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How can regulators and the financial sector address vulnerabilities raised by the pandemic ?

The global health crisis caused by the Covid-19 pandemic and the unprecedented economic disruption that has followed continue to be sources of concern for all. The effects will be felt across the world for some time yet and the broader impact will likely only be fully understood with hindsight.

The global financial system has so far proved to be more resilient than during the last financial crisis, at least in part due to the swift and decisive action taken by financial regulators.

As we look to the challenges ahead and consider the medium to longer-term crisis response, we will need to develop a complete picture of how all elements of the system - including banks, market infrastructure, and the non-bank sector - are interconnected, what the impact of market stress has been and what risks have materialised to date. This should act as the foundation for any future regulatory action.

In the immediate phase of the crisis, at the UK FCA we implemented support measures to keep markets functioning, ease operational pressures on firms where appropriate, and ensure that adequate protection for consumers was provided. For example:

- We modified our rules to facilitate equity and debt capital raising, so firms could provide the necessary finance to businesses as quickly and efficiently as possible;
- We provided flexibility over regulatory requirements where appropriate, such as giving firms additional time to publish annual financial reports;
- We introduced a range of temporary measures to support consumer credit and mortgage arrangements in areas where consumers are in financial difficulty.

In doing so, we have worked intensively with our counterparts in the UK, the EU and globally to address common challenges, share insights on respective market developments, and coordinate responses where appropriate. A number of these actions have been coordinated with the Financial Stability Board, IOSCO, and ESMA; the latter within the parameters of the EU-UK Withdrawal Agreement. Pragmatic and swift cooperation with our international counterparts was vital when responding to the immediate pressures of the crisis. It is now critical that we continue to work collaboratively on common challenges, towards common objectives.

Recognising the significant uncertainty that remains over the health situation and

its economic consequences, focus areas will be:

- **Recapitalisation** - Market participants will face rising funding challenges as the economic implications of the crisis continue to unfold. To address these, we have started working on proposals to ensure capital markets continue to be a vibrant source of funding for businesses;
- **Operational resilience** - Sustaining the agility with which firms have adjusted to the unfolding crisis will be important. Alongside the Bank of England, we continue to focus on operational risks, strengthening resilience and business continuity, and minimising consumer harm;
- **Systemic vulnerabilities** - The FCA is actively contributing to new workstreams in global standard setting bodies to come to a detailed understanding of market stress seen in Spring 2020, and to assess potential vulnerabilities in Non-Bank Financial Institutions (NBFI). Early evidence points to significant diversity in the experience of the non-bank sector, meaning it is too early to draw conclusions without first considering how different elements of the broader system have interacted. We must ensure this work and any future regulatory change considers the benefits of vibrant capital markets alongside the potential risks, not least in the context of a sound economic recovery. Domestically, we are currently consulting on proposals to increase the resilience of property funds during periods of market stress;
- **Consumer protection** - It will be essential to build on the measures we have taken to date, to ensure the support we offer consumers is sustainable and reflects the needs of the most vulnerable in our society.

Overall, the financial system has proved to be broadly resilient to this crisis to date, without some of the severe market dislocations observed during the previous financial crisis. As then, this crisis has again demonstrated the value of close and pragmatic cross-border coordination between regulators. Nonetheless, it is clear that the crisis is far from over. Both regulators and the industry will need to continue to work hard to ensure the stability of and confidence in our markets, that consumers are given adequate protections, and that the financial sector can play its part in supporting the economic recovery. ●