

New City Initiative (“NCI”)

Supporting Innovation and Entrepreneurialism in Asset Management: NCI Proposes a Framework for Regulatory Incubation

London, 3 July 2017 – In an opinion paper published today, NCI calls for the FCA to extend to the asset management sector the regulatory incubation, flexibility and support that has allowed the development of new financial technology firms and challenger banks. The full paper is available on [NCI's website](#).

The UK has led the field in this space, developing - among others - the Financial Conduct Authority's (FCA's) Project Innovate and the joint FCA/PRA New Bank Start-up Unit to encourage financial innovation and promote challenger banks, respectively. Initiatives such as these have been emulated by various jurisdictions globally, wishing to encourage establishment of perceived high-value and rapid-growth businesses to obtain a national competitive advantage.

Whilst nascent financial technology, payment services, banking and even insurance start-ups are being so incubated, such initiatives have not been extended to the successful and strategically important boutique asset management sector. NCI encourages the FCA to extend the themes of Project Innovate – an innovation hub; an advice unit; and a regulatory sandbox – to the asset management industry, thereby promoting entrepreneurialism, consumer choice and innovation to this successful and important sector of the UK financial services economy.

SUMMARY OF NCI'S RECOMMENDATIONS

- NCI notes the increased barriers to entry for new UK asset managers over recent years: competition and innovation benefit consumers and should be encouraged.
- Many barriers to entry come from regulatory developments that impose fixed costs that disproportionately affect newly established, smaller asset managers. NCI supports proportionate and well-targeted regulation that aligns managers and clients, yet nascent asset managers can find that the full regulatory environment is incommensurate and stifles innovation.
- NCI proposes that extending the FCA and PRA's regulatory incubation initiatives to the asset management sector will ensure full regulatory oversight in a dynamic and proportionate manner that encourages innovation in the asset management sector. Both new start-ups and new initiatives within larger firms will be husbanded, increasing consumer choice.
- NCI notes that the FCA's financial incubation regime has been emulated in other jurisdictions and that the FCA is expanding its Project Innovate initiative in response: an extension into asset management is natural and will enhance the UK's attractiveness as a jurisdiction with a far-sighted and proportionate regulatory regime.
- NCI invites the FCA and other regulators to engage with it to develop these ideas and help evolve the financial regulatory incubation environment to support the successful UK asset management sector.
- NCI provides some concrete ideas in an appendix Framework Proposal for Regulatory Incubation of Asset Management, structured around three pillars: Support of Innovation and Solutions; Provision of Advice and Improved Process; and Regulatory Pragmatism within a Sandbox Environment.

Commenting on the need to extend regulatory incubation to the asset management industry, Jamie Carter, Chairman of New City Initiative, said:

“Since the financial crisis, the regulatory and capital burdens on asset managers have grown enormously, resulting in a much tougher hurdle for start-ups to overcome. Despite the fact that the asset management industry has much in common with other pillars of the UK's financial services sector, such as banking, insurance and the nascent FinTech industry, it has not benefited from the focused regulatory incubation environment that they have. NCI believes that an extension is feasible and merited, and the FCA's announcement in April 2017 that it plans to continue the evolution of Project Innovate offers the ideal time for emerging asset managers to be included within these initiatives, promoting innovation, consumer choice and a strengthening of the UK's financial services industry.”

ENDS

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About the New City Initiative:

The New City Initiative (NCI) is a think tank that offers an independent, expert voice in the debate over the future of financial regulation. Founded in 2010, NCI counts amongst its members some of the leading independent asset management firms in the City and the Continent. The NCI gives a voice to independent, owner-managed firms that are entirely focused on and aligned with the interests of their clients and investors. Over the last decade, an old fashioned “client-centric” approach has enabled entrepreneurial firms in the Square Mile and beyond to emerge as a growing force in a financial industry dominated by global financial giants. Now, more so than ever, these firms play a key role in preserving the stability and long-term focus of the financial sector, which is of benefit to society at large. Today New City Initiative is comprised of over 50 leading independent asset management firms from the UK and the Continent, managing approximately £500 billion and employing several thousand people.

Core aims:

- To serve as an independent, expert voice in the debate over financial reform;
- To restore society's trust in the financial sector;
- To promote the values and practices of European owner-managed firms which align their interests with those of their clients; and
- To raise awareness of the positive, stabilising contribution small entrepreneurial firms make to the economy and society as a whole.