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## LABOUR'S PLANS FOR FINANCIAL SERVICES REGULATION: WHAT WE KNOW

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Labour have won the general election, with a landslide victory of 412 seats. We address the question for financial services firms: what are their regulatory plans for financial services? Although their election manifesto was light on detail in this area, they have provided information in other publications and statements.

In what follows, we remind readers of some of the statements Labour has made, using Labour's own words, in its manifesto and elsewhere, in relation to key areas of financial services regulation. We then provide some thoughts on potential implications for the sector's future at the end.

Only time will tell how Labour will balance many of their strategic priorities with competing interests, such as the fact that they wish to pursue a closer relationship with Europe, but have ruled out a return to the single market, customs union or freedom of movement with the EU.

### OVERALL IMPORTANCE OF FINANCIAL SERVICES

In its manifesto, Labour says: "*Financial services are one of Britain's greatest success stories*" and refers to "*Britain's world-leading financial services industry*". In their January 2024 publication *Financing Growth: Labour's Plan for Financial Services ("Financing Growth")*, Labour described their views on the importance of the financial sector, and their support for it, in more detail. For example they said:

- We will unashamedly champion our financial services sector as one of the UK's greatest assets. Our history as an innovating, industrious, trading nation was built on the foundations of a strong financial sector. The same can be true of our future.
- What we offer is a proudly pro-business, pro-worker government, building on Britain's strengths. The 2008 financial crisis exposed the dangers of an inadequate regulatory regime and dealt a blow to the standing of our financial sector. There can be no going back to the regulatory regime that existed before the dawn of the crisis, and a Labour government will not compromise on long-term stability or the wider public interest. But Britain's economic success will depend on the success of our financial services sector.
- With Labour, regulation will be stable and predictable, and guided by a set of priorities crucial to the success of the sector: efficient, proportionate, incremental, and coordinated across government. That must also mean a balance between consumer protection, competitiveness and financial stability in defining our policy agenda.
- Labour's ambition is for the FS sector to be the engine of growth in the UK economy, by providing the

policy and regulatory environment it needs to compete on a global level and increase investment in the UK economy. Labour will harness the power of what makes us a world leader in FS – our thriving financial and professional services ecosystem, concentration of expertise, global reputation for high-quality regulatory standards, English common law framework, and time zone – to lead the world in green finance and innovation.

## **RELATIONS WITH EUROPE**

In its manifesto Labour says:

- *"With Labour, Britain will stay outside of the EU. But to seize the opportunities ahead, we must make Brexit work. We will reset the relationship and seek to deepen ties with our European friends, neighbours and allies. That does not mean reopening the divisions of the past."*
- *"There will be no return to the single market, the customs union, or freedom of movement."*
- *"Instead, Labour will work to improve the UK's trade and investment relationship with the EU, by tearing down unnecessary barriers to trade".*

In an interview with the Financial Times on 17 June 2024, Rachel Reeves clarified some aspects of its manifesto. For example:

- Reeves signalled that Labour would revisit parts of Boris Johnson's Brexit deal, including seeking closer alignment with EU rules in areas including a better deal for workers in the City of London.
- She said that Labour's manifesto promise to seek a mutual recognition deal for professional qualifications with the EU, along with a veterinary deal and improved touring rights for UK artists were "examples" of what she wanted to achieve. "That's not exclusive," she said.
- Among the further steps in the first 100 days of a Labour government would be an investment summit that aimed to lure in foreign investors who had been deterred by political instability in the UK, she said.

In *Financing Growth*, Labour said they would:

- Seek to build on the UK-EU Financial Services 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.
- Work to secure comprehensive arrangements for mutual recognition of professional qualifications with the EU to facilitate greater sharing of expertise and cross-border trade.
- Explore opportunities to reduce barriers to trade in areas where our regulations deliver similar outcomes, including finding a sustainable solution for cross-border clearing.

## **INNOVATION IN FINANCIAL SERVICES AND FINTECH**

In its manifesto, Labour says:

- *"Labour will take a sectoral approach and be clear-eyed about where the UK enjoys advantages over other countries."*
- *"We will ensure a pro-business environment, with a competition and regulatory framework, that supports innovation, investment, and high-quality jobs."*

In *Financing Growth*, Labour's statements on innovation and fintech included the following:

- **Artificial Intelligence:**

- The development of artificial intelligence will be profound for the future of financial services in the UK, and a key source of innovation in the sector.
- There is a global race to be the country of choice for the growth of AI, which the UK, with our consolidated expertise and strong reputation for regulation, is well placed to lead.
- Consumer protection must come first when regulating new technology.
- Labour will set clear standards for AI safety, and adopt an agile approach to regulation so that the technology can be utilised by FS firms and other organisations to boost growth in every part of the economy.

- **Tokenisation**

- Embracing tokenisation could increase liquidity, provide access to new asset classes and fractionalised assets, and strengthen risk management (by reducing counterparty risks and other operational risks).
- Labour will therefore look to make the UK a global leader in tokenisation by advancing work to clarify the law around tokenisation, and working with regulators to establish a proportionate, outcomes-based regulatory regime to oversee the technology.
- Labour will advance the initial progress to introduce the financial market infrastructure regulatory sandboxes to work out the regulatory bottlenecks for tokenisation and will explore the possibility of a pilot issuance of tokenised gilts via the Debt Management Office to test the impact of the technology and create the demand for tokenised assets.
- Labour will also look to develop partnerships with other financial centres to establish interoperable standards and enable trade of tokenised assets across borders.

- **Digital currency**

- Labour recognises the growing case for a state-backed digital pound to protect the integrity and sovereignty of the Bank of England, and the UK's financial and monetary system.
- Labour fully supports the Bank of England's work in this area, and wants to ensure that issues such as threats to privacy, financial inclusion and stability are effectively mitigated in the design of a central bank digital currency.

## **INNOVATION IN REGULATION**

In a press release in October 2023, Labour announced that it would set up a new "Regulatory Innovation Office" ("RIO"). In its manifesto, Labour has said:

*"Regulators are currently ill-equipped to deal with the dramatic development of new technologies, which often cut across traditional industries and sectors. Labour will create a new Regulatory Innovation Office, bringing together existing functions across government. This office will help regulators update regulation, speed up approval timelines, and co-ordinate issues that span existing boundaries."*

In *Financing Growth*, Labour set out its plan to use the RIO in order to *"improve accountability and promote innovation in regulation across sectors"*, and to promote transparency on regulator performance, including new metrics for the FCA and PRA to demonstrate progress towards growth and competitiveness.

It made the following statements on the FCA and PRA's approach to regulation:

- Labour will consult with the sector to identify overlaps and gaps in regulatory mandates across bodies including the PRA, FCA, CMA, The Pensions Regulator, and PSR.
- Labour will promote best practice in cross-sectoral regulatory coordination, including through data-sharing and integration of new technologies (e.g. RegTech/SupTech) and adapt oversight to accommodate innovative technologies and business models.
- This work will take a forward- looking approach in its review of the regulatory landscape, rather than reconsidering reforms which are currently in-flight or recently put in place (e.g. FSMA 2023).

#### **APPROACH TO NET-ZERO AND SUSTAINABLE FINANCE**

On sustainable finance, the manifesto says:

- *"Labour will ensure the institutional framework for policy making reflects our commitments to reach net zero and meet our carbon budgets. The Conservatives' decision to prevent the Bank of England giving due consideration to climate change in its mandates will be reversed."*
- *"Britain's world-leading financial services industry has a major role to play in mobilising trillions of pounds in private capital to address the greatest long-term challenge of our age."*
- *"Labour will make the UK the green finance capital of the world, mandating UK-regulated financial institutions – including banks, asset managers, pension funds, and insurers – and FTSE 100 companies to develop and implement credible transition plans that align with the 1.5°C goal of the Paris Agreement."*

In *Financing Growth*, Labour have also said that they will:

- Advance the plans for the UK Green Taxonomy, ensuring it is science-based and interoperable with international standards, and user-friendly for business. A Labour government will define a clear timeline for completion of the taxonomy, and voluntary and mandatory reporting for all businesses in scope.
- Work with the sector and data providers to evaluate a potential model for tracking green finance flows to enhance the availability, consistency and reliability of sustainability related data, which will help attract investment to the UK to finance the net zero transition. Having better data will enable a future government to track investment in the UK's net zero transition, identify key sectors where there is underinvestment in relation to sectoral roadmaps, monitor green finance which transacts through London, and track the growth of the UK green economy.
- Ask the FCA, PRA, and HM Treasury to consult on allowing banks and insurers to issue covered bonds secured against green infrastructure. A Labour government will extend the use of covered bonds for green assets to allow banks and insurance companies to borrow and lend more cheaply for net zero infrastructure, and therefore increase the level of their investments in green projects, without putting any costs on taxpayers.

#### **INSURANCE**

Whilst the manifesto does not discuss plans for the insurance sector, in *Financing Growth* Labour said:

- A Labour government will work with the PRA to ensure that the vision for Solvency UK reforms is delivered in practice.
- However, realising the full benefits from Solvency UK reforms requires addressing the critical blockers to investment. For insurers, the current demand for UK assets which align to their risk-return profile, and meet the requirements for Solvency UK, far exceeds the supply.

#### **OPEN BANKING AND OPEN FINANCE**

In its manifesto, Labour says:

- *"Labour will create the conditions to support innovation and growth in the sector, through supporting new technology, including Open Banking and Open Finance and ensuring a pro-innovation regulatory framework."*

In *Financing Growth*, they said:

- Open Banking has driven competition in payments, improved access to credit, and given customers more ownership of their data. Now there is a need to build upon its early successes to deliver new use cases for SMEs and consumers. Labour supports the efforts of the Joint Regulatory Oversight Committee (JROC) to lay out the roadmap for the next phase of Open Banking and ensure appropriate consumer protections are in place, and determining the future oversight entity, and establishing an economically sustainable ecosystem.
- For example, Variable Recurring Payments could give consumers control of their recurring payments, eliminating penalties for failed direct debits which millions of people with variable income are at risk of incurring. Labour supports the JROC's work to define the next phase of Open Banking including laying out the long-term regulatory framework, determining the future oversight entity, and establishing an economically sustainable ecosystem.
- Open Finance can build on the early successes of Open Banking by expanding the system to consolidate data from mortgages, pensions, insurance, and more. Labour recognises the potential for Open Finance to improve financial inclusion, support household saving and investment, and create a new pipeline of data to spur innovation, including personalised solutions for customers.
- The Data Protection and Digital Information Bill will enable the government to provide the regulatory foundation for the future Open Finance infrastructure. A Labour government will work with regulators and industry to develop the roadmap for Open Finance to prove its value and fulfil its potential to improve individuals' financial wellbeing.

#### **CONSUMER PROTECTION REGULATION**

In *Financing Growth* Labour said:

- Labour supports the regulators' secondary objective on growth and competitiveness and the value of the FCA's Consumer Duty as outcomes-focused regulation. They see this as an opportunity to streamline some of the duplicative and excessively procedural rules in the FCA's more than 10,000-page regulatory handbook – which the FCA plans to undertake a review of.
- Labour will direct the FCA to issue an open call to industry to identify rules which have been made redundant by the Consumer Duty and will call on the FCA to define a transparent process for evaluating

and responding to suggestions. Labour respects the FCA's independence in determining the appropriate changes in line with the Consumer Duty.

- Building on conversations with the sector, Labour has laid out a plan for regulation, which has received broad support from the sector, and can be implemented quickly to better protect consumers and provide certainty for BNPL providers.
- Reducing fraud in the UK requires an integrated approach across government, law enforcement, regulators, financial services firms, and tech companies to address the entire ecosystem which enables fraud to occur. This must involve a regulatory framework for tech companies and telcos to participate in the fight against fraud, including through sharing data with FS firms to enhance detection and prevention measures.
- The lack of friction in the UK's real time payments system can make it more difficult to integrate additional fraud prevention checks. A Labour government will support the work by the FCA and the PSR to allow payment services providers flexibility to delay suspicious payments.
- Labour will also direct the FCA and the PSR to evaluate the potential impact of mandated delays on customer retention. And Labour will work with the regulators and payment providers to ensure there are appropriate dispute resolution processes for customers if payments are mistakenly delayed.

#### **THOUGHTS ON POTENTIAL IMPLICATIONS FOR FINANCIAL REGULATION AND SECTOR OUTCOMES**

Labour have spoken of strong support for the financial services sector and its importance, describing themselves as both pro-business and pro-worker. They have described the sector as one of the UK's greatest assets, and have recognised its importance for inclusive growth. However, it is not yet fully clear precisely how they will balance these considerations with other objectives, for example retaining the UK's global reputation for high quality regulatory standards, whilst pursuing an attempt at regulatory streamlining. Labour have also said they want to explore closer relations with Europe, which would certainly be one way to increase revenues from financial services, but have ruled out a return to the common market, customs union and freedom of movement. It is yet to be determined precisely how they will approach closer relations and the degree to which they may permit or pursue divergence from the EU in financial services regulation, especially following Reeves' recent comments that the announced plans are *"not exclusive"*.

Labour have also, in their plans, emphasised their commitment to providing clarity to financial services firms from a regulatory perspective. The current plans are still high-level, highlighting areas of focus, and a stated willingness to work with regulators and businesses, but detailed specifics have not yet been provided. Firms will have an opportunity to participate in upcoming consultations to inform policymakers about areas where they have experienced significant challenges and turbulence, including post-Brexit.

The call to industry for regulatory streamlining will be an area to watch. Labour are clear that they want to promote an "outcomes based" approach in line with the Consumer Duty, but how this will they balance this with their the desire for clarity and for predictable and stable rules within the industry.

Labour are also focused on fraud, which could mean potentially stricter regulatory scrutiny and higher compliance standards. Their plan regarding fraud highlights the necessity for data sharing between tech companies, telecommunications providers, and financial services firms. Some firms are reviewing their approach towards this already, and existing relationships with tech companies with regards to data sharing and fraud, in order to be better prepared for the future and to be able to cite current frameworks in place.

Sustainable finance is also a priority, though it is not fully clear whether the approach will be market-driven or

regulated. Apart from new FTSE disclosure requirements, the strategy appears to lean towards a market-led approach to encourage greater sustainable capital flows.

Labour has maintained its existing stance on innovation and fintech, continuing to support ongoing initiatives in Open Banking and digital currencies.

In summary, Labour has outlined their strategy for the financial services sector, emphasizing key goals and areas of focus. However, specific details and actionable plans remain to be clarified.

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