated tape for equities and ETFs and look forward to working with the FCA on the design and the development of a tape that is comprehensive, meaningful and delivers optimal outcomes for all market participants.

## **Investment Research**

AFME supports the introduction of payment optionality for research, and we have called upon both HMT and the FCA to implement this change. AFME’s approach to the introduction of payment optionality for research would keep the UK aligned with other key jurisdictions, minimising operational complexities and costs, and avoiding being at a competitive disadvantage.

It is particularly important to our members that the new research rules reduce operational obstacles, ensuring a proportionate and therefore more effective level of disclosure and transparency requirements. However we firmly believe, as stated in our consultation response to the FCA, that the proposed guardrails go substantially beyond the requirements in key markets such as the US and EU, which also pursue similar objectives.

## **Private Intermittent Securities and Capital Exchange System (PISCES)**

We welcome the innovative and collaborative approach that the previous Government took to make the UK capital markets more attractive and we recognise that private capital markets are an important part of this eco-system. We are, therefore, supportive of innovations that aim to give private companies greater flexibility to access broad investment and transition towards the public markets. HMT’s proposals for PISCES are an ambitious blueprint in this respect. We look forward to HMT’s response to the consultation they published earlier this year as well as to working with regulatory bodies in the development of this platform, noting the importance of any future regime to attract a combination of appropriate issuers, intermediaries, and investors.

## **Capital market reforms**

We have, and continue to support, the Primary Markets Effectiveness Reforms as a modern regulatory regime, which upholds robust and proportionate standards to ensure the UK continues to be a market of choice for investors and issuers, both domestic and international. It is vital that adjacent regulatory regimes are adapted in parallel, to ensure that a single, coherent, and consistent regime is created – this includes the ongoing proposals for the new public offers and admissions to trading regime.

## Changes to bond transparency

Market makers undertake a vital role by providing liquidity to the bond markets. They enable investors, such as pension funds or asset managers, to trade when they need to. Whilst AFME is supportive of trade transparency, the framework has to ensure the fine balance between liquidity provision and trade transparency is not negatively impacted, it is therefore important that changes to the post-trade transparency regime are fully considered and accurately calibrated, using extensive data analysis and taking into account the different observable liquidity profiles across bonds.

When the transparency regime is not appropriately calibrated, this can expose the positions of liquidity providers, allowing the rest of the market to know what positions they hold and potentially enables other market participants to use this information to act against them. This increases the risk that liquidity providers are exposed to and as a result they may decide to reduce their liquidity provision.

In response to the FCA's recent consultation on improving transparency for bond and derivatives markets (CP 23/32), AFME and the Investment Association (IA) jointly proposed a post-trade transparency framework which took the best elements from the proposed FCA models. This hybrid approach (which is also fully endorsed by UK Finance) is better suited to the twin objectives of optimising timely transparency, as well as facilitating the adequate protection of investors and liquidity providers from the very real risks associated with overly prompt dissemination of sensitive information for very large trades. The associations' joint belief is that this hybrid model does not represent a radical departure from the FCA's options but will lead to an overall better outcome than either of the FCA models individually.

## Sustainable finance

As the impacts of climate change and nature degradation continue to be seen around us, it is imperative to make further progress towards global and national greenhouse emission reductions, nature restoration and broader sustainability goals. AFME continues to strongly support the important role of capital markets and private finance in supporting the transition of the UK and global economies to meet climate, environmental and social objectives.

We welcome the government's plans to deliver green growth and make the UK a leading centre for green finance. Financial institutions have an important role to play in providing and facilitating the financing needed to support companies as they decarbonise. However, we would also encourage the Government to recognise that the financial sector's ability to support the transition will depend largely on whether the conditions are in place to enable the real economy to transition, thereby creating opportunities for finance and investment to support such activities.

To make progress in meeting the UK's Net Zero and broader sustainability goals, it is crucial that the government focuses on putting in place the policies, roadmaps, incentives, mandates, and investments for the real economy to have the information, the tools, and the incentives to adapt their businesses. This will in turn facilitate finance which will be available to support companies' investment and financing needs throughout the transition.

Alongside this, as recognised in the Manifesto and Financial Services Strategy, it is important to proceed with targeted and proportionate policies on sustainability reporting and transition plans. The UK's ambition to become a leading hub for the provision of transition finance should also be upheld. We believe that the government should prioritise:

- a) Endorsement and consultation on adoption of UK Sustainability Reporting Standards aligned with the ISSB standards;
- b) Consulting on the adoption of transition plan disclosures for listed and unlisted companies; and
- c) Following up on the recommendations of the Transition Finance Market Review to facilitate transition finance.

In addition, it is important to reflect on how the public and private sector can work together, including on blended finance solutions, to maximise the impact of public investments and support innovation. We welcome the Government's plans to invest in renewable energy and use public investment to crowd in private funding. We talk about these issues in greater detail in the accompanying paper - Sustainable Finance in the UK: Partnering with the financial sector to deliver green growth. This paper also addresses carbon markets and nature.

We look forward to engaging with the Government on how the regulatory framework can foster an environment that enables finance to flow to support climate, environmental and broader sustainability objectives. It is vital that it is workable in practice, coherent and internationally interoperable. We also strongly encourage the government to enhance cooperation with international partners, including the EU, including around linking the UK and EU Emissions Trading Schemes and the Carbon Border Adjustment Mechanism.

## **Sustainability disclosures**

We welcome the government's commitment to establishing a clear timeframe for instituting transition planning and sustainability disclosure requirements for listed and unlisted companies in line with the global standards set by the International Sustainability Standards Board (ISSB). It is important to proceed with the consultations by the government and FCA for listed and unlisted companies to establish an effective sustainability disclosures regime in the UK.

We support the endorsement of the ISSB standards for use in the UK without any substantive changes.<sup>2</sup> The UK should avoid going beyond the ISSB framework at this stage. This will enhance international interoperability and support the UK's ambition to become a green finance hub.

The government should ensure that the UK's regime is consistent with the ISSB's global reporting principles. It should promote the international interoperability of sustainability disclosures and avoid introducing jurisdictional requirements for subsidiaries of groups which are covered by sustainability disclosures at group level. Sustainability-related strategies, targets and metrics for large and multinational firms are typically set at group-level and in the case of non-UK groups, at a consolidated ultimate parent level.

Therefore, standalone entity-level reporting may have limited value as it may not align with how the strategy is set and risks and opportunities are managed, monitored, and governed within the organisation. We therefore recommend permitting subsidiaries to meet their reporting obligation by reference to consolidated reporting by their parent institution, including those that are headquartered outside the UK.

## **Transition finance**

We welcome the Transition Finance Market Review (TFMR) and see promoting and facilitating transition finance as an important priority. AFME has provided input to the TFMR, and we look forward to continued collaboration with the TFMR and HM Treasury to support companies in the UK and abroad in accessing the capital they need to decarbonise and deliver Net Zero ambitions.

Policymakers have a pivotal role in fostering a conducive atmosphere for transition finance. Recognising the inherent ambiguities in transition finance - acknowledging that there are various pathways to net zero - is crucial. A rigid regulatory framework can stifle innovation and progress. Instead, a more nuanced, flexible approach that adapts to the multifaceted nature of transition activities is needed. Such a framework should not only accommodate, but also encourage, diverse methods of transitioning towards sustainability.<sup>3</sup> Regulators can further bolster this effort by endorsing market initiatives to develop transition frameworks. Public support from regulatory bodies can lend credibility and momentum to these market-led endeavours.

## **Transition plans**

Transition plans can provide valuable information for banks to understand the decarbonisation trajectories of their clients and engage with them to understand constraints and potential needs or opportunities for financing, supporting the provision of transition finance. They also help companies understand and address their climate impact and adapt their business strategy to make the most of opportunities from the transition. While the adoption of transition plans can help promote the credibility and integrity of sustainable finance, it is important to recognise that transition plans alone do not create the economic conditions needed to make real economy transition activity commercially viable. The government should prioritise a whole of economy approach to transition and recognise that banks' balance sheets, and therefore their transition plans, are a reflection of the wider economy.

We look forward to engaging with the government and the FCA on how to ensure that transition plan disclosures can be designed to support the government's ambition to become a global hub for transition finance. The introduction of transition planning requirements must go through proper consultation and careful consideration. For a disclosure regime around transition plans to be effective, it will need to strike the right balance between credibility and flexibility.

A credible transition plan is one that is science-based, feasible, and contains references to what practical steps companies are taking, or plan to take, to make progress towards their strategic ambition. A flexible approach to transition plan disclosures, allowing room for the bespoke nature of each firm's plan, as well as a 'safe harbour' for firms to disclose forward-looking and sensitive or confidential information, is the best way to ensure transition plans add value without imposing unnecessary costs. Such flexibility would also acknowledge the fact that implementing and, ultimately, achieving the goals set out in a transition plan will depend on external factors such as technological developments and government policy.

As for broader sustainability disclosures, it is important that the UK's regime on transition plans is consistent with the ISSB's global reporting principles - especially when it comes to financial materiality - to ensure a level playing field between firms operating in the UK and other jurisdictions, as well as enabling global investors to compare UK firms with their peers around the world. It will also reduce unnecessary reporting requirements for multinational firms operating in the UK. We encourage the government and FCA to ensure international interoperability of transition planning requirements.

## **UK Green Taxonomy**

The previous government set out plans to launch a public consultation with a view to delivering a UK Green Taxonomy. We strongly encourage the government to first engage widely with companies and financial institutions to ensure that there is a clear use case for a taxonomy, reflecting upon progress in other areas such as sustainability disclosures, transition planning and market practices.

If the government decides to proceed with a taxonomy, it is essential that it is voluntary, decision-useful, usable in practice and interoperable with other key taxonomies such as the EU Taxonomy.

## **ESG Rating Providers**

We encourage the government to proceed with plans to regulate the provision of ESG Ratings, enhancing clarity and trust in the market. This should build upon the Code of Conduct for ESG ratings and data providers launched at the end of last year and ensure that its scope avoids overlap with existing regulation.<sup>4</sup>

## **Securitisation**

Securitisation enables a lender or a creditor – typically a credit institution or a corporation – to obtain finance and transfer credit risk of loan portfolios, exposures or receivables typically originated by that party, by transforming them into (tradable) securities. The lender references or sells a portfolio of its loans, and through a structuring process arranges them into different risk categories for investors, thus giving the



latter access to investments tailored to their risk/return profile and in loans and other exposures to which they normally would not have direct access.

As outlined in our [UK capital markets KPI report](#), the Loan Transfer Indicator measures the capacity to transform bank loans into capital markets vehicles, such as securitisation and loan portfolio transactions. The transfer of loans and their risk is crucial for enabling additional lending to the real economy by freeing up bank balance sheet capacity.

The rate of loan transformation in the UK lags behind other major European markets, such as Spain, France, and the Netherlands, but stands on par with the EU average. According to our indicators, only 1.7% of outstanding UK loans are securitised, compared with 3.4% in Spain, 2.7% in France and 2.4% in the Netherlands. The US remains the world's largest market for the transformation of loan assets into tradeable securities. The proportion of loans transformed into securitisation is currently 6.1% of outstanding US loans and was as much as 19.7% in 2019.

In addition, annual securitisation issuance in the UK has experienced muted growth over the last 10 years. Relative to GDP, securitisation in UK was less than half the level in Japan and China, about a quarter the level in Australia, and 40% lower than in US.

The absence in the UK of a more developed securitisation market has the effect of “embolising” banks’ balance sheets, blocking banks’ ability to initiate new lending to the real economy and thereby impacting the flow of capital to the real economy.

### **A renewed conversation around securitisation**

On 9 December 2022, the UK Government announced a package of proposed reforms to the financial services framework, the “Edinburgh Reforms”, and securitisation was one of the files covered. The Financial Services and Markets Act (“FSMA” 2023) repealed retained EU law, the EU Securitisation Regulation included, and established a new regulatory architecture whereby the UK’s financial services are now regulated by the Financial Conduct Authority (“FCA”), the Prudential Regulation Authority (“PRA”) and the Bank of England (“BoE”).

AFME members are pleased that securitisation was one of the “priority” files and look forward to further engaging with UK policymakers in the second phase of the reforms. AFME members hope that, when completed, the new UK securitisation framework will facilitate the growth of the securitisation market which could, in turn, boost the UK capital market and support the UK economy in two key areas of growth, namely with SME lending as well as funding the green transition.

### **Helping fund SME lending**

Securitisation can significantly aid SME lending by providing a mechanism for banks to free up capital, which can then be used to extend more loans to small and medium-sized enterprises (SMEs).

Whilst UK corporates do use capital markets to fulfil a proportion of their funding needs – approximately a quarter of total non-financial corporate funding is raised via capital markets<sup>2</sup> – there is still significant room for growth when it comes to capital markets funding for SMEs, with the underdeveloped UK securitisation market presenting a unique opportunity to further unlock capital and facilitate additional lending to the real economy.

### **Diversity and inclusion in the financial sector**

AFME and its members strongly believe in the benefits of a diverse workforce and inclusive workplaces and are supportive of initiatives to support Diversity and Inclusion (D&I) in the financial sector.

Government and regulators should also be careful not to impose large burdens on firms through onerous data collection, reporting and disclosure regimes. While robust data can be an important tool to support D&I

strategies within firms, there is a concern that current proposals may lead to an overemphasis on data as an end in itself.

We have therefore encouraged the regulators and Government to consider how the definitions used in this area could be better aligned with existing definitions, for example under UK Equality and Employment law, and how ambiguities can be removed.

D&I is an important topic that should be considered across the entirety of an organisation rather than in a siloed manner. We have concerns that the UK's proposed solo entity approach, while it might appear a sensible starting point, will present challenges for many of our members who are part of wider, global groups. These range from tensions between setting UK-only strategies in a group context to potential duplication or conflict with existing programmes or data collection. It should also be considered that many firms drive initiatives such as D&I via group resources, rather than having dedicated jurisdictional teams.

## Revising the UK-EU Relationship

---

AFME and its members (given their geographical footprints, and the business they undertake) take a substantial interest in the future relationship between the UK and EU, wishing to see both markets develop in tandem and address collectively the global issues that we face. This is not to say that geographical Europe should be inward facing but we should also be looking to foster increased connectivity with the US, Asia, and other international markets.

### **EU-UK cooperation via the MoU and the Regulatory Forum**

We would like to see the new Government continue to build on the UK-EU Financial Services memorandum of understanding (MoU) which established the regulatory dialogue to deepen cooperation in emerging areas of financial services, such as green finance, and identify opportunities to make our approaches compatible. AFME believes that taken together the MOU, and the Joint EU/UK regulatory dialogue can play a crucial part in strengthening the relationship between the UK and the EU.

As previously communicated to HMT, the Forum presents a unique opportunity to lay the ground for a cooperative, stable, and trustful long-term relationship by ensuring structured dialogue on both jurisdictions' regulatory plans and goals.

The Forum should be used to facilitate exchange of information on the functioning of regulatory frameworks as well as on key regulatory developments for financial services and their implementation. The Forum should also provide a platform to allow both jurisdictions to identify and share concerns related to any emerging risks to financial stability. It should also be the basis for cooperation on common challenges like climate change and the digital transition.

### **Strengthening the dialogue**

Over time, once the Forum has proven to be a mechanism to support a trustful long-term relationship, the EU and the UK should explore how to build on its initial arrangements to achieve the further aims set out in the MoU such as achieving truly robust and ambitious regulatory cooperation.

If the incoming Government wishes to strengthen the MOU and the regulatory dialogue, areas of closer cooperation can include:

### **Dedicated sub-groups to share best practices**

Given the breadth of topics likely to be discussed at the Forum, we believe the EU and the UK could explore the possibility of establishing dedicated sub-groups on selected dossiers, such as sustainable finance, digital finance, and on common challenges growing market-based finance.

Such working groups could allow closer cooperation in key policy areas to discuss common challenges and share best practices. In addition to the key points on sustainable and digital finance as described above, both sides could benefit from discussions on growing market-based finance to support the overall economy, including:

- Initiatives aiming to increase the deployment of private saving to finance long term investment and improve retail investor participation in capital markets (e.g. the pensions challenge).
- Exchanges on how to create an attractive listings environment to avoid corporates seeking to list elsewhere.
- Discussion on the benefits of a revived securitisation market and potential collaboration at the global level to support risk-sensitive and proportionate global securitisation standards.

### **Greater cooperation in the international arena**



The Forum, or dedicated sub-groups, could also be used to coordinate on the development and implementation of relevant international standards, building upon the commitment in the Trade and Cooperation Agreement (TCA). Both sides have shared interests in financial services, and this would allow for a coordinated approach by the EU and the UK in relevant international fora in areas of mutual interest.

### **Exploring areas of equivalence**

The MoU signed between the EU and the UK supports arrangements to provide for transparency and appropriate dialogue in the process of adoption, suspension, and withdrawal of equivalence decisions.

AFME believes that, in the future, the Forum could serve as an initial forum to explore, identify, and discuss areas of equivalence that would be mutually beneficial for the EU and the UK to adopt. This is notwithstanding each jurisdiction's autonomy over equivalence decisions.

The Forum allows early sighting of the intent of regulatory developments, which is a necessary requirement to adopt equivalence decisions. Whilst the Forum is not intended as a decision-making body, it could nonetheless pave the way for laying the foundation for equivalence decisions being made over time by establishing coordinated dialogue regarding regulatory outcomes which are required to be met under the applicable third country regimes in the two jurisdictions.



**London Office**  
Level 10,  
20 Churchill Place  
London E14 5HJ  
United Kingdom

Switchboard:  
+44 (0)20 3828 2700

**Brussels Office**  
Rue de la Loi, 82  
1040 Brussels  
Belgium

Switchboard:  
+32 (0)2 883 5540

**Frankfurt Office** c/o  
SPACES – Regus, First  
Floor Reception,  
Große Gallusstraße 16-  
18, 60312,  
Frankfurt am Main  
Germany

Switchboard:  
+ 49 (0)69 710 456 660

AFME is registered on the EU Transparency Register, registration number 65110063986-76