

---

# Annual Report and Accounts 2015/16

(for the year ended 31 March 2016)

---





# **Financial Conduct Authority**

## Annual Report and Accounts 2015/16 (for the year ended 31 March 2016)

Presented to Parliament pursuant to paragraphs 11(4) and 15(3) of  
Schedule 1ZA of the Financial Services and Markets Act 2000 as  
amended by the Financial Services Act 2012  
and the Financial Services (Banking Reform) Act 2013

Ordered by the House of Commons to be printed on 12 July 2016

HC 385

© Financial Conduct Authority copyright 2016

The text of this document (this excludes, where present, the Royal Arms and all departmental or agency logos) may be reproduced free of charge in any format or medium provided that it is reproduced accurately and not in a misleading context.

The material must be acknowledged as Financial Conduct Authority copyright and the document title specified. Where third party material has been identified, permission from the respective copyright holder must be sought.

Any enquiries related to this publication should be sent to us at

Financial Conduct Authority  
25 The North Colonnade  
London  
E14 5HS

This publication is available at <https://www.gov.uk/government/publications>

Print ISBN 9781474128377

Web ISBN 9781474128384

ID 13021604 07/16

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office



# Contents

Chairman's foreword **4**

---

Chief Executive's statement **6**

---

## **Strategic Report**

**Chapter 1:** Overview of the year 10

**Chapter 2:** Protecting consumers 20

**Chapter 3:** Enhancing integrity 30

**Chapter 4:** Promoting competition 38

**Chapter 5:** How we regulate 44

**Chapter 6:** Our resources 58


**Chapter 7:** Working with the Prudential Regulation Authority 66

**Chapter 8:** Payment Systems Regulator 67

**Chapter 9:** Group Financial overview 68

**Chapter 10:** Directors' Report and Governance 80

**Chapter 11:** Group Financial Statements 98



## **Appendices**

1 Skilled Persons Report **120**

2 Regulatory Decisions Committee Review **122**

3 Environmental Impact Report **127**



## Chairman's foreword

### John Griffith-Jones

Welcome to the FCA's Annual Report 2015/16, which shows how our work over the last year has met our strategic objective of ensuring the relevant markets work well. It also shows the ways in which we have managed the risks to achieving our operational objectives which we identified in our Business Plan 2015/16.

We have now been operating for three years. During that time, we have become clearer about those areas which require our priority focus and how we can best use our powers and resources to deliver the best results. Each year also brings new challenges and, with changes at the top of our organisation and close scrutiny of our activities, this year has been no exception.

Our overriding goal remains the same: for markets to work well. However, the external environment affecting financial services markets is challenging: sluggish global economic growth, unpredictable markets, new regulation and changing demographic patterns have coincided with a greater emphasis on individual responsibility for market participants. The fundamental reforms in pension choices brought in last April, technological changes to the way products and services are delivered and greater focus on responsibility and accountability from the Senior Managers and Certification Regime (SM&CR) have all required major FCA work programmes.

Despite these challenges, and based on what we know, on the whole most UK markets have worked effectively during the year. Across the wide range of financial services, millions of transactions take place efficiently every day, meeting the needs of consumers and businesses. Markets that work well



As a regulator our focus will always principally be on the areas which fail to work as well



encourage greater investment in the UK economy, which in turn provides capital for innovation and competition, resulting in products and services which benefit consumers' increasingly diverse needs.

As a regulator our focus will always principally be on the areas which fail to work as well. I have no doubt that our most effective approach is one of constructive deterrence, highlighting issues and problems and so ideally preventing things going wrong in the first place. In that respect our rules and guidance provide a framework, helping set standards for firms, and our competition work is geared towards creating the structures and incentives for markets.

Where problems do occur our aim is to respond quickly, taking account of the effect that those problems may have on our ability to deliver our statutory objectives. When our supervision of firms identifies problems we are able to intervene more directly, to require changes to business models, to seek redress or take enforcement action to protect consumers and market integrity. By taking a market-wide approach to regulating firms' conduct we also deliver fundamental changes to the way many sectors, such as payday lending, now operate. As a competition regulator, our oversight of markets also requires us to consider the interventions we need to make for competition to work more effectively for consumers. This report describes some of the steps we have taken across these areas.

Overall, a simple quantitative assessment of our achievements during the year is not possible, but we include in this report various outcome indicators and performance measures that help to assess our work.

Over the past 12 months there have been significant changes to our senior management team. I would like to take this opportunity to thank previous Chief Executive Martin Wheatley and Acting Chief Executive Tracey McDermott for their vision, commitment and achievement. They have laid the foundations on which we now build. I was pleased that Andrew Bailey, a longstanding member of our Board,



By taking a market-wide approach to regulating firms' conduct we deliver fundamental changes to the way many sectors, such as payday lending, now operate



was appointed as Chief Executive from 1 July 2016. Andrew gives us the continuity of a Chief Executive who understands our organisation, our statutory objectives and the diversity of the sectors we regulate.

On the Board we bade farewell to Amanda Davidson, Mick McAteer and Brian Pomeroy. My thanks go to all three for their long public service and contribution to the establishment of the FCA. In their place we have welcomed from 1 April 2016 Bradley Fried, Sarah Hogg and Ruth Kelly; I look forward to working with them.

This year we completed our second Board Effectiveness Review to ensure we have the right governance processes in place. We have also strengthened our risk assessment capability, both at Board level and throughout the organisation. And, in tandem with supporting and informing firms in their preparations for the introduction of the SM&CR this March, we also introduced the principles of the regime at the FCA.

On 1 April 2015 the Payment Systems Regulator (PSR) began its work as the economic regulator for the payments systems industry in the UK, operating as a subsidiary of the FCA. It has made significant progress in setting out its remit in a sector which had not previously been subject to economic regulation. We have taken a close interest in its work over the first year and will continue to do so; you can find more about the PSR in its own Annual Report and Accounts.

As with the firms and individuals we regulate, we know that fostering the right culture and competence among our people is critical to how well we deliver our objectives. In last year's Business Plan we set ourselves a number of goals to further the knowledge, skills and diversity of our workforce.

We have continued to invest in the training and development of our staff, for example through our high-potential leadership programmes and the MSc in Financial Regulation which we run jointly with Henley Business School. Our commitment to diversity is reflected in the proportion of

women in senior roles: 45% of our managers and 50% of the Board are women. However, we recognise that there is still more to do in improving Black, Asian and minority ethnic representation at senior executive and Board levels.

By investing in our people we will continue to ensure we have the right skills to deliver on our objectives year-on-year. Looking at the wide range of activities we have completed in the last 12 months, I would like to take this opportunity to thank all our staff for their contribution and ongoing commitment.

Looking forward, the UK has just voted to leave the European Union (EU), which clearly has significant implications. Much financial regulation currently applicable in the UK derives from EU legislation. This regulation will remain applicable until any changes are made which will be a matter for Government and Parliament. The longer term impact of the decision to leave the EU on the overall regulatory framework will depend in part on the relationship that the UK seeks with the EU in future. We will work closely with the Government as it confirms those arrangements.

**John Griffith-Jones**  
Chairman



## Chief Executive's statement Tracey McDermott

This, the FCA's third annual report, sets out how we have delivered against our objectives over the last financial year. It is not an exhaustive account of everything we have done in the past year. Instead it provides an overview of our work, highlighting some of the significant interventions we have made in the course of the year and illustrating how we have sought to deliver our statutory objectives.

We have a demanding and complex job with responsibility for regulation of a wide range and variety of firms and markets. We have a correspondingly wide range and variety of tools at our disposal. We look to use these in the most efficient and effective way possible, applying our expert and independent judgement to identify the tools and interventions that are most likely to deliver the outcomes we seek.

Our aim is to change the way financial services markets work for the better and everything we do is designed to play its part in driving such change. Much of our work seeks to deliver forward-looking changes to the way the markets we regulate operate. Examples of this include our thematic work on the treatment of long-standing customers, where we are exploring the scope for a voluntary cap on charges on long-term products, and our market studies which seek to identify ways in which we can improve competition in markets for the benefit of end users. This year we have undertaken extensive studies both in relation to our retail responsibilities – through, for example our credit card market study – and our wholesale responsibilities through our market studies into investment and corporate banking and asset management. Less publicly, but just as importantly, we continue to push for higher standards through our work at the gateway and in our ongoing supervision of regulated firms.



Our aim is to change the way financial services markets work for the better and everything we do is designed to play its part in driving such change



We have also delivered against an ambitious and demanding programme of legislative and regulatory reform. Domestically we have implemented the Senior Managers and Certification Regime which seeks to deliver a step change in individual accountability and have made the necessary policy changes to provide an appropriate framework for firms to operate the new pension freedoms. Internationally, we have devoted significant resources to influence policy and technical standards through bodies such as the European Securities and Markets Authority, the International Organisation of Securities Commissions and the Financial Stability Board, as well as through wide-ranging and extensive bilateral engagement with fellow regulators around the globe. We have made significant progress on implementation of major initiatives such as the Markets in Financial Instruments Directive II and the Market Abuse Regulation.

And we have demonstrated a willingness to listen to, and work with, stakeholders who identify areas where our approach might need to change, for example through our work on the Debt Market Forum, Project Innovate and the Financial Advice Market Review. We have used our influence and convening power to initiate debates on issues such as the changing financial services needs of our ageing population, access and vulnerability and the evolving nature of our wholesale markets.

As well as looking forward, it is of course important that we also address the problems of the past. Securing redress for consumers and taking enforcement action against those who do not meet our standards continues to be a critical element of our work. And in the past year we have continued to take tough action where required – imposing penalties of £884.6m on firms and individuals, banning 24 individuals and seeing jail sentences totalling 32 years and nine months' imprisonment handed down to individuals we have prosecuted. The trial in the case of Operation Tabernula, our largest and most complex insider dealing investigation to date, started in January and concluded with two convictions in May. We are now firmly established as a capable and expert prosecutor of the most complex financial crime.





We are now firmly established as a capable and expert prosecutor of the most complex financial crime



We have agreed 23 redress schemes in respect of firms which should deliver some £334m of redress to tens of thousands of consumers who have been let down by the firms they trusted; we have almost concluded the long-running Interest Rate Hedging Product scheme which has delivered over £2bn of redress to 18,100 customers and we have required 134 firms to amend or withdraw financial promotions to ensure customers are given fair, clear and not misleading information.

This brief summary gives a flavour of the different approaches we can take to address the challenges we face. More details are provided in this report. But as has been amply demonstrated by the response to one of our decisions this year – to change the way we were approaching our work on culture change in banks – not everyone will always agree with, or perhaps understand, the decisions we make about our approach.

It is right that as a public body we should be challenged on, and held accountable for, the decisions we make. Indeed we welcome such challenge. It reflects the immense importance of the work we do for the benefit of all users of financial services, from individuals to multinational corporations, in the UK. It is, however, also of critical importance that the public debate on these issues recognises and acknowledges that the job of the FCA as an independent regulator is not to please everyone all of the time. Indeed that would be impossible. Often our stakeholders will have diametrically opposed and irreconcilable views. It is important that we listen to those views and take them into account but it is not our job to adjudicate between them.

Parliament has given us the powers and authority to make important decisions based on our expert judgement, and the job we have to do is to arrive at our own view on the right regulatory approach – fairly, objectively and, above all, independently. That is not always easy, or popular, but it is precisely what the FCA was established to do and our success will be judged on the results of our approach over the long term.

Of course, as well as responding to the external issues facing the financial services sector, the FCA has also this year faced some internal challenges and, in particular, significant changes in the leadership of the organisation. I am very proud of what the organisation has achieved in the past year, all of which is down to the dedication and hard work of the talented staff at the FCA. I would like to express my gratitude and admiration for their commitment and focus on the job in hand – making sure that the FCA does everything in its power to deliver the best possible outcomes for consumers and markets.

I would also like to thank John Griffith-Jones and other members of the FCA Board (past and present) for their support and counsel to me both over the past nine months and over many years previously and Martin Wheatley for all he did for the FCA and, on a personal level, for all I learned from him.

I am confident that under the stewardship of Andrew Bailey, the FCA will continue to go from strength to strength.

**Tracey McDermott**  
Acting Chief Executive

# Examples of work against our 2015/16 Business Plan priorities



A strategic markets-led approach to regulation

## **2 new market studies**

investment and corporate banking & asset management

## **2 new Calls for Input**

mortgage competition & 'Big Data' in general insurance

## **Published 12 thematic reviews including:**

oversight and control of financial benchmarks, debt management advice & investment portfolio suitability

## **Fair and Effective Markets Review**

**7** further benchmarks entered regulation

Assessed the controls of **20 banks** who submit to LIBOR

Completed our **FX Remediation Programme**

## **Supporting competition**

Our Innovation Hub has helped **230** firms



Protecting consumers

Published final **Retirement Income Market Study**

Successfully integrated over **25,000 consumer credit firms** into FCA regulation

Agreed **23 redress** schemes delivering **£334m to consumers**

Issued **185 consumer alerts**

Published our review into **fair treatment of long-standing life insurance customers**



## Individual accountability

Implemented the Senior Managers and Certification Regime (SM&CR) – over **41,000 people** working in over **1000 firms** now covered by SM&CR

Published **new rules on remuneration** in the banking sector

Issued **17 fines** totalling **£4.2m**

Prohibited **24 people** from working in regulated financial services

Published **new rules on whistleblowing**



## International issues

Hosted the **40th IOSCO Conference**

Continued the FCA's **significant leadership** role in international fora

**Positive findings** for the **IMF FSAP** assessment of the FCA



## Our people

As at **31 March 2016** we had **3,337** staff

Staff turnover was **11.5%**

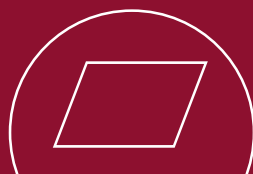
Improved our ranking in **Stonewall's Top 100 Employers** from 82 to 40

Delivered **6,400 training days** to our staff



# 1

# Overview



## Introduction

How well financial markets work affects us all, both as individuals or businesses using financial markets and because of the importance of financial services to the wider economy in which we earn, save, invest and spend. The FCA's remit covers all players in these markets from small consumer credit firms and mortgage brokers through to global universal banks and exchanges.

Parliament has given us a strategic objective of ensuring that financial services markets function well. To advance our strategic objective we have three operational objectives.

These are to:

- secure an appropriate degree of protection for consumers
- protect and enhance the integrity of the UK financial system
- promote effective competition in the interests of consumers

This report sets out how we have advanced our objectives over the past year and illustrates how our approach is differentiated to reflect the varied challenges and risks posed by the wide range of firms we regulate and nature of the customers they serve.

### An evolving and enabling strategy

As the FCA has developed, our regulatory approach has adapted to meet the challenges we face. Our Business Plans demonstrate our shift towards a more markets-based approach, allowing us to look across sectors and regulate them more effectively. This approach gives us both a deeper and an earlier understanding of emerging risks and helps us ensure that lessons learned in one sector can be applied across many.

Our regulatory role is, inevitably, often focused on identifying and tackling instances of poor conduct. But our role is also an enabling one; we seek to provide firms with information, guidance and best practice to help them operate fairly and effectively, with the interests of customers and the markets at the centre of their business. This can include working collaboratively with those we regulate to help bring to the market new products and services that will benefit consumers.

Competition between providers can drive up standards of conduct and deliver better results for consumers. We use our competition tools to look across markets and identify the models and practices which are working in consumers' interests. Where we find barriers to competition, either within business practices or as a result of our rules, we take steps to remove them.

During 2015/16 we significantly revamped our supervision model, delivering a revised and more sector-focused approach that has enabled us to keep our costs down and fees flat for 2016/17. We have also strengthened our ability to manage risks and use insights gained to inform our policy development and focus our resources. We have invested resources in making more effective use of the collective knowledge we gather of the financial services markets to target our efforts better and make more informed decisions on when, where and how to intervene.

This work has not been done in isolation. We have continued to engage with our wide range of stakeholder groups through meetings, events and conferences as well as extensive bilateral engagements with consumer groups, firms and trade bodies. Initiatives such as our UK-wide Live and Local programme enable us to meet hundreds of firms across the UK.

Across the organisation we are focused on how we deliver our activities in the most efficient and effective way and we seek to ensure that we provide value for money in our work. We recognise that regulatory costs can be significant to firms and individuals so we strive to ensure these costs are proportionate to the benefits to consumers and markets of an effectively regulated and trusted financial services sector. Our aim is always to seek to ensure that the regulatory costs faced by firms and individuals are as low as they can be to deliver the outcomes we seek.

## How we regulate

We aim to deliver a sustainable model of regulation for the long term, with a proportionate, stable and predictable regulatory environment.

We consider markets and sectors as a whole so that we can target our work to achieve the best results. When there are common root causes for problems we can intervene more effectively at a market level, whether in tackling competition issues, consumer detriment or poor conduct. This approach drives change across a larger number of firms and, in turn, benefits a larger number of consumers or users of their services.

We provide rules, guidance and support; we share examples of good and poor practice and encourage firms to adopt the best. Where possible we seek to work collaboratively, consulting on proposed policy changes and encouraging best practice through education and information, engaging and influencing industry. If, however, firms or individuals do not meet our requirements we take decisive action, intervening to take enforcement or other regulatory action as appropriate.

When considering changes to rules, we consider the costs and benefits of doing so, including consideration of the costs to, and burden on, firms. We recognise that markets are continuously changing and that regulation must adapt and evolve. Going forward, we will continue to consider whether any rules can be removed or redrafted to better achieve our statutory objectives.

Our work is based on our assessment of risk. We undertake an analysis of wider external medium to long-term risk which we publish in our annual Risk Outlook. We also bring together intelligence from a wide range of internal and external sources to help us form a cohesive view of the risks in each of the sectors we regulate. We use a judgement-based, forward-looking and pre-emptive approach to assess the impact and nature of potential risks. Our aim is always to respond effectively to emerging issues to ensure we mitigate and minimise the harm they could cause.

We take a proportionate approach to regulation and classify firms as either 'fixed' or 'flexible' depending on a range of factors including, for example, the firm's size, market presence and potential consumer impact. We provide the small proportion of fixed portfolio firms (around 100 in total) with a named supervisor and have a firm-specific proactive programme of supervision tailored to the firm. The majority of firms we regulate are in the flexible portfolio. We supervise the majority of these firms through a combination of market-based thematic work and programmes of communication, engagement and education activity.

In addition we carry out proactive monitoring and assessment of a proportion of our firms in relation to specific issues such as management of client assets, prudential limits or compliance with financial crime requirements. We identify the firms to which this applies based on a range of factors such as the size, complexity and nature of a firm's business.

## Delivering our key priorities

Our 2015/16 Business Plan set out the risks that we saw to our strategic and operational objectives, and how we intended to address them through our activities for the year ahead. Our Plan set out five key areas. These are highlighted below alongside some examples of key pieces of work undertaken in each area.

### 1. A strategic markets-led approach to regulation

We have shifted the emphasis of our work to be more markets-focused, looking broadly across the sectors we regulate.

- *Market-focused work programmes:* We launched four new market studies or calls for input looking at investment and corporate banking, asset management, competition in the mortgage sector and the use of 'Big Data' in the retail general insurance sector. We concluded thematic reviews in respect of a range of issues including oversight and controls over financial benchmarks, debt management advice, treatment of long-standing customers and suitability of investment portfolios in wealth management
- *Wholesale market integrity:* We made significant progress in implementing the recommendations from the Fair and Effective Markets Review, which reviewed the way wholesale fixed income, currencies and commodities markets operate. We concluded our remediation programmes which involved an innovative approach to working with more than 30

firms across the industry to tackle issues identified in our investigations into misconduct in wholesale FX markets.

- *Supporting competition:* In its first 16 months, our Innovation Hub has provided support to 230 firms, 18 of which have been authorised to undertake authorised activities with a further 21 applications for authorisations in progress. We have been developing our RegTech Strategy which takes into account evolving economic, market and technology developments and in November 2015 we published our RegTech analysis and a Call for Input.

### 2. Protecting consumers

Taking action to protect consumers – both proactively through setting standards and through action to tackle historic problems is a core part of what we do. While maintaining an interest across all sectors, this year we have focused particularly on two areas: the pensions market; and consumer credit as we have taken on greater responsibilities for the sector.

- *Pensions and an ageing population:* We published the final findings on our Retirement Income Market Study, proposing remedies including making customers more aware of annuity rates available on the open market, plus simplifying pension providers' at-retirement communications with their customers. We also published a discussion paper on the ageing population – an important step in stimulating debate and discussion on the needs of the changing population.

- *Consumer credit:* After taking over regulation of this sector in April 2014 we have successfully integrated over 25,000 firms into our regulatory regime. By March 2016 we had authorised more than 33,000 firms to carry out consumer credit activities. We also undertook one of our largest scale studies to date into the credit card market.
- *Pension Wise:* Our standards for Pension Wise designated guidance providers came into force in April 2015. We held readiness meetings with all such providers in advance of launch and held regular meetings to monitor their performance.
- *Supervisory work on pension freedoms:* We introduced rules requiring firms to provide appropriate risk warnings to consumers who have decided how to access their pension savings and monitored firms' performance in this area.
- *ScamSmart:* We ran the second phase of this successful campaign to help raise at-risk consumers' awareness of investment scams and how to avoid them. Over 94,000 people visited our ScamSmart website this year.
- *Enforcement:* We have reviewed over 8,400 reports of potential unauthorised activity, issued 185 consumer alerts and supported law enforcement agencies' action against criminal activities by firms and individuals.

### 3. Individual accountability

Future confidence in financial services will depend on senior individuals in positions of responsibility taking personal accountability for how their firms operate and the consequences of misconduct.

- *Changing culture:* We rolled out a supervisory approach in wholesale banking designed to raise the overall standards of conduct risk management in the industry, ensuring that the industry itself takes responsibility for, and ownership of, the management of conduct risk.
- *Senior Managers and Certification Regime (SM&CR):* We implemented the SM&CR for banks, building societies, credit unions, and the nine PRA designated investment firms, which will increase individual accountability and raise standards of corporate governance and conduct. Over 41,000 individuals working in nearly 1,000 firms were migrated to this new regime.
- *Remuneration Codes:* We published new remuneration rules, which include changes to deferral and claw back of variable remuneration, such as bonuses, to align risk and individual reward in the banking sector and discourage irresponsible risk-taking and short-termism.
- *Enforcement action against individuals:* We issued 17 fines against individuals totalling £4.2m and prohibited 24 individuals. There have also been eight criminal convictions for unauthorised business.

### 4. International issues

The financial industry is a globally connected system. We work together with other regulators to ensure the highest possible standards of market integrity and consumer protection.

- *International engagement and implementing EU policy:* We have worked with the European Securities and Markets Authority (ESMA) to develop MiFID II measures, including extending transparency requirements from equity markets to other asset classes such as bonds and derivatives and introducing greater competition between trading venues. We have continued to lead work to develop European and global standards through our chairing of several ESMA and IOSCO policy committees. At IOSCO we have been active in work to improve standards of market conduct by individuals and firms, and in June 2015 we hosted the 40<sup>th</sup> Annual IOSCO Conference in London. We continued our work with the Financial Action Task Force, a global inter-governmental body which sets standards for combatting financial crime and threats to the integrity of the international financial system.
- *IMF Financial Sector Assessment Programme Review:* In 2015/16 the IMF undertook a comprehensive review of the UK financial sector. Overall, the IMF's view is that reforms to the UK's regulatory framework have improved the financial sector's strength and resilience, and that the authorities have developed a rigorous and hands-on approach to microprudential and conduct supervision. The IMF credited the FCA for having developed a 'sophisticated risk-based approach' for securities markets supervision that strikes the right balance between firm-specific and market-based supervision.
- *Financial crime:* We worked closely with domestic and international partners in the negotiation of and start of the transposition into UK law of the Fourth Anti-Money Laundering Directive. We issued guidance on the risk-based approach and now consider the appropriateness of firms' de-risking strategies, including whether they could lead to competition issues, during our anti-money laundering assessments.

### 5. Our people

In order to deliver our objectives, we depend on our ability to attract and retain talented people. We have continued to focus on making the FCA an employer of choice.

- *Diversity and Inclusion:* This year we were again included in Stonewall's Top 100 Employers Index, improving our ranking from 82 to 40.
- *Investing in our Employees:* our Academy learning centre delivered 6,400 training days with 56% of employees attending at least one classroom session.

- *Employee engagement:* Our employee engagement survey for 2015 showed a decline in comparison with 2014, although six of the eight survey areas remain ahead of 2013 scores. The strongest scoring categories remain engagement (84%), line management (80%) and wellbeing (80%). 76% of staff participated in the survey.
- *Employee turnover:* Overall external turnover increased during the year and reached a stable level of 11.5% by the end of the year. At the same time, we continue to be able to attract the talent we need with a rise in the employee base from 3,188 full time equivalent (FTE) at the start of the year to 3,337 FTE by the end.

## Measuring our performance

We aim to be an accountable and transparent regulator. We are also required by legislation to assess how we have advanced our operational objectives on an annual basis.

We have summarised our actions against the priorities in our 2015/16 Business Plan and in chapters two, three and four we have described the activity which aims to advance each of our operational objectives. We also endeavour to measure our performance as objectively as possible, using an outcome-based performance framework (figure 1.1).

Our remit encompasses a wide variety of markets and there is no single metric or robust analytical approach that demonstrates whether a particular market is working well, or how our activities impact on those markets. It is also difficult to establish a robust counterfactual on how markets may have worked if we had exercised our powers differently. Whilst the analysis we undertake using our performance framework helps us to understand how aspects of markets are working, the metrics available differ to one another in timescale, scope and proximity to FCA actions. Market outcomes are often long-term and need to be observed over many years to identify trends. The delivery of outcomes is also ultimately dependent not solely on regulators but also on consumers, market participants and industry.

While this framework is useful the outcomes are therefore not an absolute measure of the FCA's performance. They provide us with a broad picture, some elements of which can be interpreted positively, but in other areas it is not possible to draw robust conclusions; this is reflected in our commentary on the indicators. We will continue to refine our use of outcome indicators in future years.

Taking into account both the information which the indicators give us and looking at the range of activities which are set out in this report, our judgement is that we have acted compatibly with our strategic objective and advanced our operational objectives over the course of the year.

### Outcome Indicators

Figure 1.1: Measuring performance against the statutory objectives

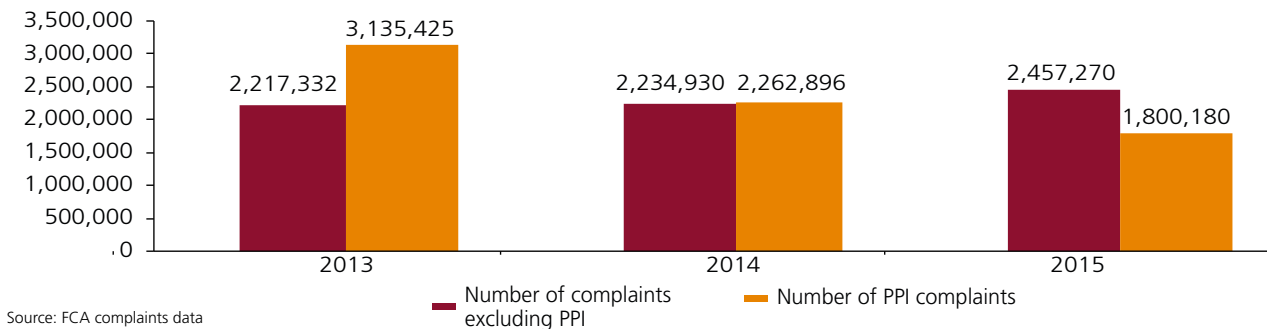
Statutory objectives	Ensuring that financial services markets function well					
	Securing an appropriate degree of protection for consumers		Protecting and enhancing the integrity of the UK financial system		Promoting effective competition in the interests of consumers	
Outcomes	Consumers have access to fair products and services, which deliver what they promise	Consumers can be confident that firms treat them fairly and fix problems promptly	Consumers can trust firms to be fit and proper and for financial markets to be clean	A respected regulatory system that lets good firms know where they stand	Competition contributes to improved consumer outcomes	Firms compete on clear costs and consumers have the information they need
Outcome indicators	Fair products and services	Building trust and engagement	Clean regulated markets	Attractiveness of market	Value for money products and services	Competitive markets
	Improved consumer experience	Effective remedies	Low financial crime	Respected, joined-up regulation	Getting better service	Clear and useful information

## Securing an appropriate degree of protection for consumers

We undertake research and monitor the market to understand what consumers think about the products and services they use and how satisfied they are with them. The selection of metrics below provides an indication of changes in consumer outcomes. By looking at complaints and customer satisfaction we gain an insight into consumers' interactions with firms to provide input into our assessment of how the market is performing.

Our complaints data comes from information that firms provide through their regulatory returns to the FCA and from the Financial Ombudsman Service. We monitor this information to assess the scale of issues in the industry and identify emerging trends.

**Figure 1.2: Complaints received by regulated firms**



**Figure 1.3: Complaints received by the Financial Ombudsman Service**

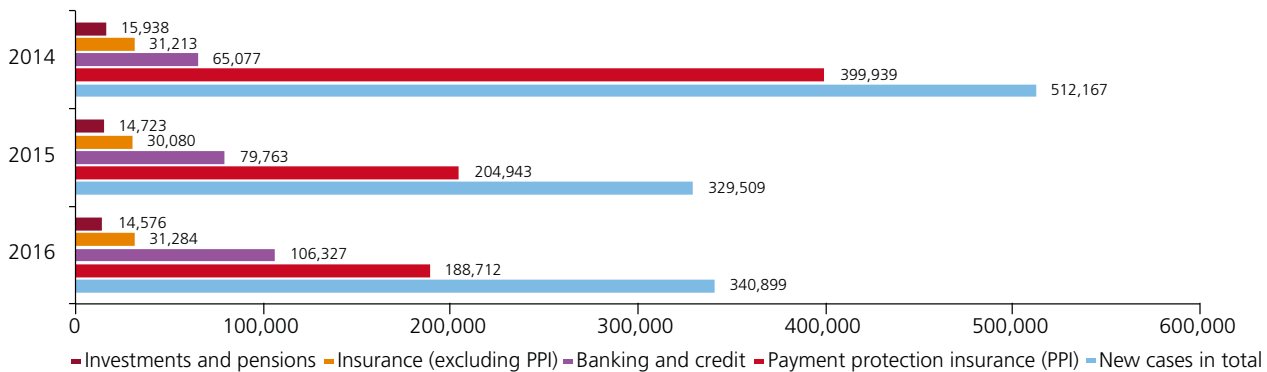


Figure 1.2 shows the total number of complaints received by firms which gives an indication of how firms are treating their customers. Figure 1.3 shows the number of new complaints made to the Financial Ombudsman Service.

Complaints relating to PPI have continued to account for a large percentage of total complaints, though this ratio has decreased significantly over the last three years, which reflects the mature nature of the PPI issue. We have therefore split out PPI complaints from other complaints.

Figure 1.2 shows that the total number of complaints received by firms excluding PPI, increased by nearly 10% from c. 2.2m complaints in 2014 to c. 2.45m complaints in 2015.

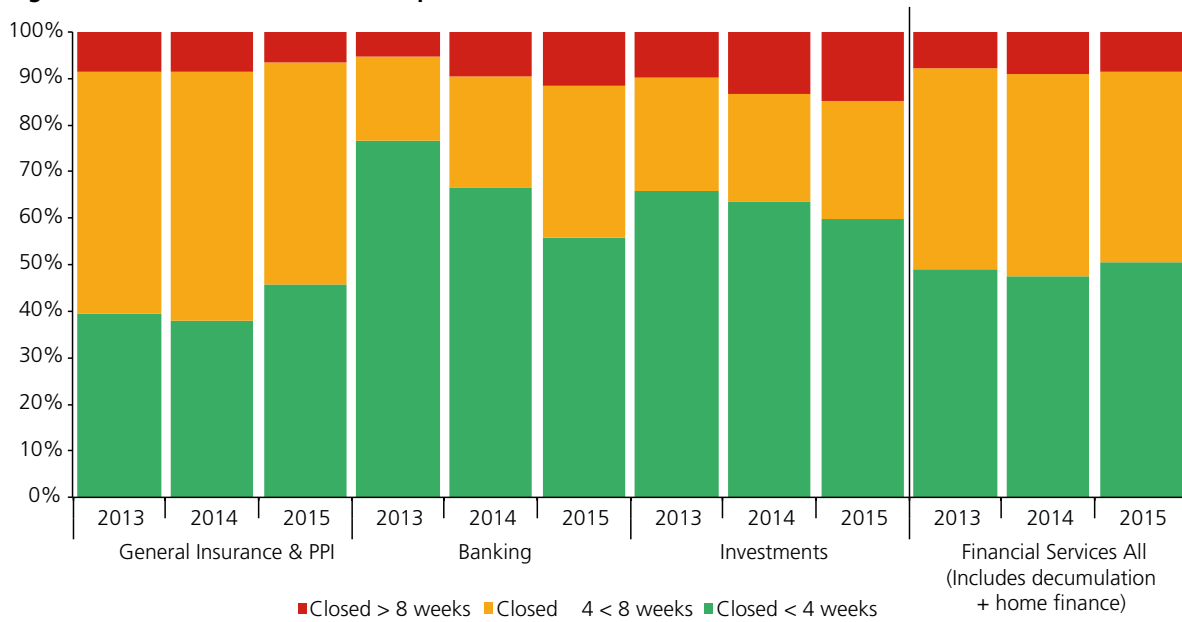
Figure 1.3 shows the total number of complaints referred to the Financial Ombudsman Service. Excluding PPI, complaints have increased by about 22% from c. 125,000 in 2014/15 to 152,000 in 2015/16. This increase is due to a rise in complaints about banking and credit firms, whereas complaints in other sectors have largely remained stable.

This overall upward trend is a concern for the FCA, as it might suggest that consumers encounter more issues.

However, it is important to note that complaints data is an imperfect indicator of how the financial markets are performing. This is due to the time lag between the incident and the complaint being raised (complaint could relate to a product sold several years ago) and between it being raised and being referred to the Financial Ombudsman Service. Also, other, more positive factors may affect the number of complaints, e.g., consumers' awareness of their rights and how to exercise them.



**Figure 1.4 – Time taken to close complaints**



Source: FCA complaints data

The time taken to close complaints gives an indication of firms’ ability to handle consumers’ complaints quickly. Overall (Financial Services All), 2015 saw an improvement in the time taken to close complaints compared to 2014 with more complaints closing in four weeks or less, and fewer that take 8 weeks or more to close. This overall trend is encouraging. However, handling complaints promptly may be affected by different factors, such as a change in the complexity of issues that arise.

**Figure 1.5: Consumer Insight Survey**

**?** Overall, how satisfied are you with your product provider?

(Result is the addition of the very and fairly satisfied responses)

Sector	Result
Banking	88%
Credit	84%
Savings	87%
Investment	88%
General Insurance	77%
Mortgage	83%

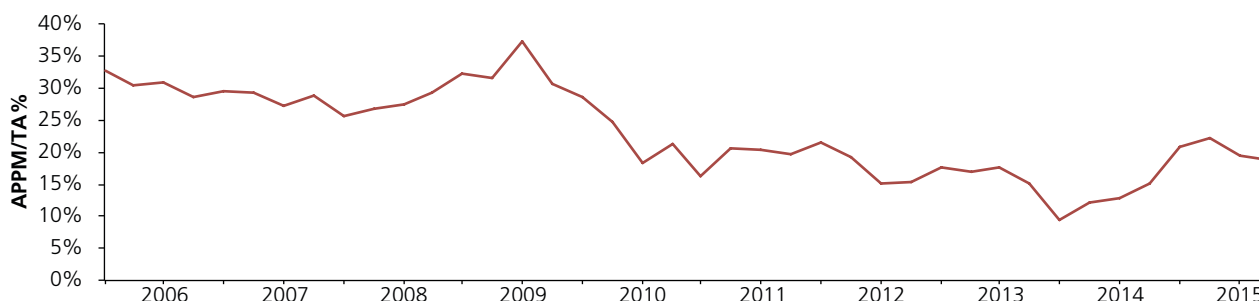
Source – FCA Consumer Insight Annual Survey 2015  
Sample sizes of between 363 (investment) and 2001 (banking).

We monitor customer satisfaction to provide a view of customers’ perception of the market and the quality of products and services. The survey, in this format, was conducted for the first time in 2015 and therefore does not have year-on-year data for comparison. We plan to run the survey again in the future which will allow us to assess trends.

**Protecting and enhancing the integrity of the UK financial system**

We aim to support a healthy and successful financial system, where firms can thrive and all consumers can have trust in transparent and open markets.

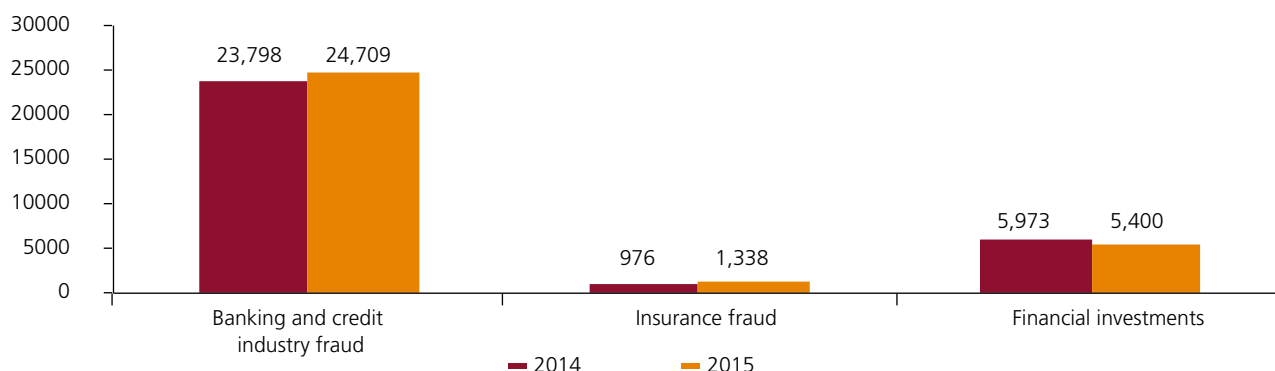
**Figure 1.6: Market Cleanliness Statistic<sup>1</sup>**



Source: FCA market monitoring data

The market cleanliness statistic (figure 1.6) gives an indication of possible insider trading prior to takeover announcements. For the four years leading up to 2009, the market cleanliness statistic for takeover announcements remained close to 30%. From 2010 onwards, we observed a sizeable decline in the measure to an average level of 14.3%<sup>2</sup> in 2014. In 2015, we have seen an increase to an annual average of 19%. This was driven by an increase in abnormal pre-announcement price movements (APPMs) during the first two quarters followed by a decline in APPMs in the last two. Given the small number of takeover announcements and APPMs in 2015 (69 and 13 respectively), it is difficult to draw meaningful inferences from year-on-year changes of the size we observed.

**Figure 1.7: Fraud Reported to Action Fraud**



Source: Office for National Statistics, as recorded by the National Fraud Intelligence Bureau – Action Fraud Figures

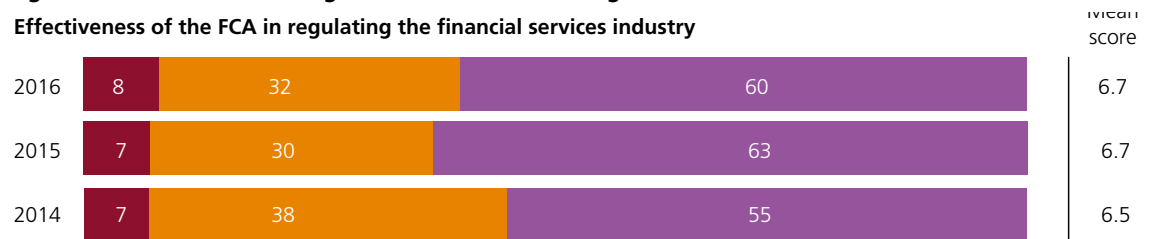
Figure 1.7 shows the number of reports of fraud from individuals and small businesses (coming either directly or via a police force) made to Action Fraud<sup>3</sup> on the phone or online. The results for 2015 show that reported fraud has risen slightly in banking, credit and insurance. However, we are pleased to see a near 10% reduction in reported fraud in financial investments, which may indicate that efforts in this area by the FCA and a range of partner agencies, including our ScamSmart campaign, have helped to educate consumers and deter fraudsters to reduce the level of fraud occurring.

1 We analyse the scale of a share's price movements in the two days ahead of a regulatory takeover announcement relating to it and identify movements that are abnormal compared to its normal movement. It is important to note that the level of these abnormal pre-announcement price movements (APPMs) does not provide a precise measure of the level of insider trading. Many factors other than insider trading could cause an abnormal price movement ahead of a takeover announcement. For example, financial analysts or the media correctly assessing which companies are the likely takeover targets or significant non-abusive trades that just happen to fall before an announcement. It is not possible to determine which of these factors is behind each abnormal price movement and therefore whether any insider trading might have taken place.

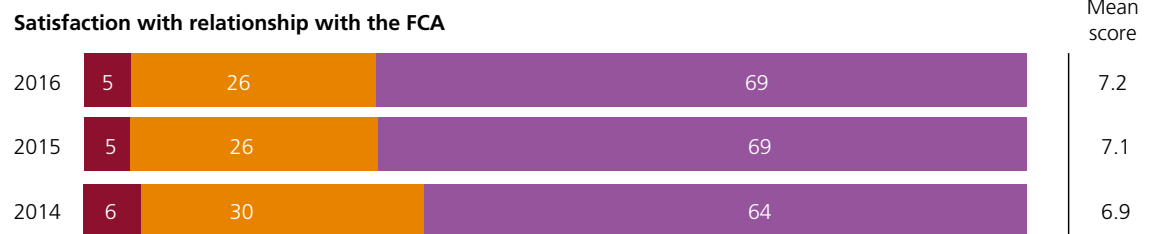
2 There is a correction from last year's reported results. Then we reported the market cleanliness statistic as 13.88%. The correct figure should have been 14.3%. This discrepancy was due to a mistake in the manual update of an excel file which is used to produce the graph.

3 Action Fraud is the UK's national reporting centre for fraud and cyber crime.

**Figure 1.8: Practitioner ratings on 'FCA as effective regulator'**



Base: All firms - 2016 (3,357), 2015 (4,055), 2014 (3,146)

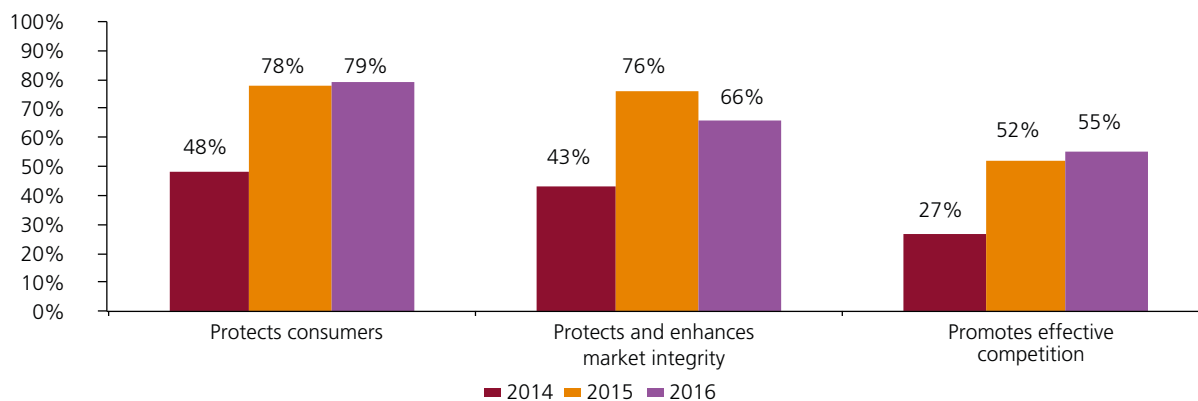


Base: All firms - 2016 (3,357), 2015 (4,055), 2014 (3,146)

■ 1 to 3 ■ 4 to 6 ■ 7 to 10

FSMA requires us to establish a Practitioner Panel which enables us to get industry’s input into our thinking. The Practitioner Panel carries out an annual survey which, among other things, asks firms to score their views on the perceived ‘effectiveness of the regulator’ and ‘satisfaction with the regulatory relationship’. In the most recent survey the mean overall score rating the effectiveness of the FCA has remained the same at 6.7<sup>4</sup> (ratings out of 10). The mean overall score rating satisfaction with the relationship with the FCA continues to show an improvement and has risen from 6.9 in 2014 to 7.1 in 2015 and 7.2 in 2016 (ratings out of 10). The survey has highlighted three areas where the industry would value improvement from the FCA: improving the knowledge of FCA staff and supervisors; more transparent regulation; more forward looking regulation, including a better understanding of the impact of our work on the industry.

**Figure 1.9: Agreement that the FCA is achieving its operational objectives**



Source: BritainThinks annual stakeholder research 2015/16.  
 Q5B. And how far do you agree that the FCA is doing this at the moment?  
 Base: All stakeholders interviewed in 2014 (150), 2015 (152) and 2016 (152)

We also conduct independent annual stakeholder research which asks a wide range of our stakeholders – including trade bodies, consumer organisations, parliamentarians and the media – how well they think we are achieving our objectives (Figure 1.9). The results for 2015/16 show a slight increase in the perception of how well we are advancing our objectives of protecting consumers and promoting effective competition. There has been a decline in stakeholder views that we are successfully protecting market integrity (66% in 2016 compared to 76% in 2015).

Looking beyond perceptions of the FCA’s statutory objectives, stakeholders’ confidence in the FCA’s overall abilities and day-to-day competencies remains broadly consistent with last year’s results.

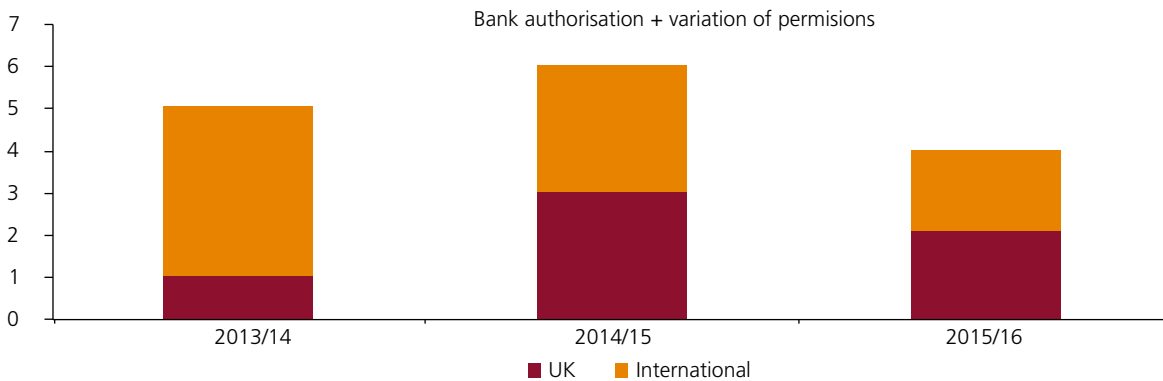
<sup>4</sup> While the distribution between the different bands has changed, the mix of scores within them means that the average remains the same at 6.7.

**Promoting effective competition in the interests of consumers**

We want to incentivise firms to invest and innovate in the market to increase quality and choice for consumers. We want to see more competition which delivers more and better value for consumers' money.

In this section we look at indicators in two financial sectors which are important to consumers – banking and consumer credit. There is no single metric or measure that will show whether competition is working in a particular market. It is important therefore to look at data and evidence in the round, which is why we use our competition tools, notably market studies, to take a more holistic and in-depth look at how competition is working in a sector. Further analysis on competition is published in our Competition Report.

**Figure 1.10: UK bank authorisations**



Source: FCA Authorisations data

For competition to work well, markets should be open to entry and innovation. Figure 1.10 shows the number of banking licences (either via the authorisation of a new firm or an existing regulated firm varying its permissions to become a bank) granted in the last three years. As part of our banking barriers to entry work in 2013, we made significant changes to the authorisation process. Since then we have authorised 15 banks. Of the 15, 6 are UK banks (i.e., not international/non-EEA banks), of which 4 are new UK entrants.

There remains scope for competition to work better and this year we have been working with the Competition and Markets Authority to help inform its recommendations to the FCA following their Retail Banking Market Investigation. We have also recently looked at the effectiveness of competition in the credit card market. Over half of consumers who took out a new credit card in the last 12 months have shopped around, which means they compared at least two credit cards before choosing. Whilst most consumers in the credit card market actively manage their payments and choices, our credit card market study found concerns when it came to consumers struggling with problematic or persistent debt.

Credit cards

Shopping around and switching

6 million

new credit card accounts in 2014



14%

of existing customers take out a new credit card each year



51%

shopped around before taking out their new card



66%

of consumers who shopped around used a price comparison website

## Operational

We monitor and report on our finances, people, processes and systems. We seek to measure the economy, efficiency and effectiveness with which we use our resources and our employee engagement. This enables us to identify areas that need more focus, opportunities for development, and where things are working well and improving. We give additional examples from chapter 5 onwards.

We also monitor and report on a range of performance areas, such as the delivery of our business plan commitments and whether we are meeting our service standards.

## Service standards

We track and report on our performance against our service standards for performing our regulatory functions, which we publish on our website at six-monthly intervals. Our service standards include voluntary commitments and the statutory obligations we have under FSMA, as well as other legislation. The standards apply to a range of our services, including how we deal with telephone enquiries, correspondence and applications. We provide information about:

- key areas of our service
- how we are performing, and
- how firms and consumers assess their levels of satisfaction with our service

We now have 69 service standards, up from 54 when the FCA was first established. Of these 69, during 2015/16 we met the standards for 65 (94%). One of the four we did not meet was a statutory requirement; our ability to process an application for Approved Person status within the Consumer Credit market. More information about our service standards is available at [www.the-fca.org.uk/about/measuring-our-performance](http://www.the-fca.org.uk/about/measuring-our-performance).

## Value for money

We continue to be committed to achieving value for money in delivering our statutory objectives, and to embedding the concept into our culture and decision-making processes. We adhere to the National Audit Office (NAO) definition of value for money as the optimal use of resources to achieve our intended outcomes. This means looking at the total cost of regulation, which includes both the costs incurred by firms and the benefits delivered to consumers, and the two must be taken together for the full picture.

Maintaining a focus on economy is a key factor in all our decision making. For example based on independent advice and given the difference in rental costs between Central London, Canary Wharf and Stratford we took the decision to move our London offices to The International Quarter in Stratford in April 2018. In another example we have chosen to reduce technology support costs by sourcing support for a system through a third-party supplier. We recognise that economy, in a value for money sense, also covers indirect costs including the regulatory burden on firms. Since the beginning of this Parliament we have delivered improvements for firms, for example, through changes to our supervision of small firms, to firm complaints-handling rules and through the roll-out of electronic invoicing and automatic payments. Such initiatives positively address the regulatory burden and reflect our determination to deliver value for money.

The FCA has worked hard to improve its efficiency in terms of our output in relation to the resources we use and we have made significant progress but recognise there is further to go. Our approach has been embodied in initiatives such as the evolution of our supervisory work in which we have sought to create a more proportionate, efficient approach to the supervision of smaller firms. This has involved simplifying the way we classify and treat smaller firms. We supervise individual large firms through a risk-based model which enables supervisors to be more efficient and make judgements based on their pro-active engagement and specific to their assessments of firms. As part of our new supervisory approach we have also changed our market intervention work so that cross-market thematic and market study work comes together with a view to delivering a more economic and efficient model.

We acknowledge it can be very challenging and complex for us to assess our effectiveness and demonstrate the relationship between the intended outcome we are seeking to achieve and the actual outcomes we deliver and therefore the impact we are having. Although we have made a start, more work is needed to refine and improve our approach to measuring our impact. We continue to work towards this goal while recognising that it is not a straightforward task.

Finally underpinning all of this we are also increasing organisational awareness of value for money across the FCA. We have provided employees with tools and training to help them to understand and assess value for money more effectively in their decision making, supported by an ongoing communications and engagement programme.

# 2

## Protecting consumers



### Introduction

From bank accounts to mortgages, credit cards, loans, savings and pensions, virtually every adult in the UK is a consumer of financial services. One of our objectives is to ensure an appropriate degree of protection for consumers. In this chapter we explain what we have done to deliver this objective over the last year.

Our work to protect consumers covers a wide range of activities. Our aim is to ensure that firms' policies always consider consumers, that firms treat them fairly with competent, trained staff and that customers get appropriate redress if things go wrong. We supervise firms to make sure they are meeting their regulatory requirements and take action to enforce our rules. We also protect consumers by raising public awareness about scams and tackling criminal activity.

We also have a duty to promote effective competition when delivering our objectives, including our consumer protection objective. We consider that regulated markets characterised by healthy competition will provide a range of goods and services to meet the evolving needs of consumers.

This section provides more detail on some of the priority areas we have focused on in the last year in order to protect consumers, starting with the pensions and retirement income market.

#### Pension and retirement income market

Since 2012, the pension and retirement income market has undergone the most profound change in a generation. As a result of auto-enrolment, the new pension freedoms and the forthcoming market in secondary annuities, consumers have new responsibilities and choices about how they save for and fund their retirement.

We are responsible for the conduct of firms providing contract-based pensions: this includes stakeholder pensions, individual personal pensions and workplace personal pensions such as group personal pensions. The Pensions Regulator focuses on the conduct of trustees of trust-based pension schemes and employers' compliance with auto-enrolment.

While many people only start to think seriously about pensions as they approach retirement, accumulating pension

savings is a process that often begins when people start work; and their relationship with pensions and retirement income products and services therefore lasts throughout their lives. Our work reflects the ongoing nature of this engagement.

Pensions are long-term products and the impact of our work on consumer and firm behaviour is likely to take years to be seen. However, despite the changing nature of the market, our aims remain the same – for consumers to have access to fair products and services which deliver what they promise, and for consumers to be confident that firms will treat them fairly and fix problems promptly.

#### Workplace pensions

Auto-enrolment of staff into workplace pensions was introduced to address the fact that many people are not saving enough for their retirement. As at March 2016

64% of all workers are members of a workplace pension scheme, and this figure will rise considerably by the time auto-enrolment is completed in 2018.<sup>5</sup>

The automatic nature of enrolment and a lack of consumer engagement makes it important that these schemes offer good value for money. However, a previous OFT study showed that charges and conflicts of interest often created poor value for buyers.<sup>6</sup> This year we brought in rules to implement the Government's 0.75% charge cap on default funds of workplace pensions to ensure that consumers are enrolled into pension schemes that offer them value for money. We have also banned active member discounts and consultancy charging, both of which can significantly add to fees taken from pension contributions.

Independent Governance Committees (IGCs) were established to represent the interests of workplace pension scheme members. We are currently reviewing the progress that providers and IGCs have made to address the recommendations made by the Independent Project Board following its legacy audit of workplace schemes in 2014. As legacy schemes include trust-based schemes, we are conducting this review jointly with the Department for Work and Pensions (DWP). We are also working with the DWP to identify the best and most meaningful way for firms to disclose transaction costs to IGCs and pension trustees to equip them to analyse if scheme members are getting value for money.

### Ensuring consumers have appropriate guidance and advice

Consumers are now faced with a wider range of options at retirement and the decisions they make will have a major impact on their long term financial wellbeing. Many will need advice to help them make the best decisions for their needs. In November 2014 we made rules which require firms to signpost consumers approaching retirement to the Government's Pension Wise guidance service to encourage them to get support. Our rules, introduced last year, also require firms to give consumers appropriate retirement risk warnings when they have decided how to access their pension savings.

During the course of this year we have undertaken work to monitor how effectively firms are doing this. We have gathered and published data relating to the take-up of Pension Wise and the decisions consumers are making in relation to their retirement savings. We have also collected information on topics such as transfer procedures and exit charges in order to inform future policy.

<sup>5</sup> Office for National Statistics: [www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions](http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions)

<sup>6</sup> 'Defined contribution workplace pension market study' - webarchive. [nationalarchives.gov.uk/20131101164215/www.of.gov.uk/OFTwork/markets-work/pension](http://nationalarchives.gov.uk/20131101164215/www.of.gov.uk/OFTwork/markets-work/pension)



We expect that more defined benefit scheme members will now seek to transfer their benefits to defined contribution schemes to take advantage of the pension freedoms. However, many consumers may lose out considerably if they do this. To ensure these consumers are protected we introduced new rules which mean that all advice on making these transfers is provided or checked by a qualified Pension Transfer Specialist. We also amended our rules to include the new specified activity of advising on conversions or transfers of safeguarded benefits (e.g. defined benefits) to flexible benefits (e.g. defined contribution) so that consumers are clearer about the risks of doing this.

### Better consumer communications

In March 2015 we published a Retirement Income Market Study.<sup>7</sup> This study gave a snapshot of the areas where the market was not working well and made recommendations to improve the level of consumer engagement with these vital retirement decisions. These included requiring firms to provide an annuity quotation comparison, improving the way they frame information to help consumers make the best decisions for their needs and creating a pensions dashboard so that consumers can see all their pensions in one place.

Much of this work is shaped by behavioural economics and our work in this area is ongoing. For example, we are currently testing wake-up packs and have completed testing the effectiveness of an annuity quotation comparator. The Competition section of this Annual Report gives more information on how our Retirement Income Market Study aims to improve competition in the retirement income market.

<sup>7</sup> Retirement Income Market Study, FCA March 2015, [www.fca.org.uk/static/documents/market-studies/ms14-03-3.pdf](http://www.fca.org.uk/static/documents/market-studies/ms14-03-3.pdf)

It is important that consumers can understand the information they are given about their pension choices. In our Discussion Paper 'Smarter Consumer Communications' (DP15/5), we encouraged providers, advisers and trade bodies to come together to agree ways to communicate key pension concepts and terms in a clear and non-technical way throughout their consumer literature.

We welcomed subsequent initiatives such as the Pensions Language Steering Group, coordinated by the Association of British Insurers. This Group has also seen involvement from industry, Government, regulators and consumer groups.

We will continue to work alongside a range of organisations as further work is carried out in this area.

### **Pension Wise**

Pension Wise was set up to provide free, impartial guidance to people with defined contribution pensions approaching retirement. We were required to set the standards for Pension Wise's designated guidance providers. These came into force on 6 April 2015 and aim to ensure the impartiality and consistency of the content of the guidance, that consumers have trust and confidence in the service and that the guidance considers consumers' retirement options and refers them to specialist advice or information where relevant.

We held readiness meetings with the designated guidance providers in advance of Pension Wise's launch. Since then, we have continued to hold regular meetings with senior and operational staff at the providers to discuss any issues and monitor their performance against the standards. So far the designated guidance providers have delivered within agreed service levels. Feedback from Pension Wise users has been positive. We are currently testing ways we can improve signposting to the service with providers.

The Government has indicated that it will legislate to make Pension Wise available to those interested in selling their annuity income and to contingent beneficiaries. We will consult on the required Pension Wise standards later in 2016.

### **Compliance with our duties in relation to Pensions**

As required under FSMA (as amended through the Pension Schemes Act in 2015) we have complied with our duties to discharge the general pensions guidance functions with a view to securing the appropriate degree of protection for recipients of pensions guidance and to have regard to the statutory objectives and the regulatory principles. Specifically:

- Having made rules setting standards in March 2015, we have monitored the provision of the Pension Wise service delivered through HMT's designated guidance providers (DGPs). We have assessed compliance with the standards through a number of channels including: analysis of management information received from DGPs, such as operational statistics, QA feedback and consumer feedback; regular engagement with senior and operational staff at the DGPs discussing the findings of our analysis, other information that has come to our attention, and reviewing documents and processes, such as QA frameworks, meeting scripts and output documentation. We continue to refine our forward-looking monitoring approach to ensure it remains fit for purpose and will continue to liaise with the Treasury as the DGP's service evolves and the remit of the DGP's changes.
- We published our policy for the making of recommendations to DGPs and the Treasury in July 2015.
- We collected fees on behalf of the Treasury for the running of Pension Wise following making rules in June 2015.

### **Removing barriers to accessing pension freedoms**

In September 2015, we published 'FCA pension freedoms data collection exercise: analysis and findings' which revealed that, as at 30 June 2015, 84% of relevant consumers could access their pension savings without being charged.<sup>8</sup> The Government concluded that this still leaves a significant minority of consumers who face early exit charges and placed a duty on us to cap these charges. In May 2016 we published a Consultation Paper on the proposed cap.

<sup>8</sup> [www.fca.org.uk/your-fca/documents/fca-pension-freedoms-data-collection-exercise](http://www.fca.org.uk/your-fca/documents/fca-pension-freedoms-data-collection-exercise)



As at 30 June 2015,

# 84%

of relevant consumers could access their pensions without being charged.





Over 94,000  
people have visited the  
ScamSmart website this year

### **Secondary market in annuities**

Five million people in the UK currently have an annuity.<sup>9</sup> In March 2015, the Government announced that, from 2017, consumers will be able to sell their annuities. This will create a new secondary annuity market and we are working with the Government to develop the regulatory framework for it. We want to make sure that consumers who choose to sell their annuity income fully understand the possible consequences, know the value of what they are selling and shop around for the best quote.

In April 2016, we published a Consultation Paper proposing rules to protect consumers, particularly the more vulnerable, while promoting competition in the interest of consumers. We will analyse the responses to our consultation and publish a Policy Statement with final rules and guidance later this year.

### **ScamSmart**

Inevitably, criminals have seen the pension freedoms as an opportunity to defraud people out of their retirement funds. So this year we gave particular priority to helping prevent retired or soon-to-be retired consumers falling victim to pension fraud.

From March 2015 we ran a second phase of our successful ScamSmart campaign, to help at-risk consumers spot the warning signs and avoid investment scams. In the last year over 94,000 people visited the ScamSmart website. We have also published a series of consumer alerts to raise public awareness of unauthorised companies and specific scams, including 'free pension review' offers and the dangers of investing pension monies into unregulated investments.

We have also played an integral role in a number of cross-agency initiatives to tackle so-called 'pension liberation' fraud. Project Bloom is a joint-programme between a number of Government departments, key regulators and other agencies launched in July 2013 to disrupt this kind of criminal activity, raise awareness and take legal action against scammers.

Further details of our work programme on pensions and the retirement income market is available in our Business Plan 2016/17: [www.fca.org.uk/news/our-business-plan-2016-17](http://www.fca.org.uk/news/our-business-plan-2016-17)

<sup>9</sup> [www.gov.uk/Government/news/millions-given-freedom-over-their-pension-as-Government-outlines-new-secondary-annuity-market](http://www.gov.uk/Government/news/millions-given-freedom-over-their-pension-as-Government-outlines-new-secondary-annuity-market)

### **Advice**

Mis-selling and poor advice are inherent risks in relation to financial services. In 2013 we introduced the Retail Distribution Review (RDR) to tackle some of the key drivers of poor outcomes for consumers, including commission bias and inadequately trained advisers.

It is still relatively early days for the RDR but early signs are positive that it is achieving the desired outcomes. It is also clear that some of those who need individual holistic financial planning and advice cannot afford it. Accordingly, in August 2015 we announced jointly with the Treasury the Financial Advice Markets Review (FAMR). The aim of this review was to address concerns that the advice market was not working well for all consumers.

FAMR found that affordability of advice was a barrier to the less well-off. Full, face-to-face advice is expensive and not always cost effective for consumers, particularly those with small amounts of money or simpler needs. Many consumers who want guidance or limited advice cannot find it or end up paying for advice, even if their needs are straightforward. The review also found many consumers do not seek advice because they do not have trust in, or engage with, financial advice services.

On the supply side, some firms do not provide these services because they are concerned about potential liability and uncertainty around regulation. But FAMR also found that new technologies could reduce firms' cost of supplying advice and help them better engage with consumers.

The review reported in March 2016 with a package of recommendations aimed at addressing some of these challenges. The recommendations included:

- a package of measures to address the demand-side barriers including tax changes to make advice more affordable and developing rules of thumb and nudges to prompt consumers to consider their financial position
- the FCA should look to give further guidance or take other steps to create an environment in which firms can deliver tailored services on a more limited basis
- the FCA should support the development of mass-market automated advice models that could bridge the advice gap, by establishing an Advice Unit to support firms seeking to offer low-cost automated advice
- the Treasury should explore options to allow consumers to access a small part of their pension pot before the normal pension age to use for pre-retirement advice

- the Treasury should explore ways to improve the existing level of income tax and National Insurance exemption for employer-arranged advice on pensions
- the Treasury should consult on amending the definition of regulated advice so that is based on a personal recommendation in line with MiFID

The Financial Advice Market Review can be found at [www.fca.org.uk/famr](http://www.fca.org.uk/famr). We will report to the Treasury on our progress against these recommendations in a year and have accepted all the recommendations of the review for which we are responsible.

## Consumer credit

From getting a first credit card to buying a first home, most people will use a range of different consumer credit products throughout their lives. The consumer credit sector is one of the largest financial sectors in the UK, worth around £214 billion<sup>10</sup> a year. Both consumers and the wider economy rely on affordable, appropriate credit.

In 2014 we took over the regulation of consumer credit firms from the Office of Fair Trading (OFT). This year we have completed the authorisation of some 30,000 of these firms, and undertaken a wide range of work to ensure these firms know how to meet our requirements.

Given the size and scope of the consumer credit sector, we use our resources to tackle areas where the risk to consumers is highest. We use a variety of tools to intervene most effectively, drawing on our authorisation, enforcement, competition, policy and communications functions as well as our supervision team to tackle problems and raise standards across the sector.

<sup>10</sup> Bank of England, February 2016



## Raising consumer credit standards

We have made significant progress with our major authorisation programme for consumer credit firms. All firms previously registered with the OFT were granted interim permission, but given a timetable to seek full authorisation from us. To stagger the process, different sectors were given different timelines. The first stage, to ensure relevant firms applied for our authorisation by the deadline of March 2016, was successfully completed. We prioritised the application periods to allow us to address the areas where we saw the greatest potential for detriment, such as payday lending, first. We have used our authorisation process as one way of driving up standards while ensuring that firms seeking authorisation which do not meet them are removed (if trading with interim permissions) or prevented from accessing the market. Last year, for example, we refused authorisation to 35 consumer credit firms and saw over 100 debt management firms leave the industry.

We have also undertaken an extensive programme of roadshows, targeted guidance, webinars and regular e-newsletters to firms to ensure they understand the requirements they must meet. Many firms have now reviewed their business models against our expectations and changed them as a result. In the payday loans sector, for example, we have seen the number of loans made in the first half of 2015 drop to 1.8 million, compared to 6.3 million in the first half of 2013. We believe this reflects a combination of the introduction of the payday loan price cap plus tighter affordability assessments.

We have taken steps to ensure consumers are protected. In particular, where a debt management firm had interim permission, but we refuse their application for authorisation, we contact the firm's customers as soon as the interim permission lapses to let them know where they can get help and advice. In March 2016, for example, we wrote to 16,000 customers of a debt management firm to let them know we had refused to authorise it and signpost them to sources of free, impartial advice like the Money Advice Service.

More information about our authorisation of these firms is given in the section 'How we regulate – Assessing firms seeking to enter the market'.

## Tackling poor practice in debt management

Consumers often turn to payday lenders and debt management companies to help them in a financial crisis. Yet unfair terms, conditions and charges can compound consumers' problems rather than help them. This year we completed thematic reviews into how payday lenders and other high-cost short-term credit providers collect debt and treat customers in financial difficulty. We found unacceptable practice from many lenders including failure to recognise customers in financial difficulty. However we also recognised that some firms were making changes to improve their practices, for example through staff training or improved monitoring of problems.

We also undertook a thematic review into the quality of debt management advice. This looked at a number of areas including the quality of advice, transparency and disclosure, cross-selling and incentives, and systems and controls. There are currently around 400,000 people on commercial debt management plans in the UK<sup>11</sup>, and the review showed that debt management firms pose a high risk to consumers, particularly the most vulnerable. We are currently undertaking a firm-by-firm assessment through our authorisation process to decide if debt management firms meet our standards. We are also working in partnership with bodies including the Money Advice Service and the Government to improve outcomes for consumers struggling with debt.

### Credit Card Market Study

The UK credit card sector is worth around £61bn.<sup>12</sup> Given its size and reach we wanted to assess whether it was sufficiently competitive and providing consumers with the products they need and can afford.

In 2015 we undertook a Market Study into this sector; one of our largest scale studies to date. We analysed five years' worth of accounts from 34 million anonymised customers and carried out in-depth surveys with 40,000 customers. We published our interim findings in November. We concluded that competition in the credit card market is working fairly well for most customers but we had significant concerns about the scale of problematic debt for others.

Consumers value the flexibility offered by credit cards and use them in different ways, for example making secure payments and collecting rewards, spreading the costs of purchases, as an emergency credit facility, for paying off other debt or for building credit history.

We found that lots of credit card users are engaged and willing to switch. Half of those taking out a credit card shopped around first and around 14% of existing credit card consumers took out a new card in 2014.

Firms compete strongly for custom on some features – not only for new consumers but also for 'back book' consumers (existing borrowers with balances). However, competition is focused primarily on introductory promotional offers and rewards, with less competitive pressure on interest rates outside promotional offers and other fees and charges.

We found a more troubling picture when it came to customers struggling with problematic or persistent debt. Nearly two million customers are in arrears or have already defaulted. A further two million have persistent levels of debt and a further 1.6 million are repeatedly making only minimum repayments.

Consumers in default are extremely unprofitable and firms are active in contacting consumers who miss payments and triggering forbearance at this point. However, consumers with persistent levels of debt or who make minimum payments are profitable. Firms therefore have fewer incentives to address this and we found that most firms do not routinely intervene to address this behaviour. We consider that there is more firms could do to help those with persistently high credit card debt to reduce debt burdens before they become problematic, and to prompt those repeatedly making minimum payments to repay quicker when they are able to.

We proposed potential solutions including measures to give consumers more control over credit limits, to help them get the best deal by shopping around or switching and to ensure they can search the market without damaging their credit score. We also made recommendations for firms to identify customers who may be struggling to repay and help them to better manage their repayments.

We will publish the full findings of this study and a consultation on steps to implement our recommendations later this year.

### Credit broking

Following thousands of consumer complaints, mainly about often unexpected and multiple fees charged by credit brokers offering access to payday loans, we introduced new rules for all credit brokers last January on an emergency basis. These rules banned credit brokers from charging fees to customers and from requesting customers' payment details for that purpose, unless they meet our requirements. Customers now must be given clear information about who they are dealing with, what fee will be payable, and when and how the fee will be payable. As a result of our rules and supervisory work, 30 of these businesses closed voluntarily and many more decided not to proceed with authorisation. We rarely introduce emergency rules but in this instance we concluded that urgent intervention was required to protect vulnerable consumers. By the summer of 2015, consumer bodies and industry sources were reporting complaints and enquiry volumes about credit broking being down by as much as 95%.

We also reviewed the impact of the credit broking rules we introduced in PS14/18, and concluded that, in conjunction with proactive supervisory and enforcement action, the rules appear to have made a significant difference and have reduced consumer harm while also equipping us with stronger tools with which to challenge poor practice by firms. Ten formal voluntary commitments from credit broking firms to put matters right or to compensate consumers were secured in the reporting period.

<sup>11</sup> FCA press release: [www.fca.org.uk/news/fca-contacting-16000-customers-of-debt-management-firm-pdhl](http://www.fca.org.uk/news/fca-contacting-16000-customers-of-debt-management-firm-pdhl)

<sup>12</sup> Bank of England, February 2016

In 2015/16 we worked with firms to put 23 redress schemes in place. Together these have, or will, deliver

**£334 million**

of redress to tens of thousands of customers.

### Delivering consumer redress

Firms which put consumers at the centre of their business models start a 'virtuous cycle' – consumers can get the products and services they need and are clear about the terms and costs under which they do so, building trust and confidence in financial services.

Failures to meet our standards – whether this relates to advice, communications or other issues have, over too many years, caused financial loss, and often significant anxiety, to millions of consumers, many of them among the most financially vulnerable.

As part of our role in securing an appropriate degree of protection for consumers we not only set rules requiring firms to treat their customers properly but also rules relating to the handling of complaints to ensure that where things go wrong they are rapidly put right.

In 2015/16 we worked with firms to put 23 redress schemes in place. Together these have, or will, deliver £334 million of redress to tens of thousands of customers. This section gives some examples of different approaches we have taken to redress.

### Payment Protection Insurance (PPI)

Levels of redress for customers who were mis-sold PPI have presented the sector with the largest bill in its history. Since 2011 nearly 17 million consumers have complained resulting in the payment of £24bn of redress. In the last financial year, over 2.3 million consumers have complained and over £4.5bn of redress has been paid by firms. We have taken tough action to tackle failings in PPI complaints handling. This includes our largest ever retail fine imposed in June 2015; we fined Lloyds Bank Plc, Bank of Scotland Plc and Black Horse Ltd £117m for failing to treat their customers fairly when handling PPI complaints between March 2012 and May 2013.

Our current rules and guidance on PPI complaint handling have now been in place since 2010. In November 2015 we published a Consultation Paper with proposals to set a deadline by which consumers would have to make PPI complaints, preceded by a major communications campaign telling consumers about the deadline and how to make their PPI complaint. The campaign would be funded by a levy on the firms who sold PPI and the deadline for complaints would be set for two years after the proposed rules came into effect.



Our consultation closed in February 2016. As we anticipated, we received a high volume of responses from a wide range of stakeholders. We are considering these and undertaking additional research. We will publish our findings and set out next steps in 2016.

### High cost short-term credit

Our Supervision teams have continued to tackle risks in high cost short-term credit (also known as payday lending), following up on our thematic review into the way firms were treating customers in arrears and default, and working with specific firms to improve their practices. In some cases, firms' own reviews have also shown that they have undertaken unfair practices which they have brought to our attention. As a result of our engagement with these firms, a number of them entered into agreements with us to provide substantial amounts of redress to customers whom they had treated unfairly.

In July 2015 we announced that Ariste Holdings Ltd, trading as Cash Genie, had agreed to provide over £20m in redress to over 92,000 customers for unfair practices.

The practices included charging fees it was not entitled to under its customer contracts and rolling over or refinancing loans without customers' explicit consent or request. Cash Genie agreed to write off or refund fees and charges and refund payments taken without authorisation.

In October Dollar Financial, which trades as The Money Shop, Payday UK and Payday Express, agreed to refund over £15.4m to 147,000 customers as a result of our findings.

We found failings in both the firm's affordability checks and its debt collection practices, as well as systems errors. The redress should be substantially complete by the end of June 2016. Dollar has made significant changes to its lending and debt collection processes to meet our requirements.

### Card protection mis-selling

Card security protection products were sold to consumers to cover a range of risks, particularly fraudulent use if a card was lost or stolen. However, some product features were unnecessary, because fraudulent use was covered by banks or card issuers or because customers were only liable in limited circumstances.

After discussions with the provider Affinion International Ltd and a number of banks and other card providers, in August 2015 we announced a compensation scheme for certain customers of these products. This was through a

formal Scheme of Agreement established between the company and its creditors which required the approval of the High Court as well as a majority of the creditors. By the time the scheme closed on 18 March 2016, a total of £108.2m in redress had been paid to 533,000 claimants.

### Interest Rate Hedging Products (IRHPs)

In 2012, we identified failings in the way that some banks sold structured collars, swaps, simple collars and cap products, which we collectively refer to as IRHPs. The banks involved agreed to review their sales of IRHPs to unsophisticated customers since 2001. The full review started in May 2013 and the banks have nearly completed their reviews, having sent a redress determination letter to 18,100 customers and paid £2.2bn in redress, including around £500m to deal with consequential losses. This includes £460m automatically added to customers' offers for their consequential losses, and £40m paid to customers who made individual claims for consequential losses. The agreements establishing the IRHP scheme required the relevant banks to appoint independent reviewers under section 166 of the Financial Services and Markets Act 2000 to report on whether the scheme operated fairly. Customers also retain access to the Financial Ombudsman Service and the courts (subject to eligibility and limitation) if they are unhappy with the offer made under the scheme.

The review process for IRHPs has understandably been the subject of intense scrutiny. We believe the IRHP review process has delivered its objective of providing fair and reasonable redress to customers as quickly and simply as possible. The IRHP review, and in particular the role of the independent reviewer, was the subject of a Judicial Review brought by an IRHP customer. The customer claimed that they had not been given sufficient information about the decision in their case to make informed representations and, as such, the independent reviewer had not acted lawfully. The claim was unsuccessful on the grounds that the independent reviewer was not amenable to judicial review and, in any event, the customer had been provided with sufficient information. The judge noted that the redress exercise appears to have been conducted in a conspicuously scrupulous way.

Nevertheless we recognise the potential merit in conducting a review of how the redress scheme has been operating. We consider it sensible to make any decision about the nature and extent of any review after legal proceedings have concluded, including any potential appeals in relation to the Judicial Review, as the outcome of these may impact the scope of any review.

### The impact of IT failures and poor planning on consumers

Customers of several retail banks have seen their banking services disrupted because of failures in the banks' IT systems. We have a particular interest in ensuring that retail banks' technological failures do not have a negative impact on customers. Where significant failures occur, we take action to ensure services are restored as quickly as possible, that the affected banks have a clear understanding of the root cause, that they take action to limit the risk of similar events happening in the future and that customers are given compensation if appropriate.

We have also taken action to ensure customer considerations are at the centre of retail banks' strategic and commercial decision-making. We have engaged with a number of firms to ensure they treat their customers fairly when they plan, or need, to make significant changes to products or business models which affect customers' bank accounts. These have included major changes to services as products are no longer commercially viable and branch-closure programmes.

### Improving our efficiency when preventing and responding to mis-selling

The National Audit Office's report 'Financial services mis-selling: regulation and redress', published in February 2016, recognised the progress which had been made in this area. It highlighted how increased fines and redress payments appear to have substantially reduced financial incentives for firms to mis-sell and noted our proactive work to address the other causes of mis-selling in firms such as remuneration and training. However the report concluded, and we agree, that we need to do more to demonstrate value for money and assess the efficacy of different approaches to tackling mis-selling. In 2015 the Board agreed a new strategy for our organisational approach value for money. We say more about this in the Overview section of this report. We are currently assessing the most effective way to implement the report's recommendations and are working with the NAO to agree specific steps.

### Enforcing consumer protection

Where needed we will also take action to enforce consumer protection, including in respect of unauthorised investment business such as collective investment schemes, investment and insurance frauds, deposit taking and boiler rooms. As a result of the changes to accessing pensions, we are monitoring the market and the impact of those changes on behaviours, particularly relating to unauthorised pension introducers.

We received 8,438 reports this year of potential unauthorised activity in the UK. We have a dedicated team who review all of these reports against a number of risk measures to identify and determine the most serious matters which pose the greatest risk to consumers. Where we decide action is appropriate we employ a variety of methods and investigative tools to stop the activity and prevent further consumer detriment. This ranges from publishing warnings about unauthorised firms and individuals, disrupting firms through activities including

taking down websites and taking criminal or civil action against companies and individuals. We issued a total of 185 consumer alerts in 2015/16 and published 18 actions (13 criminal and 5 civil) related to large scale investigations into unauthorised activity.

We also support law enforcement agencies in taking action against firms or individuals whose actions constitute criminal offences. In April 2016, a director of three debt management firms was sentenced to 15 months in prison, suspended for two years, and 200 hours community service for fraud by abuse of position. The case against Mr David Hall was brought by South Wales police, with our assistance and support.

### Building our understanding of consumer needs

We actively seek insights from consumers through a variety of sources including consumer bodies, our Contact Centre and the Financial Services Consumer Panel. To enable us to meet our consumer protection objective, we undertake extensive research to build our knowledge of consumers and their needs. This year we have commissioned specific research on access to financial services and on financial inclusion. We also carry out behavioural research and apply insights from behavioural sciences in our work, including contributing to the G20-OECD Task Force on Financial Consumer Protection.

### Working in partnership to improve outcomes

We work closely with a range of consumer organisations across the UK to ensure our regulation reflects real-life consumer experiences, and our work in this area has been recognised as best practice by the UK Regulators Network.

Our consumer organisation network includes:

Age UK

AdviceUK

Alzheimers Society

Citizens Advice (England and Wales, Scotland, and Northern Ireland)

Christians Against Poverty

The Consumer Council for Northern Ireland

The Financial Services Consumer Panel

Money Advice Scotland

Money Advice Trust

MoneySavingExpert

Scope

Shelter

StepChange

The Money Charity

Toynbee Hall

Which?

Young Scot

We also engage with a growing range of other groups who work directly with consumers, to help us spot emerging issues. We attend financial capability forums across the UK to gain a better picture of grassroots consumer issues.

We know the resources of many consumer organisations are increasingly stretched. Our partnership team have developed a range of alternative ways for these bodies to provide their expert input to our consultation and discussion papers, market studies and thematic reviews. For example, we run a secondment programme which puts our staff within consumer organisations. Not only does this provide the organisation with additional resources, but the experience allows our staff to bring back a deeper knowledge of consumer issues and behaviours. This year, staff have been seconded to Young Scot, The Money Advice Trust and Citizens Advice.

### *The Financial Services Consumer Panel*

The Financial Services Consumer Panel monitors how far we fulfil our statutory objectives for consumers. The Panel is independent and can publish its views on our work and commission research on consumers' views. Work commissioned this year included research on:

- identifying how individual bank customers and micro-enterprises define a good banking culture
- how information about enforcement action against regulated firms and individuals, and other public information about firms' behaviour, can help consumers make better informed decisions

### A joined-up regulatory framework

We are an integral part of the UK's wider financial regulation framework. We work closely a range of public bodies, each with their own duties and objectives. They include the Prudential Regulation Authority, the Bank of England, the Payment Systems Regulator, the Competition and Markets Authority, the Money Advice Service, the Pensions Regulator, the Financial Ombudsman Service, the Financial Services Compensation Scheme and the Treasury.

Consumers who are dissatisfied with regulated firms' response to their complaints can complain to the Financial Ombudsman Service, and we use their complaints data to help us assess the scale of current and future issues. We also work with the Financial Services Compensation Scheme (FSCS), the independent body which handles claims for compensation from consumers when regulated firms become insolvent.

In July 2015, following joint work with the Financial Ombudsman Service, we changed our rules on the way that firms handle complaints. In November 2015 we consulted on changes to our Compensation Sourcebook to help the FSCS in handling claims. We have also worked closely with both organisations, and the Treasury, on recommendations on firms' liabilities under FAMR.

### **The Money Advice Service**

We oversee the Money Advice Service (MAS), an independent organisation responsible for providing free, impartial financial guidance across the UK, and for funding and coordinating the provision of free debt advice.

In the 2016 budget, the government announced that the Money Advice Service will be replaced by a smaller, more focused commissioning body in April 2018. MAS will continue to provide guidance to consumers until 2018 while the new guidance body is being set up. In the meantime, we will be working with MAS and the Treasury to manage the transition, including identifying priority areas of work that need to continue and which are consistent with the future direction of the new body.

### **Protecting consumers in wholesale markets**

Our statutory objectives apply in relation to any consumer of financial services. In wholesale markets this tends to mean sophisticated firms and individuals, either acting for their own benefit (or the benefit of their owners such as shareholders) or as intermediaries and agents of less sophisticated parties. Much of our focus is on ensuring that investors have appropriate degrees of protection, but we are also interested in the protection of financial and non-financial parties coming to market to raise capital or manage risk.

Our wholesale consumer protection regime provides a varying scale of protection for different types of counterparties and consumers of financial services. It relies on tools including disclosure and transparency, regulated firms acting as good agents on behalf of their clients and protection of confidential client information.

### **MiFID II**

The original Markets in Financial Instruments Directive (MiFID) provides important protections for investors and other market users. We have contributed significantly over the last year to the preparatory work for MiFID II which will come into effect in January 2018. It will require firms to meet enhanced standards on information disclosure, managing conflicts of interest, handling client orders and how they ensure they obtain the best possible result for their clients when executing orders on their behalf (best execution).

MiFID II will also address in detail certain industry practices where in the past some firms have failed to provide the level of protection of consumers' interests that we would expect. This includes reforms to ensure that where firms are providing portfolio management services, they can only receive and pay for third party research using the firm's own money or, if they pass these costs on to an investor's portfolio, it must be done in a fully transparent and accountable manner that is consistent with the best interests of their clients. These new standards will enhance and replace our current UK dealing commission rules. There is more information on MiFID II in the next chapter.

### **Flows of confidential and inside information**

During 2015, we have conducted supervisory work with a selection of small and medium-sized investment banks to test how they manage and control the flows of confidential and inside information provided by their clients. In December 2015, we published the results of our thematic review describing our findings and highlighting both good and bad practice we observed.

While management of inside information is a key element of ensuring the integrity of wholesale markets, our work also recognised that an individual client may suffer detriment if any type of information about them or their business is shared or used inappropriately. Our rules require regulated firms to establish and maintain appropriate systems and controls to ensure compliance with all their obligations and manage risks that they run. This includes the risks around conflicts of interest and whether firms are paying due regard to the interests of their customers and treating them fairly. Our thematic findings provided a reminder to all firms on the importance of protecting client information.

### **Payment for order flow**

We have continued to monitor and communicate our policy and supervisory expectations in relation to 'payment for order flow' (PFOF) arrangements in the last year. These arrangements involve brokers seeking payments from market makers in return for directing client orders to those market makers. We believe such payments are an inducement and risk undermining the broker's obligations to provide best execution for retail and professional clients, and also pose a conflict of interest for firms conducting business with eligible counterparties. We have engaged with a number of market participants over such arrangements to indicate we believe PFOF is unlikely to be consistent with our rules. FCA interventions have largely stopped this practice for trades involving professional clients, and in 2015/16 we also gained undertakings from brokers to ensure proper management of conflicts of interest where business is undertaken for eligible counterparties.

# 3

# Enhancing the integrity of the UK financial system



## Introduction

Our aim is to ensure that the UK has a healthy and successful financial system, where financial markets are fair, efficient and transparent, firms can thrive and consumers have trust in open and transparent markets. Markets need to have resilient infrastructure and offer appropriate access to meet the needs of the consumers, corporate and other wholesale clients that use them.

The focus of our work is on ensuring we have the right rules and policies in place. We identify any necessary need for structural changes and bring them about through a range of means, improving standards across financial markets, making sure market participants play by the rules and taking action when

they do not. At the start of 2015/16 we identified a number of risks that informed our work for the year. We highlighted that firms' culture, structures, processes and incentives still required improvements. We also identified that, while the recent focus on benchmarks had helped mitigate the risk of market manipulation, the risk still existed. It was also clear that risks from conflicts of interest, especially in wholesale markets, still remained.

A number of our priorities for the year 2015/16 sought to address these risks to our market integrity objective, including individual accountability, enhancing wholesale market integrity, international engagement and preventing financial crime.

### Making sure we have the right rules and policies

Markets need to be underpinned by the right rules and policies to encourage investment and a level playing field for all participants.

### Influencing the international agenda

Monitoring financial markets gives us unique insights into market developments, which also supports our work on the international regulatory reform agenda.

Global and European regulatory standards, rules and guidance form a central part of the framework within which we operate. The UK plays host to some of the largest globally-active firms, and it is vital that we engage with international legislators and regulators to ensure the regulatory framework is aligned with our objectives.

By exercising a leadership role in key international organisations, we helped to shape a wide range of legislative standards, defined global standards for benchmark regulation and have been leaders in international efforts to improve standards of behaviour in wholesale markets.

We play a particularly key role in influencing and implementing European legislation. In 2015/16 we worked with European policy makers to help drive and shape policy debates, share our regulatory expertise, draft regulatory standards and identify new and emerging issues. We also share best practice and issues of common interest with counterpart regulators on a regular basis.

We are active members of the International Organization of Securities Commissions (IOSCO), currently chairing two of its permanent policy committees,<sup>13</sup> and our Chief Executive is a permanent Board member. We also chair the Benchmarks Task Force and Vice-Chair the Market Conduct Task Force.

At the European level, senior FCA executives chair the European Securities and Markets Authority (ESMA) Investor Protection and Intermediaries Standing Committee, the Markets Data Reporting Standing Committee, and the Commodities Derivatives Task Force and our Chief Executive

<sup>13</sup> The Committee on Enforcement and the Exchange of Information, and the Commodity Derivatives Markets Committee, jointly with the US Commodities and Futures Commission (CFTC)



is the UK member of the ESMA Board of Supervisors.

We also participate in the work of the Financial Stability Board (FSB). Our Chairman attends the FSB Plenary and Standing Committee on Supervisory and Regulatory Cooperation on a regular basis. In 2015/16 we contributed to the FSB's work on shadow banking, market liquidity, asset management activities, tools to address misconduct risks and financial innovation.

We also continued to engage with many other international organisations including the:

- International Association of Insurance Supervisors (IAIS)
- Financial Action Task Force (FATF)
- Organisation for Economic Cooperation and Development (OECD)
- International Financial Consumer Protection Network (FinCoNet)
- European Banking Authority (EBA)
- European Insurance and Occupational Pensions Authority (EIOPA)
- European Systemic Risk Board (ESRB)

In addition to our ongoing engagement with a range of international policy fora, we engaged with many other regulators on a bilateral basis. In 2015/16 this included visits by our Senior Executives to the US, Hong Kong, Australia, Singapore, China, France, Germany and the Netherlands, among others, and we welcomed a wide range of foreign delegations from both established and emerging markets to the FCA.

## MiFID II

The Markets in Financial Instruments Directive II (MiFID II) is a comprehensive set of reforms which will reshape the secondary trading of financial instruments, particularly derivatives. The regime, which will go live in January 2018, aims to ensure firms make the best interests of clients central to their business across retail and wholesale markets.

## Wholesale markets matter to the economy

The UK is a leading international financial centre and plays a key role in global wholesale financial markets, cross-border lending and trade finance.

The UK is a global hub for international financial activity, accounting for 41% of global turnover in foreign exchange, and 49% in OTC interest rate derivatives.

Wholesale financial markets make a major contribution to the UK's economy. In 2014, financial services contributed 8.2% to overall gross value added (GVA) in the UK economy. UK non-financial corporations raised £85bn of new equity on capital markets in 2014 and had more than £425bn in loans outstanding.

We played an active role in ESMA to help develop the design. This included expanding the transparency requirements from equity markets to other asset types such as bonds and derivatives, requirements to help protect the integrity of trading venues, for example, using circuit breakers and helping introduce greater competition between venues with 'open access provisions'.

To educate firms on the upcoming changes, we held a conference in October 2015, monthly roundtables with trade associations, and spoke at many events as part of our education programme. We also designed and delivered an industry education programme focused on MiFID transaction reporting.

## Financial Policy Committee

The Financial Policy Committee (FPC) is the UK's main body for identifying, monitoring and mitigating financial stability risk. The FCA's Chief Executive is a member. We work closely with the Bank of England on areas of interest to the FPC. In 2015/16, this work focused primarily on housing, investment funds and cyber risks.

## IOSCO Conference June 2015

In June 2015 the FCA hosted the 40th Annual IOSCO Conference in London. The conference attracted over 600 delegates from across the world and featured keynote speeches from many leading global regulatory figures and market participants.

The conference is IOSCO's main annual event for members and industry participants, who gather to discuss important issues related to world securities and futures markets. The theme of the London conference was 'Building a New Financial World.'

The event reflected our commitment to shaping global securities markets standards with high-quality speakers and panel discussions focusing on the key issues affecting securities regulators worldwide. These included behavioural economics, changing culture and raising conduct standards, implications of financial innovation and future challenges for regulators and industry.

## IMF FSAP review

Every five years, the International Monetary Fund (IMF), under the Financial Sector Assessment Programme (FSAP), undertakes a comprehensive review of the UK financial sector. In 2015/16 the IMF undertook an FSAP review of the UK – the first since the FCA was created and the new UK regulatory framework established.

The review covered many aspects of the UK's financial sector, including the UK authorities' regulation and supervision of the banking, securities markets and insurance sectors. It aimed to assess whether the UK's financial system has recovered from the global financial crisis, whether oversight has been strengthened sufficiently and whether the UK authorities have the appropriate tools to handle a future crisis. We played a central role in this review, which covered a wide range of our regulatory and supervisory responsibilities.

Overall, the IMF's view is that reforms to the UK's regulatory framework have improved the financial sector's strength and resilience, and that the authorities have developed a rigorous and hands-on approach to microprudential and conduct supervision. The IMF credited the FCA for having developed a 'sophisticated risk-based approach' for securities markets supervision that strikes the right balance between firm-specific and market-based supervision. Each of the sector-based assessments, covering banking, insurance and securities markets, noted overall improvements since the last FSAP, and provided recommendations for specific measures to address identified weaknesses, including considering whether to expand the attention given to smaller and mid-sized firms. The IMF also recommended actions for the FCA around our supervision of the fund management industry and equity trading platforms, insurance supervision, and our supervision of AML/CFT risks in the banking sector.

## Improving standards

In the following section we describe our work to improve standards in a number of areas, including the Fair and Effective Markets Review and the Senior Managers and Certification Regime (SM&CR).

### Fair and Effective Markets Review

In 2014/15, we worked with the Bank of England and the Treasury to conduct the Fair and Effective Markets Review (FEMR) into the way wholesale Fixed Income, Currencies and Commodities markets operate. The final report was published in June 2015 and made 21 recommendations for the UK authorities, the UK Government, international standard setters and the financial industry.

This section explains the significant progress we have made against the report's recommendations.

#### Regulating benchmarks

LIBOR has been regulated since 2013, and seven major benchmarks entered the regulatory perimeter in April 2015 following the FEMR recommendations. We have been working to improve governance and controls across regulated benchmark activities. The new benchmarks were interim authorised during the last year and the full authorisation process was completed in April 2016. We also created a dedicated supervision team specifically for benchmarks to ensure the administrators adhere to the rules.

As part of our supervision activity we carried out visits to each of the 20 banks which submit the data that sets the LIBOR rate. We assessed the systems and controls in place in each bank and spoke to the relevant individuals involved in the LIBOR process. These visits identified areas for improvement and we gave each bank specific feedback. We continue to hold follow-up meetings to discuss progress on the feedback letter.

We also looked more widely at the approach firms were taking to benchmark activities and in July 2015 we published outcomes from our thematic review of the financial benchmarks oversight and controls. Our review suggested that, although firms have made some positive changes to improve their governance and controls around benchmark activities, significant further work is needed to ensure that all the risks are managed appropriately. We provided feedback to each of the firms involved in our review, and we expect improvements to be made where we have identified shortcomings. We continue to follow up on this work as part of our supervision of benchmark activities.

In June 2015 we published a Consultation Paper (CP15/18) on proposals relating to access to benchmarks, followed by a Policy Statement (PS16/4) in February 2016. Our proposals require regulated benchmark administrators to grant access to, and licences to use, benchmarks on a fair, reasonable and non-discriminatory basis, including on price. We proposed that access should be provided within three months following a written request, and that different fees should be charged to different users only where this is objectively justified on reasonable commercial grounds.

We continued our enforcement activity in relation to benchmarks, which resulted in a number of financial penalties and prohibition of two individuals in 2015/16. The SFO also secured a £878,806 confiscation order against Mr Hayes, the former derivatives trader who was convicted of conspiring to manipulate yen LIBOR in August 2015 and sentenced to 11 years in prison. In deciding on the extent of the criminal benefit, the Judge evaluated the extent to which Mr Hayes' attempt to manipulate LIBOR had an effect on his overall trading activities, the impact this would have had on the profit/loss position of his employers and the effect that this had on his remuneration.

## Raising Standards in the Foreign Exchange (FX) Market

Following our investigations and alongside our disciplinary actions against six banks in respect of their failure to adequately control their trading operations in the G10 spot FX market, we completed our FX Remediation Programme to tackle the conduct risks we found during the investigations. As part of our market-wide approach, the programme aimed to address these concerns at an industry-wide level and included the largest firms participating in the UK FX market.

More than 30 firms participated in the programme in 2015, including global wholesale investment banks, US custodian banks or retail clearing banks. These firms represent approximately 70% of the FX market in the UK.

We gave firms a detailed list of the identified risks they needed to manage effectively. Firms were required to consider the culture, governance arrangements, policies, procedures, systems and controls within their UK businesses, as well as how much their overseas activities might impact upon their conduct in the UK. They were also required to read-across the remediation process to their other trading businesses.

When the programme ended, individuals with responsibility for the relevant business areas formally attested that they were satisfied that they had adequate, appropriate and effective systems and controls to effectively manage the risks their business faced. These individuals were, wherever possible, those who would have Senior Management Functions under the SM&CR, thereby ensuring individual accountability.

The feedback from firms engaged in the programme was positive and their level of engagement impressive.

During the year we also completed enforcement action in the FX market, which we detail in the 'how we regulate' chapter.

### **Individual Accountability: Senior Managers and Certification Regime**

The SM&CR will bring about greater individual accountability in banking and, over time, raise standards of corporate governance with new Rules of Conduct applying to nearly all staff working in banking.

Accountability is key to improving standards in the banking industry. Individuals, firms and regulators need to know who is responsible for what and the new regime will make this clearer. If things go wrong, it will help us to hold senior managers to account for misconduct that falls within their area of responsibility. It will also hold individuals working at all levels to appropriate standards of conduct.

During the year, working closely with the PRA, we successfully implemented the regimes for banks, building societies, credit unions and PRA-designated investment firms. We also developed and implemented enhancements to the Approved Persons Regime (APR) for insurers.

In May, Parliament passed the Bank of England and Financial Services Act 2016. This gives the FCA the powers necessary to extend the SM&CR to all regulated firms by 2018. We have begun planning for this major exercise which will cover 55,000 firms and over 100,000 individuals.

### **Promoting higher standards of conduct globally**

FEMR recommended that standards of behaviour should be consistent across global markets, and we played a leading role in working with international partners to promote higher standards of conduct globally.

FEMR recommended that international authorities produce a single global FX code. This work was started in 2015 and is well underway, led by the Bank of International Settlements and supported by central banks and market participants from around the world.

In 2015 IOSCO established a Market Conduct Task Force to develop a toolkit of measures to promote proper conduct by market individuals and firms in wholesale markets. The FCA holds the position of Vice-Chair in this group, which is chaired by the Hong Kong Securities and Futures Commission. This initiative seeks to improve individuals' and firms' adherence to conduct standards in wholesale markets, assist regulators internationally to develop their own conduct standards and allow them to share best practice on enforcing the standards across wholesale markets.

### **Conduct standards**

Over the course of 2015, we augmented our approach to supervising wholesale banking in order to raise overall standards of conduct risk management in the industry. This is based on a consistent focus on the five key conduct questions below. The most effective conduct risk mitigation strategies within firms will depend on, among other things, their business models, histories, cultures and leadership. Our aim is to provide a common approach to assessing the conduct risk frameworks firms are increasingly putting in place to share the most effective strategies across industry thereby raising standards more effectively. As with FEMR and the FX Remediation strategy, our work on raising standards focuses on proactive engagement to ensure that the industry itself increasingly takes responsibility for, and ownership of, conduct risk management.

### **The five key conduct questions:**

1. What proactive steps do you take as a firm to identify the conduct risks inherent within your business?
2. How do you encourage the individuals who work in front, middle, back office, control and support functions to feel and be responsible for managing the conduct of their business?
3. What support (broadly defined) does the firm put in place to enable those who work for it to improve the conduct of their business or function?
4. How does the Board and Executive Committee (or appropriate senior management) gain oversight of the conduct of business within their organisation and, equally importantly, how does the Board or Executive Committee consider the conduct implications of the strategic decisions that they make?
5. Has the firm assessed whether there are any other activities that it undertakes that could undermine strategies put in place to improve conduct?

## Financial crime

The FCA has a key role in ensuring that firms have adequate safeguards to prevent themselves from being used to facilitate financial crime, in particular money laundering. That is why we made financial crime one of our strategic priorities in 2015/16, and are making it one of our top seven priorities again in 2016/17.

Firms must have effective systems in place to avoid being used to further financial crime. However, these systems need to be used proportionately and in a risk-based way to ensure they do not unnecessarily inconvenience consumers or exclude them from financial services.

In the FCA's third Anti-Money Laundering (AML) Report, we provide further details on our work in this area.

We have previously set out our expectations on effective money-laundering risk management,<sup>14</sup> and we are clear that this need not result in wholesale de-risking. While the decision to accept or maintain a business relationship is ultimately a commercial one for the bank concerned, we think that there should be relatively few cases where it is necessary to decline business relationships solely because of anti-money laundering requirements. We now consider the appropriateness of firms' de-risking strategies, including whether they could lead to competition issues, during our anti-money laundering assessments.

We have continued to implement our enhanced AML supervision strategy. This includes our Systemic AML Programme which covers 14 major retail and investment banks operating in the UK, as well as their most important or high-risk overseas operations. We also continued our AML reviews of other firms (mostly smaller banks) presenting higher financial crime risk.

We supported the Treasury in the negotiation of the Fourth Anti-Money Laundering Directive (adopted in June 2015), and are now working with them to transpose it into UK law. We are also contributing to the EU-level guidance and binding technical standards required by the Directive.

We continue to be a core partner in the Joint Money Laundering Intelligence Taskforce which seeks to bring together law enforcement and financial institutions to improve intelligence-sharing to help fight money laundering and financial crime. In 2015, we convened a cross-sector meeting of Government, law enforcement and CEOs from major financial institutions to discuss the progress of initiatives under the Financial Sector Forum. This was jointly chaired by the Home Secretary, the Governor of the Bank of England and the FCA's Chairman.

<sup>14</sup> FCA statement 'Derisking: managing money-laundering risk' at [www.the-fca.org.uk](http://www.the-fca.org.uk).

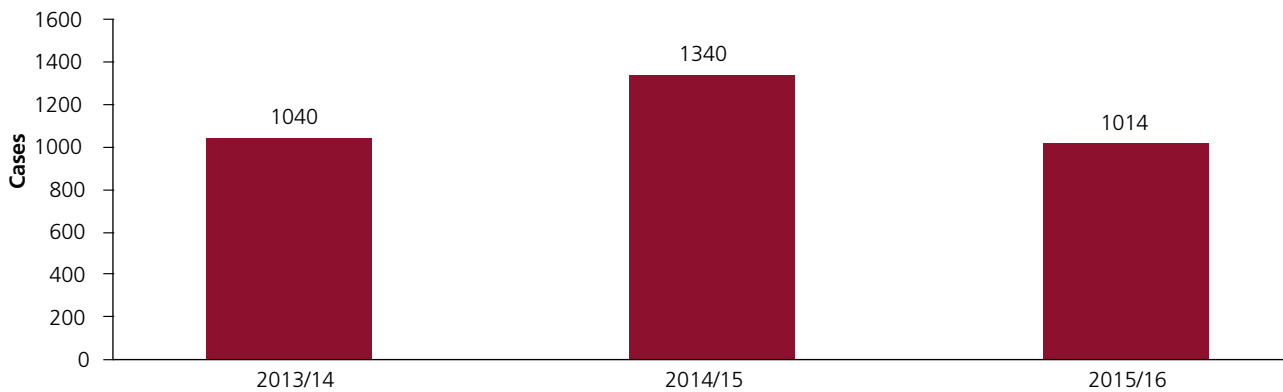
In April 2016 there was widespread reporting of a range of allegations, including money laundering, about the dealings of the Panama-based law firm Mossack Fonseca. We are part of the Government's taskforce, jointly led by HM Revenue and Customs and the National Crime Agency, investigating any evidence of economic crime, regulatory breaches or tax evasion or avoidance which may have taken place. As of June 2016 the taskforce is still in its early stages. It will report in due course to the Chancellor and the Home Secretary.

## Whistleblowing

In October 2015, in response to the recommendation of the Parliamentary Commission on Banking Standards, the FCA introduced new rules on whistleblowing. These rules aim to encourage a culture in firms where individuals feel able to raise concerns and challenge poor practice and behaviour. The rules, which take full effect in September 2016, apply to deposit-takers (banks, building societies, credit unions) with over £250m in assets, and to insurers subject to the Solvency II directive; they are non-binding guidance for all other firms we supervise. The new key rules on whistleblowing require a firm to:

- appoint a Senior Manager as their whistleblowers' champion
- put in place internal whistleblowing arrangements able to handle all types of disclosure from all types of person
- put text in settlement agreements explaining that workers have a legal right to blow the whistle
- tell UK-based employees about the FCA and PRA whistleblowing services
- present a report on whistleblowing to the board at least annually
- inform the FCA if it loses an employment tribunal dispute with a whistleblower
- require its appointed representatives and tied agents to tell their UK-based employees about the FCA whistleblowing service

Figure 3.1: Number of whistleblowing cases



The FCA's dedicated Whistleblowing Team has continued to refine its processes for responding to whistleblowers. We want more whistleblowers to feel able and comfortable to come forward if they need to, so we have improved how we explain our role and how the overall process works from the whistleblower's perspective – as well as increasing clarity on what they can, and can't, expect from us in response to their information: for instance we now offer feedback to all whistleblowers at the end of their case.

We are now more methodical in recognising whistleblowers who contact us on a number of occasions across a range of different issues; 'repeat' whistleblowers are recorded under one case management reference for clarity and so we can better understand their situation. The team has also received specialist training in how to recognise and respond to those who are especially vulnerable. Significant investment has been made in a new, bespoke case management system that will provide even greater protection for whistleblowers, better management of intelligence and greater oversight of all cases.

We have also created a debriefing team for more complex issues who can meet with whistleblowers (if they wish) to ensure the FCA understands the exact issues and circumstances they are reporting.

We continue to engage with outside organisations on whistleblowing, including Public Concern at Work and Whistleblowers UK. We held our third Whistleblowing Forum in Autumn 2015. Amongst those invited were the National Audit Office who had reviewed our whistleblowing

processes in summer 2015. It concluded that the FCA was the only authority it examined who fulfilled all the criteria the NAO outlined for 'How a Prescribed Person can explain their role' and as a whole provided a positive view of the FCA's approach to whistleblowing; they did not identify any major concerns with the FCA's processes. We have initiated an internal whistleblowing awareness campaign within the FCA to embed good practice on proper handling of whistleblowing material. This will support staff in recognising when individuals should be treated as whistleblowers and highlights the importance of whistleblowers to our work. We also established an internal Whistleblowing User Network to harness the expertise of those in the FCA to advocate good practice in handling whistleblowing intelligence.

In 2015/16 we managed 1014 intelligence cases containing information from whistleblowers. We shared information with a wide range of external bodies – including the National Crime Agency, police forces, HM Revenue & Customs, and other UK and overseas regulators in over 260 cases.

2015/16 saw a drop in the number of cases on 2014/15, bringing the total number of disclosures in line with 2013/14.

We do not have a target for numbers of whistleblowing reports. Our aim is to ensure that those who prefer to report to an independent body know about our role and that, if they do need to take the often difficult step of reporting on an employer, they and their information will be treated sensitively and professionally.

**Figure 3.2: Classifications issued by recipients of whistleblowing intelligence 2015/16**

	2015/16	2014/15
<b>Classification</b>	<b>Number</b>	<b>Number</b>
Intelligence directly contributed to FCA enforcement activity or the protection of consumers through other intervention	13	19
Intelligence was of significant value to the FCA and contributed to the discharge of its functions	89	235
Intelligence was, or may be, of value to the FCA but is not currently actionable or does not meet current regulatory risk thresholds	242	521
Intelligence was of little value and is unlikely to assist the FCA in the discharge of its functions	39	100
Not yet assessed	631	465
<b>Total</b>	<b>1014</b>	<b>1340</b>

\*We conduct a full assessment of all intelligence provided to us. The remainder are still under assessment and the cases remain open. Full assessment can take time, depending on the nature and complexity of the case.

**Figure 3.3: Whistleblowing disclosures 2015/16 split by sector**

<b>Sector</b>	<b>Count</b>
Financial Advisers	170
Consumer Credit	145
Retail Banking	114
Retail Insurance	116
Unauthorised Business	78
Markets	80
Investment Banking	44
Asset Management	23
Commercial Insurance	17
Mutuals & Credit Unions	3
SIPP	10
Mortgage Intermediary	22
Building Societies	3
Payment Services	9
Friendly Societies	1
E Money	3
Other / Not stated*	176
<b>TOTAL</b>	<b>1014</b>

\*Some reported cases are not sufficiently specific to identify a sector.

**HBOS**

In November 2015, we published jointly with the PRA a review into the failure of HBOS plc; the review was originally started by our predecessor organisation the Financial Services Authority (FSA). As part of the review Andrew Green QC also completed an independent assessment of the FSA's enforcement actions following HBOS's failure and his report was published at the same time.

The review concluded that the HBOS Board and senior management had ultimate responsibility for the failure of HBOS. They failed to set an appropriate strategy for the firm's business and failed to challenge a flawed business model which placed inappropriate reliance on continuous growth without due regard to the risks involved. In addition, flaws in the FSA's supervisory approach meant it did not appreciate the full extent of the risks HBOS was running and was not in a position to intervene before it was too late.

In his report, Andrew Green QC recommended that the PRA and FCA should now consider whether any former senior managers of HBOS should be the subject of an enforcement investigation with a view to prohibition proceedings. The FCA and the PRA decided to start investigations into certain former HBOS senior managers in January 2016. These investigations will determine whether or not any prohibition proceedings should be commenced against them. The FCA and PRA continue to review materials with a view to making further decisions regarding other former HBOS senior managers.



# 4

## Promoting competition



### Introduction

Good, healthy competition can be demonstrated by a range of different indicators. When it works well, consumers are empowered as well as informed – they can make sense of the information they are given and can take their business elsewhere if they are not happy or can get a better deal. In turn, firms strive to win custom on the basis of service, quality, price and innovation. This helps generate better outcomes for consumers. New firms can enter and bring their ideas to market. Successful, innovative firms thrive and unsuccessful firms change or exit.

But there are many ways in which competition can be weakened. For example, firms may fail to provide clear information to help consumers make well-informed choices about often complex services, they may exploit customers' lack of understanding or behavioural biases. Additionally, barriers to entry may mean incumbent firms are protected from having to attract customers and compete to win business. The regulatory framework can have a significant impact on competition dynamics in a market.

As a result, we have an objective to promote effective competition in the interests of consumers in the markets we regulate. We also have a competition duty. FSMA provides that we must, so far as is compatible with acting in a way which advances the consumer protection objective or the market integrity

objective, discharge our general functions in a way which promotes effective competition in the interests of consumers.

As a matter of policy we normally aim to choose the most pro-competitive measure open to us, provided that it is compatible with our duties as a whole. Decisions on how to apply our competition duty in practice are made on a case-by-case basis.

From 1 April 2015, we have also had concurrent competition powers. This means we:

- have powers to investigate and enforce infringements of the Competition Act 1998 (CA98) and Articles 101 and 102 of the Treaty on the Functioning of the European Union (TFEU) in the financial services sector
- can also carry out market studies under the Enterprise Act 2002 (EA02) of markets in the UK for financial services, and make a market investigation reference (MIR) to the Competition and Markets Authority (CMA)

We outline some of the work we have done in pursuit of our competition objective and duty in more detail below. Further details are in our Competition Report 2013/16 which we have published on our website.



### Our focus over the year

This year, we have continued to use our competition tools to look at markets to understand whether the competitive dynamic works in the interests of consumers. Where we have found practices that stifle competition we have taken steps to tackle them, again using the flexible range of tools available to us. This year we have:

- launched four new market studies and calls for input, on investment and corporate banking, asset management, assessment of competition in the mortgage sector and the use of big data in the general insurance sector
- published one interim report, on credit cards
- started to trial competition remedies in two sectors: retirement outcomes and general insurance add-ons
- implemented competition remedies in two markets, cash savings and general insurance add-ons
- extended the Innovation Hub remit and set out our plans for implementing a 'regulatory sandbox'
- launched our first Competition Act investigation

## What has the FCA done to promote competition?

**We have investigated a range of markets, identifying concerns and taking steps to address features which could inhibit effective competition. Here are some examples of what we have done.**

### We help **consumers get the information they need**

In our Retirement Income market study we found that a substantial proportion of consumers found the information they receive from providers generally difficult to navigate. We are seeking to address this through better information in wake-up packs.

### We help **consumers assess the best choice for them**

We are working with firms to improve how they communicate with consumers. This focuses on how information is presented to consumers and which could empower people to make effective decisions about the products or services they hold or are looking to buy.

### We help **consumers to act on their decisions**

We found that disclosing last year's premium was the most effective way to prompt consumers to shop around, cancel or negotiate their insurance policy. Doing so caused the equivalent of 11-18% more consumers to switch or negotiate their home insurance policy.



**Effective competition provides firms with incentives to deliver what consumers want and provide value for money as efficiently and innovatively as possible**



**Well informed and engaged consumers can play a key role in driving effective competition between firms**



### We seek to ensure that **firms compete fairly**.

We have taken active steps to use our competition powers to address potential breaches of competition law.

### We have **made it easier for new banks to launch**, by improving our authorisations processes.

This includes the launch of the New Bank Unit to stimulate competition by helping new, prospective banks to enter the market.

### We have **encouraged innovation in financial services**.

We launched the Innovation Hub to help firms that are innovating in consumers' interests to navigate their journey to becoming authorised. We have helped over 200 innovative firms, with 20 of those now authorised.

## Improving competition between firms

In this section, we provide more detail about four key pieces of work we have undertaken this year. These are:

- our investment and corporate banking market study
- our asset management market study
- our use of competition enforcement tools
- supporting firms seeking to enter financial markets and innovate

### Investment and corporate banking market study

Primary markets play a vital role in the economy by matching investors with corporates and public bodies who need finance. However, during our Wholesale Sector Competition Review last year, stakeholders raised a number of concerns about how well competition works in primary markets.<sup>15</sup>

Many concerns involved the universal banking model which provides cross-subsidies between corporate banking and investment banking, as well as specific market practices including syndication and reciprocity.

This year we undertook a market study to analyse these concerns. We published our interim findings in April 2016. We found that while primary capital market services appear to work well for many clients, some practices could potentially affect competition.

In particular, lending and corporate broking are typically supplied at a low rate of return in exchange for more profitable transactional business. While most larger clients are content with this model, smaller corporates sometimes feel they need to 'reward' their lenders or corporate brokers with business, even when that bank would not otherwise have won the mandate. Most large banks also seek contractual clauses that restrict a client's choice in future transactions, making it harder for banks providing only transactional services to compete.

Our market study proposed a targeted package of measures, including calling for an end to the use of these contractual clauses.

The market study also looked at current market practice for UK IPOs, which currently includes a 'blackout' period between syndicate banks publishing their research and the circulation of the pathfinder prospectus, meaning investors often receive prospectuses late in the IPO process.

This leaves unconnected analysts with little or no information from which to produce research, as the only source of information during the investor education period is connected research.

<sup>15</sup> [www.fca.org.uk/static/documents/feedback-statements/fs15-02.pdf](http://www.fca.org.uk/static/documents/feedback-statements/fs15-02.pdf)



We found that while primary capital market services appear to work well for many clients, some practices could potentially affect competition



We are concerned that this approach reduces the diversity and independence of information available to investors, and we have published a discussion paper covering potential changes to the IPO process.

### Asset management market study

The UK asset management industry is the largest in Europe and second only to the US globally in terms of assets under management. The Investment Association (IA) estimates that the UK industry managed around £6.6 trillion of assets in 2014/15.

As part of this sector, asset managers provide an important economic function in bringing together those with money to invest and governments and companies who need that capital. Asset managers also act as the representatives of capital owners and, in this role, can provide oversight and stewardship of the investments they make.

We announced our intention to carry out an asset management market study in the 2015/16 Business Plan and published the Terms of Reference for the study in November 2015. Given the size of the market and the long-term nature of investments, even a small improvement in the effectiveness of competition could be of substantial benefit for investors. As part of our market study we will seek to understand:

- how asset managers compete to deliver value
- whether asset managers are willing and able to control costs and quality along the value chain
- how investment consultants affect competition for institutional asset management

Across all three topics we are interested in understanding whether there are any barriers to innovation or technological advances which may be preventing new ways of doing business that could benefit investors.

### Using our competition enforcement tools to ensure firms are competing fairly

In April 2015 we were given the power to take enforcement action against anti-competitive agreements and abuse of dominance under the Competition Act 1998.

This year we have opened our first Competition Act investigation. We have also issued two 'on notice' letters to firms, setting out areas that could be a potential infringement of competition law and asking them to tell us what action they intend to take to address our concerns. These firms have now changed their processes to strengthen their competition compliance. We have also issued three advisory letters to increase firms' awareness of competition law and ensure they comply with it.

This year we have also established further policies and procedures to enforce competition. For example, in July 2015, we published our finalised guidance on our concurrent competition enforcement powers, and have amended the Handbook to reinforce the obligation on authorised firms to report significant infringements of competition law to us (Principle 11).

We have also published guidance on approving voluntary redress schemes under the Competition Act 1998. These give firms an opportunity to provide redress to consumers as quickly as possible and reduce the risk of lengthy and costly court proceedings.<sup>16</sup>

We have also finalised our MoU with the Competition and Markets Authority on competition in the financial services sector: [www.fca.org.uk/your-fca/documents/mou/fca-cma-concurrent-competition-powers-mou](http://www.fca.org.uk/your-fca/documents/mou/fca-cma-concurrent-competition-powers-mou)

### Helping innovative firms to enter financial markets

Consumers' needs are constantly evolving and innovative solutions are needed to meet them. This year we have looked at new ways we can help reduce barriers to entry and encourage innovation while ensuring high standards of consumer protection and market integrity are maintained. Our aim is to ensure our regulations are proportionate and support healthy competition.

This year saw us continue to deliver two major programmes, the New Bank Start-up Unit and the Innovation Hub – helping firms enter the market and also existing firms that are innovative.

### New Bank Start-up Unit

At the end of November 2015, the UK Government announced further steps to support greater competition in banking to bring new entrants to the market. In response, the PRA and FCA launched a New Bank Start-up Unit in January 2016.

This new Unit provides a single point of contact by telephone and email for prospective banks, applicant banks and newly authorised banks. The Unit builds on previous work done by the PRA and the FCA and sets out to:

- Clearly explain the regulatory expectations on new banks and work with them to support their entry into the market.
- Help new banks make the transition through the authorisation process to being a supervised firm through one-to-one discussions, providing named authorisation case officers and ensuring dedicated handover to supervision colleagues.
- Provide additional support for new banks for the first two years post-authorisation, to help them navigate regulatory requirements so that they can establish themselves in the market. Banks will benefit from introductory and follow-up meetings and be invited to sector-specific events.

### Innovation Hub

We launched the Innovation Hub in 2014 to provide direct support to innovative firms with ideas that can benefit consumers and identify areas where we might need to change our policies or processes to remove regulatory obstacles to innovation.

This year we extended the Innovation Hub's remit to support new market entrants as they enter the regulated market. We must be satisfied that all firms (whether innovative or not) meet our standards before we can authorise them. To make this process smoother, since October 2015 we have used a specialised Project Innovate process for authorising applications from businesses which have received early-stage Hub support. Post-authorisation, we also now provide continued supervisory support for their first year of operation.

<sup>16</sup> The FCA also has a number of powers under FSMA to require authorised firms (i.e. firms regulated by the FCA) to pay redress or provide restitution.



We have received

488

requests for support through the Innovation Hub

We have provided

53%

of these firms with support

We have received feedback on the overall experience of the Innovation Hub with

73%

rating this as excellent or good

'The UK is a global gold standard for the progressiveness of its regulatory regime. Through Project Innovate... the FCA has established a programme that Fintechs describe as supportive and collaborative, and significantly simplifying regulatory complexities'

'UK FinTech On the cutting edge - An evaluation of the international FinTech sector', HM Treasury and EY, 2016

## Promoting competition

### **International engagement**

The UK attracts innovators from around the world, both because of vibrant local networks and because they can use the UK as a springboard to launch their businesses internationally and bolster their competitiveness. In order to support this we have sought to enhance our international engagement in this area. In March 2016, we signed a Co-operation Agreement with the Australian regulator, the Australian Securities and Investments Commission, to allow each of us to refer innovative firms to our respective Innovation Hubs. A further such agreement was signed with the Monetary Authority of Singapore in May 2016.

### **Engagement with large established institutions**

Project Innovate was always aimed at businesses of all shapes and sizes seeking to innovate in the interests of consumers. However, it attracted relatively little engagement from large, established businesses. This year we have started work on a specific engagement programme with these firms to ensure they understand that if they have potentially innovative ideas that could benefit consumers we are also keen to work with them to ensure these can be realised.

### **Regulatory sandbox**

In November 2015, we set out our plans for implementing a 'regulatory sandbox'. This is a safe space where businesses can test innovative products, services and methods of delivery in real-life situations without having to meet all the normal regulatory requirements. To ensure consumers are adequately protected during sandbox testing, our approach is to agree the appropriate disclosure, protection and compensation for the testing activity on a case-by-case basis. This means our sandbox can cater for a variety of firms, both established and new entrants. In May 2016, the sandbox opened for applications.

### **Regulatory Technology**

Regulatory Technology, or RegTech, is used to describe developments in financial technology that may help firms meet their regulatory requirements more efficiently and effectively.

We have been developing our RegTech Strategy which takes into account evolving economic, market and technology developments and in November 2015 we published our RegTech analysis and a Call for Input. We are considering the responses and using them to help guide our priorities.

### **Helping consumers make informed choices**

By ensuring clients and consumers know more about the deals which financial services firms offer and can switch when necessary, firms will have the incentive to offer better products and services to both existing and potential customers.

In this section we outline some of our key activity during the year to help consumers and firms make informed choices about financial services. Highlights include:

- finalising remedies in the cash savings sector

- testing remedies in the general insurance sector
- testing remedies in the pension sector to help savers when they come to retirement

### Remedies from the Cash Savings market study

Our 2014 Cash Savings market study found competition was not working well for many consumers. 80% of easy access accounts had not been switched in the last three years and savings providers, on average, paid lower interest rates on longstanding accounts than new ones. We found that easy access accounts and cash ISAs that had been opened less than two years previously paid more than double the interest rates paid on accounts that had been open for more than five years.

In December 2015 we finalised a first package of measures to help make it easier and quicker for consumers to switch cash savings accounts.<sup>17</sup> The finalised rules will come into effect on 1 December 2016. They include requiring firms to provide clear information on cash savings interest rates, both at the point of sale and after sales have been made. Firms will also be required to give a prompt and efficient service to customers who want to switch to a better account offered by the same firm.

We are also shining a light on the lowest interest rates that firms offer on savings to highlight those that offer poor value. We published the first set of data in December 2015.<sup>18</sup>

### Remedies implemented in the GI add-ons market study

Our 2014 market study into general insurance add-on products found that competition in general insurance add-on markets is not effective and that add-on sales mechanisms can result in many consumers buying add-on products they do not need or understand. We also identified poor value in both add-on and some stand-alone products sold by firms.

So in September 2015 we confirmed new rules to ban opt-out selling across financial services. Since 1 April 2016, firms can no longer sell add-ons to regulated primary products (including general insurance primary products) on an opt-out basis and hence consumers will no longer be defaulted into purchasing add-on products they may not require. Instead, consumers must make an active choice to buy these products. We have also issued guidance to improve the information provided to customers buying add-ons.

Our new rules on Guaranteed Asset Protection (GAP) insurance came into force in September 2015. They require firms that sell GAP with the sale of a motor vehicle (add-on GAP) to give customers information to help them shop around for GAP products. We have also introduced a deferral period, which means add-on GAP insurance cannot be introduced

and sold on the same day. This will help ensure that add-on GAP insurance is sold only to consumers who have made a considered choice to buy it.

To address concerns around product value we set out our intention, in March 2016, to take forward the publication of a scorecard of general insurance value measure data as a remedy to incentivise firms to improve product value. The scorecard will include claims frequencies, claims acceptance rates and average claims pay-outs, potentially with the inclusion of an average premium metric. However, rather than consulting at this stage we have decided to pilot the publication of the scorecard. This will allow us to refine the remedy design and obtain further evidence of the publication effectiveness and costs ahead of any potential consultation. We intend to launch the pilot in the Summer 2016.

### Retirement Income market study remedies

In March 2015 we published our final findings of the Retirement Income market study and set out the remedies that we will take to address the concerns we identified.

Our market study found that wake-up packs<sup>19</sup> contained too much information and were difficult to navigate. This makes it harder for consumers to find the information they need to make informed decisions about their retirement income needs.

So in 2015 we launched trials of redesigned wake-up packs with customers of two firms. The trials aimed to test if and how redesigning some elements of at-retirement communications affects consumer behaviour and choices. For example, we wanted to test if the redesigned wake-up packs increase consumer engagement and awareness, take-up of Pension Wise, financial advice and greater shopping around and switching.

Consumers currently receive wake-up packs four to six months before their intended retirement date. This means that the trials have a long lead time. We expect to see results from the first of these trials by mid-2016 and from the second one by the end of 2016.

Our market study also proposed the creation of an 'annuity comparator' to improve competition and help consumers get a better deal when they purchase a guaranteed retirement income. The proposal provides targeted information, just before the point of purchase, to encourage consumers to shop around.

We have now completed behavioural testing of the comparator with a sample of 1,996 consumers. The data confirms that this remedy is likely to be effective at encouraging consumers to shop around and, where appropriate, switch provider. In turn, this should benefit consumers and improve competition in the market. We will consult on rule changes later this year. The full report of that research is available on our website.

<sup>17</sup> FCA Cash savings remedies: Feedback and Policy Statement to CP15/24 and next steps, 8 December 2015:

[www.fca.org.uk/news/ps15-27-cash-savings-remedies](http://www.fca.org.uk/news/ps15-27-cash-savings-remedies)

<sup>18</sup> FCA Cash savings: sunlight remedy, 8 December 2015:

[www.fca.org.uk/news/cash-savings-sunlight-remedy](http://www.fca.org.uk/news/cash-savings-sunlight-remedy)

<sup>19</sup> Wake-up packs are pension providers' at-retirement communications with its customers, which are sent to customers 4-6 months prior to the indicated retirement date and which are mandated by COBS 19.4.

# 5

## How we regulate



### Introduction

We are the conduct regulator for the whole of the UK financial services industry and the prudential regulator for 24,000 UK-licensed firms, which makes us the largest prudential regulator in Europe. With such an extensive remit we need to ensure the tools we use to regulate the market are both proportionate and effective.

In this chapter we focus on how we have used our regulatory tools to regulate the financial services market in the past year.

These tools include:

- policy making
- authorising firms and approving individuals
- supervising firms and individuals
- continuing oversight of markets
- taking enforcement action

### Our regulatory principles

When exercising our general functions we have regard to the following regulatory principles for good regulation:

- Efficiency and economy
- Proportionality
- Sustainable growth
- Responsibility of consumers
- Responsibility of senior management to comply with the regulatory framework
- Recognising the differences in businesses carried on by different regulated persons
- Openness and disclosure
- Transparency

The regulatory principles underpin all our work. As required by FSMA, we set out in the compatibility statement in our consultation papers our reasons for considering that our proposals are compatible with our duty to have regard to the principles. These reflect the fact that not all the

principles will be relevant in each case. We also highlight the application of the principles at a number of points in this report.

For example, the Value for Money section in chapter one explains how efficiency and economy are a key factor in our decision making; the responsibility of senior managers is a central theme of the new Senior Managers and Certification Regime which is referred to at a number of points in the report; and transparency is reflected in how we engage with our stakeholders, for example the volume of engagement we are undertaking in relation to MiFID II as described in chapter 3, which has allowed us to explain fully our approach to the new requirements and our expectations of firms.

The principle of consumer responsibility has been central to our work on pensions freedoms which give consumers more choice when accessing their pension savings. With this increase in choice, consumers need to make more decisions as ultimately it is for them to decide what is best for them in their circumstances. Our emphasis has been on making sure that they have access to information to help them understand the options they have or the implications of the decision they have made.

When encouraging competition, including innovation, in financial services we are mindful of the desirability of

sustainable growth in the economy of the UK as shown by our work with the Innovation Hub. We recognise the differences in businesses carried on by different regulated persons as evidenced by our approach to granting 'limited permissions' or 'full permissions' to consumer credit firms according to their business model.

### Making rules to ensure that markets function well

We use our policy-making powers to promote and deliver robust, practical rules and frameworks which support our objectives. This applies both to policy we develop ourselves and to our work with external policy makers.

Our policy work is guided by the following principles. We:

- Prioritise and target our policy activities where they can make the most difference.
- Make and support new rules and guidance only if we believe they will be effective to address, and proportionate to, the relevant problem.
- Review our rules, and encourage others to do the same, where we believe they no longer achieve the right aims.
- Align our initiatives and strategy with the European and international agendas and timetables. Our general approach to implementing EU legislation is usually to 'intelligently copy-out' agreed requirements into our Handbook, and only to go beyond what is required if we consider this is proportionate. When we have done so, it has generally been to preserve existing standards of consumer protection or to minimise possible competitive distortions, and is always accompanied by public consultation and cost-benefit analyses.

Examples of some of our major policy initiatives this year are:

- **Smarter Consumer Communications**, a discussion paper which challenged firms to consider innovative ways to engage and communicate with consumers.
- **Pension Wise recommendation policy**, which finalised the required rules to deliver effective protection for consumers under the new pension freedoms.
- **Consultation paper on disclosure and advice for new peer-to-peer agreements**, setting out proposed rules and guidance on this topic. These will provide vital protections to consumers who want to take advantage of these investments within an Innovative Finance ISA which became available on 6 April 2016.
- **Accountability regime rules (including the Senior Managers and Certification Regime)**. On 7 March 2016 the new Senior Managers & Certification Regime commenced for individuals in deposit-takers. This new

regime, based on the recommendations made by the Parliamentary Commission for Banking Standards, replaced the Approved Persons Regime for these firms. The regime will make it easier for firms and regulators to be clear about who is responsible for what and help hold individuals working at all levels within relevant firms to appropriate standards of conduct. On 7 March we also made similar changes to the Approved Persons Regime for insurers and applied the key principles of the Senior Managers Regime to senior members of FCA staff. In November 2015 the Treasury announced the extension of the regime to all FSMA-authorized firms and we will be developing our policy and approach to this in the coming year.

- **Implementing EU Directives**. Developing and implementing the Supervisory Review and Evaluation Process (SREP) needed to support the Capital Requirements Directive and Regulation (CRD IV). We also implemented the authorisation and registration processes needed under Mortgage Credit Directive (MCD) to bring those undertaking second charge mortgage or consumer buy-to-let business into regulation.
- The **Fair and Effective Markets Review**, which we co-chaired, published its Final Report on 10 June, setting out its findings and 21 recommendations to raise standards, professionalism and accountability of individuals, improve the quality, clarity and market-wide understanding of Fixed Income, Commodities and Currencies (FICC) trading practices; strengthen regulation of FICC markets in the UK; launch international action to raise standards in global FICC markets; promote fairer FICC market structures while also enhancing effectiveness and promote forward-looking conduct risk identification and mitigation. Since June 2015, the FCA has made good progress alongside the other Authorities, International Standard Setters and the industry to take forward the recommendations of FEMR and has committed to published a progress report in Summer 2016.

### Assessing firms seeking to enter the market

Firms and individuals offering financial services need to compete effectively, run their businesses in the best interests of consumers and uphold market integrity. One of our important roles is acting as the gatekeeper for firms which are seeking to enter the market. We evaluate firms and, where relevant, individuals to ensure they meet our threshold conditions. This includes examining the sustainability of firms' business models and the fitness and propriety of individuals.

The past year has seen an unprecedented increase in the number of applications for authorisation, partly due to our new responsibility for consumer credit firms.

## Integrating consumer credit firms into our regime

Since taking over the regulation of consumer credit firms from the Office of Fair Trading our aim has been to ensure an efficient transition. This allows firms to enter the financial services sector without affecting their ability to trade. When firms have not met these conditions we provide feedback and ask them to review their business models. Where firms do not, or cannot, meet our standards they often withdraw from the market or we formally refuse their applications.

In order to continue carrying out consumer credit activities, firms with interim permission were required either to apply for authorisation or become an Appointed Representative of a fully authorised firm. We gave each firm a three-month period in which to apply. Given the number of firms involved, we staggered applications across 16 periods. The first application period opened on 1 October 2014 and the final one closed at the end of March 2016.

Since April 2014, when we took over the regulation of the consumer credit market:

- 36,582 firms have applied for authorisation, of which 25,643 were firms with interim permission and 10,939 were new entrants. 780 firms were grandfathered.<sup>20</sup>
- 23,829 firms with interim permissions did not apply for authorisation.
- As at the end of March 2016 we had authorised 31,006<sup>21</sup> firms to carry out consumer credit activities.

Excluding appointed representatives and taking into account cancellations, as well as firms with interim permissions, there were 33,853 firms operating in the consumer credit market as at the end of March 2016.

### Making a difference in the Consumer Credit market

When we review applications for authorisation, we work with firms to ensure we grant permission for the right regulated activities to reflect the business they want to undertake and that they have the right controls and governance to mitigate the risks of these activities. Based on their discussions with us, firms may therefore change the activities they seek authorisation for or the way they operate during the authorisation process. We see this ability to drive changes in behaviour through review and amendment of proposals as an important role played by the authorisation gateway.

The degree to which these discussions lead to change varies depending on the risks posed by the firms and the quality of a firm's proposition. Based on our experience,

<sup>20</sup> Grandfathered firms are specific not-for-profit firms that were given a Part 4A permission without having to apply to us because they were covered by a group licence under the Consumer Credit Act 1974 to carry on certain activities. (The term is used generally by the FCA to refer to firms that were given permission without being authorised – such as those firms which had permission with a predecessor organisation when the FSA was formed on 1 December 2001.)

<sup>21</sup> Excluding appointed representatives

we estimate we typically see the degree of change vary according to the type of business as shown in figure 5.1.

We know that financial services are not always the primary activity for all consumer credit firms. So we have two broad categories of authorisation: 'limited permission' and 'full permission' firms. Firms who apply for limited permission tend to be firms where consumer credit activities are only a small part of their business model.

Figure 5.1: Change in outcome at authorisation gateway

Type of case	Estimated proportion of applications where our intervention has resulted in changes to:	
	regulated activities	the way a firm operates
Full Permission	40%	30%
Limited Permission	25%	10%
Variation of Permission	25%	15%

Given the more complex nature and greater number of required conditions which full permission applications have to meet, we see more changes in firms applying for these types of activities. The level of influence also varies by sector. For instance, within the High Cost Short Term Credit sector, many firms have adapted their business models to account for our new regulation – including the cap on payday lending costs.

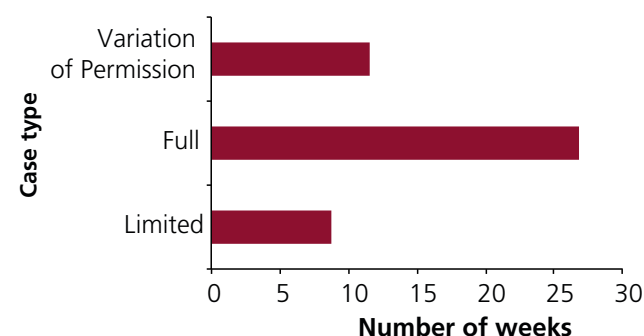
We will only authorise firms that carry out regulated activities and meet our standards. Since we started the authorisation process for consumer credit firms, a total of 1,694 of these firms have withdrawn their application for authorisation.

If a firm does not withdraw its application after we have told them they do not meet our standards or where we have evidence of consumer detriment, we will stop them entering the market. We have now refused 53 firms for authorisation since the start of the consumer credit authorisation process.

### Monitoring our performance to ensure an efficient transition for consumer credit firms

Firms requiring full permission typically undertake higher risk activities, with consumer credit making up a greater part of their business model. As a result, we undertake a higher

Figure 5.2: Consumer Credit Authorisation: Average processing times in weeks (from April 2014 to March 2016)





level of scrutiny of these firms to assure ourselves that risks are mitigated, which leads to higher average processing times than for limited permission firms. Firms that are already authorised and need to add or remove consumer credit activities can apply for a Variation of Permission (VoP).

The FCA has several service standards, five of which relate to ensuring certain types of consumer credit applications are determined within a set period (statutory deadlines). Since the service standard is 100% this means we breach our service standard if only one out of the total number of applications exceeds its threshold. We have met the statutory deadlines in over 99% of applications for authorisation determined by 31 March 2016.

**Figure 5.3: 2015/16 Consumer Credit Statutory Service Standard Performance (%)**

	Q1	Q2	Q3	Q4	Total
New Authorisation	99.9	99.5	99.6	98.4	99.6
Variation of Permission	99.9	99.9	99.5	99.5	99.8
Approved Person	95.7	76.9	95.9	88.3	88.2
Cancellation	100	100	100	100	100
Change in control	100	100	100	100	100

#### RAG Rating

Green (Target)	100%	Amber	< 100% but ≥ 90%	Red	< 90%
----------------	------	-------	------------------	-----	-------

We met our service standards for the majority of 'stand-alone' approved person applications, however, there were a number of approved person applications that were being considered as part of a variation of permission<sup>22</sup> which were not correctly identified in sufficient time to be put on hold and therefore breached their deadline. These breaches are considered technical in nature in that they did not impact the applicants. We adopted a procedure to identify other such cases and allow them to be put on hold until the associated variation of permission is considered.

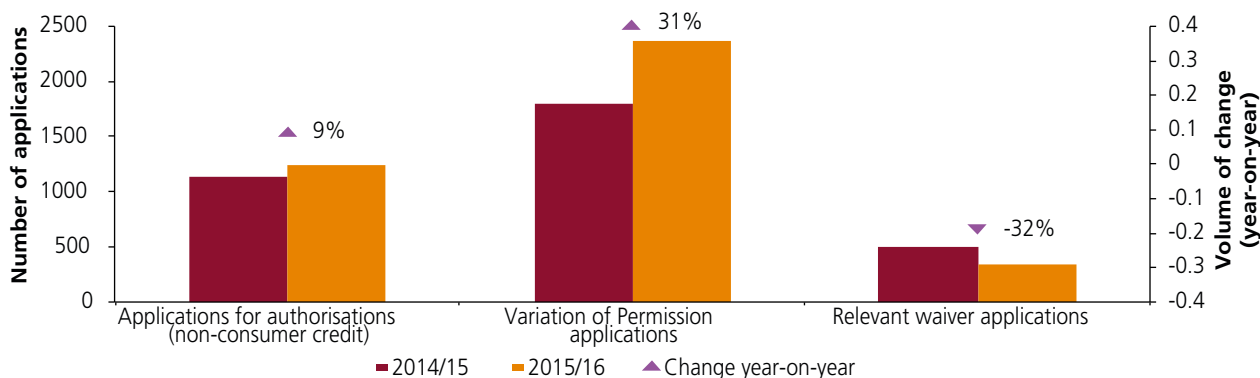
#### Other types of authorisations (non-consumer credit)

As well as authorising consumer credit firms, in 2015/16 we continued to receive a high volume of other types of authorisations:

- 1,240 applications for authorisations (non-consumer credit)
- 2,367 Variation of Permission applications
- 1,392 notifications of change in control
- 339 relevant waiver applications
- 17,355 mutual society registrations
- 11,338 passporting and UK agents notifications and applications

<sup>22</sup> For approved persons connected to this type of application, the process is to put the approved person case 'on hold' whilst we consider the application – this means the timeframe used for measuring against the statutory deadline is suspended.

**Figure 5.4: Applications**



**Figure 5.5: Time taken in weeks to process applications**

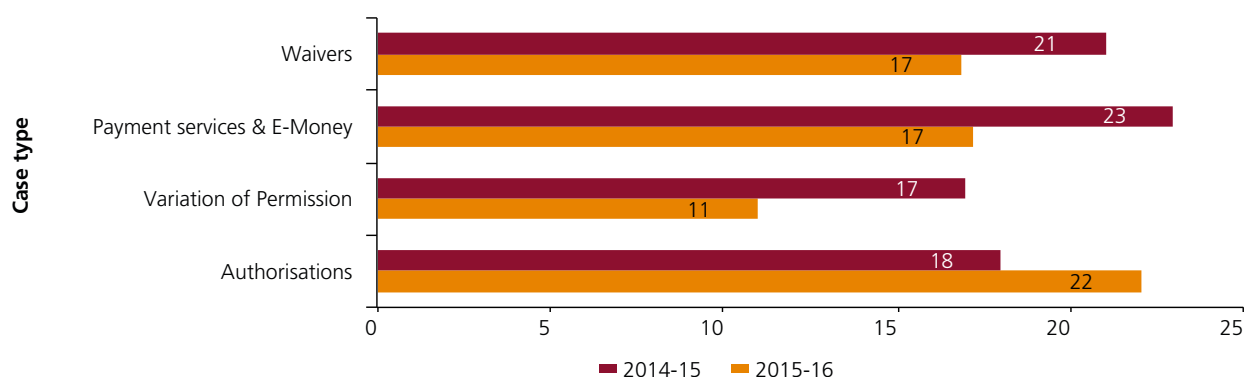
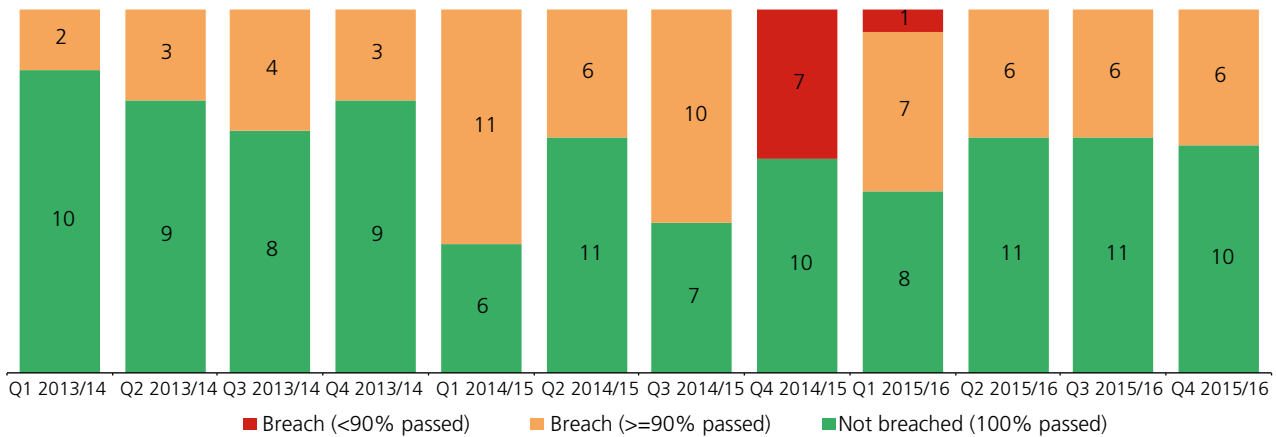


Figure 5.6: 2015/16 Statutory Service Standard Performance



- 70,576 approved persons applications

We assess each application and determine it as either authorised, refused or withdrawn. A large proportion of firms withdraw their applications during the determination phase. This happens for a number of reasons, including where it becomes clear that it is likely to be refused.

We monitor our performance against 20 statutory requirements, alongside a number of voluntary service standards. We always aim to meet both statutory and voluntary service standards and underline their importance through daily tracking of cases, continuous feedback to staff and prioritising resources.

### Our approach to supervision

Much has changed since the FCA supervision model was designed in 2013. Taking on the regulation of consumer credit firms has significantly increased the number of firms we supervise, and our scope has also expanded to include oversight of benchmark administrators and submitters, as well as many new EU regulations and directives often implementing wider international agreements. There have also been significant domestic policy changes, notably the introduction of the pensions freedoms, the Senior Managers and Certification Regime (SM&CR) and ringfencing.

These and other factors have led us to make some significant changes to our supervision model. Our supervision strategy now places an increased emphasis on sector and market-wide analysis, which makes it easier for us to identify both emerging risks and risks which affect different sectors.

As part of this, we have moved away from the 'C1-C4' conduct categories which we previously used. We now categorise firms as either 'fixed portfolio' or 'flexible portfolio', which determines the nature and intensity of our supervisory approach with the firm.

Fixed portfolio firms are a small population of firms of around 100 (out of the total number regulated by us of about 56,000) that, based on factors such as size, market presence and customer footprint, require the highest level of supervisory attention. These firms are allocated a named individual supervisor, and are proactively supervised using a continuous assessment approach.

The vast majority of firms are classified as 'flexible portfolio'. These firms are supervised through a combination of market-based thematic work and programmes of communication, engagement and education activity aligned with the key risks identified in the sector in which the firms operate. We also deal with crystallised or crystallising risk events in accordance with our risk appetite, seeking to address the causes of potential or actual harm as efficiently as possible. These firms use our Contact Centre as their first point of contact with us as they are not allocated a named individual supervisor.

We have also implemented some structural changes to support our revised approach, and have formed two supervision divisions:

- the Retail & Authorisations Division, across all sectors with the largest mass market footprint (retail banking, retail lending, general insurance and protection), as well as our authorisations activities
- the Investment, Wholesale & Specialists Division, covering investment, wholesale banking and markets, and also including a number of specialist and cross-divisional teams that support both divisions

## The FCA sectors

In line with our new market based approach to regulation we have organised the firms we regulate into sectors.

Supervision Retail	Supervision Wholesale
<b>Retail Banking</b> 13 fixed 1,300 flexible	<b>Pensions &amp; Retirement Income</b> 11 fixed 400 flexible
<b>Mortgages &amp; Mutuals</b> 6 fixed 2,100 flexible	<b>Investment Management</b> 7 fixed 2,800 flexible*
<b>Consumer Credit</b> 2 fixed 27,000 flexible (24,400 Authorised, 2,600 Interim Permission)	<b>Wholesale Markets</b> 13 fixed 1,300 flexible
<b>General Insurance &amp; Protection</b> 27 fixed 5,700 flexible	<b>Capital Markets</b> 20 fixed 400 flexible
<b>Retail Investments</b> 6 fixed 6,000 flexible	<b>Other</b> EEA Authorised Service Companies – 8,000

\* Approximately 3,000 funds are additionally supervised within this area.

Firm numbers are based on allocation of each firm to the sector it is principally supervised in. The numbers change on a continuous basis, and were correct as of 16 June 2016.

## The tools we use to regulate firms

Our supervision model is built upon three pillars of supervision activity:

- Pillar I is a programme of proactive, firm-specific supervision for the most important firms and groups within a sector
- Pillar II is event-driven, reactive supervision, which is focused on dealing with crystallised or crystallising risks in accordance with our risk appetite
- Pillar III is our thematic approach, where we focus on risks and issues across a sector as a whole

### Pillar I interventions in the market

While maintaining a minimum number of set activities for fixed firms our new approach provides supervisors with greater flexibility to use their judgement in determining the appropriate level of supervisory activity for individual firms.

### Group supervision

We have changed our approach to supervising large groups that are active in more than one sector. Under our previous approach, a single team was responsible for supervising each large group as a whole. Under the new approach, a single team is responsible for supervising the group's activities in its primary sector and for reaching a single overall view of the group. However, the group's activities in other sectors (e.g. a retail bank's mortgage operations) are supervised by specialists from the relevant sector supervision team. The group supervisor draws on the views of sector supervisors in reaching a single overall view of the group. These changes are an evolution of our existing approach and aim to enhance the quality and consistency of our supervisory approach by ensuring that sector specialists play a greater role in supervising large groups which are active in multiple sectors.

Figure 5.7: Pillar I Activity – Total number of meetings with fixed firms in 2015/16

48

Firm Evaluation Meetings

78

Interim Reviews

125

Annual Strategy Meetings

In addition, we had further fixed portfolio interactions, of which

629

relate to Pillar I work

450

relate to 'deep dive' work (in-depth assessments of specific risks we have identified)

## Using Supervision Pillars to address Culture in Financial Services

We use a range of supervisory tools and methods to engage with firms individually on issues of conduct and culture. For example, in wholesale banks we encourage them to look at five key questions. These questions help us assess how firms identify conduct risks, manage these risks, the support mechanisms in place to improve conduct, the role of the board and executive committee in oversight of conduct and whether there are any perverse incentives or other activities which undermine strategies to improve conduct.

We have also carried out extensive work on accountability, remuneration and performance management, all of which are important elements of firms' culture. Once embedded, these changes should go a long way to addressing some of the root causes of the failures we have seen.

The 2015/16 FCA Business Plan stated we would conduct a thematic review on 'whether culture change programmes in retail and wholesale banks were driving the right behaviour, in particular focusing on remuneration, appraisal and promotion decisions of middle management, as well as how concerns are reported and acted on'.

The aim of the project was to focus on the impact that culture change programmes were having on middle management and front-line staff. This review sat within a portfolio of other activities, including our work to implement the recommendations of the Parliamentary Commission on Banking Standards and on remuneration.

We decided to conclude the work after the initial scoping or discovery phase of the project. This was because we considered that a thematic review would not be the most effective and efficient way to continue to support and drive continued culture change across the sector. Instead, we decided that the most effective way to achieve this was to continue to engage individually with firms, as well as supporting other initiatives outside the FCA. We have not changed our views about the importance of firm culture and we will continue our work with individual firms. Our initial scoping work did include some useful findings about the areas under review which we have fed back to firms and which we will use in our ongoing work.

### Pillar II interventions in the market

Pillar II supervision deals with crystallised or crystallising risks. The purpose of event-driven, Pillar II work is to deal rapidly and efficiently with events that may cause detriment to customers or threaten market integrity. Our response to each event is determined in accordance with our risk appetite and seeks to address the causes of potential or actual harm as efficiently as possible.

A risk event may be identified in a number of ways, for example through Pillar I assessments, thematic work, notification from the firm, Contact Centre inquiries, a whistle-blower or regulatory return. We tackle events with the potential to cause the most harm to our objectives and where there is heightened risk to consumers or market integrity. Fixed firm supervisors assess crystallised risk and apply our risk appetite in the context of their knowledge and understanding of the firm and its business model. Risks which crystallise in the flexible portfolio are managed by a combination of a risk event triage team, specialist teams focused on Prudential, Client Assets or Financial Crime and sector teams, working together to apply our risk appetite according to the same principles.

Input from our sector teams is used across Supervision, and is of particular benefit to supervisors of flexible portfolio firms where we generally have less interaction with the firm.

Over 2015/16 we received 17,684 event driven cases for flexible firms across all sectors of Supervision (excluding Consumer Credit). Approximately 7,900 of all events received are raised following analysis of firms' regulatory returns. Of the 17,684 events received in 2015/16, 1,904 are still under assessment. We took action on 27% of all the events received, in cases where the event had the potential to cause most harm to our objectives.

### Examples of our Pillar II supervisory approach

**Ensuring positive outcomes for consumers in the rent-to-own market** – In March 2016 we agreed with Dunraven Finance Ltd, trading under the name Buy as You View (BAYV) that they would enter into an agreement with the FCA to pay redress of £939,000 to more than 59,000 customers for historical unfair treatment. BAYV is a rent-to-own provider selling household goods, such as electronics and furniture on hire purchase to customers.

**Ensuring positive outcomes for card security product holders** – We reached an agreement with 11 high street banks and credit card issuers, and Affinion International (the company which designed the card security product), allowing customers to claim compensation where they had concerns about the way that certain card security products were sold to them. The scheme paid £108.2m of compensation to 533,000 claimants, an average of £203 per claim.

**Restoring confidence in the integrity of the UK financial services sector** – In February 2016 we fined WH Ireland Limited £1.2m and restricted its Corporate Broking Division from taking on new clients for 72 days. The firm failed to organise and control its affairs responsibly and effectively, including having in place adequate risk management systems. This action followed on from supervision work which established that the firm did not have controls in place to ensure it was not committing market abuse. Market makers within the firm had access to inside information, information was being shared with external third parties without adequate wall-crossing arrangements in place and employees were dealing on their own account which could have enabled them to profit from information that was not available to other market participants.

**Ensuring FX Markets work well** – We implemented an industry-wide remediation programme to drive up standards across the FX market. More than 30 firms (representing around 70% of the UK FX market) participated, and we required senior management at these firms to take

responsibility for delivering the necessary changes and attest that this work has been completed. The firms completed their remediation work at the end of 2015, and we are already seeing real improvements in their control environments, as well as in their culture and the quality of their governance arrangements. For further information please see the 'Enhancing Integrity' chapter.

### Pillar III interventions in the market

Pillar III supervision aims to address our key priorities at the issue and product level. It is driven by sector risks and allows us to address risks that are common to more than one firm, and potentially across more than one sector.

There are two forms of cross-firm work that can be carried out under Pillar III: thematic work and market-based (or multi-firm) supervision.

**Thematic work:** is led by thematic teams in each Supervision department, as well as by specialist teams elsewhere in the FCA. The work is characterised by: generally (but not always) being identified in the FCA's Business Plan; focusing on mitigating risks within a project rather than focusing purely on discovery and handing mitigation back to firm supervisors; having a published report; being likely to result in rule changes or guidance and being subjected to greater project management and governance disciplines.

**Market-based (or multi-firm) supervision:** are intended to be short, focused interventions targeting a group of flexible portfolio firms. They are sector-based supervisory investigations that are governed and overseen locally. As such, in comparison to thematic reviews, these reviews: tend to require fewer resources; are less likely to result in rule changes or guidance; are less likely to have published reports and are less formal.

Market-based (or multi-firm) supervision represents a key part of our revised approach to the supervision of flexible portfolio firms.

### Examples of Pillar III intervention

Thematic reviews are an integral part of our overall supervisory approach and help us to deliver on our objectives. We use them to assess a current or emerging risk relating to an issue or product across a number of firms within a sector or market. During the year 2015/16 we concluded multiple thematic reviews. These included:

- A review into **firms' oversight and controls in relation to financial benchmarks**. We carried out this thematic review between August 2014 and June 2015 to get an early assessment of the extent to which firms had learnt the lessons from previous failures around benchmark activities and taken appropriate action in response.

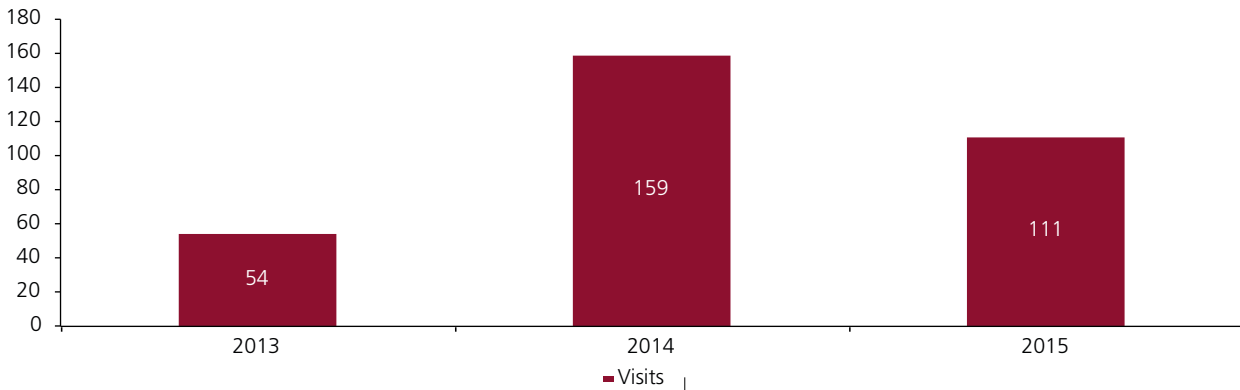
- A review of suitability of **retail investment portfolios provided by wealth management and private banking firms** including examples of good and poor practice to help firms better understand the standards expected of them.
- In March 2016, we published a report setting out our findings from our thematic review of the **fair treatment of long-standing customers in life insurance**. Our review used a sample of 11 firms with around £153bn held in closed-book products for around 9.4m customers. We found a mixed picture in one or more areas and poor practice in others. Our report, 'Fair treatment of long-standing customers in the life insurance sector', detailed our expectations of firms against a range of customer outcomes which we consulted on in advance of publishing finalised guidance for firms in 2016.
- A follow-up review of **mobile phone insurance** after we had previously identified a number of practices within the mobile phone insurance market that were leading to poor outcomes for consumers. In our 2015 review we found that some firms had improved their practices, with evidence that customers were now consistently receiving fair outcomes. However, there were still many firms included in this follow-up review where this was not the case despite our previous work in this area and the clear expectations we set out in TR13/2.

A full list of the thematic reviews can be found in Figure 5.8.

**Figure 5.8: Calendar of thematic work**

<b>May 2015</b>	Provision of premium finance to retail general insurance customers Handling of insurance claims for small and medium-sized enterprises
<b>June 2015</b>	Delegated authority: Outsourcing in the general insurance market Embedding the mortgage market review: advice and distribution Quality of debt management advice
<b>July 2015</b>	Fair treatment for consumers who suffer unauthorised transaction Financial benchmarks: thematic review of oversight and controls
<b>December 2015</b>	Flows of confidential and inside information Wealth management firms and private banks: suitability of investment portfolios Mobile phone insurance: Follow-up review findings
<b>February 2016</b>	Assessing suitability: Research and due diligence of products and services
<b>March 2016</b>	Fair treatment of long-standing customers in the life insurance sector

Figure 5.9: Number of CASS visits



### Specialist supervision

In order to ensure that we continue to properly regulate markets and firms that operate within them we have specialist supervision teams who focus on supervising specific activities and areas of concern.

#### *Client Assets Sourcebook (CASS) team*

Protecting custody assets and client money remains fundamental for consumers' rights as well as being an ongoing priority for the FCA. During 2015 the CASS department continued our programme of visits to firms who fall under the CASS regime which ranges across 1,550 investment firms, 3,000 general insurance firms and peer to peer lenders and debt management firms who are going through the authorisation process. The schedule for visits has been revised to accommodate what we see as the riskiest firms in each of these categories.

As can be seen in figure 5.9, the number of visits conducted in 2015 is slightly lower than the previous year as 2014 data includes 28 emergency visits completed in January 2015 as a result of the Swiss Franc un-pegging.

#### *Prudential supervision*

We have continued our focus on prudential supervision of around 24,000 wholesale and retail firms. The emphasis this year has been on ensuring firms have solid foundations in their assessment of the risks to which they are exposed. This work has included assessments of the instruments on which firms rely to make up their available financial

resources and the methodologies deployed to identify and quantify risk under stressed conditions. This work has better enabled boards and executives to mitigate their risks and base business decisions on the appropriate information about the risk profile of their firms.

We have been more proactive this year in communicating with the industry by opening a dialogue via our participation in trade body organised events and conferences. 2015 saw the FCA host a Prudential Forum, the first time we had held such a public event covering prudential issues. As part of these engagements we have communicated that it is our ongoing expectation for firms to maintain credible crisis management arrangements and wind-down plans. In order to help us to minimise the damage to consumers and to financial markets from distressed and failing firms, we convene Prudential Crisis Management Groups (PCMGs). PCMGs are led by Supervision and contain experts from departments across the FCA so they are enabled to quickly address issues as they arise. We have run several PCMGs over the past year.

### Continuing oversight of markets

We aim to be a constructive and proactive presence in the UK's primary financial markets. As part of our work to ensure that markets work well for all market participants and support sustainable economic growth, our role is to maintain the robust regulatory standards which help underpin the global reputation of the UK's capital markets.

## The Debt Market Forum

The Debt Market Forum was created in November 2015. It brought together a group of Debt Market participants to identify a package of practical measures which would have a tangible impact on the effectiveness of UK primary listed debt markets without reducing standards. In April we published the Debt Market Forum report which detailed this package of measures. We and the Forum's participants are confident that these measures will significantly enhance the effectiveness of the UK's primary listed debt markets, and we will work with industry to implement them in the current financial year.

## The UKLA's new Electronic Submission System (ESS)

In May 2015 we introduced the ESS, which allows sponsors, authorised advisers and issuers to securely send documents related to the vetting of a prospectus or circular to the UK Listing Authority. ESS's efficient and secure interface with the market now enables market participants to submit documents with greater ease and security and, in turn, helps to enhance the effectiveness of the document vetting process.

## Sponsors

Sponsors play an important role in primary markets. In 2015, following consultation, we implemented new rules on sponsor competence and provided detailed guidance on their application. The changes have facilitated a more transparent and objective approach to our oversight of ongoing approvals and for new applicants who want to apply for approval. The new rules allowed us to make simpler and more accurate assessments of each sponsor's competence when considering the annual notifications made by sponsors in January 2016.

In 2015 we began work to consider the responses to our call for views on sponsor conflicts to see if our rules and guidance on sponsor conflicts in this area were operating effectively. In May 2015, we temporarily paused this work to allow us to consider the interim findings of our investment and corporate banking market study when formulating our policy response. We recently resumed our work in this area and expect to complete it later in 2016.

## Initial Public Offering (IPO) Discussion Paper

In April 2016, the FCA published a Discussion Paper on the availability of information during the IPO process. This is the culmination of work undertaken by the FCA in 2015/16 and ultimately aims to engage market participants on considering ways to reconfigure the current IPO process such that investors have timely access to the information necessary to support fully informed investment decisions. Currently the blackout period, sitting between the publication of 'connected research', and circulation of the issuer's prospectus means that investors only have access to an important source of information late in the process. In addition, analysts unconnected with the IPO generally lack access to the management of the issuer, leaving them with little information on which to base research. The

consultation process around the IPO Discussion Paper will continue until July 2016 and follow-on work will also remain a key focus for the year ahead.

## Timely and accurate market disclosures

The UK listing regime relies on disclosure and transparency to allow investors to make fully informed decisions. It is of fundamental importance to achieving the FCA's objective of making the relevant markets work well that market disclosures by listed companies are both timely and accurate. This ensures that they can be relied on by investors in making investment decisions to hold, buy or sell an investment. By making statements about its capital position that were false and misleading in its Annual Report, Co-op Bank fell significantly below the standards expected of listed companies in the UK. A public censure was issued to Co-op Bank on 11 August 2015 for this and for a lack of transparency in its dealings with us. Co-op Bank's failings would normally have merited a substantial fine. However, given the ongoing work at the time on ensuring a sustainable capital position for Co-op Bank, the FCA decided not to impose a financial penalty.

## Transactions with related parties by premium listed companies

The UK listing regime provides confidence to investors that premium listed companies meet a range of standards on governance and investor protection. The related party transaction rules protect minority investors in listed companies by ensuring that large shareholders and company directors do not unfairly benefit from their position. On 17 June 2015 we fined Asia Resource Minerals plc (formerly Bumi plc) £4,651,200 for having inadequate systems and controls to comply with its obligations as a listed company, for failing to identify certain related party transactions, for failing to seek the guidance of a sponsor for these transactions and also for the resultant failure to publish its annual report in the required time period when these problems came to light.

## Working with industry to protect financial markets from market abuse

We engage with market participants and national and international regulators to ensure a coordinated market abuse agenda in order that the UK's financial markets work well for all participants. We are also working with market participants to implement new regulations which will come into force in July 2016 (MAR) and January 2018 (MiFID II). These regulations will bring real benefits to the functioning and reputation of UK financial markets, and work in these areas will remain a priority for us in the coming year.

## Transaction reporting

Since November 2007, MiFID has required firms to provide us with transaction reports for all executed trades in all financial instruments admitted to trading on a regulated market or prescribed market. We use these reports in a number of ways, including identifying and investigating

Figure 5.10: Transactions received

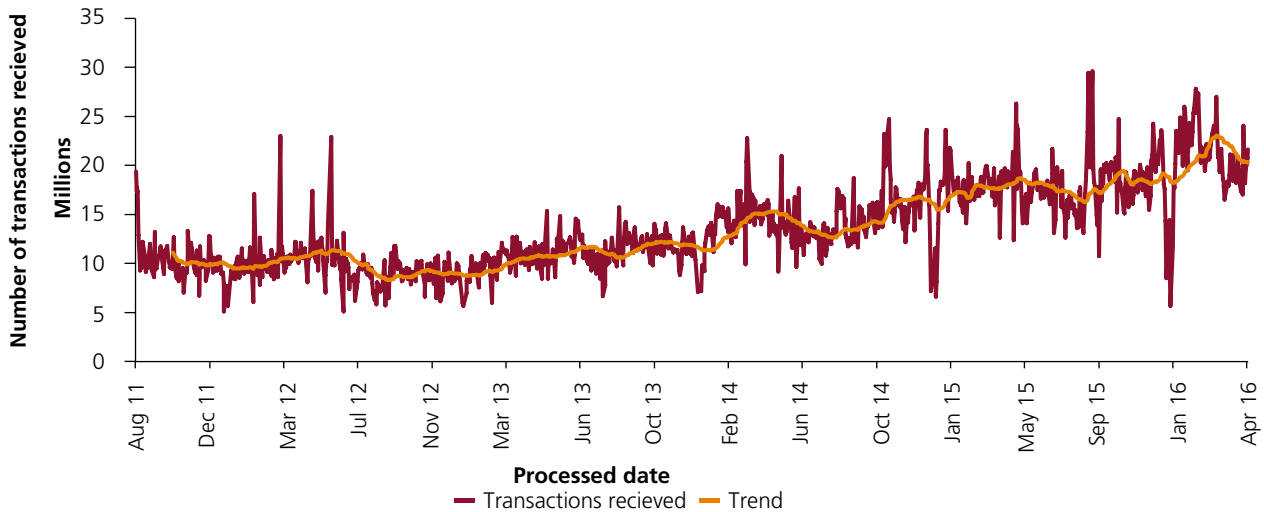


Figure 5.11: Total volume of suspicious transaction reports received, by behaviour type

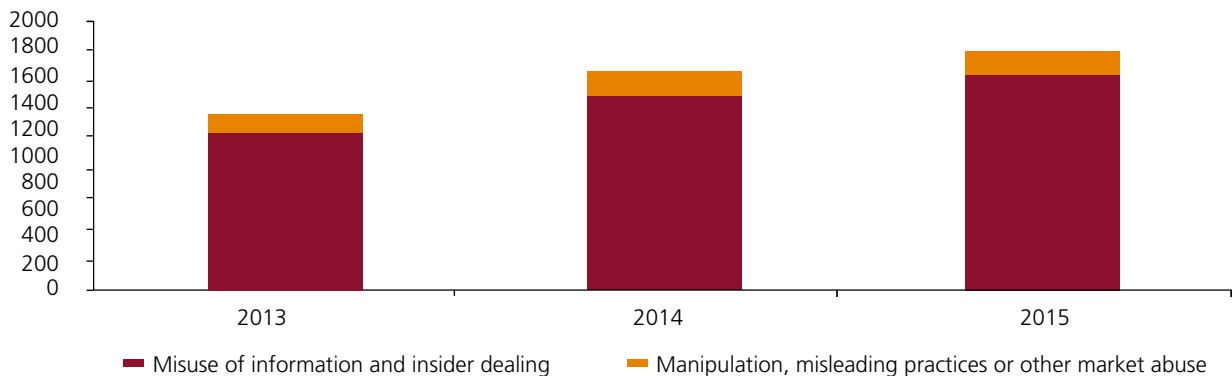
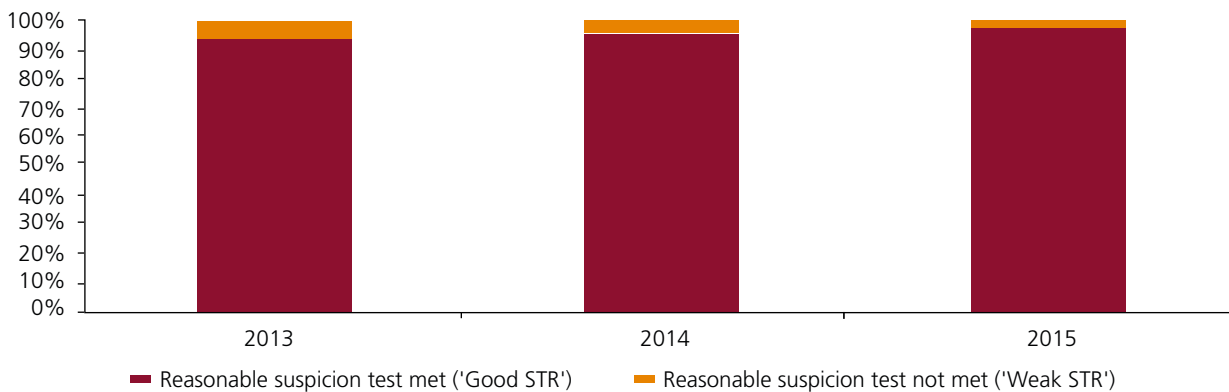


Figure 5.12: Proportion of total STR volume passing/failing the 'reasonable suspicion list'



suspected market abuse such as insider trading and market manipulation. We have seen increasing numbers of transaction reports submitted to us over the years and in the financial year 2015/16, these averaged 19 million transaction reports a day, as seen in figure 5.10.

Since February 2015, we have offered investment firms a transaction reporting training course to help educate their staff on the importance of accurate and complete transaction reports. We have also contributed significantly to the development of the Regulatory Technical Standards and the Level 3 Guidelines for transaction reporting and instrument reference data under the Markets in Financial Instruments Regulation (MiFIR).

In April 2015, we fined Merrill Lynch £13.2m for failing to report accurately 35m transactions and for failing entirely to report 121,000 transactions between November 2007 and November 2014 across a range of financial instruments.

### Suspicious transaction reporting

Since July 2005, when the Market Abuse Directive (MAD) was implemented in the UK and firms were required to submit Suspicious Transaction Reports (STRs) to the FSA/FCA, we have focused on the continual improvement in the quality, timeliness and breadth of the regime. We again saw a positive change in several key metrics in 2015.



Once again, we saw a year-on-year increase in the total number of STR submissions. This was also accompanied by an increase in the proportion reporting potential instances of market manipulation (Figure 5.11). Furthermore, the number and proportion of submissions judged as meeting the reasonable suspicion test (or 'Good' STRs) also rose in 2015 (Figure 5.12).

Another equally important focus in 2015/16 has been on the approaching implementation of the new Market Abuse Regulation (MAR) in July 2016. Amongst other things, this will see the regime's scope widen to cover more behaviours and asset classes, as well as bringing in a requirement on market participants to monitor for orders and attempted market abuse. STRs will therefore be replaced by Suspicious Transaction and Order Reports (STORs). We have been working closely with industry to prepare for the significant challenges brought by the new regulation and to ensure readiness for a new regime which will bring real benefits and robustness to UK secondary markets.

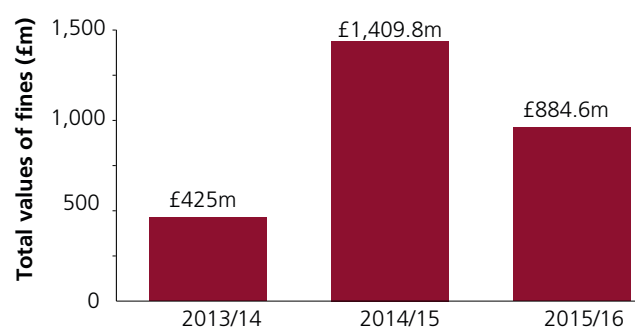
### How we enforce our rules

When we need to take action against firms our Enforcement Division conducts forensic investigations into the suspected misconduct and compliance failures, and brings administrative, civil and criminal proceedings against firms and individuals, enforcing the Financial Services and Markets Act 2000 (FSMA), relevant criminal law, our rules and other regulatory requirements.

We aim to achieve credible deterrence in Enforcement by:

- pressing for tough penalties for infringement of rules
- pursuing cases against individuals and holding members of senior management accountable for their actions
- pursuing criminal prosecutions, including for insider dealing and market manipulation
- tackling unauthorised business, and

Figure 5.13: Total value of financial penalties levied



- continuing to seek redress for consumers

In pursuing our credible deterrence approach, we take effective, targeted action across the range of our regulatory responsibilities to support the FCA's objectives. To do this we use the full range of tools – from education, disruption and intervention to our formal criminal, civil, and regulatory powers – to drive cultural change in firms and other market participants so that consumers get better outcomes and our markets function well.

Full details of our enforcement work can be found in the Enforcement Performance Account 2015/16 available on our website.

### What we achieved in the last year

We delivered strong public outcomes in 2015/16. We issued 105 final notices (75 against firms and 30 against individuals), secured 151 outcomes using our enforcement powers (138 regulatory/civil and 13 criminal) and imposed 34 financial penalties totalling £884.6m (Figure 5.13).

In addition, a long running criminal insider dealing case was brought to trial in January 2016, in partnership with the National Crime Agency. This resulted in a senior investment banker and a Chartered Accountant being convicted and sentenced to 4.5 years and 3.5 years imprisonment respectively in May 2016. The investment banker's sentence is the longest ever handed down for insider dealing in a case brought by the FCA. Confiscation proceedings will also be pursued against both defendants.

Not all cases, however, result in a published outcome. This may be because, following investigation, there is no evidence of misconduct or we conclude that given all of the circumstances of the case it is not appropriate or proportionate to take disciplinary action. In the last financial year, 24% of cases closed with no action being taken.

Figure 5.14: Financial penalties imposed

	2015/16	2014/15	2013/14
<b>Number of financial penalties imposed</b>	<b>34</b>	<b>43</b>	<b>46</b>
<b>Total value of financial penalties</b>	<b>£884.6m</b>	<b>£1,409.8m</b>	<b>£425.0m</b>
Number of financial penalties imposed against firms	17	23	27
Total value of financial penalties imposed against firms	£880.4m	£1,403.1m	£421.1m
Number of financial penalties imposed against individuals	17	20	19
Total value of financial penalties imposed against individuals	£4.2m	£6.7m	£3.9m

## Ensuring firms meet our threshold conditions

We have a team dedicated to taking action against firms that are not meeting the basic standards needed to carry out the activities for which they have obtained authorisation.

	FSMA firms	Payment services firms and firms registered with the FCA under the Third Money Laundering Directive	Consumer credit
Cancelled permission to conduct regulated business	16	18	22
Worked with firms who decided to take remedial action to address breaches before we took formal action against them.	131	62	124

The team's cases relating to consumer credit firms increased very significantly in the year, from 16 referrals in 2014/15 to 218 referrals in 2015/16. The vast majority of these firms have been authorised relatively recently. However, despite being given extensive opportunity and support to engage with basic regulatory requirements, they have failed to do so. In 2015/16 22 consumer credit firms had their permissions cancelled via the team, whereas 124 other firms remedied breaches of the threshold conditions.

## Using enforcement tools to protect consumers

Our Retail and Regulatory Investigations Division focuses on cases where we think we can make a real difference to consumers, using enforcement as a tool to change behaviour in the industry and attain redress. With that in mind, a key focus of our enforcement action has been on protecting consumers from unfair treatment and detriment resulting from poor standards of conduct by retail firms. Furthermore, we have continued to hold senior management to account where appropriate, with a view to promoting high standards of personal conduct.

## Using enforcement tools to ensure markets are functioning well

We have continued to investigate and bring cases that support our strategy of making sure that wholesale markets are functioning well. This is consistent with our focus on ensuring that wholesale markets are efficient, stable, fair, clean and resilient, that their infrastructure is made more robust and that conduct standards are improved.

We continue to take action in relation to benchmarks, where failures in wholesale conduct can undermine the integrity of the wholesale market, cause systemic harm, and have a serious impact on confidence in the UK financial system.

We fined Deutsche Bank for manipulating the London Interbank Offered Rate (LIBOR) and the Euro Interbank Offered Rate (EURIBOR) over a period of more than five years and for misleading the FCA. Please see the case study on page 57 for details.

In May 2015 we fined Barclays Bank £284.43 million, the largest penalty we have imposed, for failing to control business practices in its foreign exchange business in London.

Both of these cases involved significant international cooperation.

## Our Enforcement interventions

### Barclays Bank fined £72m for poor handling of financial crime risks

The laundering of money through UK financial institutions undermines the integrity of the UK financial system. It is the responsibility of UK financial institutions to ensure that they minimise the risk of being used for criminal purposes and, in particular, of facilitating money laundering or terrorist financing. Barclays failed to minimise this risk in connection with a £1.88bn transaction it arranged during 2011 and 2012 for a number of ultra-high net worth clients who were politically exposed persons (PEPs). As a result, we found that Barclays had not conducted its business with due skill, care and diligence and on 26 November 2015, we imposed a fine of £72m.

While we made no finding that the transaction involved financial crime, the circumstances gave rise to features which, together with the PEP status of the clients, indicated a higher level of risk. This required Barclays to adhere to a higher level of due skill, care and diligence. However, Barclays applied a lower level

of due diligence than its policies required for other business relationships of a lower risk profile. Barclays overlooked a number of warning signs and did not follow its standard procedures which were designed to safeguard against the risk that it may be used to facilitate financial crime. Barclays preferred to take on the clients as quickly as possible and, in doing so, generated £52.3m in revenue.

As the transaction was so exceptional in size, the risk of damaging confidence in the UK market was significant. By not appropriately mitigating the financial crime risks, Barclays posed a serious threat to the integrity of the financial system. So we required Barclays to give up its revenue from the transaction and pay a financial penalty. This is the largest fine imposed by the FCA and our predecessor, the FSA, for financial crime failings.

## Our Enforcement interventions

### Deutsche Bank LIBOR/EURIBOR related misconduct

We expect firms to promote a culture which requires staff to have regard to the impact of their behaviour on other market participants and the financial markets as a whole. This includes responding promptly, effectively and accurately to regulatory enquiries.

Between January 2005 and December 2010, the Global Markets Division at Deutsche Bank, both in London and abroad, had a culture of generating profits without proper regard to the integrity of the market. For more than five years, trading desks at Deutsche Bank manipulated interbank offered rate (IBOR) submissions across all major currencies. This misconduct involved at least 29 Deutsche Bank individuals, primarily based in London, but also in Frankfurt, Tokyo and New York. It went undetected because of Deutsche Bank's inadequate systems and controls. Deutsche Bank did not have any systems and controls specific to IBOR and did not put them in place even after being put on notice that there was a risk of misconduct.

Deutsche Bank's failings were compounded by misconduct in its dealings with the FCA. Deutsche Bank gave us misleading

information and provided the FCA with a false attestation that stated that its systems and controls in relation to LIBOR were adequate. This was despite the complete lack of IBOR systems and controls.

Deutsche Bank's failure to deal with us in an open and cooperative manner undermined the regulatory regime. The significance of this misconduct was recognised by a £100m fine in that respect alone, which contributed to the record size of the overall £226.8m penalty imposed on Deutsche Bank: the largest penalty we have ever imposed for LIBOR and EURIBOR-related misconduct.

The significant financial penalty imposed on Deutsche Bank reflects the seriousness of its failure to deal with the FCA in an open and cooperative manner as well as the duration and significance of its misconduct in relation to benchmarks that are fundamental to the operation of both UK and international financial markets.

### How we prevent unauthorised firms doing business

In 2015/16, our Unauthorised Business Department continued to investigate a large number of unauthorised investment businesses including collective investment schemes, investment and insurance frauds, deposit taking and boiler rooms. As a result of the changes in pension regulations, we are monitoring the market and the impact of those changes on behaviours, particularly relating to unauthorised pension introducers.

During the year, we obtained eight convictions, totalling 32 years and nine months imprisonment, including a sentence of 15 months' imprisonment for lying in an FCA compelled interview – the first prosecution of its kind. Of these

convictions, three appeals against sentence were lodged, all of which were dismissed. In addition, we secured two Proceeds of Crime Act (POCA) restraint orders and have a total of over £2.7m subject to confiscation and restraint orders.

On top of our convictions for FSMA breaches and related offences we also obtained sentences against two separate individuals (of 854 days and 730 days) for failure to satisfy confiscation orders made against them.

In a landmark judgment handed down in April 2016, the Supreme Court ruled that the FCA was correct in its claim that a land banking scheme run by Asset Land was an illegal Collective Investment Scheme. This represented the culmination of a four-year legal battle with the company and its directors who made successive appeals against the original High Court judgment which found in the FCA's favour after a full trial of the issue held October 2012. The Court ordered the scheme to be closed down and the company and individuals involved in running the scheme to pay £21m to the FCA as compensation to the investors. The FCA is currently taking steps to enforce payment of the monetary judgment awarded.

### Operation Cotton

Operation Cotton was one of the largest investigations we have undertaken. It spanned more than five years, involved 110 investors, a total of 166 witnesses and 420 witness statements, and resulted in the conviction of eight individuals with sentences totalling over 32 years and nine months. The offences included conspiracy to defraud, breaching the general prohibition, possessing criminal property and providing false and misleading statements in an FCA compelled interview. We were assisted in the investigation and prosecution by a number of other law enforcement and Government agencies.

Salesmen for the companies cold-called investors to sell them land that had been bought for minimal amounts, as well as land the companies did not own. Using misleading promotional material, sales scripts and high-pressure sales tactics, salesmen lied about the current and future value of the land. Consumers were persuaded to purchase land at a vastly inflated price, on the false promise of a substantial profit. When we closed down the scam, over £4.3 million had been taken from 110 investors. None of them have seen a return. Confiscation proceedings are ongoing and the victims are likely to receive some compensation on a pro-rata basis. This is unlikely to cover their losses.

### Regulatory Decisions Committee (RDC)

The RDC is a committee of the FCA Board and makes certain decisions on its behalf. The Board appoints the RDC Chair and members. Apart from the Chair, RDC members are not employees of the FCA. The RDC is therefore a part of the FCA, but it is operationally independent of the Executive. The RDC's Annual Review is at appendix 2.

# 6

## Our resources



### Introduction

In order to deliver our objectives as effectively as possible we:

- encourage diversity
- support and invest in our people, infrastructure and systems
- use the resources available to us in an economic, effective and efficient manner
- encourage good corporate citizenship and corporate responsibility
- transparently measure and monitor our performance

#### Our people

Our employees are key to ensuring we meet our objectives, so our aim is to attract, retain and develop the best talent. We encourage diversity. We want to create a working environment that not only embraces difference, but one where everyone feels valued and respected – where our people can be themselves and deliver really positive results.

#### Recruitment

During the course of 2015/16 there was an increase in the number of employees, from 3,188 full-time equivalent at the start of the year to 3,337 FTE by the end.

Staff turnover was 11.5% at the end of the year and at present 36% of our employees have been with the FCA for two years or less. We welcome the fresh ideas and thinking which new recruits into the organisation bring. They also give us access to a range of valuable experience, whether that is through their knowledge of the financial services sector or their specialist skills in areas such as competition, IT, risk management or communications.

In the past year four new Executive Directors have joined the FCA, alongside four new Directors and eight new Heads of Department. We are pleased by the level of talent we are able to attract into the organisation, bringing a variety of experience and expertise.

We have doubled the size of our graduate programme and have selected 50 top-performing graduates to join the next programme in September 2016; these candidates were selected from 3,426 applications from 290 universities.

We have reduced our use of recruitment agencies and increased our direct recruitment of candidates, which has resulted in an estimated cost saving for the year of £420,000, with no reduction in candidate quality.

#### Retention

Our annual staff survey helps us identify and take action on areas which are key to driving staff engagement and hence retention. In figure 6.1 we give details of the survey results for 2015. Areas identified for action included ensuring that organisational priorities were made clearer for all staff and continuing to support staff wellbeing.

We provide a comprehensive range of wellbeing benefits and aim to treat employees who are sick with dignity and respect, providing support, counselling, tailored rehabilitation programmes and (if appropriate) workplace adjustments that may help that individual to continue productive employment with the FCA. During 2015/16 an average of 5.3 days per FTE was lost due to sickness absence.

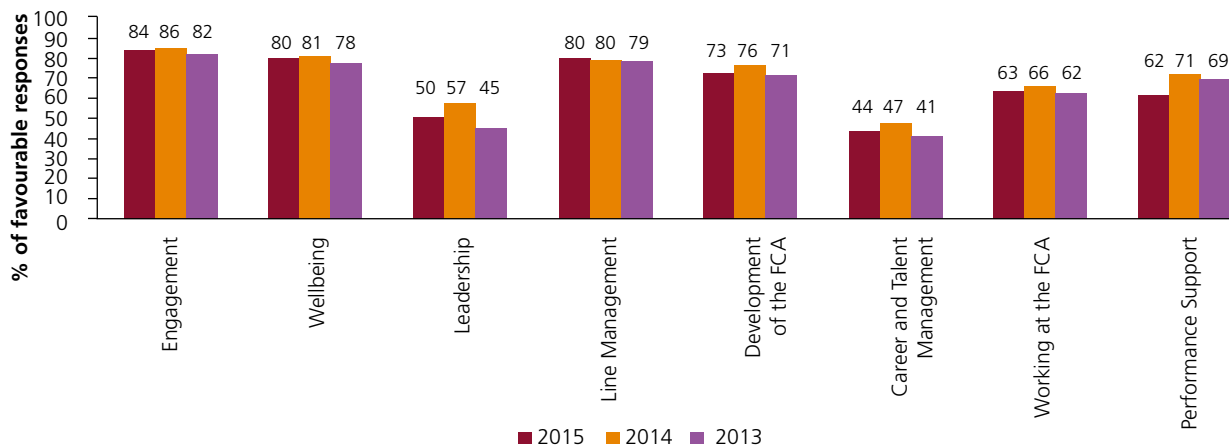
#### Development

Giving our employees access to the right development opportunities is an essential part of our employment offering. The FCA Academy offers staff high-quality structured learning. In 2015/16 we have:

## Staff engagement survey

Our staff engagement survey scores for 2015 highlight that six of the eight survey areas remained ahead of the 2013 position but the scores declined in comparison with 2014. The strongest categories in 2015 remain engagement, line management and wellbeing; though not as high as in 2014, they benchmark well externally against public sector and financial services norms.

Figure 6.1: FCA Survey Category scores



- Developed our high-potential **leadership programmes** with 55 delegates on the Advanced Managers Programme and 97 on the Future Managers programme. Black Asian and Minority Ethnic (BAME) and female representation on these courses have increased to 21% and 58% respectively.
- Completed the second year of our **MSc in Financial Regulation** and opened the course to a wider number of students including delegates from the Treasury and the Bank of England. There are currently 21 students (19 from the FCA) on their second year and 31 on their first year (29 from the FCA). 19% of students on the MSc's 2015 intake were BAME and 49% female.
- Delivered the final module of our programme on **leadership and change management capability** and held a leadership conference looking at new ways of engaging with stakeholders and creating public value.
- Continued to evolve the **FCA curriculum and internal Academy programme**. Overall a total of 4,007 delegates attended 528 Academy classroom sessions during the year. 56% of staff attended at least one Academy classroom training session and we delivered a total of 6,398 training days during the year.
- Maintained our focus on talent collaboration with the industry we regulate, including secondments to and from a range of bodies. These include Practitioner Panel firms, ESMA, the Treasury, the Bank of England and consumer bodies. In 2015/16 we arranged 90 secondments to the FCA and 116 from the FCA to partner organisations.

- Prepared for the internal introduction of the SM&CR. We published our Management Responsibilities Maps which allocate key responsibilities to the senior individuals in the organisation, as well as Senior Managers' Statements of Responsibility.

### Diversity

As described above, we are encouraged at the progress being made in increasing BAME presence on our development programmes, but we recognise that there is more to do to increase representation at all levels of the organisation.

There has been an increase in the proportion of BAME applications to join the FCA from 42% to 47%, and an increase in offers on our graduate programme from 18% to 27%. This is particularly pleasing as we have redeveloped the programme with an emphasis on using it as a way to promote social mobility and BAME recruitment.

We are proud of our gender profile. 45% of Managers, 32% of Technical Specialists and 39% of SLT are women; both the Executive Committee and the Board have 50% female representation.

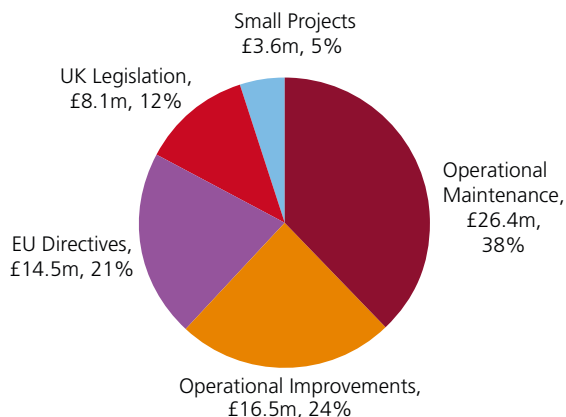
This year we were again included in Stonewall's Top 100 Employers Index. Thanks to the work of both our Executive Diversity Committee and InsideOut, our LGBT staff network group, we improved our ranking from 82 to 40.

More information on our diversity activity is available in our Diversity report which is published on our website.

## Improving our infrastructure and systems

As our regulatory and operational requirements evolve, we need to continually develop our systems and capabilities to keep pace. This means delivering a substantial change programme every year. In 2015/16 we invested £69.1m in change projects to implement EU and UK legislative changes, improve our operational capabilities and maintain our information systems.

**Figure 6.2: FCA Change Programme**



### Supporting the delivery of UK legislation

Our work to prepare for the introduction of the SM&CR included issuing over 15 consultation papers and policy statements, many of them jointly with the PRA. The programme also involved extensive communication with over 1,400 firms, ranging from large banks to small credit unions. We also implemented technical changes to our case management system to transfer firms across to the new regime as well as updating the public register to show the new permissions of around 130,000 individuals.

As well as the programme of work to support the SM&CR we also delivered changes to support other aspects of UK legislation. These included changes to our online regulatory reporting system, Gabriel, establishing the regulation of payment systems and introducing the technology needed to support our supervision of benchmarks.

### Supporting EU Directives

Projects to enable us to respond to EU Directives continue to form a substantial part of our change programme. The Capital Requirements Directive and Regulation (CRD IV) sets out prudential rules for credit institutions and investment firms and is being implemented over the period 2014 to 2019. The changes we delivered in 2015/16 included developing and implementing the supervisory review and evaluation processes, information sharing processes with the European Banking Authority (EBA) and the technical changes required to submit data to the EBA according to agreed Common Reporting (COREP) and Financial Reporting (FINREP) data standards.

The Recovery and Resolution Directive (RRD) establishes a comprehensive regime that ensures that a minimum set of tools and powers is available in all EU Member States to ensure that if banks and investment firms fail, they will do so in an orderly way. We made changes to allow firms to submit recovery plans and resolution data via our Connect system. We also introduced a system of alerts to make it easier to identify whether a firm is likely to fail, enabling us to take appropriate action.

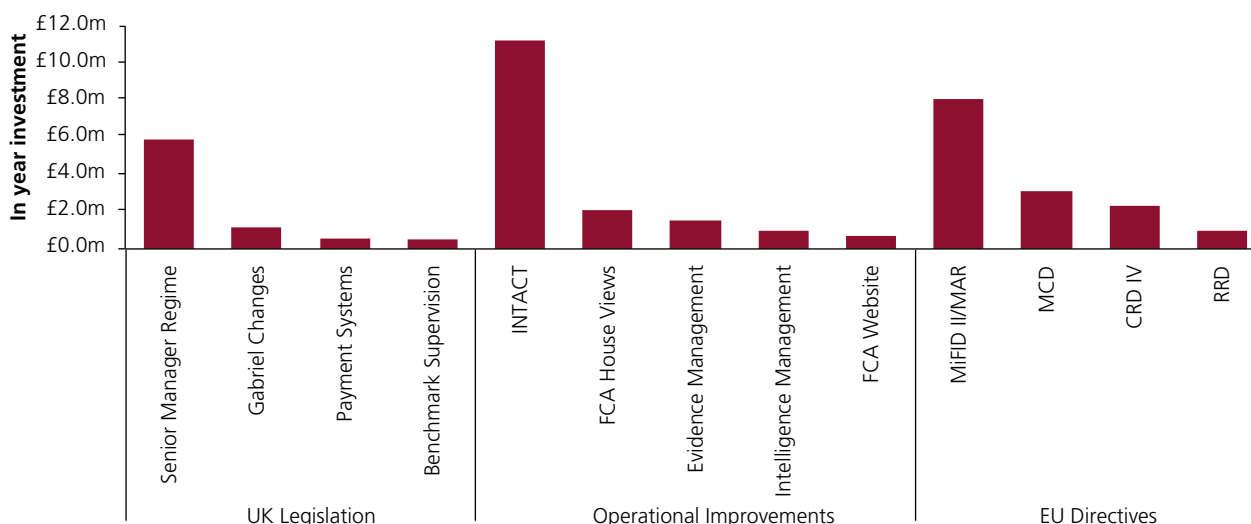
The Mortgage Credit Directive (MCD) is a framework of conduct rules for mortgage firms. To undertake second charge mortgage business or consumer buy-to-let business, lenders, administrators and brokers have to hold the correct authorisation or registration permissions. We implemented effective authorisation and registration processes, developed a proportionate supervision strategy, collected regulatory reporting data and communicated MCD obligations to firms, over 2,700 of whom applied for the relevant authorisations. The technical aspect of implementing this directive involved changes to six of our core information systems, including INTACT, TARDIS and Gabriel.

We also started a multi-year investment in the platform and changes required to deliver the MiFID II Market Abuse Regulation solution.

### Improving our case management system

Given the diversity of our remit and the number of firms we regulate, it is vital that we have a cohesive case management

**Figure 6.3: Key Change Investments**



system. 2015/16 saw us undertake operational improvements to support the platforms and systems we use to manage casework. We completed implementation of the INTACT programme, which has been designed to deliver better regulatory decisions and better value for money. INTACT provides a single case management system for most aspects of our work for firms. We create an average of 65,000 cases through the system every month and now have the technical infrastructure we need to regulate consumer credit firms as well as provide a 24/7 service to all firms. Completing the implementation of INTACT has also enabled us to decommission a number of legacy information systems. We also improved the Financial Services Register to ensure we can provide a more reliable and user-friendly service to both firms and consumers.

We have invested in updating and improving the FCA website and improving our intelligence management capabilities. We have started the work necessary to update our enforcement evidence management system to address the changing volumes and nature of the physical and digital evidence we collect.

### Moving to The International Quarter, Stratford

Our lease on our premise in Canary Wharf comes to an end in November 2018. Following an assessment of options and supported by independent advice we took the decision to move our London offices to The International Quarter in Stratford, part of the Queen Elizabeth II Olympic Park. We believe the location offers us good quality accommodation, excellent transport links for our staff and visitors as well as offering good value for money compared to alternatives in London. The move will take place in 2018. Our new building has been commissioned to meet a high rating against the Building Research Establishment Environmental Assessment Method (BREEAM) standard. The new premises will be certified to the BREEAM 'excellent' level, reflecting our commitment to good environmental and corporate responsibility practices.

## Corporate Responsibility

### Waste and the environment

We aim to follow best industry practice for our environmental impact. We believe sound environmental management and careful use of resources is relevant to one of the principles of good regulation which is to make the most efficient and economic use of resources.

Careful use of resources delivers both environmental and financial benefits. All our people have responsibility for meeting our environmental policy and using resources wisely. We measure and report on our impact on the environment, setting objectives and targets for each of our key impacts and we review them regularly. We also require potential and existing suppliers to complete a corporate responsibility questionnaire which forms part of our overall assessment of their tender or re-tender responses.

Our environmental principles are laid down in our Environmental Policy Statement at [www.fca.org.uk/static/fca/documents/fca-supplier-environmental-and-social-policy-statement.pdf](http://www.fca.org.uk/static/fca/documents/fca-supplier-environmental-and-social-policy-statement.pdf).

We include a detailed environmental impact report at Appendix 3, which demonstrates the progress we have made this year.

### Volunteering

The FCA supports and encourages its staff to engage with consumers and communities through a range of volunteering activities. We allocate 28 hours each calendar year to every staff member to volunteer in a way they choose, with a charity of their choice.

Last year 928 people in our Edinburgh and London offices volunteered a total of 10,509 hours. This represents 35% of staff, against our target of 30%.

Another example of our careful use of resources is printing. The FCA has introduced a 'Follow Me' print solution across all printers for more efficient printing and to reduce paper consumption. Printers are configured to black & white and double sided by default to ensure the most efficient use of paper. FCA staff must also use their FCA ID badge to release print jobs at the printer's location. In 2015/16, the FCA has seen an 18% reduction of overall printing against the original baseline. All printing paper is recyclable paper and ordered through a sole supplier and print levels are continuously monitored. All printer equipment and consumables are disposed of and/or recycled in accordance with best practice print industry guidelines.

Indicators	2014-2015 baseline	2015-2016
Non-financial indicators (sheets of paper)	24,413,459	20,060,516
Financial indicators (£)	122,642	100,775

The introduction of 'Follow Me' printing has saved the FCA 6,320,847 sheets of paper, the equivalent of 592 trees from purged print jobs. These are print jobs that were sent to the printer but never released to print by the user using their ID badge and therefore cancelled for printing.

### 2015-2016

Deleted Pages	Expired pages	Sheets	Trees	Water (gallons)	CO2 (pounds)
7,244,091	5,040,852	6,320,847	592	243,985	555,602

## Corporate responsibility: charitable donations

The FCA Charity Committee supports Shelter UK, Little Havens Hospice and Shelter Scotland throughout 2015/16. All monetary donations have come from staff and their fundraising efforts. In 2015 we raised:

- £4,972 for Shelter UK
- £5,605 for Little Havens Hospice
- £242 for Shelter Scotland

## Managing Enquiries

Over 2015/16 we handled around 400,000 enquiries from consumers and firms, a significant increase of about 100,000 over the previous year. This was largely driven by enquiries from consumer credit firms needing support with their applications for authorisation and their new regulatory obligations. Most enquiries are made by telephone via our Contact Centre, but we also provide support and answer questions by email, web chat and letter.

### Figure 6.4: Consumer queries

Top five subjects (April 2015 – March 2016)

Consumer credit	17,728
Insurance – General	14,743
Investment products	13,825
Scams	12,158
Deposit taking	8,098

### Figure 6.5: Firm queries

Top five subjects (April 2015 – March 2016)

Reporting through GABRIEL	56,589
Regulatory changes via Connect	32,974
Being Regulated/Registered	31,406
Using Connect to get Authorised	29,644
Fees	19,228

### Figure 6.6: How do consumers interact with the FCA?

Calls	69%
Emails	22%
Web Chats	6%
Letters	3%

Our Contact Centre is the first point of contact for enquiries from both consumers and firms. This year we have taken the following steps to better manage the large number of queries we receive:

- identifying common themes from enquiries and using them to improve FCA processes and make

communications clearer

- training our people in additional customer skills to increase our ability to respond to peaks in enquiries
- implementing improved customer satisfaction monitoring and a more effective knowledge management system to increase the accuracy and quality of our responses
- adopting the British Standard of inclusiveness to ensure our services are accessible to everyone
- providing an enquiry service on behalf of the Payment Systems Regulator

In March 2016, we retained our independent accreditation for the Customer Contact Association Global Standard.

## Freedom of Information Act (FoIA) and Data Protection Act (DPA)

### Freedom of Information Act

The Freedom of Information Act 2000 requires us to respond to requests for information within 20 working days in most circumstances. During 2015/16, we received 701 requests for information, of which we treated 513 as formal FoIA requests – a decrease of around 12% since 2014/15. We closed 515 requests, including some carried forward from 2014/15 – 95% within the statutory deadline. Please see Figure 6.7

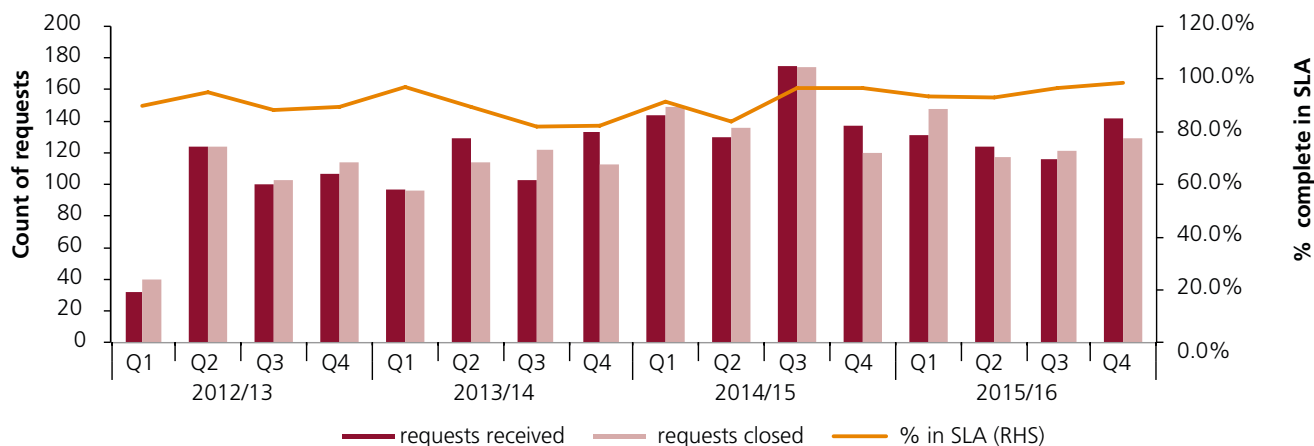
The most frequent requests are about high profile, complex and sensitive regulatory issues that generate media coverage. This year the key requests were for information about complaints and enforcement investigations, the Alternative Investment Fund Managers Directive (AIFMD), the decision not to take forward our thematic review in relation to culture in financial services, Lloyds Banking Group and HBOS, the review of sales of Interest Rate Hedging Products (IRHP), Lloyds Banking Group Enhanced Capital Notes (ECNs) and consumer credit related issues. There continued to be a steady number of requests about the way we manage our business, such as our relationships with our suppliers.

We disclosed material in approximately 50% of cases where we held the information requested, compared to 41% in 2014/15. We have also added more information to our disclosure log where the information is of wider public interest. This is published on our Publication Scheme Guide to Information.

If a requester tells us they are unhappy with the response we provide, or the way we have handled their request, then we carry out an internal review of the case. If the requester remains dissatisfied when our internal review process has been completed they can ask the Information Commissioner's Office (ICO) to investigate. The ICO sets out the result of their investigation in a Decision Notice, which is published on the ICO website.



Figure 6.7: Our performance against meeting the statutory requirements under FoIA in 2015/16



If either we or the requester is unhappy with the ICO’s decision they can appeal to the First Tier (Information Rights) Tribunal and, if still dissatisfied, to the Upper Tribunal (but only on a point of law and with permission).

In 2015/16 the ICO decided in our favour in three investigations. We were required to disclose some limited information in one further investigation. The FCA was not a party to any appeals to the First Tier (Information Rights) or Upper Tribunal during 2015/16.

**Data Protection Act**

We are required to notify the ICO each year of how we process personal data. We submitted our notification in November 2015, which is published on the ICO’s website. Under the DPA, we must respond within 40 calendar days to ‘subject access requests’, which are requests made by individuals who want to receive any information we hold which relates to them.

Over 2015/16 we received 71 subject access requests, compared to 93 in 2014/15. We responded to 69 (including several carried forward from 2014/15) – 96% within the statutory deadline.

Complying with FoIA and the DPA cost us just under £863,000 in 2015/16 (compared to £937,000 for 2014/15), which includes processing requests under both pieces of legislation, time spent by business areas and the cost of investigations by the Information Commissioner. We estimate that the average cost to process each request is £860 compared to approximately £800 in 2014/15.

We cannot recover this expenditure from requesters because there is very limited scope within FoIA and the DPA to charge for information. We did not incur any costs for external lawyers on investigations and appeals.

Figure 6.8: Breakdown of FoIA requests received:

Media	87
Legal advisers	54
Others	372

Figure 6.9: The top FoIA requesters were

Consumers	180
Service providers/ management consultants	35
The Times	24
What do they Know	23
PR Companies	17

FoIA requests closed during 2015/16

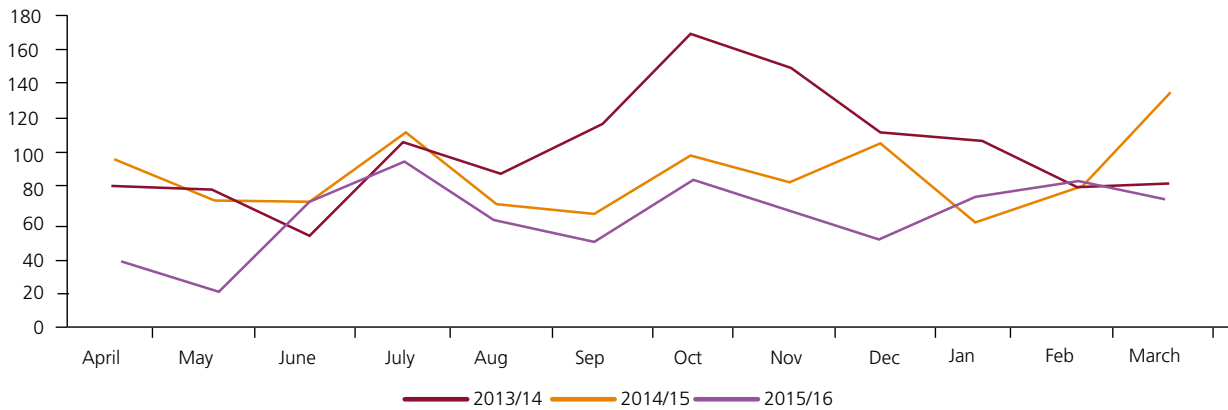
Figure 6.10 shows all 515 FoIA requests closed during the year, split by category.

Figure 6.10

Business as usual	25
Information accessible by other means	12
Information intended for future publication	4
No information held	45
No information provided	103
No response from requester	32
Over cost limit	68
Over cost limit and some information provided	26
Referred to another authority	16
Request satisfied	109
Request withdrawn	3
Some information provided	70
Vexatious and repeated request	2

Figure 6.7 shows our performance in meeting the statutory requirements under the FoIA in 2015/16. There were 515 requests closed during the year of which 95% were within the SLA of 20 working days.

Figure 6.11: Volume of MPs' letters received



## Complaints

### Complaints against the FCA

The Financial Services Act 2012 requires us to establish arrangements for the investigation of complaints against us. We consider the investigation of complaints to be a key part of our accountability. We process complaints in accordance with the Complaints Scheme which is available from [www.fca.org.uk/your-fca/complaints-scheme](http://www.fca.org.uk/your-fca/complaints-scheme).

We have seen an increase in the volume of complaints against the FCA from 464 to 590. There is no discernible trend in the issues involved (with the exception of the enhanced capital notes (ECN) related complaints), although we continue to receive a number of complaints related to consumer credit authorisations.

Where complainants are dissatisfied with the outcome of their complaint they may refer the matter to the Office of the Complaints Commissioner. During 2015/16 the Complaints Commissioner overturned the FCA's decision on eight cases, five of them in full and three in part. The Commissioner's Final Reports for complaints are available from <http://fsc.gov.uk/publications/>, as are the Commissioner's Annual Reports.

## MPs' Letters

We seek to respond to MPs' letters in a timely and effective manner. To ensure this happens we have standard processes in place. We aim to respond to 50% of letters within 15 working days of receipt and 100% of letters within 30 working days of receipt.

We received a total of 776 letters, which was approximately a 24% reduction on the previous year, which we attribute to reduced parliamentary correspondence in the run-up to the general election in May 2015. 701 of these letters were for FCA response, rather than another body. Of these, we responded to 50.1% within 15 working days of receipt and 95.6% within 30 working days.

IRHP, Consumer Credit and Connaught Plc were the main issues raised in the letters, totalling 197 requests, equating to 25% of all letters.



# 7

## Working with the Prudential Regulation Authority

We are required by FSMA to coordinate with the PRA. Much of our coordination happens daily through our joint working, supplemented by regular scheduled meetings at senior level. The PRA CEO and FCA CEO are also members of each other's boards.

We also have a Memorandum of Understanding (MoU) with the PRA which includes arrangements for how we carry out our responsibilities, how we measure our performance through detailed quarterly reporting and underlines our aim of working in an independent but coordinated way.

The PRA and FCA monitor how well we are co-ordinating our work on a quarterly basis. Both regulators recognise that their differing objectives and responsibilities sometimes make it appropriate to take different approaches. While this is both understandable and inevitable, given the differing statutory mandates of the two bodies, the regulators recognise the importance of material differences being highlighted at an early stage.

We have coordinated effectively on policy issues such as CRD IV, Senior Managers & Certification Regime, structural reform (ring-fencing of banks) and remuneration, and continue to build close relationships at both a working and management level.

No substantive breaches of the MoU have been reported up to the end of May 2016. The PRA has the power of veto

where it considers that action we are taking may threaten financial stability or cause the failure of a PRA-authorized person in a way that would adversely affect financial stability. At end- March 2016 it had not used this power.

The wording of the MoU will be updated in 2016 to incorporate recent changes. These include our concurrent competition powers, the Senior Managers & Certification Regime and changes resulting from the Bank of England Bill. Both Boards will need to discuss and agree the revised text. It will be given to HM Treasury and put before Parliament before being published.

We continue to cooperate with the PRA to share relevant information on areas of common interest under discussion by EU and international committees. This has included EU regulatory fora where one authority is a member but where issues under discussion fall within the remit of both (such as the European Banking Authority, European Insurance and Occupational Pensions Authority, European Securities and Markets Authority) and other global fora such as the Basel Committee on Banking Supervision, the Financial Stability Board (FSB) and the International Organisation of Securities Commissions (IOSCO).

We have regularly consulted with each other to seek to agree positions that reflect the views of, and are consistent with, each authority's perspective and objectives.

# 8

## Payment Systems Regulator

The Payment Systems Regulator (PSR) became fully operational on 1 April 2015. The first regulator of its kind in the world, its purpose is to make payment systems work well for the people and organisations that use them. This is supported by its objectives of promoting competition, innovation and service-users interests.

After consulting widely to produce its initial policy statement in 2015, the past 12 months have seen the first effects of the PSR's directions on access and governance. It is conducting two in-depth market reviews, examining payment systems infrastructure and indirect access to payment systems. It published interim reports in March and expects to issue final reports in the summer.

It has also produced guidance in relation to new EU legislation in the UK, and was the first European regulator to issue draft guidance on the Interchange Fee Regulations for card payments. It also established the Payments Strategy Forum to develop an industry-led approach to collaborative innovation.

The PSR has continued to recruit and develop the people it needs to be an effective regulator throughout the year, and to work with other authorities and stakeholders in the UK and abroad to lead the thinking on payment systems regulation.

# Group financial overview

## The FCA's business model

The FCA regulates the financial services industry in the UK, supervising the conduct of 56,000 firms and the prudential standards of 24,000 of those firms not covered by the Prudential Regulation Authority (PRA).

The FCA seeks to make neither a profit nor a loss from its regulatory activities although in practice this obviously can happen due to unforeseen circumstances or timing issues.

**Fee income:** The FCA does not receive funding from the UK government as it funds the cost of delivering its statutory objectives by raising fees from the firms it regulates. It is given the powers to raise fees under FSMA.

Fees levied on firms comprise **two** elements, which together represent the FCA's **Annual Funding Requirement (AFR)**:

- i. The FCA's budgeted **Ongoing Regulatory Activities (ORA)** represents the *Net Costs* of the FCA's core operating activities after offsetting *Other Income*; and
- ii. **Scope change** (also referred to as set-up costs): under certain circumstances, including when legislation is introduced by Parliament, there may be changes to the scope of the FCA's regulated activities which can include new responsibilities. Material activities resulting from this scope change are controlled and reported separately from ORA so they are individually identifiable from a cost, fee and firm perspective. These activities are included as part of the cost of ORA only when the scope change activity has been fully embedded into on-going responsibilities, i.e. is part of business-as-usual activity.

This strategy of incurring set-up costs and recovering them later or over a longer time frame has and will continue to impact the financial results. This is particularly the case in the financial years ending 31 March 2015 and 2016 because of the timing differences between costs being incurred and recovery of such costs through levies, particularly for consumer credit. Cumulative set-up costs of £59.3m for consumer credit are being recovered over a ten year period from the 2016/2017 financial year.

**Consumer credit:** The FCA took over regulation of the consumer credit industry from the Office of Fair Trading on 1 April 2014, effectively doubling the number of firms the FCA regulates.

All of these firms had to either have applied for FCA authorisation, become an appointed representative or have stopped consumer credit activity by 31 March 2016. As at 31 March 2016, the FCA had authorised circa 29,000 firms for consumer credit activities, being a mixture of firms who already had interim permission and others new to the market. In the financial year to 31 March 2016, the FCA received £22.8m (2015: £10.3m) in consumer credit income (application and periodic fees).

**Income from services to other regulatory bodies:** The FCA also raises fees on behalf of the Payment Systems Regulator, the Prudential Regulation Authority, the Financial Services Compensation Scheme, the Financial Ombudsman Service, the Money Advice Service, the Financial Reporting Council and Pension Wise, the pension guidance service, on behalf of the Department for Work and Pensions. This means that firms can see, on one invoice, their total regulatory costs and it delivers efficiencies for fees collection. These fees are paid over to each of the bodies according to detailed Service Level Agreements (SLAs) and are not recognised as income in the FCA's financial statements. The fees charged for this service to each of the bodies under these SLAs are recognised in *Other Income* in the FCA's financial statements. A summary of the key SLAs are set out in Note 16: Related Party Transactions to the financial statements.

In April 2013, the FCA also entered into an agreement with the PRA to provide services under a Provision of Service Agreement (PSA). This includes issuing invoices and collection of levy monies, the provision of information systems, enforcement and intelligence services, contact centre services and data migration.

**Pension costs:** The FCA recovers these on the basis of the cash costs of pension contributions, rather than on the basis of the accounting charges for pension provisions. Every three years the Trustee carries out a scheme specific valuation (SSV) and a recovery plan is then agreed with the Trustees to close any funding gap identified. The next SSV will be carried out using data as at 31 March 2016.

**Penalties:** When the FCA levies penalties (on a firm or an individual) following disciplinary action, the amount the FCA is entitled to retain on behalf of its fee payers is limited to the *retained enforcement costs* for that financial year as agreed with HM Treasury. This amount is returned to fee payers (excluding the penalised firm or individual) through reduced fees in the following financial year. Penalties collected by the FCA over and above the agreed enforcement costs are not retained by the FCA rather they are passed over to the Exchequer. The FCA does not budget for penalties, treat them as income or use them to fund its activities.

### The Payment Systems Regulator's (PSR) business model

The PSR is responsible for regulating the main interbank payment systems: Bacs, CHAPS, Cheque & Credit, Faster Payments Scheme, LINK and Northern Ireland Cheque Clearing as well as Mastercard and Visa Europe, the two largest card payment systems in the UK.

The PSR is co-located in the FCA's building at Canary Wharf and is operationally supported by the FCA through a Provision of Services Agreement with the aim of fully maximising value from the FCA's existing resources and infrastructure thus enabling the PSR to operate efficiently and effectively.

The FCA is given powers to levy fees to recover the PSR's costs under the Financial Services (Banking Reform) Act 2013.

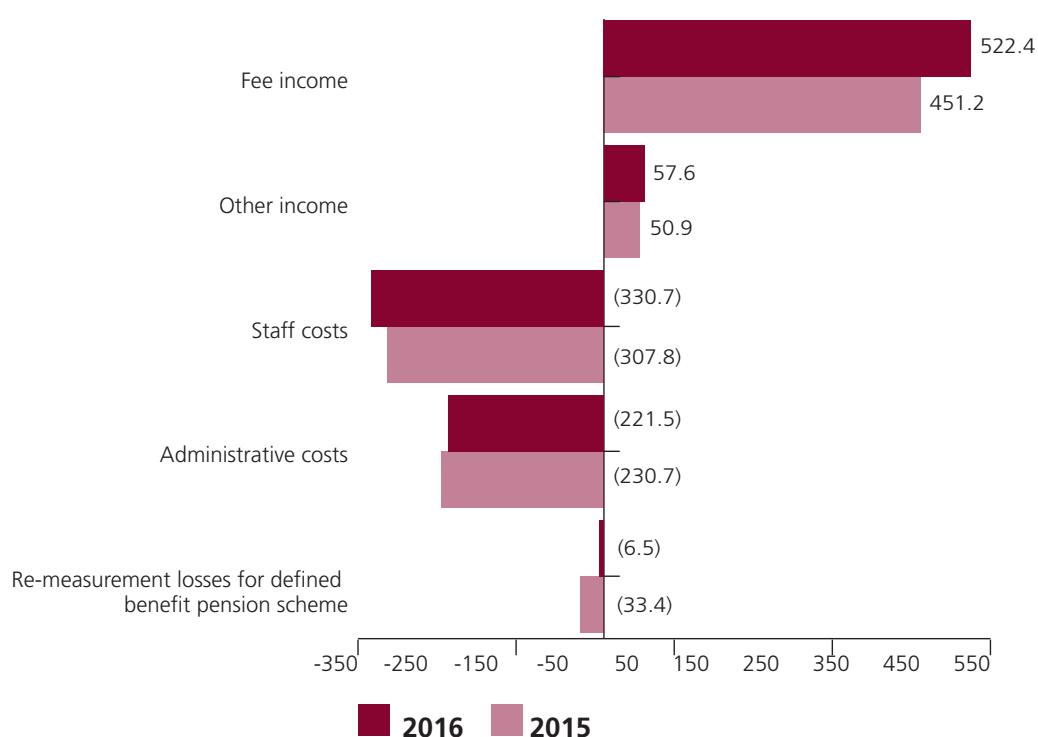
### Analysis of performance during the year

The financial statements have been prepared on a consolidated basis and include the PSR.

#### Results for the year ended 31 March 2016 (Statement of Comprehensive Income)

The FCA Group and parent company **statements of comprehensive income** for the years to 31 March 2016 and 2015 are summarised in Tables 1 and 2 and further analysed below:

**Table 1: FCA Group Surplus**

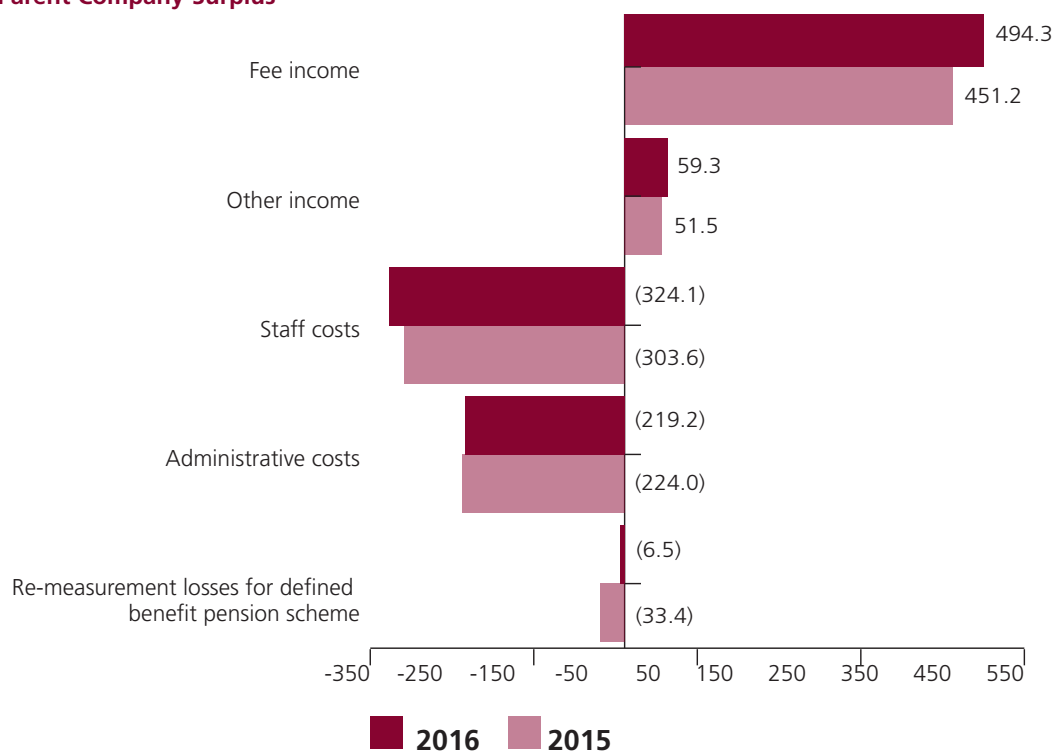


	2016 £m	2015 £m	Increase/ (decrease) £m
Fee income	522.4	451.2	71.2
Other income	57.6	50.9	6.7
Staff costs	(330.7)	(307.8)	(22.9)
Administrative costs	(221.5)	(230.7)	9.2
<b>Surplus/(loss)</b>	<b>27.8</b>	<b>(36.4)</b>	<b>64.2</b>
Re-measurement losses for defined benefit pension scheme	(6.5)	(33.4)	26.9
<b>Total Surplus/(loss)</b>	<b>21.3</b>	<b>(69.8)</b>	<b>91.1</b>

The **FCA Group** made a **consolidated surplus** of **£21.3m** for the year ended 31 March 2016 (2015: loss of £69.8m). Of this consolidated surplus, the PSR accounted for **£17.5m**. The positive movement of **£91.1m** year on year was driven by two key factors:

- Fee income increased by **£71.2m** of which **£28.1m** relates to the PSR levying for the first time; the balance relates to the FCA and is principally a combination of increased ORA fees (£27m) and Consumer Credit fees (£9.9m); and
- The FCA defined benefit pension scheme **actuarial loss of £6.5m** (2015: loss of £33.4m) improved by **£26.9m** due mainly to the impact of changes in the discount rate used to calculate the defined benefit pension obligation.

**Table 2: FCA Parent Company Surplus**





	2016 £m	2015 £m	Increase/ (decrease) £m
Fee income	494.3	451.2	43.1
Other income	59.3	51.5	7.8
Staff costs	(324.1)	(303.6)	(20.5)
Administrative costs	(219.2)	(224.0)	4.8
<b>Surplus/(loss)</b>	<b>10.3</b>	<b>(24.9)</b>	<b>35.2</b>
Re-measurement losses for defined benefit pension scheme	(6.5)	(33.4)	26.9
<b>Total Surplus/(loss)</b>	<b>3.8</b>	<b>(58.3)</b>	<b>62.1</b>

The **FCA parent company** delivered an overall **surplus of £3.8m** (2015: loss of £58.3m), a positive movement of **£62.1m** year on year. This was a result of two key factors:

- Fee income increased by £43.1m (see below); and
- The FCA defined benefit pension scheme **actuarial loss of £6.5m** (2015: loss of £33.4m) improved by **£26.9m** for reasons noted above.

### Fee income

FCA Group fee income increased year on year by **£71.2m** as detailed below (Table 3). Of this increase, the PSR levied **£28.1m** in fees in the year to 31 March 2016 (2015: nil) for its prior-year set-up costs and current year operational run costs.

FCA parent company fee income increased year on year by **£43.1m** from £451.2m to **£494.3m** – a combination of:

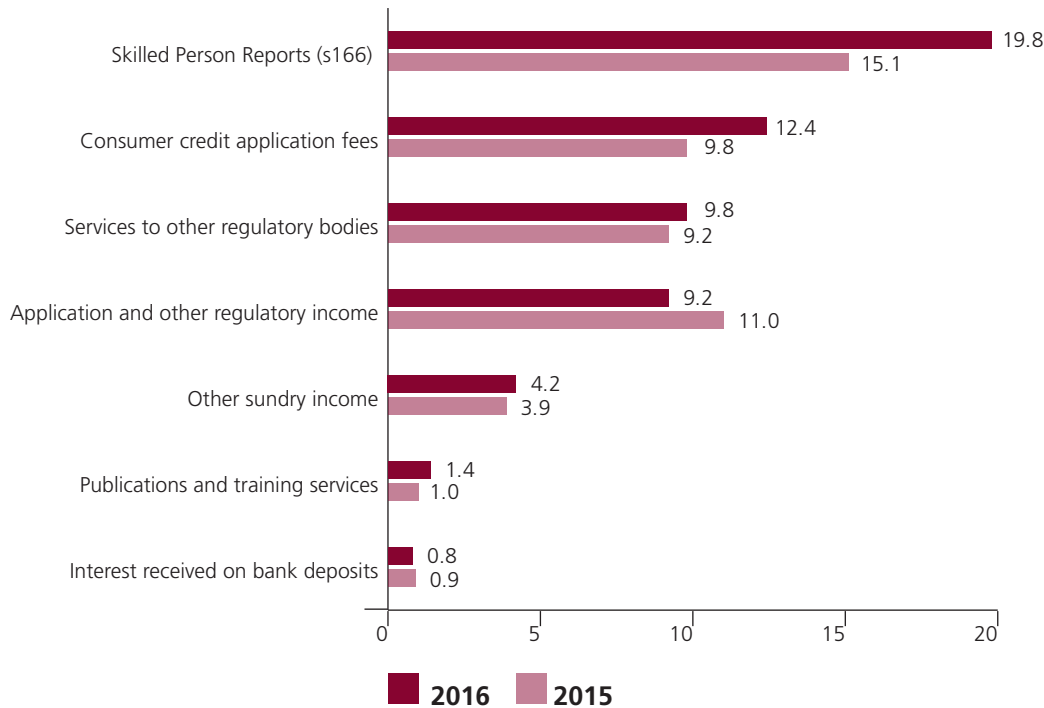
- A **£27.0m** increase in budgeted ORA driven by anticipated investment in people and information systems;
- A nil **return** to fee payers of any budgetary under-spend (2015: £10m returned to fee payers); and
- An increase in **consumer credit fees** of **£9.9m** to £10.4m (2015: £0.5m) driven by a significant increase in the number of firms authorised.

	2016 £m	2015 £m	Increase/ (decrease) £m
<b>Table 3: FCA Group Fee Income</b>			
Ongoing Regulatory Activity budget	479.0	452.0	27.0
Recovery of scope change activities	2.6	4.4	(1.8)
Underspend from 2014 returned to fee payers	–	(10.0)	10.0
<b>Annual Funding Requirement</b>	<b>481.6</b>	<b>446.4</b>	<b>35.2</b>
Consumer Credit fees	10.4	0.5	9.9
Ongoing Regulatory Activity fees adjustment	2.1	4.3	(2.2)
Recovery of scope change activities	0.2	–	0.2
<b>Total FCA fee income</b>	<b>494.3</b>	<b>451.2</b>	<b>43.1</b>
PSR fee income	28.1	–	28.1
<b>Total Group fee income</b>	<b>522.4</b>	<b>451.2</b>	<b>71.2</b>

## Other income

FCA Group Other income increased by **£6.7m** from £50.9m to **£57.6m** (Table 4). The largest contributor to this was an increase in 'income' from Skilled Persons Reports of £4.7m.

**Table 4: FCA Group Other income**

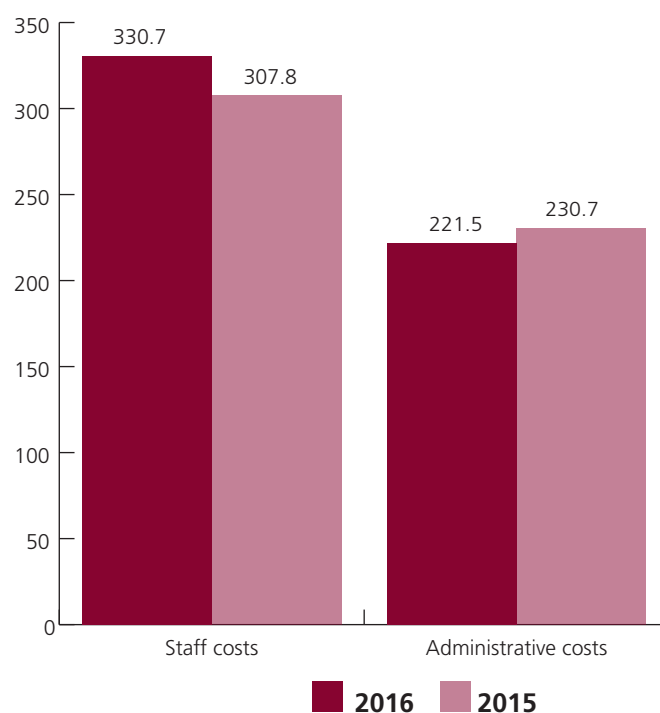


- **Skilled persons reports (s166):** This 'income' represents a recovery of costs incurred by the FCA for engaging Skilled Persons to carry out a s166 review. The costs incurred by the FCA (recognised in administration costs as professional fees) are recovered from the firm in question and this 'income' is shown in *Other income*. Overall this has a net zero impact on the profit or loss of the FCA.
- **Consumer credit application fees:** Application fees increased by £2.6m; this was due to increased applications bringing the number of authorised firms for consumer credit activities to circa 29,000 at 31 March 2016.
- **Services to other regulatory bodies:** includes income from providing levying and collection services for other regulatory bodies as well as income from the PSA with the Prudential Regulation Authority (PRA). The income from the PRA represented the largest element at £9.1m in 2016 (2015: £7.7m) as this includes a recharge of costs for a variety of services including information systems (as noted earlier).

## Total operating costs

FCA Group total operating costs (Table 5) increased during the year by **£13.7m** or **2.5%** from £538.5m to **£552.2m**. Of this **£13.7m** increase in total operating costs, **staff costs increased** by **£22.9m** or **7.4%** and administrative costs **fell by £9.2m** or **4%**.

**Table 5: FCA Group Total operating costs**

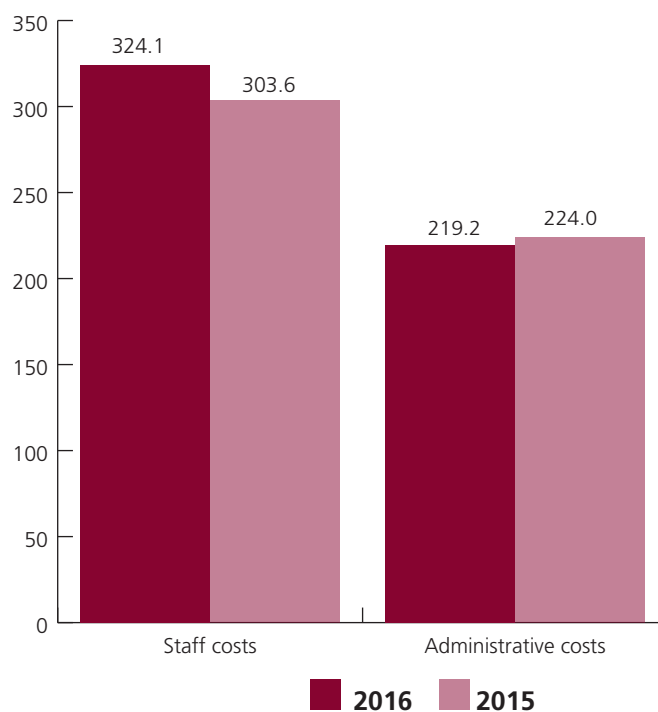


	2016 £m	2015 £m	Increase/ (decrease) £m
Staff costs	330.7	307.8	22.9
Administrative costs	221.5	230.7	(9.2)
<b>Operating costs</b>	<b>552.2</b>	<b>538.5</b>	<b>13.7</b>

**Staff costs:** the **average** number of full-time equivalent (FTE) employees **increased** during the year by **257** or **8.5%** to **3,276**. Of this, 3,232 (2015: 3,000) were FCA parent company average FTEs and 44 (2015: 19) were the PSR's.

**Administrative costs:** fell year on year by **£9.2m** or **3.9%** from £230.7m to **£221.5m** and this is attributable to:

- A reduction in professional fees of **£5.0m** or **17.4%** driven mainly by one-off costs incurred in 2015 for the Davis Review.
- A reduction in IT costs of **£4.0m** or **4.3%** due to the completion of certain scope change projects, mainly consumer credit and the Alternative Investment Fund Managers Directive.
- A reduction in non-staff costs of £3.5m due to the write off of £3.2m software licence in 2015 discussed in the annual financial statements.
- Offset by an increase in s166 professional fees of £4.7m or 31.1%, this does not represent an increase in the FCA's cost base as these costs are fully recoverable and included in Other income (Table 4).

**Table 6: FCA Parent Company Total operating costs**

	2016 £m	2015 £m	Increase/ (decrease) £m
Staff costs	324.1	303.6	20.5
Administrative costs	219.2	224.0	(4.8)
<b>Operating costs</b>	<b>543.3</b>	<b>527.6</b>	<b>15.7</b>

FCA parent company total operating costs increased during the year by **£15.7m** or 3%, from £527.6m to **£543.3m**. Staff costs increased by **£20.5m** or **6.8%** and administrative costs fell by **£4.8m** or **2.1%**.

As noted above, the increase in staff costs reflects an increase in the average number of FCA parent company FTEs by **232** or **7.7%** from 3,000 to **3,232**.

### FCA Parent Company Net ORA Expenditure – budget vs. actual

The FCA parent company budgeted for net ORA expenditure of **£479m** in the year to 31 March 2016 and levied its fees on this basis. The actual net ORA expenditure was lower than budget by **£17.4m**.

	2016 £m	2015 £m	Increase/ (decrease) £m
<b>Table 7: FCA Parent Company Net ORA Expenditure budget vs. actual</b>			
Ongoing Regulatory Activity budget	479.0	452.0	27.0
Ongoing Regulatory Activity actuals	461.6	452.7	8.9
<b>Over/(under) recovery against budget</b>	<b>17.4</b>	<b>(0.7)</b>	<b>18.1</b>

The key elements of the £17.4m over-recovery against budget are set out in more detail below:

- FCA-wide under-spend of circa £5m against budget attributable to lower pay and incentive awards and slower than anticipated recruitment;
- Enforcement and Markets Oversight Division: circa £6m under-spend against budget driven by lower external enforcement case costs;

- Circa £3m under-spend against budget in the Operations Division mainly driven by reduced depreciation following an extension to the useful economic lives of some of the FCA's key IT applications.

The over-recovery will be retained to reduce the FCA Group's accumulated deficit.

The PSR's retained surplus of **£6.0m** is because the year to 31 March 2016 was its first year of operation which meant that its work programme was inherently more variable as it established itself. The under-spend against budget reflects two elements: (i) an over-estimation of the costs it was believed the organisation would incur to fulfil its regulatory duties and develop as an organisation; and (ii) a contingency budget for potential urgent regulatory investigations that did not materialise.

Table 8 reconciles the FCA parent company's actual net ORA expenditure of **£461.6m** (2015: £452.7m) to its *Operating Costs* as set out in the financial statements of **£543.3m** (2015: £527.6m).

<b>Table 8: FCA Parent Company Reconciliation of Actual Net ORA Expenditure to Operating Costs</b>	<b>2016 £m</b>	<b>2015 £m</b>	<b>Increase/ (decrease) £m</b>
Ongoing Regulatory Activity actuals	461.6	452.7	8.9
<b>Financial accounting adjustments:</b>	<b>(15.0)</b>	<b>(13.8)</b>	<b>(1.2)</b>
Pension scheme	(15.0)	(14.2)	(0.8)
UKLA and TRS	–	0.4	(0.4)
<b>Scope change costs:</b>	<b>37.4</b>	<b>37.2</b>	<b>0.20</b>
Consumer Credit	24.9	30.1	(5.2)
Markets in Financial Instruments Directive	7.3	–	7.3
Parliamentary Commission on Banking Standards	4.0	–	4.0
Other	1.2	7.1	(5.9)
<b>Other income</b>	<b>59.3</b>	<b>51.5</b>	<b>7.8</b>
<b>Total FCA operating costs</b>	<b>543.3</b>	<b>527.6</b>	<b>15.7</b>
<b>PSR operating costs net of intragroup adjustments</b>	<b>8.8</b>	<b>10.9</b>	<b>(2.1)</b>
<b>Total Group operating costs</b>	<b>552.1</b>	<b>538.5</b>	<b>13.6</b>

The key reconciling items between the FCA parent company's net ORA expenditure and its Operating Costs are:

- A difference between the accounting charge and the cash costs of £15.0m relating to the FCA pension scheme;
- Scope change costs of £37.4m, primarily relating to consumer credit (£24.9m) which moves into business-as-usual activity in 2016/17. The cumulative scope change costs for consumer credit total £59.3m (see Table 11 below) and are being recovered over ten years from 2016/17; and
- Other income of £59.3m which is added back to take account of the fact that ORA represents **net costs**.

## Financial position

The movement in the FCA Group Accumulated Deficit for the years to 31 March 2016 and 2015 is set out below:

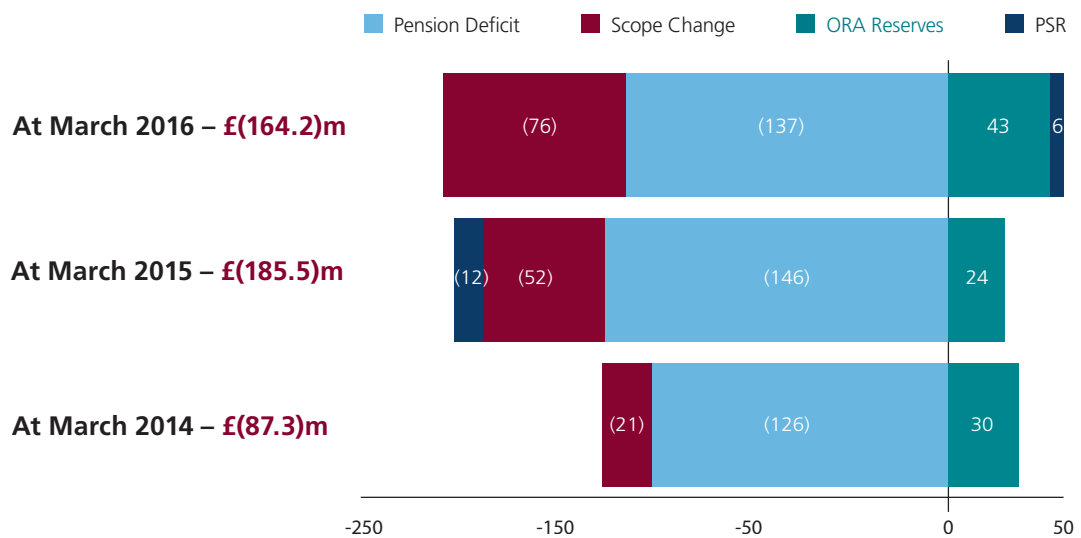
**Table 9: Movement in the FCA Group Accumulated Deficit**

	ORA Reserves £m	Scope Change £m	FCA Retained Deficit £m	Pension Deficit <sup>1</sup> £m	FCA Total Accumulated Deficit £m	PSR £m	Group Accumulated Deficit £m
<b>At 1 April 2015</b>	<b>23.5</b>	<b>(51.9)</b>	<b>(28.4)</b>	<b>(145.6)</b>	<b>(174.0)</b>	<b>(11.5)</b>	<b>(185.5)</b>
PSR Recovery <sup>2</sup>	–	–	–	–	–	12.3	<b>12.3</b>
Under-spend vs. Budget 2016	17.4	–	17.4	–	17.4	5.2	<b>22.6</b>
Additional fees/scope change levies	2.1	2.8	4.9	–	4.9	–	<b>4.9</b>
Scope change (net costs)	–	(27.0)	(27.0)	–	(27.0)	–	<b>(27.0)</b>
Pension movement	–	–	–	8.5	8.5	–	<b>8.5</b>
<b>At 31 March 2016</b>	<b>43.0</b>	<b>(76.1)</b>	<b>(33.1)</b>	<b>(137.1)</b>	<b>(170.2)</b>	<b>6.0</b>	<b>(164.2)</b>

<sup>1</sup> The pension liability figure includes £3m (2015: £3m) for the unfunded pension element.

<sup>2</sup> Set up costs and running costs for 2015.

**Table 10: FCA Group Accumulated Deficit**



The decrease of **£21.3m** in the FCA Group accumulated deficit from £185.5m to **£164.2m** at 31 March 2016 is driven by the following:

- The PSR's financial position moving from a **deficit of £11.5m** to a **surplus of £6.0m** as it recovered its costs (set-up and on-going) via its levies – a positive movement of **£17.5m**; and
- An **£8.5m** reduction in the pension deficit from £145.6m to **£137.1m**.

The pension liabilities will not crystallise for many years and the approach to managing and funding the pension deficit is explained in Note 13 to the financial statements.

**Excluding the pension deficit**, the FCA parent company had an accumulated deficit of **£33.1m** at 31 March 2016, (2015: £28.4m), an increase of **£4.7m**. This reflects a **£19.5m** improvement in ORA 'reserves'<sup>1</sup> attributable to an under-spend of £17.4m against budgeted expenditure and additional fees invoiced of £2.1m. Against this, the FCA incurred further scope change costs of **£24.2m** (net of recoveries).

<sup>1</sup> ORA reserves are not technical accounting reserves available for distribution, rather a carve-out to enable the FCA to monitor on-going costs vs. scope change costs, the latter of which may be recovered from different or new fee payers (e.g. consumer credit firms).

This accumulated deficit of **£33.1m** is essentially a consequence of the FCA parent company funding scope change costs in advance of recovery of those costs as detailed below and this will unwind over time.

**Scope change costs:** At 31 March 2016 the FCA parent company had incurred cumulative scope change costs of **£76.1m** (2015: £51.9m); the majority of these costs, **£59.4m** (2015: £44.9m), relate to the set-up of the FCA's consumer credit function as detailed in Table 11 below.

**Table 11: Reconciliation of scope change costs**

Scope Change	Consumer Credit £m	MIFID <sup>1</sup> £m	PCBS <sup>2</sup> £m	Mortgage Credit Directive £m	Other <sup>3</sup> £m	Total £m
At 1 April 2015	44.9	1.0	2.6	0.7	2.7	51.9
2016 costs	37.4	7.3	4.0	1.1	0.1	49.9
2016 recoveries	(22.9)	–	–	–	(2.8)	(25.7)
<b>At 31 March 2016</b>	<b>59.4</b>	<b>8.3</b>	<b>6.6</b>	<b>1.8</b>	<b>–</b>	<b>76.1</b>

1 Markets in Financial Instruments Directive

2 Parliamentary Commission on Banking Standards

3 This relates to fees collected as part of the 2016 AFR (£2.6m for Alternative Investment Fund Managers Directive (AIFMD)).

**Group cash and cash equivalents** increased by **£220.2m** to **£232.2m** at 31 March 2016 (2015: £12.1m) in the main driven by invoicing on-account fees a month earlier than in previous years (following consultation with the firms). Of the £232.2m, £71.7m related to fees collected on behalf of other financial regulatory organisations (shown in trade and other payables in the financial statements) and £7.6m (2015: nil) was cash belonging to the PSR, leaving the FCA parent company with cash balances of **£152.9m** (2015: £12.1m).

**Penalties collected on behalf of the Exchequer:** Penalties of £877.2m were collected in the year to 31 March 2016 (2015: £1.417bn), of which £822.5m (2015: £1.363bn) were paid to the Exchequer. Retained enforcement costs of £53.2m (2015: £42.6m) will be returned to fee payers in the following financial year (2016/17). No penalties were issued by the PSR.

## Principal risks and uncertainties

For both the FCA and the PSR, the most important risk is the failure to meet their respective statutory objectives. Delivery of their statutory objectives relies not only on their ability to influence the culture and conduct of the industry they regulate but also on their own internal operational environment and performance.

### FCA key external risks

The FCA's key external risks are set out in more detail in the FCA's Business Plan 2016/17, which incorporates the *Risk Outlook*. The FCA is focused on taking a more strategic approach to risk, placing more emphasis on sector and market-wide analysis. This will put the FCA in a stronger position to prioritise its resources and efforts appropriately to mitigate those risks.

- **External regulatory risk:** The risk to the FCA's three operational objectives from the activities and conduct of the firms and markets the FCA regulates, which could cause markets not to work in the interest of consumers, harm the integrity of the financial system or leave consumers with an inadequate degree of protection.
- The **FCA's seven forward-looking areas of focus** are:
  - **Pensions:** fair treatment for consumers, stronger competition and a market that meets consumer needs;
  - **Financial crime and Anti-Money Laundering (AML):** better, proportionate and more efficient AML controls and consumers who are better able to avoid scams;
  - **Wholesale financial markets:** strong controls which protect market integrity and ensure clean, efficient and effective markets;

- **Advice:** affordable, professional advice to meet consumers' changing and complex needs;
- **Innovation and technology:** resilient systems and new sources of competition;
- **Firms' culture and governance:** strong culture and governance which helps competition and consumers alike;
- **Treatment of existing customers:** effective competition, a fair deal and greater transparency for long-standing customers.

### PSR key external risks

The PSR's key external risk is that payment systems will not work well for the people and organisations that use them. The PSR's key risks are set out below:

- Payment systems are not open, transparent and accessible;
- Payment systems are not fast, easy to use, secure, reliable and do not provide value for money;
- Payment systems are not responsive to current and future needs and do not promote innovation and competition;
- There is no improvement in the representation of the people and organisations that rely on services provided by payments systems;
- Payments systems do not function in the best interests of the people and organisations that use them and the services they support.

### FCA and PSR: Key environmental and operational risks

**Environmental risks:** which include risks associated with the operating environment for the FCA and the PSR - in particular, political, legislative or socio-demographic change. Whilst it is set out in statute that both the FCA and the PSR are operationally independent organisations, they remain subject to changes in legislation and scope by the UK Government that can ultimately affect the size, activities and complexity of both organisations.

**Internal operational risks:** Like any organisation, the FCA and PSR face significant operational risks which may result in financial loss, disruption or both. For the FCA and PSR these risks are summarised below:

- **People risks:** including risks associated with and potential instability arising from, changes to the organisations' senior leadership teams; key person risk associated with the potential loss of detailed and specific technical skills or knowledge, attrition risk and risks around staff morale and engagement. The FCA and PSR continue to mitigate these risks as part of their People Strategy;
- **Governance risks:** including inadequate or failed internal processes and controls. The introduction of the Senior Manager & Certified Persons Regime (SM&CR) internally aims to strengthen governance, controls and decision making; and
- **Systems risks:** including the availability, resilience, recoverability and security of core IT systems; cyber risk continues to be a major focus for both organisations.

**Public confidence risk:** which includes the risk of damage to the reputation of the FCA and PSR where it limits or impacts the organisations' credibility and constrains their ability to deliver against their objectives. This also incorporates inappropriate judgements, decisions and actions taken (or inaction) which may be perceived by stakeholders as inappropriate; inconsistent or inaccurate messages being communicated externally; and clearly defining the FCA's and PSR's objectives and remit so that public expectations are set and managed appropriately.

Value for Money is also a key area of focus for both organisations.

### Key financial risks and going concern

The key financial risks (liquidity, credit, counter-party and final salary pension scheme risks) are set out in more detail below.

The directors have considered the FCA's Business Plan 2017/18 and the key financial risks and uncertainties in assessing the FCA as a going concern as set out below:



- 1 Liquidity risk:** can be assessed by looking at the following four key areas:
  - a.** the FCA's current liquidity position reflects the fact that it has been funding (i) cumulative scope change costs for consumer credit (£59.4m) which will be recovered from 2016/17 onwards (at circa £6m per annum); and (ii) capital expenditure over the useful economic lives of the assets rather than when the expenditure is incurred. The carrying amount of assets as yet unrecovered through fees is at £109.9m at 31 March 2016;
  - b.** the triennial valuation of the FCA Pension Scheme currently underway could result in additional costs to the FCA which would need to be passed on to the firms it regulates;
  - c.** the FCA's strong fee covenants are underpinned by the statutory powers granted to it to raise fees to fund its and the PSR's regulatory activities. Of the firms on which the FCA currently levies its fees, the top **one hundred** are responsible for **55.5%** of those fees;
  - d.** the FCA is currently well placed from a liquidity perspective, with cash deposits of £152.9m at 31 March 2016 and an available overdraft facility of £50m. The FCA is also currently assessing its options with regard to separately funding the capital expenditure relating to its office relocation to Stratford in 2018.
- 2 Credit risk:** falls into two main categories:
  - a.** the collection of fees from the financial services industry: the FCA has a strong record in terms of collecting fees with bad debt experience averaging less than 0.2% of fees receivable over the last three years; and
  - b.** the placement of those fees as deposits with various counter parties: the FCA only invests with financial institutions that meet its minimum credit rating as assigned by credit rating agencies. The FCA also spreads its deposits across a number of counter parties to avoid the concentration of credit risk.
- 3 Significant Accounting Judgments and Key Sources of Estimate Uncertainty** that have been considered by the directors are the estimated useful economic lives of internally developed software and the assumptions underpinning the pension deficit as set out in Note 13 to the Financial Statements.

Having regard to the above, it is the directors' opinion that the FCA is well placed to manage any possible future funding requirements pertaining to its regulatory activity and has sufficient resources to continue its business for the foreseeable future.

The directors therefore conclude that using the going concern basis is appropriate in preparing its financial statements as there are no material uncertainties related to events or conditions that may cast significant doubt about the FCA's ability to continue as a going concern.

By Order of the Board on 22 June 2016

S Pearce  
Secretary  
27 June 2016

# Directors' report

The directors present their report for the year ended 31 March 2016.

The directors use the Strategic Report to explain how they have performed their duty to promote the success of the FCA under section 172 of the Companies Act 2006.

## Directors' responsibilities in respect of the Annual Report and Accounts

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable International Financial Reporting Standards, as adopted by the European Union, have been followed, subject to any material departures disclosed and explained in the financial statements and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and for taking reasonable steps to prevent and detect fraud and other irregularities.

As far as the directors are aware:

- there is no relevant audit information of which the company's auditor is unaware and
- the directors have taken all the steps they ought to make themselves aware of any relevant audit information and establish that the auditor is aware of that information

The directors are responsible for maintaining and ensuring the integrity of the corporate and financial information on the company's website. UK legislation which applies to preparing and distributing financial statements may differ from legislation in other jurisdictions.

## Qualifying indemnity provisions

Qualifying third party indemnity provisions for the purposes of section 232 of the Companies Act 2006 were in force during the course of the financial year ended 31 March 2016 and remain in force at the date of this report.

**Auditor**

---

FSMA requires the Company's accounts to be examined, certified and reported on by the Comptroller and Auditor General. Accordingly the National Audit Office was auditor throughout the year.

By Order of the Board on 22 June 2016

S Pearce  
Secretary  
27 June 2016

# Corporate governance statement for the year ended 31 March 2016

## Introduction

---

This section of the report explains the Board's composition and governance structure and how we are governed. It also explains the Board's role and membership, its performance, on going professional development and succession planning.

The Financial Services and Markets Act (FSMA) 2000 requires us to have regard to generally accepted principles of good corporate governance. Our Board is committed to meeting high standards of corporate governance and this report sets out how we are governed in line with the principles of the UK Corporate Governance Code (the Code). The Board considers that we comply with the Code as far as is appropriate.

We are an independent financial regulator, funded by the industry we regulate, but accountable to Government and Parliament through obligations set out in FSMA. We ensure we consult with consumers and practitioners on rules and general policy, including through engagement with the Consumer Panel and each of the Practitioner, Markets Practitioner and Smaller Businesses Practitioner Panels and the Listing Authority Advisory Panel. FSMA requires us to be accountable to our stakeholders in a number of ways including via an Annual Public Meeting and to report to HM Treasury on how far we have met our regulatory objectives.

## The Role of the Board, Board committees, and executive committees

---

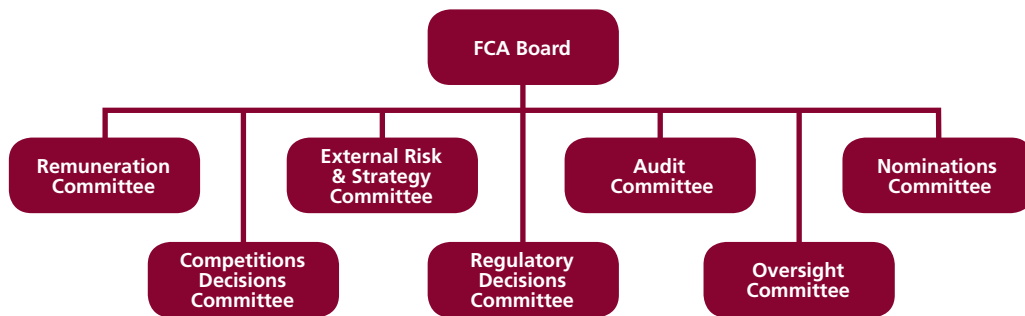
There is a clear division of responsibility between the running of the Board and the executive running of the organisation. John Griffith-Jones, as chair, leads the Board and ensures its effectiveness, while the chief executive is responsible for implementing the strategy agreed by the Board and for the leadership of the organisation and managing it within the authorities delegated by the Board.

The Board is the FCA's governing body. It sets our strategic aims and ensures that we have the necessary financial and human resources to allow us to meet our statutory objectives.

The Board's role includes:

- a. determining which matters should be reserved to it for decision, including exercising the FCA's legislative functions and other matters as set out in the Schedule of Matters Reserved to the Board from time to time
- b. making strategic decisions affecting the future operation of the FCA
- c. overseeing the discharge of the day to day business of the FCA by the executive management
- d. setting appropriate policies to manage risks to the FCA's operations and the achievement of its regulatory objectives
- e. seeking regular assurance that the system of internal control is effective in managing risks in the manner it has approved
- f. maintaining a sound system of financial control
- g. taking specific decisions, outside those specified in the Schedule of Matters Reserved to the Board, which the Board or executive management consider to be of a novel or contentious nature or to be of such significance that they should be taken by the Board
- h. maintaining high level relations with other organisations and authorities, including Government, the Financial Services Compensation Scheme, the Financial Ombudsman Service, the Money Advice Service and the Consumer, Practitioner, Smaller Businesses Practitioner, Markets Practitioner and Listing Authority Advisory Panels and
- i. establishing and maintaining arrangements to ensure accountability regarding decisions of committees of the Board and executive management

The Board is supported by its principal committees shown in the chart below. Membership of the Audit, External Risk and Strategy, Remuneration and Oversight committees can be found in tables 2 and 3.



Our website has more details on the FCA's governance arrangements at [www.fca.org.uk/your-fca/documents/corporate-governance](http://www.fca.org.uk/your-fca/documents/corporate-governance). Details of the activities of the committees are found later in this report.

Our executive committees play an important role in the overall corporate governance of the FCA. The Executive Committee, chaired by the chief executive, is the highest ranking executive decision-making body of the organisation, and discusses issues across all areas of the organisation. It oversees our strategy, direction and activity in general, including delivery of our annual Business Plan. It is responsible for monitoring our direction and performance within the strategic framework set by the Board.

Beneath the Executive Committee are a series of sub-committees. These include the Executive Diversity Committee (which leads our internal and external diversity and inclusion agenda), the Executive Operations Committee (which monitors our economic and efficient use of resources, operational risk management, people strategy and culture and operational resilience), the Executive Regulatory Issues Committee (which takes decisions on regulatory issues, such as firm, sector or product specific issues) and the Policy Steering Committee (which maintains oversight of our policy initiatives).

In March 2016, the Senior Managers and Certification Regime came into force. The Regime does not formally apply to the FCA but we have applied the principles to ourselves. To do so we have set out a formal description of the core responsibilities of members of our Board, Executive Committee and those carrying out Senior Management Functions. The aim of the Regime is to raise standards of governance and increase individual accountability.

## Members of our Board

---

The requirements for the membership of our Board are set out in FSMA and, consistent with those requirements, currently comprises;

- a chair and a chief executive appointed by the Treasury
- the Bank of England Deputy Governor for prudential regulation
- two non-executive directors appointed jointly by the Secretary of State for Business, Innovation and Skills and the Treasury and
- one executive director and four non-executive directors appointed by the Treasury

All non-executive appointments were subject to the Code of Practice issued by the Office of the Commissioner for Public Appointments.

The chair was appointed for a five year term, until 31 March 2018. All other directors were appointed for a three year term with the exception of Andrew Bailey. Andrew Bailey was appointed to the Board by virtue of his position as the Bank of England Deputy Governor for prudential regulation in accordance with the requirements of FSMA. Sam Woods will replace Andrew Bailey as Bank of England Deputy Governor on 1 July 2016 and by virtue of this appointment will join the FCA Board. Andrew Bailey will continue on the Board in his position as Chief Executive at this point.

During the reporting period the Board's membership changed as follows:

- Martin Wheatley left the Board in September 2015
- Tracey McDermott was acting chief executive until a permanent successor was in post
- Mick McAteer, Sir Brian Pomeroy and Amanda Davidson all completed their respective terms as non-executive directors and
- Christopher Woolard, Director of Strategy and Competition, was appointed as an executive director

A number of succession arrangements were completed in the reporting period. Andrew Bailey was appointed as the new Chief Executive, with effect from 1 July 2016, and Baroness Hogg, Bradley Fried and Ruth Kelly were appointed as non-executive directors with effect from 1 April 2016.

Our new appointments bring new challenge and oversight to the Board and their skills and experience build on our existing expertise. Dates of the appointments of board members can be found in table 1.

**Table 1**

Date of appointment of Board members:

<b>Name</b>	<b>Original appointment date</b>	<b>Expiry of current term / date membership ceased</b>
Andrew Bailey	1/04/13	Not applicable
Catherine Bradley	2/08/14	1/08/17
Amanda Davidson	1/04/13	31/03/16
Amelia Fletcher*	1/04/13	31/03/19
Bradley Fried	1/04/16	31/03/19
John Griffith-Jones	1/04/13	31/03/18
Baroness Hogg	1/04/16	31/03/19
Ruth Kelly	1/04/16	31/03/19
Mick McAteer**	1/04/13	31/12/15
Tracey McDermott	1/04/13	30/06/16
Jane Platt*	1/04/13	31/03/19
Sir Brian Pomeroy	1/04/13	31/03/16
Martin Wheatley	1/04/13	13/09/15
Christopher Woolard	1/08/15	31/07/18

**Key**

\*Reappointed for a 3 year term from 31 March 2016

\*\*Reappointed for a period of 9 months with effect from 31 March 2015

Sir Brian Pomeroy was the Senior Independent Director until 31 March 2016 and was replaced by Baroness Hogg with effect from 1 April 2016.

A majority of our Board members are non-executive directors. All non-executive directors are considered independent and bring extensive and varied experience to Board and Committee deliberations. On appointment they confirm that they will have sufficient time available to be able to meet their responsibilities effectively.

The Board is committed to ensuring that diversity, in its broadest sense, remains a central feature of its membership. It pays particular attention in the recruitment process to ensure the Board consists of a variety of members with the appropriate balance of relevant skills and experience. Our female membership is significantly above the 25% target figure for the boards of UK FTSE 100 companies.

The executive directors have continuous employment contracts with the FCA, subject to the following notice periods:

<b>Director</b>	<b>Notice period</b>
Martin Wheatley	12 months
Tracey McDermott	6 months
Christopher Woolard	6 months

**Table 2**

Committee membership during the reporting period:

<b>Audit Committee</b>	<b>External Risk and Strategy Committee</b>	<b>Remuneration Committee</b>	<b>Oversight Committee</b>
Sir Brian Pomeroy (Chair)	Mick McAteer (Chair) until 31 December 2015	Amanda Davidson (Chair)	John Griffith-Jones (Chair)
Catherine Bradley	Sir Brian Pomeroy	Amelia Fletcher	Catherine Bradley
Amanda Davidson	Amelia Fletcher	John Griffith-Jones	Mick McAteer (until 31 December 2015)
Mick McAteer (until 31 December 2015)	Jane Platt (from 1 January 2016)	Jane Platt	Christopher Woolard
Jane Platt (from 1 January 2016)			

**Table 3**

Committee membership from 1 April 2016:

<b>Audit Committee</b>	<b>External Risk and Strategy Committee</b>	<b>Remuneration Committee</b>	<b>Oversight Committee</b>	<b>Nominations Committee</b>
Ruth Kelly (Chair)	Jane Platt (Chair)	Baroness Hogg	John Griffith-Jones (Chair)	John Griffith-Jones (Chair)
Catherine Bradley	Amelia Fletcher	John Griffith-Jones	Catherine Bradley	Andrew Bailey
Bradley Fried	Ruth Kelly	Amelia Fletcher	Baroness Hogg	Catherine Bradley
Jane Platt		Bradley Fried	Christopher Woolard	Amelia Fletcher
				Bradley Fried
				Ruth Kelly
				Baroness Hogg
				Jane Platt

### Board meetings and activities of the Board

The Board has a formal schedule of matters reserved to it, and meets regularly in order to discharge its duties effectively. It held eleven scheduled meetings during the year, including a two-day Strategy meeting, and held eight additional meetings to deal with specific matters which required attention between the scheduled meetings.

The Board committees also met frequently during the year. Table 5 provides details of all the Board and committee meetings and attendance.

The chair and company secretary ensure that the Board's agendas are set in line with our priorities and review papers before they are circulated to members to ensure that information is accurate and clear. Papers for Board and committee meetings are normally circulated one week before meetings.

Committee chairs report to the Board on committee proceedings after each committee meeting.

During the year, the non-executive directors met privately both with and without the chair and without members of the executive present.

Board members rigorously challenge each other on strategy, performance, responsibility and accountability to ensure that the decisions of the Board are robust.

Table 4 below shows some of the key areas of Board activity during the year.

**Table 4**

Key areas of Board activity:

<b>Governance</b>	<b>Financial performance</b>
<ul style="list-style-type: none"> <li>discussed the outcome of the Board evaluation and effectiveness review and agreed actions</li> <li>reviewed the corporate governance document and the terms of reference of Audit and External Risk and Strategy committees</li> <li>agreed the application of the Senior Managers Regime (SMR) to the FCA</li> </ul>	<ul style="list-style-type: none"> <li>considered the financial performance of the organisation and approved its budget</li> <li>approved the Payment Systems Regulator, Financial Ombudsman Service and Money Advice Service budget and plans</li> <li>monitored financial performance regularly throughout the year</li> </ul>
<b>Internal control and risk management</b>	<b>Leadership and people</b>
<ul style="list-style-type: none"> <li>reviewed the effectiveness of the systems and risk management</li> <li>discussed significant and emerging risks</li> <li>considered the strengthening of the second line of defence</li> <li>considered the Annual Report on Consolidated Risk Manager (CRM)</li> </ul>	<ul style="list-style-type: none"> <li>considered the composition of the Board and its committees</li> <li>reviewed the development of people in the organisation</li> <li>discussed the results of the employee engagement survey and the actions arising from it</li> <li>discussed the FCA's community engagement strategy</li> </ul>



**Strategy and Policy**

- reviewed strategy and business development
- approved the annual Business Plan
- received specific divisional reports
- considered relevant market reviews and studies
- received updates on European initiatives

**Communications**

- considered the results of the FCA's Stakeholder survey of external perceptions of communications and engagement
- approved the content of the FCA's Year Three communications strategy
- maintained oversight of specific communication projects and campaigns

A full record of the Board's activities can be found in our published minutes on the FCA website.

**Table 5**

Board and Committee Attendance

<b>Name</b>	<b>Scheduled Board Meetings</b>	<b>Additional Board Meetings*</b>	<b>Remuneration Committee</b>	<b>Audit Committee</b>	<b>External Risk and Strategy Committee</b>	<b>Oversight Committee</b>
Andrew Bailey	10/11	7/8				
Catherine Bradley	11/11	8/8		5/5		6/6
Amanda Davidson	11/11	7/8	7/7	5/5		
Amelia Fletcher	10/11	6/8	7/7		3/3	
John Griffith-Jones	11/11	8/8	7/7			6/6
Mick McAteer	8/8	4/5		4/4	3/3	3/4
Tracey McDermott	11/11	6/7				
Jane Platt	11/11	5/8	6/7		3/3	
Sir Brian Pomeroy	11/11	4/8		4/5	3/3	
Martin Wheatley	4/4	3/4				
Christopher Woolard	7/7	4/4				5/6

**Key**

\* Additional to those scheduled at the start of the year.

**Company Secretary and independent advice**

Each director has access to the advice and services of the Company Secretary, who advises the Board on all corporate governance matters and ensures the Board follows all appropriate procedures. The Company Secretary is also responsible for providing access to external professional advice for directors, if required.

Under FSMA, the FCA has the benefit of an exemption from liability in damages for anything done or omitted in relation to the exercise or purported exercise of its statutory functions. This is supplemented with indemnities given by the FCA for the protection of individual employees, including directors. Accordingly, the FCA does not currently purchase Directors and Officers Liability Insurance.

**Succession**

The Board considers that all of the non-executive directors bring strong independent oversight and continue to demonstrate independence. However, the Board recognises the recommended term within the UK Corporate Governance Code and is mindful of the need for suitable succession.

Succession planning remains a key agenda item for the Board. The Nominations Committee was created as a result of a recommendation from the 2015 independent board effectiveness review. The Nominations Committee will assist the Board in engaging with the Treasury about future succession arrangements and will help satisfy the Code's provisions that

the board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the organisation.

### Board induction and training

---

On joining the Board, directors are given background information describing the FCA and our activities. They are given an induction pack which includes information on all our governance arrangements, the board's roles and responsibilities, its committees and officers and other relevant information. We also arrange structured meetings with a range of key people across the FCA to ensure directors have a thorough induction.

Members of the Board also receive ongoing professional development briefings on relevant issues. During the year the chairman met with the non-executive directors to review their performance.

The Board programme includes regular briefings from management and informal meetings which increase the non-executive directors' understanding of the business and the sector.

### Board effectiveness review

---

In June 2015 the Board commissioned Boardroom Review Limited to undertake a review of its effectiveness. The review was conducted between June and October 2015 and the Board considered the findings at its meetings in October and December 2015.

The review highlighted many Board strengths and made a number of recommendations to enhance its effectiveness.

The review highlighted key strengths of the Board, including its:

- open and committed environment with shared purpose, a good balance of constructive challenge and support, and high levels of mutual respect
- suitable engagement with strategy
- risk and control framework, with established committees, good exposure to key executives, regular risks reviews and committed committee chairs and
- dedicated and committed non-executive directors who are highly valued by the executives

The Review also contained a number of recommendations related to the following areas:

- relationship management of stakeholders
- Board composition planning
- maintaining an effective internal audit function
- the focus on resource allocation
- attention to corporate culture
- executive development and succession and
- the balance and prioritisation of the Board and Committee agendas, and the inclusion of non-executive/chief executive sessions

The Board accepted all the recommendations and, where necessary, is taking steps to implement them. The Board intends to commission further external reviews of its effectiveness every two years, with internal reviews in between.

The review is published at [www.fca.org.uk/fca-board-effectiveness-review-2015](http://www.fca.org.uk/fca-board-effectiveness-review-2015).

## Conflicts of interests

---

All directors are required to declare relevant interests and the Board decides how to manage any potential conflicts of interest that may arise. The Company Secretary maintains a register of interests. Where a conflict of interest arose during the year, appropriate steps were taken to ensure the independence, integrity and impartiality of the Board's decision making.

## Board Committees

---

### Audit Committee

The Audit Committee is responsible for reviewing and providing assurance to the Board on certain matters including the effectiveness of our internal controls, our operational risk management framework and mitigation strategies, the integrity of the financial statements in the annual accounts and the statements that relate to financial controls and operational risk and for oversight of the external audit process. The Audit Committee consists entirely of non-executive directors.

During 2015/16, the Audit Committee discharged its responsibilities and, in doing so, considered the following:

- the Annual Report and Accounts and the Governance Statement
- the integrity of the financial statements
- financial reporting judgments and disclosure issues
- pension plan arrangements
- FCA's financial policies
- identification of operational risks, including financial management risks, information systems risk and people risks, as shown in the risk report and Risk Management Framework, and management's mitigation of these risks
- potential and actual litigation against the FCA
- Internal Audit's three-year plan
- quarterly reports from Internal Audit
- the NAO's audit strategy for the financial year
- the FCA chair's expenses
- key information about technology projects
- updates from the NAO's Value for Money study on mis-selling and
- completion of actions arising from the Davis Review

The Audit Committee also oversaw the FCA's relationship with the external auditor. Information on fees paid to the auditor is given on page 107.

The Board's statement below gives more information on internal controls. The Committee has assured itself that the financial statements give a true and fair view and have been prepared with integrity.

In addition to the report in the Annual Report on the activities of the Committee, the Audit Committee chair provided an update after each committee meeting to the subsequent board meeting.

The Audit Committee met on five occasions during the year. The Chief Operating Officer and directors of Supervision - Investment, Wholesale & Specialists Division, Competition and Human Resources all attended at least one session. The Director of Internal Audit, Director of Risk Compliance and Oversight and the Director – Financial Audit from the National Audit Office (NAO) or their representative attended each of the meetings. The chair of the Board also attended by invitation and relevant members of staff are also invited to attend relevant items.

The Audit Committee held private sessions with the Director of Internal Audit and external auditors during the year without management present. The committee also held private sessions on its own without management present.

Information on the committee's membership can be found in Table 3 and details of its members' attendance at meetings can be found in Table 5.

The Board approved revised committee Terms of Reference in July 2015 following an annual review. The terms of reference for each committee are available at [www.fca.org.uk/about/structure/board](http://www.fca.org.uk/about/structure/board).

### Internal controls

The internal control framework is an important part of our governance arrangements. It is designed to provide reasonable but not absolute assurance against material misstatement or loss and to manage rather than eliminate risks to our statutory objectives.

Improvement of the internal control framework is an ongoing process. The Board recognises the work done over the past year to improve our existing internal controls, notably the introduction of a new style Risk Control and Self-Assessment process, and was assured that sound risk management framework and internal controls have been maintained.

Operational risks are overseen by the Audit Committee and external regulatory risks by the External Risk & Strategy Committee. The Board's policy on internal controls and risk management includes established processes and procedures for identifying, evaluating and managing significant risks. The Audit Committee reported at least quarterly to the Board on internal controls and operational risk management. The Audit Committee received regular reports from managers on financial, operational and compliance controls and the risk management systems. It also received and reviewed reports from the Director of Internal Audit which summarised work undertaken, findings and actions by management.

Key features of the internal control framework included the following:

- Risk reporting that highlighted the key operational and external risks faced. This supported discussion on the best course of action to mitigate the key risks and helped senior managers make decisions on priorities and resource allocation. The Executive Committee and the Executive Operations Committee regularly reviewed these actions and formally reported to the Audit Committee on a quarterly basis through the operational risk report.
- A review of the framework of controls to mitigate the key operational and external risks faced.
- Internal Audit provided independent assurance about the effectiveness of risk management and controls to the FCA Board and management.
- The Audit Universe, which contained all the FCA's activities, systems and projects that contribute to controlling our risks. Internal Audit assessed each unit within the Universe to support the prioritisation of reviews. Internal Audit periodically reviewed the Audit Universe and priorities, considering factors including risk and how business critical and material they were.
- Clear reporting lines and delegated authorities, which were reviewed on a regular basis.
- The external audit, including interim and final audit, which provided assurance about financial controls to the Board and senior management.
- Clear segregation between the FCA's regulatory function and the internal treasury function to avoid either endorsing or criticising any financial institution through investment activities.
- Ensuring appropriate policies and procedures were included in the staff handbook.

Directors and senior managers regularly communicated their commitment to maintaining an appropriate control culture across the FCA to all staff.

## External Risk and Strategy Committee

The External Risk and Strategy Committee has responsibility for the review and oversight of the external risks<sup>2</sup> to the FCA achieving its statutory objectives, the executive's appetite for such risks and the suitability of the scope and coverage of the mitigation used to reduce the potential impact of such risks.

The Committee is also responsible for the effective operation of the Regulatory Decisions Committee (RDC). The Committee does not review operational risks, which are the responsibility of the Audit Committee. The External Risk and Strategy Committee consists entirely of non-executive directors.

To meet its responsibilities, the Committee received regular reports from the Director of Risk, Compliance and Oversight, Director of Internal Audit and the Chair of the RDC. The Committee sought assurance from the FCA executive and actively pursued open dialogue with the executive to ensure that:

- a. the major external risks to the FCA's statutory objectives from the financial markets that we regulate were identified and prioritised appropriately and
- b. mitigation strategies were in place to address these risks and that the scope and coverage of these strategies supported the delivery of the FCA's outcomes.

During the year, as part of its responsibilities, the Committee:

- Discussed matters relating to the oversight and prioritisation of risk. In particular, the Committee considered the wider 'direction of travel' which influences all financial markets, the external risk portfolio and the FCA operating landscape. It also considered the risks that cut across more than one sector and issues which begin in one sector but impact on others.
- Considered a presentation on cyber risks and the nature of the risks posed to financial services firms through cyber, and the FCA's work in this area.
- Received regular reports from the RDC, including updates on key decisions and debated the risks and issues arising from those decisions.
- Considered a focus piece on FCA strategic risks on longevity and decumulation products.
- Considered an economic outlook analysis of the context of external environments to help the FCA better assess firm interactions.

The Committee also reviewed its report for inclusion in the FCA's Annual Report about risks to the environment in which the FCA regulates. As well as producing a report in the Annual Report on its activities, the chair of the External Risk and Strategy Committee provided an update after each meeting to the next Board meeting.

The Committee met on three occasions during the year. This was fewer than the five meetings held in the previous year and resulted from scheduling meetings to coincide with the risk reporting cycle for that year. Four meetings have been scheduled for 2016/17. The Chief Operating Officer attended one session. The Director of Internal Audit and the Director of Risk Compliance and Oversight attended each of the meetings at the committee chair's request. The Chair of the Board also attends by invitation. Relevant members of staff are also invited to attend relevant items.

Private sessions were held with the Director of Risk, Compliance and Oversight during the year without management present. The Committee also held private sessions on its own without management present.

Information on the Committee's membership is available on our website and details of its members' attendance at meetings can be found in Table 3.

The Board approved revised Terms of Reference for the Committee in July 2015 following an annual review. The terms of reference for each committee are available on our website at [www.fca.org.uk/about/structure/board](http://www.fca.org.uk/about/structure/board).

<sup>2</sup> Further information on the principal risks and uncertainties facing the FCA can be found on pages 77-78.

### Oversight Committee

The Oversight Committee provides support and advice to the Board on its relationship with the Money Advice Service and Financial Ombudsman Service and its obligations for both under FSMA.

During the year, the committee met on six occasions and met with key individuals from both organisations to discuss their annual budgets and business plans. The Oversight Committee also seeks to ensure that the FCA has good and effective working relationships with both organisations to ensure matters of mutual interest are identified, discussed and acted on.

### Nominations Committee

The Nominations Committee is responsible for making recommendations for maintaining an appropriate balance of skills on the Board to ensure we maintain our ability to meet our statutory objectives. The Committee's terms of reference were agreed in January 2016 and it will meet in 2016/17 to carry out its responsibilities.

### Regulatory Decisions Committee

The Regulatory Decisions Committee (RDC) makes the final decisions on behalf of the FCA on certain regulatory matters.

The External Risk & Strategy Committee received quarterly reports from the RDC Chair, who also attended the meetings to discuss significant matters in those reports.

The RDC is independent of the division that has conducted an investigation or considered an application for authorisation. This is required by law and helps to ensure that decisions are fair.

The Committee's members represent the public interest and are appointed to use their experience and expertise in financial services to decide how we should use particular authorisation, supervisory and enforcement powers. These include the power to stop firms or individuals providing regulated financial services and levying fines for breaches of our rules and legal requirements.

The RDC becomes involved after the relevant division of the FCA has concluded that it is appropriate for us to use particular powers against a firm or individual. The division submits its proposal and the supporting evidence to the RDC. The RDC will review the evidence and, in most cases, seek the views of the relevant firm or individual before coming to a decision.

RDC members are selected for their experience of making independent evidence-based decisions, working in senior and expert positions in financial services, and/or their knowledge and understanding of consumers and other users of financial services. This range of skills and experience is intended to achieve fairness and enhance the objectivity and balance of the FCA's decision-making and help improve consistency across sectors and cases.

As recommended by the Treasury, during its review of the enforcement decision making process, the RDC has produced a separate annual review of its activities for 2015/16, which can be found in Appendix 2 of the Annual Report.

### Competition Decisions Committee

The Competition Decisions Committee (CDC) is a committee of the Board comprising three persons appointed from the CDC Panel. The CDC acts as the decision-maker in Competition Act 1998 investigations on behalf of the FCA. This includes decisions on whether there has been a competition law infringement, whether to impose a financial penalty for an infringement and any directions to be given.

The committee was established during 2015 following an exercise to recruit and train a pool of members. The Committee has not yet met.

### Remuneration Committee

The Remuneration Committee is responsible for ensuring there is a formal and transparent procedure for developing policy on executive remuneration and for agreeing the remuneration packages of individual executive board members and senior executives. The Committee is also responsible for recommending to the Board the annual budget for pay and incentive awards and also the remuneration of members of associated bodies (such as the Money Advice Service, the Financial Ombudsman Service and the Consumer Panel). During the year, the Committee met on seven occasions.

The Remuneration Committee consists solely of non-executive directors.

Information on the committee's membership can be found on our website and details of its members' attendance at meetings can be found in Table 3.

## Remuneration report

This section of the remuneration report is not subject to audit. (The Remuneration Table (pages 94-95), Median Pay Calculations Table (page 95) and their supporting notes have been subject to audit).

### Remuneration Principles

The FCA's remuneration principles are to attract and retain high calibre individuals and to provide them with clear objectives that are focused on results and behaviours clearly aligned with the FCA's cultural characteristics. Pay and incentives are differentiated based on performance and moderated across the organisation.

The total remuneration package, which is common to all FCA employees, comprises:

- basic pensionable salary
- eligibility to be considered for performance-related pay
- additional flexible benefits and
- a non-contributory defined contribution pension

### Remuneration focus for 2015/16

During the year the executive has continued to focus on the quality of performance conversations and ensuring there is consistency in the use of the FCA's performance management tools. Reward has continued to focus on performance and enhancing controls. The pay review principles reflected this and there has been continued HR presence in business moderation activity.

### 2015/16 Remuneration review

The Remuneration Committee determined the remuneration of the executive board members and senior executives. To help with this, the Committee received information on, and assessment of, their individual performance. Performance was measured against the achievement of the collective objectives by reference to the Business Plan, the objectives relating to the directors' individual areas of responsibility and assessment of their leadership abilities.

There were no automatic salary increases or incentive awards for staff in 2015/16, this was a matter for managers' judgement against the FCA's common set of performance standards to ensure that members of staff at all levels received appropriate recognition for their performance. A 1% budget was made available for salary increases with 35% of all employees receiving a pay award. Funding for incentive awards was set at 15% of the salary bill. Of the employees eligible to be considered for an incentive award, 96% received an incentive award of varying degrees.

Table 6 below shows the percentage of the workforce who received a bonus and the percentage received.

**Table 6**

Bonus percentage received	Percentage of workforce who received a bonus
0%	3.8%
0.1% - 5%	0.3%
5.1% - 9.9%	15.0%
10% - 14.9%	39.0%
15% - 19.9%	24.4%
20% - 24.9%	11.9%
25% - 29.9%	3.3%
30% - 34.9%	1.8%
35%	0.3%

In considering executive remuneration, the Remuneration Committee took advice from the Director of Human Resources and market data from Towers Watson, its external consultants.

### Basic pensionable salary

During the year, salaries of executive board members and senior executives were reviewed in line with the policy. When making decisions on base salary, the Remuneration Committee was mindful of the importance of remuneration packages being sufficient to retain staff while awarding any salary increases in a responsible manner, ensuring careful use of the FCA's resources.

### Performance related pay

During the period under review, from 1 April 2015 to 31 March 2016, the executive board members and senior executives were eligible to be considered for a performance-related award up to a maximum of 35% of average base salary applying during the previous year. Non-executive directors were not eligible to be considered for an award.

### Other benefits

A sum was available for the chair and each executive board member which could be spent against a range of benefits. The sum for the chair and executive board members is included in 'other benefits' in the remuneration table. The chief executive officer also had access to a car and driver, which was shared with other directors, and the relevant portion of this cost is included in 'other benefits' in the remuneration table.

### Pensions

The FCA Pension Plan (the Plan) has two sections, both of which are non-contributory; a defined benefits section (closed to new entrants and any future accruals) and a defined contribution section. All executive directors are members of the Pension Plan. John Griffith-Jones is not a member of the Plan and Martin Wheatley is a deferred member. Both were entitled to receive a non-pensionable supplement. The sums paid to the Chair and each of the executive directors are shown in the remuneration table.

### Directors' remuneration

The following table is provided in accordance with statutory and/or regulatory requirements. The information set out in pages 94 to 96 has been audited by the National Audit Office. The table sets out the remuneration paid or payable to any person that served as a Director during the years ending 31 March 2016 and 2015.

Except as otherwise stated, the remuneration figures shown are for the period served as Directors.

	Basic salary		Performance-related pay		Other benefits		Total FCA Remuneration (excluding pension)		Pension		Total FCA Remuneration	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
<b>Chairman</b>												
John Griffith-Jones <sup>1,13</sup>	170	170	-	-	2	2	172	172	20	20	192	192
<b>Executive Directors</b>												
Tracey McDermott <sup>2</sup>	376	300	75	110	74	29	525	439	45	36	570	475
Martin Wheatley <sup>3,13</sup>	633	460	48	92	89	108	770	660	57	41	827	701
Christopher Woolard <sup>4,13</sup>	200	-	41	-	19	-	260	-	26	-	286	-

Non-Executive Directors <sup>5</sup>	FCA Fee Paid	
	2016 £'000	2015 £'000
Andrew Bailey <sup>6</sup>	-	-
Amanda Davidson <sup>7</sup>	35	35
Amelia Fletcher <sup>8, 13</sup>	35	35
Mick McAteer <sup>9</sup>	34	45
Jane Platt <sup>10</sup>	38	35
Catherine Bradley <sup>11</sup>	35	23
Sir Brian Pomeroy <sup>12, 13</sup>	65	65



## Notes

### Chairman

- 1 John Griffith-Jones is not a member of the FCA Pension Plan and received a non-pensionable supplement in lieu of pension contributions. This amount is included under 'Pension' in the table above.  
John is contracted to work 3 days a week.

### Executive Directors of the FCA

- 2 Tracey McDermott was appointed acting Chief Executive Officer (CEO) on 13 September 2015 and will continue until 30 June 2016 when Andrew Bailey takes up the role. Tracey's full-year equivalent salary increased from £300,000 to £430,000 per annum on 1 September 2015 for a period of 12 months.

The Remuneration Committee had previously agreed not to award performance-related pay for the year to 31 March 2014, pending publication of the independent review into the handling of the FCA's announcement of proposed supervisory work in the life insurance market. The findings of that review were published in December 2014 and the Remuneration Committee confirmed that the executive directors' performance-related pay, where awarded, for the year to 31 March 2014 would be reduced by 25%. Tracey's performance-related pay was £65,000 for 2015 and £45,000 for 2014 (£60,000 before the 25% reduction); both amounts were paid in the year ending 31 March 2015.

Included in Tracey's 'Other benefits' is an amount of £40,925 being the value of the benefit-in-kind for the provision of a car and driver from September 2015, in her role as acting CEO. The car was also available as a pool car for all FCA directors to use for (non-taxable) business travel.

- 3 Martin Wheatley resigned from the FCA on 17 July 2015 and from the Board on 13 September 2015. In accordance with his contractual entitlement, he continued to be employed until 31 July 2016. Martin's 2016 figures include a total contractual amount payable from 1 April 2016 to 31 July 2016 of £185,767 (£158,333 in basic salary, £13,184 in other benefits and £14,250 in a 9% non-pensionable contributions). Martin's full-year equivalent salary increased from £460,000 to £475,000 per annum on 1 April 2015.

Included in Martin's 'Other benefits' is an amount of £36,123 (2014: £69,866) being the value of the benefit-in-kind for the provision of a car and driver until September 2015, in his role as CEO.

Martin is not a member of the FCA Pension Plan and received a 9% non-pensionable supplement in lieu of pension contributions. This amount is included under 'Pension' in the table above.

- 4 Christopher Woolard was appointed to the FCA Board on 1 August 2015. Christopher's full-year equivalent salary is £300,000 per annum and his full-year performance-related pay was £62,000.

### Non-executive directors of the FCA

- 5 From 1 April 2013, FSMA passed responsibility for determining the remuneration for non-executive directors to the Treasury. The fee for non-executive directors remains unchanged at £35,000 per annum for 2016. An additional fee of £10,000 per annum is payable to any non-executive director who has been appointed to chair a committee of the Board. The annual fee for chairing the FCA Pension Plan was set at £20,000 with effect from 1 April 2008 and has remained unchanged.
- 6 Andrew Bailey was appointed as non-executive director of the FCA on 1 April 2013, Andrew has not received a fee since being appointed.
- 7 Amanda Davidson was appointed Chair of the Remuneration Committee on 25 April 2013 and has waived the additional fee. Amanda's term ended on 31 March 2016 when she left the Board.
- 8 Amelia Fletcher was appointed as non-executive director of the FCA on 1 April 2013.
- 9 Mick McAteer was appointed Chair of the External Risk and Strategy Committee on 25 April 2013. Mick's term ended on 31 December 2015 when he left the Board.
- 10 Jane Platt was appointed as non-executive director on 1 April 2013 and Chair of the External Risk and Strategy Committee on 1 January 2016. Jane waived all fees for both years to 31 March 2016 and 2015; these were paid to her primary employer, National Savings and Investments.
- 11 Catherine Bradley was appointed as non-executive director of the FCA on 2 August 2014.
- 12 Sir Brian Pomeroy was appointed Chair of the Audit Committee on 4 July 2012 and Chair of the FCA Pension Plan on 1 June 2010. Brian's term ended on 31 March 2016 when he left the Board.
- 13 John Griffith-Jones, Martin Wheatley, Christopher Woolard, Amelia Fletcher and Sir Brian Pomeroy received no separate fee for their respective roles on the PSR Board.

	Group		FCA (Parent company)	
	2016	2015	2016	2015
Highest-paid director's Total Remuneration	<b>£598,175</b>	£659,886	<b>£598,175</b>	£659,886
Median remuneration of total workforce	<b>£65,014</b>	£63,379	<b>£64,897</b>	£62,616
Ratio (to Total Workforce)	<b>9.2</b>	10.4	<b>9.2</b>	10.5
Number of employees paid in excess of highest-paid director	<b>Nil</b>	Nil	<b>Nil</b>	Nil

### Remuneration Ratio

The Accounts Direction from HM Treasury, in accordance with Schedule 1ZA, paragraph 14(1) of FSMA requires the FCA to disclose the relationship between the remuneration of the highest-paid director and the median remuneration of the organisation's Total Workforce for 2016 and 2015.

The remuneration ratio represents the difference between the highest-paid director and the median full-time equivalent, annualised remuneration of the Total Workforce at the reporting period end date (excluding the highest-paid director) expressed as a multiple. Definitions are below:

- **Remuneration** is total remuneration and includes salary, performance-related pay and benefits, whether monetary or in-kind. It does not include severance payments or employer pension contributions.
- **Total Workforce** includes employees, temporary staff, contractors and other short-term resource.

The median pay calculations reflect the FCA as a stand-alone entity ('FCA Parent Company') and the consolidated position including the PSR ('Group'). Where the calculations vary significantly due to the inclusion of the PSR in the consolidated positions, we have explained these variances below.

### FCA (Parent Company)

The remuneration of the highest-paid director in the financial year to 31 March 2016 was **£598,175** (2015: £659,886); the highest paid director was the departing Chief Executive Officer (CEO). This was **9.2** times (2015: 10.5) the median remuneration of the total workforce which was **£64,897** (2015: £62,616). The difference between the total remuneration of the highest-paid director for the purposes of this disclosure and the total remuneration (excluding pension) that set out in the directors' remuneration table above is that the remuneration table includes amounts payable to the departing CEO for the period April to July 2016 totalling £171,517 (excluding pension contributions of £14,250).

The lower remuneration of the highest-paid director was attributable to the performance-related pay and car benefit for the year ended 31 March 2016 being pro-rated (see remuneration table above). This also reduced the remuneration ratio.

The median remuneration of the total workforce increased by 3% from £62,616 to £64,897.

**Excluding the highest-paid director**, remuneration ranged from £21,448 to £582,359 (2015: £17,287 to £439,285). The increase in the upper limit of the range reflects the inclusion of an acting CEO whilst the FCA transitioned its leadership. For the purposes of this disclosure, the requirements are that the acting CEO's period-end salary of £430,000 be used, rather than that which was paid as set out in the remuneration table above.

In 2016, no employee (2015: nil) received remuneration in excess of the highest-paid director.

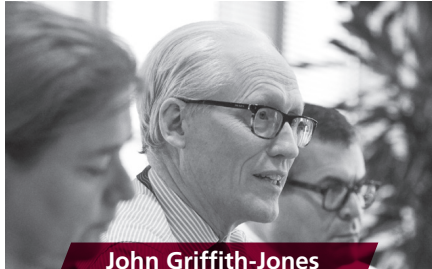
### Group

The remuneration of the highest-paid director in the financial year to 31 March 2016 was **£598,175** (2015: £659,886). This was **9.2** times (2015: 10.4) the median remuneration of the total workforce which was **£65,014** (2015: £63,379).

The inclusion of the PSR slightly increases the median remuneration for the Group from £64,897 (FCA parent) to £65,014 (an increase of 2.6% year on year). This is because the median pay for the PSR was **£82,500** (2015: £81,662, an increase of 1% year on year) as it is essentially a team of professional / technical / policy experts. The administrative and operational support for the PSR is provided by the FCA through a Provision of Services Agreement, utilising the FCA's infrastructure and resources. This means the PSR's workforce has a limited number of administrators. The PSR's remuneration ratio for 2016 was **3.4** (2015: 3.0).

In 2016, no employee (2015: nil) received remuneration in excess of the highest-paid director.

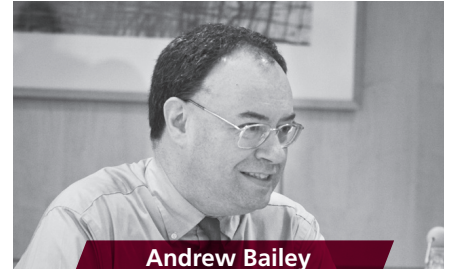
# The Board of the FCA



**John Griffith-Jones**  
Chair



**Tracey McDermott**  
Acting Chief Executive



**Andrew Bailey**  
Non-executive Director



**Catherine Bradley**  
Non-executive Director



**Amelia Fletcher OBE**  
Non-executive Director



**Bradley Fried**  
Non-executive Director



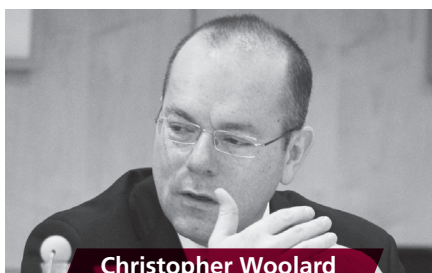
**Baroness Sarah Hogg**  
Non-executive Director



**Ruth Kelly**  
Non-executive Director



**Jane Platt**  
Non-executive Director



**Christopher Woolard**  
Executive Director



**Simon Pearce**  
Company Secretary

# Group financial statements of the Financial Conduct Authority for the period ended 31 March 2016

Report of the independent auditor	P98
Group statement of comprehensive income	P100
Group statement of changes in equity	P100
Group statement of financial position	P101
Group statement of cash flows	P102
Notes to the group financial statements	P102

Company Number 01920623

## THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

I certify that I have audited the financial statements of the Financial Conduct Authority and its related group for the year ended 31 March 2016 under the Financial Services and Markets Act 2000. The financial statements comprise: the Consolidated and Parent Statements of Comprehensive Income, Financial Position, Cash Flows, Changes in Equity; and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### Respective responsibilities of the Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Financial Services and Markets Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Financial Conduct Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Financial Conduct Authority; and the overall presentation of the financial statements.

In addition I read all the financial and non-financial information in the Annual Report and Strategic Report to identify material inconsistencies with the materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

**Opinion on regularity**

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

**Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of group and parent company's affairs as at 31 March 2016 and of the surplus for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union;
- the financial statements have been properly prepared in accordance with the Companies Act 2006 and HM Treasury directions issued under the Financial Services and Markets Act 2000.

**Opinion on other matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury's directions made under the Financial Services and Markets Act 2000; and
- the information given in the Financial Overview and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which I report by exception**

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with relevant guidance.

**Report**

I have no observations to make on these financial statements.

**Sir Amyas C E Morse**  
**Comptroller and Auditor General**

**Date: 27 June 2016**

National Audit Office, 157-197 Buckingham Palace Road  
Victoria, London, SW1W 9SP

### Group statement of comprehensive income for the period ended 31 March

	Notes	Group		FCA (Parent Company)	
		Total 2016 £m	Total 2015 £m	Total 2016 £m	Total 2015 £m
<b>Income</b>					
Fee income	4	522.4	451.2	494.3	451.2
Other income	4	57.6	50.9	59.3	51.5
<b>Total income</b>		<b>580.0</b>	<b>502.1</b>	<b>553.6</b>	<b>502.7</b>
<b>Operating costs</b>					
Staff costs	5	(330.7)	(307.8)	(324.1)	(303.6)
Administrative costs	6	(221.5)	(230.7)	(219.2)	(224.0)
<b>Total operating costs</b>		<b>(552.2)</b>	<b>(538.5)</b>	<b>(543.3)</b>	<b>(527.6)</b>
<b>Surplus/ (loss) for the year</b>		<b>27.8</b>	<b>(36.4)</b>	<b>10.3</b>	<b>(24.9)</b>
Net re-measurement losses for the year in respect of the defined benefit pension scheme	13	(6.5)	(33.4)	(6.5)	(33.4)
<b>Total comprehensive surplus/ (loss) for the year</b>		<b>21.3</b>	<b>(69.8)</b>	<b>3.8</b>	<b>(58.3)</b>

### Group statement of changes in equity for the period ended 31 March

	Accumulated Deficit	
	Group £m	FCA (Parent Company) £m
<b>At 1 April 2014</b>	<b>(115.7)</b>	<b>(115.7)</b>
Total comprehensive loss for the year	(69.8)	(58.3)
<b>At 31 March 2015</b>	<b>(185.5)</b>	<b>(174.0)</b>
Total comprehensive surplus for the year	21.3	3.8
<b>At 31 March 2016</b>	<b>(164.2)</b>	<b>(170.2)</b>

## Group statement of financial position as at 31 March

Company Number: 01920623

	Notes	Group		FCA (Parent Company)	
		Total 2016 £m	Total 2015 £m	Total 2016 £m	Total 2015 £m
<b>Non-current assets</b>					
Intangible assets	7	84.2	89.3	84.2	89.3
Property, plant and equipment	8	25.7	32.5	25.7	32.5
		<b>109.9</b>	<b>121.8</b>	<b>109.9</b>	<b>121.8</b>
<b>Current assets</b>					
Trade and other receivables	9	33.7	20.0	34.4	31.0
Cash and cash equivalents	9	232.2	12.1	224.8	12.1
		<b>265.9</b>	<b>32.1</b>	<b>259.2</b>	<b>43.1</b>
<b>Total assets</b>		<b>375.8</b>	<b>153.9</b>	<b>369.1</b>	<b>164.9</b>
<b>Current liabilities</b>					
Trade and other payables	10	(392.8)	(182.1)	(392.1)	(181.6)
Short term provisions		(0.1)	(0.5)	(0.1)	(0.5)
		<b>(392.9)</b>	<b>(182.6)</b>	<b>(392.2)</b>	<b>(182.1)</b>
<b>Total assets less current liabilities</b>		<b>(17.1)</b>	<b>(28.7)</b>	<b>(23.1)</b>	<b>(17.2)</b>
Non-current liabilities					
Trade and other payables	10	(7.5)	(9.0)	(7.5)	(9.0)
Long term provisions	10	(2.5)	(2.2)	(2.5)	(2.2)
<b>Net liabilities excluding retirement benefit obligation</b>		<b>(27.1)</b>	<b>(39.9)</b>	<b>(33.1)</b>	<b>(28.4)</b>
Retirement benefit obligation	13	(137.1)	(145.6)	(137.1)	(145.6)
<b>Net liabilities including retirement benefit obligation</b>		<b>(164.2)</b>	<b>(185.5)</b>	<b>(170.2)</b>	<b>(174.0)</b>
<b>Accumulated deficit</b>		<b>(164.2)</b>	<b>(185.5)</b>	<b>(170.2)</b>	<b>(174.0)</b>

The financial statements were approved and authorised for issue by the Board on 22 June 2016, and were signed on 27 June 2016 on its behalf by:

John Griffith-Jones **Chairman**

Tracey McDermott **Acting Chief Executive**

## Group statement of cash flows for the period ended 31 March

	Notes	Group		FCA (Parent Company)	
		Total 2016 £m	Total 2015 £m	Total 2016 £m	Total 2015 £m
<b>Net cash generated/(used) by operations</b>	3	<b>251.8</b>	<b>(36.6)</b>	<b>244.4</b>	<b>(36.6)</b>
<b>Investing activities</b>					
Interest received on bank deposits		0.8	0.9	0.8	0.9
Expenditure on software development	7	(26.4)	(48.8)	(26.4)	(48.8)
Purchases of property, plant and equipment	8	(6.1)	(6.3)	(6.1)	(6.3)
<b>Net cash used in investing activities</b>		<b>(31.7)</b>	<b>(54.2)</b>	<b>(31.7)</b>	<b>(54.2)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>220.1</b>	<b>(90.8)</b>	<b>212.7</b>	<b>(90.8)</b>
Cash and cash equivalents at the start of the year		12.1	102.9	12.1	102.9
<b>Cash and cash equivalents at the end of the year</b>		<b>232.2</b>	<b>12.1</b>	<b>224.8</b>	<b>12.1</b>

## Notes to the financial statements

### 1. General information

The Financial Conduct Authority Limited (FCA) is a company incorporated in the United Kingdom under the Companies Act 2006 and is a company limited by guarantee with no share capital. The members of the company have agreed to contribute £1 each to the assets of the company in the event of it being wound up. The nature of the FCA's operations is set out in the Financial Overview.

These accounts have been prepared on a consolidated basis to include the Payment Systems Regulator Limited (PSR), incorporated on the 1 April 2014, a wholly-owned subsidiary of the FCA.

Under the FCA's Accounts Direction from Her Majesty's Treasury (HM Treasury) in accordance with Schedule 1ZA, paragraph 14(1) of the Financial Services and Markets Act 2000 (FSMA), we are required to disclose additional information this year regarding Sickness Absence (no comparative data required) and have included this in the Our Resources section of the Annual Report.

The registered office is 25 The North Colonnade, Canary Wharf, London, E14 5HS.

The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the FCA and PSR operate.

### 2. Core accounting policies

#### a) Basis of preparation

The consolidated financial statements have been prepared on a going concern basis, under the historical cost convention in accordance with: International Financial Reporting Standards (IFRS) as adopted by the European Union; HM Treasury's Accounts Direction issued under the Financial Services and Markets Act 2000; and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. We discuss the reason why the going concern basis is appropriate in the Financial Overview.

The principal significant accounting policies applied in preparation of the financial statements are set out below. This year we have included the policies with the relevant notes where possible. These policies have been consistently applied to both accounting years presented, unless otherwise stated.



**b) Consolidated financial statements**

The PSR was incorporated on the 1 April 2014 as a private company, limited by shares (a single share with a £1 nominal value), and is a wholly owned subsidiary of the FCA.

**c) Changes in accounting policy**

There are no new or amended IFRSs or International Reporting Interpretations Committee (IFRIC) interpretations that have been adopted.

**d) Impairment of intangibles and property, plant and equipment**

Each year the FCA reviews the carrying amount of its intangibles assets, property, plant and equipment to determine whether there is any indication that its assets have suffered any impairment in value. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. The assets' residual values and useful lives are reviewed and adjusted if appropriate.

The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment is immediately recognised as an expense.

When an impairment subsequently reverses, the carrying amount is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised for the asset in prior years. A reversal of an impairment is immediately recognised as income.

**e) Taxation**

As a UK incorporated company, the FCA is subject to the provisions of the UK Taxes Acts, the same corporation tax rules as any other UK incorporated company.

On the basis of the relevant tax legislation and established case law, the results of the FCA's regulatory activities (on which it does not seek to make a profit) are not subject to corporation tax because the FCA's regulatory activity does not constitute a "trade" for corporation tax purposes.

The FCA invests heavily in its own fixed assets, mainly IT software, and accounts for these as intangible fixed assets. It thus has significant levels of amortisation charges. The FCA has applied the intangible fixed asset tax rules to these assets and as a result tax relief is available for the amortisation.

This amortisation is currently being utilised to offset any corporation tax due on investment income, resulting in nil corporation tax being payable by the FCA presently.

The application of the corporation tax regime for intangible assets has also led to an unrecognised deferred tax asset (unrecognised in the FCA's balance sheet) in relation to unused tax losses carried forward as it is not sufficiently certain that the FCA will actually have taxable income to set against these losses in future. At the 31 March 2016 this deferred tax asset equated to £33.1m (2015: £25.6m).

The FCA is partially exempt for VAT purposes because a significant part of the revenue relates to regulatory activities which are outside the scope of VAT.

The corporation tax treatment of the PSR's activities is the same as for the FCA, for the same reasons and agreed with Her Majesty's Revenue and Customs. As the FCA wholly owns the PSR, the FCA and the PSR are part of the same group for corporation tax and VAT.

### 3. Notes to the cash flow statement

Notes	Group		FCA (Parent Company)	
	Total 2016 £m	Total 2015 £m	Total 2016 £m	Total 2015 £m
Surplus/(loss) for the year from operations	27.8	(36.4)	10.3	(24.9)
<b>Adjustments for:</b>				
Interest received on bank deposits	4	(0.9)	(0.8)	(0.9)
Amortisation of other intangible assets	7	32.4	31.9	32.4
Impairment of intangible assets	7	1.1	1.1	–
Depreciation of property, plant and equipment	8	13.5	11.1	13.5
Impairment of tangible assets	8	0.1	0.3	0.1
Decrease in provisions	10	(2.2)	(0.1)	(2.2)
Difference between pension costs and normal contributions	13	5.0	4.5	5.0
Payments made on unfunded pension liability	13	0.4	–	0.4
Additional cash contributions to reduce pension scheme deficit	13	(19.5)	(19.5)	(19.5)
<b>Operating cash flows before movements in working capital</b>	<b>56.3</b>	<b>(7.6)</b>	<b>38.8</b>	<b>3.9</b>
(Increase)/ decrease in receivables	9	15.4	(3.4)	4.4
Increase/ (decrease) in payables	10	(44.4)	209.0	(44.9)
<b>Net cash generated/(used) by operations</b>	<b>251.8</b>	<b>(36.6)</b>	<b>244.4</b>	<b>(36.6)</b>

### 4. Income

FSMA enables the FCA to raise fees and the Financial Services (Banking Reform) Act 2013 enables the FCA to raise fees on behalf of the PSR, to recover the costs of carrying out their statutory functions. **Fee income** represents the annual periodic fees receivable under FSMA for the financial year and is recognised in the year it is levied and measured at fair value.

	Group		FCA (Parent Company)	
	Total 2016 £m	Total 2015 £m	Total 2016 £m	Total 2015 £m
Ongoing Regulatory Activity fees	507.1	452.0	479.0	452.0
Ongoing Regulatory Activity fees adjustments	2.1	4.3	2.1	4.3
Consumer Credit fees	10.4	0.5	10.4	0.5
Scope Change costs recovered	2.8	4.4	2.8	4.4
Returned to fee payers	–	(10.0)	–	(10.0)
<b>Total fee income</b>	<b>522.4</b>	<b>451.2</b>	<b>494.3</b>	<b>451.2</b>

**Other income** is recognised when the services are provided and is analysed below:

	Group		FCA (Parent Company)	
	Total 2016 £m	Total 2015 £m	Total 2016 £m	Total 2015 £m
Skilled Person Reports (s.166) income <sup>1</sup>	19.8	15.1	19.8	15.1
Consumer credit application fees	12.4	9.8	12.4	9.8
Services provided to other regulatory bodies	9.8	9.2	11.5	9.8
Application fees and other regulatory income	9.2	11.0	9.2	11.0
Publications and training services	1.4	1.0	1.4	1.0
Interest received on bank deposits	0.8	0.9	0.8	0.9
Other sundry income	4.2	3.9	4.2	3.9
<b>Total other income</b>	<b>57.6</b>	<b>50.9</b>	<b>59.3</b>	<b>51.5</b>

<sup>1</sup> This income is merely a re-charge of the costs of the s.166 report, to the firm in question. Overall this has a net zero impact on the profit or loss for the FCA as costs recognised in professional fees net off against the income.

## 5. Staff information

**Staff costs (including executive directors) comprise:**

Notes	Group		FCA (Parent Company)	
	Total 2016 £m	Total 2015 £m	Total 2016 £m	Total 2015 £m
Gross salaries and taxable benefits	238.8	216.3	234.7	214.8
Employer's national insurance costs	27.7	24.7	27.2	24.5
Employer's defined contribution pension costs	22.5	20.0	22.2	19.9
Other employer's pension costs included in administrative costs	–	0.4	–	0.4
Net interest on defined benefit pension scheme	13 4.5	5.0	4.5	5.0
<b>Permanent staff costs</b>	<b>293.5</b>	<b>266.4</b>	<b>288.6</b>	<b>264.6</b>
Temporary	8.3	7.8	8.3	7.7
Seconded	2.0	2.7	2.0	2.5
Contractors	26.9	30.9	25.2	28.8
<b>Short term resource costs</b>	<b>37.2</b>	<b>41.4</b>	<b>35.5</b>	<b>39.0</b>
<b>Total staff costs</b>	<b>330.7</b>	<b>307.8</b>	<b>324.1</b>	<b>303.6</b>

Staff costs of £8.1m (2015: £10.4m) were capitalised during the year.

**Staff numbers comprise:**

The **average** number of full-time equivalent employees (including executive directors and fixed-term contractors) during the years to 31 March is presented by division below:

	Group		FCA (Parent Company)	
	Total 2016	Total 2015 <sup>1</sup>	Total 2016	Total 2015 <sup>1</sup>
Supervision - Retail & Authorisation	808	740	808	740
Enforcement & Market Oversight	656	599	656	599
Strategy & Competition	411	360	411	360
Supervision - Investment, Wholesale and Specialist	486	488	486	488
<b>Sub-total</b>	<b>2,361</b>	<b>2,187</b>	<b>2,361</b>	<b>2,187</b>
Operations	619	573	619	573
Other Central Services	252	240	252	240
PSR	44	19	–	–
<b>Total</b>	<b>3,276</b>	<b>3,019</b>	<b>3,232</b>	<b>3,000</b>

As at 31 March 2016, there were 3,337 (2015: 3,188) full-time equivalent employees of which 3,285 (2015: 3,155) were FCA and 52 (2015: 33) were PSR.

The average number of short-term resources utilised during the year to 31 March by type was:

	Group		FCA (Parent Company)	
	Total 2016	Total 2015	Total 2016	Total 2015
Temporary	104	147	101	144
Secondees	34	48	34	46
Contractors	156	187	147	179
<b>Total</b>	<b>294</b>	<b>382</b>	<b>282</b>	<b>369</b>

As at 31 March 2016, there were 254 (2015: 343) short-term resources of which 243 (2015: 333) were FCA and 11 (2015: 10) were PSR.

**Exit packages – group and FCA (parent company)**

Redundancy and other departure costs incurred in accordance with the redundancy policy are set out below. A compulsory redundancy is any departure resulting from a restructure or other change leading to a role ceasing to exist. Other departures are those mutually agreed with the individual concerned.

Exit package cost band	Number of compulsory redundancies 2016	Number of other departures agreed 2016	Total 2016	Number of compulsory redundancies 2015	Number of other departures agreed 2015	Total 2015
£0 - £10,000	–	1	1	16	–	16
£10,001 - £25,000	–	4	4	14	3	17
£25,001 - £50,000	4	5	9	21	1	22
£50,001 - £100,000	–	–	–	11	2	13
£100,001 - £150,000	–	1	1	5	1	6
£150,001 - £200,000	–	–	–	–	1	1
<b>Total number of exit packages</b>	<b>4</b>	<b>11</b>	<b>15</b>	<b>67</b>	<b>8</b>	<b>75</b>
<b>Total costs</b>			<b>£0.5m</b>			<b>£2.9m</b>

## 6. Administrative costs

The administrative costs for the period ending 31 March 2016 comprise the following:

Notes	Group		FCA (Parent Company)	
	Total 2016 £m	Total 2015 £m	Total 2016 £m	Total 2015 £m
IT costs	87.6	91.6	87.4	91.5
Professional fees	23.8	28.7	22.7	26.5
Professional fees: s.166 <sup>1</sup>	19.8	15.1	19.8	15.1
Accommodation and office services	34.3	33.2	34.3	33.2
Amortisation of intangible assets	7	31.9	32.4	31.9
Travel, training and recruitment	11.1	12.1	10.1	7.7
Depreciation of property, plant and equipment	8	11.1	13.5	11.1
Impairment loss	7/8	1.4	0.1	0.1
Other non staff costs	0.5	4.0	0.5	4.0
<b>Total</b>	<b>221.5</b>	<b>230.7</b>	<b>219.2</b>	<b>224.0</b>

<sup>1</sup> These professional fees are the costs of the s.166 reports recharged to the firm in question. Overall this has a net zero impact on the profit or loss for the FCA as the recharges for these costs are recognised in other income.

## Auditors

The Comptroller & Auditor General was appointed as auditor on the 1 April 2013 under FSMA. The auditor's total remuneration for audit services is set out below:

	Group		FCA (Parent Company)	
	Total 2016 £'000	Total 2015 £'000	Total 2016 £'000	Total 2015 £'000
Fees payable to the National Audit Office for the audit of the group financial statements	98	101	76	78

## 7. Intangible assets - group and FCA (parent company)

In accordance with IAS 38: Intangible Assets, costs associated with the development of software for internal use are capitalised only where:

- i. the FCA can demonstrate the technical feasibility of completing the software;
- ii. the FCA has adequate technical, financial and other resources available to it as well as the intent to complete its development;
- iii. the FCA has the ability to use it upon completion, and
- iv. the asset can be separately identified, it is probable that the asset will generate future economic benefits, and the development cost of the asset can be measured reliably.

Only costs that are directly attributable to bringing the asset to working condition for its intended use are included in its measurement. These costs include all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in a manner intended by management. All additions are initially capitalised as work in progress during the development stage. When the asset is brought into use (immediately once completed) it is then transferred from work in progress to the appropriate asset category.

Intangible assets are amortised on a straight-line basis over their expected useful lives, generally between three and seven years, with the amortisation reported as an administration expense in the profit or loss.

When software is not an integral part of the related hardware, it is treated as an intangible asset.

Where no intangible asset can be recognised, research and development expenditure is expensed when incurred.

Internal software development costs of £26.4m (2015: £48.8m) have been capitalised as additions during the year. Internally developed software is designed to help the FCA carry out its various statutory functions, such as holding details relating to regulated firms. These functions are particular to the FCA, so this internally developed software generally has no external market value. Management judgement has been applied in quantifying the benefit expected to accrue to the FCA over the useful life of the relevant assets. Those expected benefits relate to the fact that such software allows the FCA to carry out its functions more efficiently than by using alternative approaches (for example, manual processing). If the benefits expected do not accrue to the FCA (for example, if some aspect of its approach to discharging its statutory functions changes, perhaps due to the impact of implementing a European directive), then the carrying amount of the asset would require adjustment.

	Internally generated software £m	Other software costs £m	Work in progress £m	Total £m
<b>Cost</b>				
<b>At 1 April 2014</b>	<b>109.3</b>	<b>24.4</b>	<b>25.4</b>	<b>159.1</b>
Additions	–	–	48.8	<b>48.8</b>
Transfers	33.9	1.3	(35.2)	–
Disposals	(2.8)	(0.2)	–	<b>(3.0)</b>
<b>At 31 March 2015</b>	<b>140.4</b>	<b>25.5</b>	<b>39.0</b>	<b>204.9</b>
Additions	–	–	26.4	26.4
Transfers	47.8	3.3	(52.4)	<b>(1.3)</b>
Reclassification <sup>1</sup>	–	–	2.8	<b>2.8</b>
Impairments	–	(0.7)	(0.4)	<b>(1.1)</b>
<b>At 31 March 2016</b>	<b>188.2</b>	<b>28.1</b>	<b>15.4</b>	<b>231.7</b>
<b>Amortisation</b>				
<b>At 1 April 2014</b>	<b>69.2</b>	<b>17.0</b>	–	<b>86.2</b>
Charge for year	28.4	4.0	–	<b>32.4</b>
Disposals	(2.8)	(0.2)	–	<b>(3.0)</b>
At 31 March 2015	94.8	20.8	–	<b>115.6</b>
Charge for year	27.7	4.2	–	<b>31.9</b>
<b>At 31 March 2016</b>	<b>122.5</b>	<b>25.0</b>	–	<b>147.5</b>
<b>Net carrying value</b>				
<b>At 31 March 2015</b>	<b>45.6</b>	<b>4.7</b>	<b>39.0</b>	<b>89.3</b>
<b>At 31 March 2016</b>	<b>65.7</b>	<b>3.1</b>	<b>15.4</b>	<b>84.2</b>

1 This relates to costs transferred from tangibles work in progress relating to Web Portal and Business Intelligence.

Of the net carrying amount of internally generated software of £65.7m and other software of £3.1m at 31 March 2016:

- i. £20.7m relates to INTACT, a case management tool for authorising firms and individuals and firms (5 years useful life remaining);
- ii. £12.3m relates to Gabriel, a system for submitting regulatory data online (3 years useful life remaining); and
- iii. £4.1m relates to Business Intelligence, a reporting tool that allows business users to create and run reports (2 years useful life remaining).

Of the net carrying amount of work in progress of £15.4m at 31 March 2016:

- i. £3.7m relates to INTACT systems enhancements, used to gather information on the Senior Managers Regime; and
- ii. £3.4m relates to ISIP (Information Services Investment Programme) which is an upgrade to the FCA's main applications and infrastructure.

## 8. Property, plant and equipment – group and FCA (parent company)

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated to write off the cost less estimated residual value on a straight-line basis over the expected useful economic lives. The principal useful economic lives used for this purpose are:

Leasehold improvements	Ten years or lease expiry
Furniture and equipment	Ten years
Computer equipment (excluding software)	Up to five years

	Leasehold improvements £m	Computer equipment £m	Furniture and equipment £m	Work in progress £m	Total £m
<b>Cost</b>					
<b>At 1 April 2014</b>	<b>22.5</b>	<b>48.4</b>	<b>14.2</b>	<b>5.9</b>	<b>91.0</b>
Additions	–	–	–	6.3	<b>6.3</b>
Transfers	1.1	3.5	0.5	(5.1)	–
Disposals	–	(9.4)	(0.1)	–	<b>(9.5)</b>
Impairments	–	–	–	(0.1)	<b>(0.1)</b>
<b>At 31 March 2015</b>	<b>23.6</b>	<b>42.5</b>	<b>14.6</b>	<b>7.0</b>	<b>87.7</b>
Additions	0.1	0.7	0.3	5.0	<b>6.1</b>
Transfers	0.1	4.8	0.1	(3.7)	<b>1.3</b>
Reclassification <sup>1</sup>	–	–	–	(2.8)	<b>(2.8)</b>
Impairments	–	–	–	(0.3)	<b>(0.3)</b>
<b>At 31 March 2016</b>	<b>23.8</b>	<b>48.0</b>	<b>15.0</b>	<b>5.2</b>	<b>92.0</b>

<b>Depreciation</b>					
<b>At 1 April 2014</b>	<b>11.6</b>	<b>32.5</b>	<b>7.1</b>	<b>–</b>	<b>51.2</b>
Charge for year	2.9	9.1	1.5	–	<b>13.5</b>
Disposals	–	(9.4)	(0.1)	–	<b>(9.5)</b>
<b>At 31 March 2015</b>	<b>14.5</b>	<b>32.2</b>	<b>8.5</b>	<b>–</b>	<b>55.2</b>
Charge for year	3.0	6.7	1.4	–	<b>11.1</b>
<b>At 31 March 2016</b>	<b>17.5</b>	<b>38.9</b>	<b>9.9</b>	<b>–</b>	<b>66.3</b>

<b>Net book value</b>					
<b>At 31 March 2015</b>	<b>9.1</b>	<b>10.3</b>	<b>6.1</b>	<b>7.0</b>	<b>32.5</b>
<b>At 31 March 2016</b>	<b>6.3</b>	<b>9.1</b>	<b>5.1</b>	<b>5.2</b>	<b>25.7</b>

<sup>1</sup> This relates to costs transferred to intangibles work in progress relating to Web Portal and Business Intelligence.

Of the net carrying amount of £5.2m in work in progress, £4.8m relates to the costs incurred relating to the move to Stratford in 2018, see note 14.

## 9. Current assets

**Trade receivables** are recognised initially at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit or loss when there is objective evidence that an asset is impaired.

**Cash and cash equivalents** comprise cash and short-term fixed-rate bank deposits with a maturity date of 12 months or less and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates to their fair value.

The increased cash and cash equivalents at 31 March 2016 was due to invoicing fees one month earlier than in previous years. Of the £224.8m, £71.8m related to fees collected on behalf of other financial regulatory organisations (disclosed in trade creditors, note 10).

The FCA currently has a £50m unsecured overdraft facility with Lloyds Banking Group (LBG) available until further notice and reviewed periodically by LBG. The PSR does not have or need its own credit facilities currently.

**Intragroup receivable** is based on a provision of services agreement between the FCA and PSR which sets out the services supplied and the respective costs of those services. The costs are based on charges the FCA incurs and have been eliminated in the consolidated figures.

	Notes	Group		FCA (Parent Company)	
		Total 2016 £m	Total 2015 £m	Total 2016 £m	Total 2015 £m
Fees receivable		3.5	6.0	3.5	6.0
Net penalties receivable	11	10.2	3.3	10.2	3.3
Other debtors		1.3	1.2	1.3	1.2
Prepayments and accrued income		18.7	9.5	18.7	9.5
Intragroup receivable – PSR		–	–	0.7	11.0
<b>Trade and other receivables</b>		<b>33.7</b>	<b>20.0</b>	<b>34.4</b>	<b>31.0</b>
Cash deposits <sup>1</sup>		155.9	–	155.9	–
Cash <sup>2</sup>		76.3	12.1	68.9	12.1
<b>Cash and cash equivalents</b>		<b>232.2</b>	<b>12.1</b>	<b>224.8</b>	<b>12.1</b>
<b>Total current assets</b>		<b>265.9</b>	<b>32.1</b>	<b>259.2</b>	<b>43.1</b>

1 Included in cash deposits is £2.2m held on behalf of the Exchequer for penalties collected (note 11).

2 Included in cash in 2015 was £0.3m held for the OFT rebate scheme. The OFT rebate scheme came into effect on 31 December 2013 following HM Treasury making a Statutory Instrument giving the FCA the power to put in place a scheme to make payments to eligible consumer credit licensees. The remaining balance was paid back to HM Treasury in 2016.

The average credit period is 36 days (2015: 33 days) which increased because of a higher number of smaller businesses that the FCA is now invoicing under Consumer Credit.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

All of the fees and other receivables have been reviewed for indications of impairment. This provision has been determined by reference to past default experience:

	Group		FCA (Parent Company)	
	Total 2016 £m	Total 2015 £m	Total 2016 £m	Total 2015 £m
At 1 April	0.3	0.5	0.3	0.5
Increase/(decrease) in provision for fees receivable	0.5	(0.2)	0.5	(0.2)
<b>Total at 31 March</b>	<b>0.8</b>	<b>0.3</b>	<b>0.8</b>	<b>0.3</b>

In addition, some of the unimpaired fees receivable are past due as at 31 March 2016. The age of fee receivables past due, but not impaired, is as follows:

	Group		FCA (Parent Company)	
	Total 2016 £m	Total 2015 £m	Total 2016 £m	Total 2015 £m
Not more than three months	0.3	1.3	0.3	1.3
Between six and nine months	0.3	–	0.3	–
<b>Total unimpaired fees receivable</b>	<b>0.6</b>	<b>1.3</b>	<b>0.6</b>	<b>1.3</b>

The FCA policy is to review receivables systematically for recoverability when they are more than three months past due.



## 10. Current and non-current liabilities

### Current liabilities

**Trade payables** are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Notes	Group		FCA (Parent Company)	
	Total 2016 £m	Total 2015 £m	Total 2016 £m	Total 2015 £m
Trade creditors and accruals	149.6	76.2	148.9	75.7
Other taxation and social security	11.6	10.6	11.6	10.6
OFT rebate scheme	–	0.3	–	0.3
Net penalties payable	11 68.0	70.4	68.0	70.4
Fees received in advance	163.6	24.6	163.6	24.6
<b>Trade and other payables</b>	<b>392.8</b>	<b>182.1</b>	<b>392.1</b>	<b>181.6</b>
Short term provisions	0.1	0.5	0.1	0.5
<b>Total current liabilities</b>	<b>392.9</b>	<b>182.6</b>	<b>392.2</b>	<b>182.1</b>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and on-going costs. The average credit period taken for trade payables is 24 days (2015: 26 days).

As at 31 March 2016, the group and FCA (parent company) current liabilities have contractual maturities which are summarised below:

	Within 6 months		6 to 12 months	
	2016 £m	2015 £m	2016 £m	2015 £m
Trade creditors and accruals	147.3	72.3	2.3	4.2
Fees received in advance	162.0	24.6	1.6	–
Other liabilities	77.0	76.9	2.6	4.1
<b>Total</b>	<b>386.3</b>	<b>173.8</b>	<b>6.5</b>	<b>8.3</b>

Other liabilities maturing within 6 months include £0.7m (2015: £0.5m) for the PSR.

### Non-current liabilities – group and FCA (parent company)

As at 31 March 2016, the non-current liabilities measured at amortised cost, have contractual maturities that are summarised below:

	1 to 5 years	
	2016 £m	2015 £m
Lease accrual	7.5	9.0
Long term provisions	2.5	2.2
<b>Total</b>	<b>10.0</b>	<b>11.2</b>

The lease accrual of £7.5m (2015: £9.0m), being the cumulative difference between cash paid and expense recognised on operating leases for land and buildings, is recognised as a long-term liability. Details of the FCA's operating leases are set out in note 15.

## 11. Penalties – group and FCA (parent company)

**Penalties** issued and not yet collected at 31 March 2016 are included in both current assets and current liabilities and are subject to an assessment of recoverability.

A liability to the FCA fee payers arises when a penalty is received. This liability is limited to the sum of the enforcement costs for that year agreed with the Exchequer and these **retained penalties** are returned to the fee payers through reduced fees in the following year. Once total penalties collected during the year exceed this amount, a liability to the Exchequer arises.

**Recognition of enforcement expenses:** all costs incurred to the end of the year are included in the financial statements but no provision is made for the costs of completing current work unless there is a present obligation.

In the course of enforcement activities, indemnities may be given to certain provisional liquidators and trustees. Provisions are made in the accounts for costs incurred by such liquidators and trustees based on the amounts estimated to be recoverable under such indemnities.

### Net penalties receivable

	Notes	Group	
		Total 2016 £m	Total 2015 £m
Penalties receivable at 1 April		20.6	37.1
Penalties issued during the year		879.5	1,409.8
Write-offs during the year		(2.0)	(9.3)
Penalties collected during the year		(877.2)	(1,417.0)
<b>Penalties receivable</b>		<b>20.9</b>	<b>20.6</b>
Allowance for bad debts		(10.7)	(17.3)
<b>Net penalties receivable at 31 March</b>	<b>9</b>	<b>10.2</b>	<b>3.3</b>

### Allowance for bad debts

Penalties receivable were also reviewed for impairment and an allowance made as set out below. These allowances reduce the amounts receivable.

	Total 2016 £m	Total 2015 £m
At 1 April	17.3	23.3
Decrease in allowance for bad debts	(6.6)	(6.0)
<b>Total at 31 March</b>	<b>10.7</b>	<b>17.3</b>

### Penalties collected during the year

	Total 2016 £m	Total 2015 £m
Retained penalties to be returned to fee payers	53.2	42.6
Penalties collected and paid to Exchequer	822.5	1,363.2
Penalties collected and payable to Exchequer	2.2	20.6
Underpayment to Exchequer from previous years	(0.7)	(9.4)
<b>Penalties collected during the year</b>	<b>877.2</b>	<b>1,417.0</b>

### Net penalties payable

	Notes	Total 2016 £m	Total 2015 £m
Retained penalties to be returned to fee payers		53.2	42.6
Penalties under-released to fee payers <sup>1</sup>		2.4	3.9
Penalties payable to Exchequer		2.2	20.6
Net penalties receivable		10.2	3.3
<b>Net penalties payable</b>	<b>10</b>	<b>68.0</b>	<b>70.4</b>

<sup>1</sup> Each year the FCA returns the retained penalties from the previous year to firms via reduced fees. Firms that penalties are levied against are excluded from this process resulting in variances particularly where large penalties are issued to firms that pay larger fees. Any variance arising is used to reduce fees in the following year.

The PSR did not issue any penalties during the period ending 31 March 2016.

## 12. Losses and Special Payments - group and FCA (parent company)

The Accounts Direction from HM Treasury requires a statement showing losses and special payments by value and by type where they exceed £300,000 in total, and those individually that exceed £300,000 for the year to 31 March 2016 only (no comparative figures required).

In May 2014, the FCA entered into a one year contract to purchase a number of software licences. Utilisation of these licences by the FCA did not materialise as originally anticipated and £3.2m of the value of these licences was written off as a constructive loss in the year to 31 March 2015. The FCA capitalised the remaining balance of £0.7m as an intangible asset, since at the time it believed it could realise value from on-selling some of the licences. This did not turn out to be the case and the assets have now been fully impaired in the year to 31 March 2016. The contract expired in May 2015 and has not been renewed.

### Losses statement

	2016	
	Cases	£m
Constructive loss	1	0.7
Other	24	0.1
<b>Total</b>	<b>25</b>	<b>0.8</b>

## 13. Retirement benefit obligation

The FCA operates a tax-approved occupational pension scheme, the FCA Pension Plan (the Plan), which is open to all employees including the PSR. The Plan was established on 1 April 1998 and operates on both a defined contribution basis (the Money Purchase Section) and a defined benefit basis (the Final Salary Section), which is closed to new members and to future accruals.

**The Money Purchase Section** forms part of a wider flexible benefits programme where members can, within limits, select the amount of their overall benefits allowance that is directed towards their pension plan.

Payments to the Money Purchase Section of the Plan are recognised in the profit or loss, as they fall due. Prepaid contributions are recognised as an asset to the extent that a cost refund or a reduction in future payments is available.

The total expense recognised in the profit or loss of £22.5m (2015: £20.0m) represents contributions payable to the Plan by the FCA at rates specified in the rules of the Plan.

**The Final Salary Section** has no active members and the benefits of the deferred members are calculated based on their final pensionable salary as at 31 March 2010, when the Final Salary Section closed to further accrual.

The net liabilities of the Final Salary Section of the Plan are calculated by deducting the fair value of the Plan assets from the present value of its obligations and they are disclosed as non-current liabilities in the statement of financial position.

The obligation of the Final Salary Section of the Plan represents the present value of future benefits owed to employees in respect of their service in prior periods. The discount rate used to calculate the present value of those liabilities is the balance sheet date market rate of high quality corporate bonds having maturity dates approximating to the average term of those liabilities. The calculation is performed by a qualified actuary using the projected unit credit method at each reporting date.

Actuarial gains and losses arising in the Final Salary Section of the Plan (for example, the difference between actual and expected return on assets, effects of changes in assumptions and experience losses due to changes in membership) are fully recognised in other comprehensive income in the period in which they are incurred.

Past service cost (including unvested past service cost) is recognised immediately in the profit or loss.

The most recent Scheme Specific Valuation (SSV) of the Plan was carried out as at 31 March 2013 by an independent actuary (Hymans Roberts). The results of this valuation have been updated for the purpose of the IAS 19 retirement benefit as at 31 March 2016, in order to allow for any changes in assumptions and movements in liabilities over the period.

The key assumptions concerning the future uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the assets and liabilities within the next financial year, are:

- Pension deficit – the quantification of the pension deficit is based upon assumptions made by the directors relating to the discount rate, retail price inflation (RPI), future pension increases and life expectancy;
- Generally, the level of annual pension increases awarded by the Plan for pensions in payment is the annual increase in RPI, or 5.0% a year if lower, although some of the pension rights transferred in from the FCA's predecessor organisations receive different levels of pension increases.

The major assumptions and dates used for the purpose of actuarial assumptions were as follows:

<b>At 31 March</b>	<b>2016</b>	<b>2015</b>
Discount rate	3.45%	3.40%
Retail price inflation (RPI)	3.05%	3.05%
Future pension increases	2.85%	2.85%
Plan membership census dates	31/03/2013	31/03/2013

The discount rate was chosen with reference to the duration of the Plan's liabilities (around 21 years) and takes into account the market yields for high quality corporate bonds of appropriate durations.

In assessing the value of funded obligations, the mortality assumptions for the Plan are based on current mortality tables and allow for future improvements in life expectancy. The mortality assumptions for 2016 are based on CLUB VITA tables and reflect an update to the CMI mortality improvements from the mortality assumptions from 2015.

The table below illustrates the assumed life expectancies in years of staff when they retire:

	<b>2016 Males</b>	<b>2016 Females</b>	<b>2015 Males</b>	<b>2015 Females</b>
Retiring today aged 60 (years)	28.2	30.4	28.5	30.7
Retiring in 15 years aged 60 (years)	29.5	31.9	29.9	32.2

The results of the pension valuation are sensitive to changes in all of the assumptions referred to above. The table below provides an estimate of the sensitivity of the present value of pension obligations, and the cost of servicing those obligations, to small movements in those assumptions.

<b>Assumption</b>	<b>Sensitivity</b>	<b>Increase in pension obligation at 31 March 2016</b>	
		<b>£m</b>	<b>%</b>
Present value of funded obligation	Assumptions as above – no change	724.2	–
Discount rate	10 bps increase to 3.55%	(13.5)	(1.9)
Discount rate	10 bps decrease to 3.35%	13.9	1.9
Inflation	10 bps increase to 3.15%	13.0	1.8
Longevity	1 additional year of life expectancy at age 60	19.5	2.7

The amounts recognised in the statements of financial position are:

	<b>2016 £m</b>	<b>2015 £m</b>	<b>2014 £m</b>	<b>2013 £m</b>	<b>2012 £m</b>
Fair value of Plan assets	590.1	585.3	487.2	461.9	375.9
Less: Present value of funded obligations	(724.2)	(727.9)	(610.9)	(574.0)	(480.7)
<b>Deficit in the Plan</b>	<b>(134.1)</b>	<b>(142.6)</b>	<b>(123.7)</b>	<b>(112.1)</b>	<b>(104.8)</b>
Unfunded pension liabilities	(3.0)	(3.0)	(2.7)	(2.6)	(2.3)
<b>Net liability</b>	<b>(137.1)</b>	<b>(145.6)</b>	<b>(126.4)</b>	<b>(114.7)</b>	<b>(107.1)</b>

Amounts recognised in the profit or loss in respect of the defined benefit plan are as follows:

	Notes	2016 £m	2015 £m
Net interest on the net defined benefit liability		(4.5)	(5.0)
<b>Other net finance costs</b>	<b>5</b>	<b>(4.5)</b>	<b>(5.0)</b>

Actuarial losses of £6.5m (2015: £33.4m) are recognised in the period in which they occur as part of other comprehensive income. Cumulative actuarial losses recognised in other comprehensive income are as follows:

	2016 £m	2015 £m
Losses at 1 April	(216.8)	(183.4)
Net actuarial losses recognised in the year	(6.5)	(33.4)
<b>At 31 March</b>	<b>(223.3)</b>	<b>(216.8)</b>

Changes in the present value of the defined benefit obligation are as follows:

	2016 £m	2015 £m
Opening obligation	(727.9)	(610.9)
Benefits paid	15.9	13.3
Interest cost on Plan liabilities	(24.5)	(26.6)
Actuarial losses	12.3	(103.7)
<b>Closing obligation</b>	<b>(724.2)</b>	<b>(727.9)</b>

Changes in the fair value of the Plan assets are as follows:

	Notes	2016 £m	2015 £m
Opening fair value of plan assets		585.3	487.2
Expected return on plan assets		20.0	21.6
Actuarial (losses)/gains		(18.8)	70.3
Contributions by the employer	13	19.5	19.5
Benefits paid		(15.9)	(13.3)
<b>Closing fair value of Plan assets</b>		<b>590.1</b>	<b>585.3</b>

The fair value of the Plan assets and asset allocation at 31 March were as follows:

	Asset allocation 2016 %	Fair value 2016 £m	Asset allocation 2015 %	Fair value 2015 £m
UK equity securities	10.8	63.7	11.0	64.4
Overseas equity securities	37.3	220.1	38.4	224.8
Corporate bonds	21.5	126.9	21.9	128.1
Index linked gilts	21.4	126.3	21.3	124.7
Fixed index gilts	0.1	0.6	0.1	0.5
Real estate/property	7.7	45.4	6.4	37.5
Other	1.2	7.1	0.9	5.3
<b>Closing fair value of Plan assets</b>	<b>100</b>	<b>590.1</b>	<b>100</b>	<b>585.3</b>

There are no deferred tax implications of the above deficit.

The Plan assets do not include any of the FCA's own financial instruments, nor any property occupied by, or other assets used by the FCA.

As the Plan closed to future benefit accrual with effect from 31 March 2010 no accrual funding contributions were paid after that date. A Recovery Plan was put in place following the SSV as at 31 March 2013 and required an annual deficit contribution of £19.8m (£19.5m for the FCA and £0.3m for the Financial Ombudsman Service) to be paid over 10 years from 1 April 2013 with the aim of removing the Plan deficit.

In order to mitigate the risks of significantly increased future annual pension deficit funding contributions, the FCA has agreed with the Trustee a set of triggers whereby the level of exposure to equity securities will be reduced in favour of debt securities (i.e. corporate bonds and index-linked gilts). These triggers have been determined to identify material improvements in the Plan's funding position, measured relative to its long-term funding target.

#### 14. Capital commitments - group and FCA (parent company)

On 20 May 2015 the FCA signed an Agreement for Lease with Lendlease to move to The International Quarter (TIQ) in Stratford in 2018. The lease is for 20 years commencing in April 2018. Building works commenced in July 2015 and the FCA is committed to incur fit-out costs in late 2016 as part of preparing the building for occupation. In the run up to delivery of the building, certain professional fees are being incurred relating to the move which meet the capitalisation definition in accordance with IAS 17. Professional fees of £4.8m (2015: £1.3m) have been capitalised to 31 March 2016. Capital commitments for fit-out costs and rent have been included in note 15.

The FCA had also entered into contracts at 31 March 2016 for future capital expenditure totalling £1.7m relating to intangibles assets (2015: £6.4m), which is not provided for in the financial statements.

Under the new IFRS 16, which comes into effect from 1 January 2019, the lease will be treated as a finance lease and the statement of financial position will reflect both an asset and a liability.

There were no capital commitments for the PSR.

#### 15. Operating lease arrangements - group and FCA (parent company)

At the reporting date, the FCA had outstanding commitments for future minimum lease payments under non-cancellable operating leases (the FCA's significant lease arrangement is for 25 The North Colonnade, Canary Wharf) and commitments (fit-out costs and lease payments) under the Agreement for Lease with Lendlease to move to TIQ, which fall due as follows:

	2016 £m	2015 £m
Within one year	30.7	17.7
In the second to fifth years inclusive	146.0	43.8
<b>Total</b>	<b>176.7</b>	<b>61.5</b>

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. There are no finance leases in place. All other leases are treated as operating leases.

Under the new IFRS 16, which comes into effect from 1 January 2019, the lease for TIQ will be treated as a finance lease and the statement of financial position will reflect both an asset and a liability.

Rentals payable under operating leases are charged to the profit or loss on a straight-line basis over the term of the lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the term of the lease term.

The PSR occupies the FCA's building and has no lease commitments of its own.

#### 16. Related party transactions - group and FCA (parent company)

##### Remuneration of key management personnel

The remuneration of key management personnel is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Key management personnel include the chairman, executive board members and directors that report directly to the CEO and COO. This includes senior management acting in the role of director for more than 3 months. Of this group, 15 (2015:16) personnel received remuneration of £100k or more for the year.

	Group		FCA (Parent Company)	
	2016 £m	2015 £m	2016 £m	2015 £m
Short-term benefits	4.5	4.8	4.2	4.6
Post-employment benefits	0.4	0.4	0.4	0.4
Termination benefits	–	0.1	–	0.1
<b>Total</b>	<b>4.9</b>	<b>5.3</b>	<b>4.6</b>	<b>5.1</b>

### Other relationships

Two non-executive members of the board, Amanda Davidson and Sir Brian Pomeroy also held directorships with FCA-regulated firms. Amanda Davidson was a director of Baigrie Davies & Company Ltd during the financial year and retired from that Board on the 30 April 2015. Sir Brian Pomeroy was a non-executive director of QBE Insurance Group Ltd which is not itself regulated by the FCA but has some of its subsidiaries which are FCA regulated). Their FCA non-executive directorships terms ended on 31 March 2016 and their remuneration from the FCA is disclosed in the remuneration table.

There were no other transactions with key management personnel in either year.

### Significant transactions with other financial services regulatory organisations

The FCA enters into transactions with a number of other financial services regulatory organisations. The nature of the FCA's relationship with these organisations is set out in FSMA. The FCA considers all of the below organisations to be related parties.

The FCA is required under various statutes to ensure that each of the Financial Services Compensation Scheme (FSCS), the Financial Ombudsman Service and the Money Advice Service (MAS) can carry out their functions. The FCA has the right to appoint and remove the directors of these organisations, with the approval of HM Treasury. However, the appointed directors have to exercise independent judgement in accordance with the Companies Act 2006. IFRS10 Consolidated Financial Statements defines control as "the ability to use power to vary returns". On the basis of this, the FCA does not control these entities and hence is not required to prepare consolidated financial statements including these organisations.

#### a) The Financial Services Compensation Scheme Limited

During the year, the FCA provided an agency service to FSCS to collect tariff data, issue levy invoices and collect levy monies on its behalf. The charge for the service in 2016 was £0.3m (2015: £0.3m). The net amount of fees collected that remained to be paid over by the FCA to FSCS at 31 March 2016 was £1.2m, (2015: £2.0m).

#### b) The Financial Ombudsman Service Limited

During the year, the FCA provided an agency service to the Financial Ombudsman Service to collect tariff data, issue levy invoices and collect levy monies on its behalf. The charge for the service in 2016 was £0.1m (2015: £0.1m). The net amount of fees collected that remained to be paid over by the FCA to the Financial Ombudsman Service at 31 March 2016 was £14.9m, (2015: £0.9m).

The FCA is a guarantor to a lease agreement for the Financial Ombudsman Service's premises in Exchange Tower, Harbour Exchange, London, E14. The lease is for a 15 year term commencing 1 September 2014. The FCA does not guarantee the short term leases in Exchange Tower.

The ombudsman service is also a participating employer in the FCA Pension Plan described in note 13 and makes contributions at the same overall rate as the FCA.

#### c) Money Advice Service

During the year, the FCA provided an agency service to MAS to collect tariff data, issue levy invoices and collect levy monies on its behalf. The charge for the service in 2016 was £0.1m (2015: £0.1m). The net amount of fees collected that remained to be paid over by the FCA to MAS at 31 March 2016 was £30.8m, (2015: £1.4m).

#### d) The Prudential Regulation Authority (PRA)

In April 2013, the FCA entered into an agreement with the PRA to provide services under a Provision of Service Agreement (PSA). This includes issuing invoices and collection of levy monies, the provision of: information systems, enforcement and intelligence services, contact centre and data migration. The annual charge for these services in 2016 was £9.1m (2015: £7.7m).

The net amount of fees collected that remained to be paid over by the FCA to the PRA at 31 March 2016 was £24.8m, (2015: £2.4m).

#### **e) The Office of the Complaints Commissioner (OCC)**

Following legislative changes which took effect on 1 April 2013, the OCC deals with complaints against the FCA, PRA and the Bank of England in respect of its oversight over the recognised clearing houses and payment schemes. It has been agreed that the FCA will continue to fund the OCC until 31 March 2017.

The FCA funds the activities of the OCC through the periodic fees it raises. During 2015/16, the FCA transferred £0.5m (2015: £0.6m) to the OCC to cover running costs, which have been expensed in the FCA group financial statements. At 31st March 2016, the balance owing to the FCA from the OCC was £0.1m (2015: £0.1m).

The FCA acts as guarantor to the lease agreement for the OCC's premises. The lease is due to end in October 2016.

By virtue of certain provisions contained in FSMA, the FCA (together with the Bank of England and HM Treasury) has the right to appoint the Complaints Commissioner, who is both a member and a director of the company and as such has the ability to control the OCC. However the OCC activities are immaterial compared to those of the FCA and have been accounted for at fair value through the statement of comprehensive income.

#### **17. Non-adjusting post balance sheet event**

The decision to leave the EU is likely to lead to uncertainty regarding the future of UK financial regulation, which may persist during the UK's negotiations on its future relationship with the EU, including in so far as that relates to financial regulation.





# Appendix 1 – Skilled Persons Report

Section 166 of FSMA (s166) gives the FCA the power to obtain an independent view of aspects of a firm's activities that cause us concern or where we require further analysis. Appointment of the skilled person firm(s) can either be by the regulated firm, or (under the Financial Services Act 2012), directly by the FCA. In each case, the FCA sets the scope of the review and the costs are borne by the regulated firm.

## 2015/16 Annual Reporting Approach

In our 2013/14 and 2014/15 Annual Reports we have reported costs associated with s.166 as a combination of actual costs and, for those reviews which had started in the financial year but not been completed, an estimate of the total costs of those reviews.

This financial year we report two figures:

- the costs incurred on s.166 reviews in the current reporting period and
- the updated costs for those reviews from 2013/14 and 2014/15 that have subsequently been completed or, if those reviews are continuing, the costs incurred up to 31 March 2016 (see Note 4).

Going forward, we intend to report only one figure which will aggregate the costs of s.166 work undertaken in the reporting period, including any reviews that remain in progress from April 2013.

## Key activities

In 2015/2016 (between 1 April 2015 – 31 March 2016), we used the s.166 power in 42<sup>1</sup> cases of which 6 were contracted directly by the FCA. The cost incurred by regulated firms for these reviews during this period was £6.6m<sup>2</sup>, the median cost of reviews being £155,000. Of the £6.6m, £1.6m related to those reviews where the FCA contracted directly with the skilled person firm.

1 This includes some reviews where a Requirement Notice has been issued but work has not yet started and therefore no costs have incurred.

2 Costs quoted are net of VAT except where reviews are directly appointed, where costs are reported as gross costs.

The reviews examined a number of regulatory issues including:

- past business and quality of advice
- adequacy of systems and controls, including the effectiveness of control functions
- corporate governance and senior management arrangements
- financial crime
- client money and client asset arrangements.

During 2015/16, the following skilled person firms were appointed to undertake s.166 reviews:

- BDO LLP
- Bovill Limited
- Complyport Limited
- Deloitte LLP
- Ernst & Young LLP
- Eversheds LLP
- FTI Consulting LLP
- Grant Thornton UK LLP
- Huntswood LLP
- Kinetic Partners LLP
- KPMG LLP
- Mazars
- Moore Stephens
- PKF Littlejohn
- PriceWaterhouseCoopers LLP
- Promontory Financial Group

## Metrics

The following table summarises which Lots have been used over the past 12 months:

Lots	Firm classification <sup>2</sup>						Total
	Q1 & Q2				Q3 & Q4		
	C1	C2	C3	C4	Fixed	Flexible	
Client Assets	2	0	0	5	2	4	13
Governance, Controls & Risk Frameworks	0	3	1	2	2	0	8
Conduct of Business	1	3	1	7	0	4	16
Data & IT Infrastructure	0	0	0	0	0	0	0
Financial Crime	0	1	0	2	1	1	5
<b>Total</b>	<b>3</b>	<b>7</b>	<b>2</b>	<b>16</b>	<b>5</b>	<b>9</b>	<b>42</b>

The information quoted above relates to reviews as a result of the FCA exercising its powers under s.166. For PRA and Bank of England information please refer to their publications.

## Notes

1. Lots is a term used to describe the different subject areas in which a skilled person review can be carried out and details of the different Lots can be found at [www.fca.org.uk/your-fca/documents/skilled-person-panel-lot-descriptions](http://www.fca.org.uk/your-fca/documents/skilled-person-panel-lot-descriptions).
2. Definitions of the FCA's firm classifications can be found at [www.fca.org.uk/firms/being-regulated/fca-firm-classification](http://www.fca.org.uk/firms/being-regulated/fca-firm-classification); 'The FCA's Approach to Supervision for fixed portfolio firms' and 'The FCA's Approach to Supervision for flexible portfolio firms'
3. Two skilled person reviews commissioned in 2014/15 and reported in that year's Annual report have subsequently been cancelled. In addition a skilled person review commissioned during that period was omitted from both quarterly and annual reporting. Therefore, the total number of reviews commissioned for 2014/15 was 52.
4. The total costs incurred for reviews referred to the 2013/14 and 2014/15 Annual Reports now stands at a combined total of £205.6m.
5. The updated costs in relation to the ongoing 15 reviews of Interest Rate Hedging Products stated in the 2013/14 Annual Report now stands at £375.6m. These costs are as at 31 March 2016.

# Appendix 2 – Regulatory Decisions Committee review

for the year to 31 March 2016

## Introduction from Tim Parkes, Chair of the Regulatory Decisions Committee

Welcome to the first annual review published by the Regulatory Decisions Committee (RDC) of the Financial Conduct Authority. In previous years the activities of the RDC have featured in the main commentary of the FCA's Annual Report. From now on we will be publishing a separate review. In it, we look back at what the RDC has done and look forward briefly to some of the things we might expect to see over the next 12 months.

The RDC has been in existence since 2001. Its job is broadly to act as the FCA's decision-maker on certain contested regulatory matters. Its composition and terms of reference reflect the fact that Parliament separated the FCA's investigatory function and those who make the decisions to issue statutory notices, in certain cases. These range from refusing or cancelling firm authorisations and refusing applications to approve individuals, to serious misconduct meriting prohibition orders and substantial financial penalties. We also authorise the FCA to begin civil and criminal proceedings. The overview in the next section sets out in more detail how the RDC operates and later on you will find a section about its composition.

I was appointed Chair of the RDC at the beginning of January 2016. For the first three-quarters of the year covered by the review the RDC was ably chaired on an interim basis by Peter Hinchliffe, who remains as one of my Deputy Chairs. Although I am still relatively new to the role as Chair, I have had an opportunity to get my feet under the table on case-work and on other matters. I have been impressed by the professionalism of my colleagues on the RDC and also of those who support us in the Decision-Making Committees Secretariat.

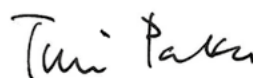
Very early on in my term I was asked to give evidence at a pre-commencement hearing before the House of Commons Treasury Committee<sup>1</sup>, which takes a keen interest in the way in which the FCA approaches enforcement and therefore necessarily the way in which the RDC operates. Although still very new, I found it an interesting and illuminating opportunity to understand the matters which were of particular concern to the Treasury Committee. These included entrenching the RDC's independence from those in the FCA's Enforcement & Market Oversight Division who are responsible for investigating cases and making recommendations; and whether the composition of the RDC was appropriate for the role it performs. I will ensure that these are kept very much in mind during my term as Chair.

One of the points I have raised with the Treasury Committee is my intention to look for opportunities to communicate more directly to those involved in financial services (both practitioners and consumers) about the RDC, to ensure that there is a better understanding of what it is and what it does. By doing so, I hope to ensure that there is greater confidence that decisions made by us are fairly and objectively made, and that these decisions are based only upon the material before us, including any representations from those who are the subject of regulatory action.

It is important that our limitations are also understood: the RDC is reactive, in the sense that it deals with cases which are sent to it. We do not decide which matters should be investigated; nor, historically, have we been involved in cases which are settled at an early stage. That may change, at least to some extent, depending on the results of the FCA's April 2016 consultation (CP16/10), which proposes changes affecting our remit and operation.

The last year has seen the conclusion of some significant cases – including those relating to the London Interbank Offered Rate (LIBOR) and the so-called 'London Whale'.<sup>2</sup> In a small number of cases, the RDC decided not to take the action proposed by the FCA's Enforcement division against particular individuals.

I am delighted to have been appointed as Chair of the RDC; we do an important job and it will be my aim to make sure that we do it efficiently, effectively and to the best of our collective abilities.



<sup>1</sup> [www.publications.parliament.uk/pa/cm201516/cmselect/cmtreasy/735/735.pdf](http://www.publications.parliament.uk/pa/cm201516/cmselect/cmtreasy/735/735.pdf)

<sup>2</sup> A case is 'concluded' from the RDC's perspective on the issue of a Decision Notice, Second Supervisory Notice (or unchallenged First Supervisory Notice) or when it decides not to issue such a notice, or a case is withdrawn. Cases where such notices are issued may continue in the Upper Tribunal (which does not involve the RDC) and will, therefore, not be reflected as concluded in Enforcement's figures in Chapter 5 of the FCA's Annual Report.

## Overview

The RDC is a committee of the FCA Board and makes certain decisions on its behalf. The Board appoints the RDC Chair and members. Apart from the RDC Chair, RDC members are not employees of the FCA. The RDC is therefore a part of the FCA, but it is operationally independent of the Executive. As the RDC's Terms of Reference make clear, 'The RDC is separate from the FCA's executive management structure.'<sup>3</sup>

The RDC Chair reports quarterly to the External Risk and Strategy Committee (ERSC) of the FCA Board on matters relating to resourcing and performance (for example, on the length of time taken to complete cases). The RDC Chair does not report on the basis for individual decisions made by the RDC. The RDC Chair also attends a meeting of the Board once a year.

## Case work

The RDC makes between 150 and 200 decisions on cases each year. Many of these relate to enforcement action against firms for failure to pay regulatory fees or submit regulatory returns. The Committee also makes decisions on contested enforcement and supervisory actions alleging serious breaches by regulated and unregulated firms and individuals, applications by firms and individuals for authorisation or approval which the executive proposes to refuse, and on whether to give authority for the FCA to bring civil or criminal proceedings.

## Making decisions

The RDC has its own legal advisers and support staff who work in a separate division from the FCA staff involved in conducting investigations and making recommendations to the RDC. The RDC staff report through the Company Secretary to the FCA Chair. The RDC's dedicated legal function advises the RDC Chair and members on the legal and evidential soundness of cases, which assures an objective and independent approach to issues arising from cases brought to the RDC.

The FCA's website includes a detailed description of how the RDC goes about its work in contested cases and explains the different notices which the RDC may issue.<sup>4</sup> The RDC determines what is an appropriate decision based on its understanding of the issues before it. In each case, the RDC assesses the evidence and legal basis for any recommendation for regulatory action.

The process allows the subject of the action or their legal representative to make both written and oral representations to the RDC.<sup>5</sup> Members use their experience

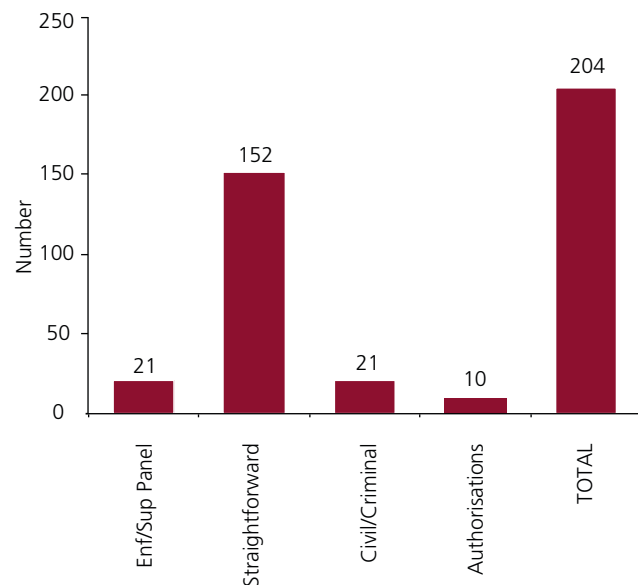
and knowledge in their assessment. When appropriate, the RDC will depart from the recommendations made to it, for example to change the basis of a case from deliberate to negligent misconduct (or vice versa), to change the amount of the proposed financial penalty or to conclude that no disciplinary action is appropriate. RDC decisions are decisions of the FCA and can therefore only be challenged by the subject of the action, who may refer the matter to the Upper Tribunal for a re-hearing.

## Operational performance

### Inputs

Case inputs during the year have increased on previous years. The largest increase has been in straightforward enforcement actions against firms that fail to submit returns or pay fees. These actions may result, ultimately, in a firm's permissions being cancelled. In around 40% of cases the firms rectified the regulatory breach during the process, thus ending the regulatory action and enabling the firms to continue trading.

Figure 1: Cases opened during the year by case type<sup>6</sup>



<sup>6</sup> Enf/Sup Panel: enforcement or supervisory actions, other than straightforward cases, against firms/individuals for regulatory breaches.  
 Straightforward: enforcement actions decided by the RDC Chair or a Deputy Chair alone (the majority being for failure to pay regulatory fees or submit regulatory returns).  
 Civil/Criminal: cases where permission is sought from the RDC Chair or a Deputy Chair alone for the FCA to begin proceedings against firms or individuals in the civil or criminal courts.  
 Authorisations: cases where it is proposed to refuse an application by a firm for authorisation or for an individual to be approved.

<sup>3</sup> Paragraph 2(a) of the RDC's Terms of Reference: see Annex A.

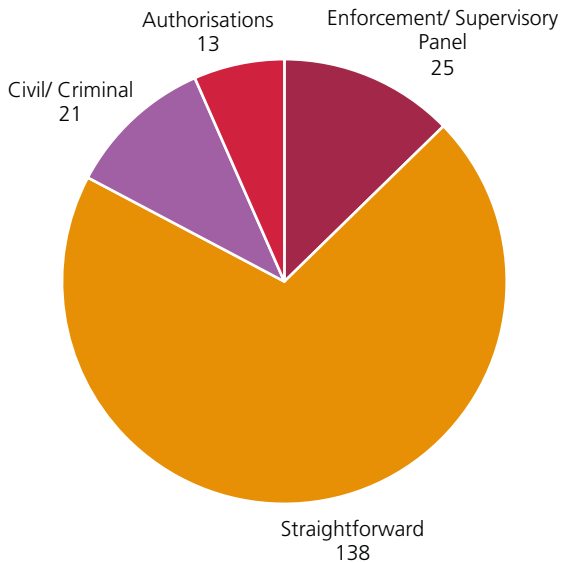
<sup>4</sup> [www.the-fca.org.uk/about/committees/regulatory-decisions-committee-rdc](http://www.the-fca.org.uk/about/committees/regulatory-decisions-committee-rdc)

<sup>5</sup> The Financial Services Lawyers Association may provide pro-bono legal assistance to a subject: see [www.fsla.org.uk/scheme](http://www.fsla.org.uk/scheme)

## Outputs and outcomes

The number of cases completed during the year has also increased compared to the previous year (from just over 150 decisions to almost 200).

**Figure 2: Cases completed during the year by case type**



The outcomes of the 25 completed Enforcement/Supervisory Panel cases were:

- nine prohibition orders (preventing an individual from carrying on certain activities)
- one public censure (ie a public statement of misconduct)
- two financial penalties
- four supervisory notices (placing limits, conditions or restrictions on the activities of a firm)
- three firms had their permissions cancelled
- two applications to revoke prohibition orders were refused
- two cases settled during the process and
- two cases were discontinued by the FCA's Enforcement division

Three cases resulted in the RDC deciding not to issue a notice, either at warning or decision notice stage.

The 13 completed Authorisations cases had the following outcomes:

- the refusal of seven firm authorisation applications
- the refusal of one individual approval application

- two cases were withdrawn by the FCA
- two cases were withdrawn by the subject and
- one case was referred back to the executive for approval of an individual

## Timing

The average time taken to complete an Enforcement panel case was just over seven months from the RDC receiving the case papers until it gave a Decision Notice or decided not to give a notice. Most straightforward cases were completed within 30 days, and Authorisations cases within 60 days.

## Upper Tribunal decisions

Where disagreements arise between the FCA and firms or individuals about the FCA's regulatory decisions, the matter can be referred to the Upper Tribunal. The subject of an action may refer an RDC decision to the Upper Tribunal (Tax and Chancery Chamber) for a re-hearing. The Upper Tribunal is an independent judicial body established by the Tribunals, Courts and Enforcement Act 2007. During the year there were substantive Tribunal decisions (ie covering liability and sanction) in relation to six parties who had referred decision notices issued by the RDC.

Tribunal proceedings constitute a full re-hearing of the case (not an appeal), and involve different evidence – most notably live witness evidence, including cross-examination before the Tribunal. The RDC does not have any role in the proceedings, and the FCA's case is presented by the Enforcement division, which can choose to present the case to the Tribunal on a different basis from that before the RDC, for instance by arguing for a higher financial penalty.

For these reasons, the RDC does not (and cannot) directly assess the quality of its decisions, in cases which are referred, on the basis of whether the Tribunal reaches the same conclusion as the RDC. Nevertheless, Tribunal decisions are frequently informative and illuminating, and the RDC actively reviews them for any learning points either in relation to the specific case or to RDC processes and procedures more generally. We highlight particular Tribunal decisions in the following paragraphs.

### **Timothy Alan Roberts and Andrew Wilkins v FCA (18 September 2015)**

The Tribunal reached the same conclusions as the RDC on Mr Roberts – that he lacked integrity and should be fully prohibited, his approval withdrawn, and a financial penalty of £450,000 imposed.

The RDC had concluded that Mr Wilkins demonstrated a lack of competence and capability, such that he should be prohibited from performing significant influence functions and fined £100,000. The FCA presented the case to the Tribunal on the basis that Mr Wilkins had demonstrated a lack of integrity. The Tribunal concluded that Mr Wilkins had demonstrated a lack of competence and capability, and imposed a financial penalty of £50,000. The Tribunal sent the FCA's decision to impose a prohibition order back to the FCA to consider. In light of the Tribunal's findings Enforcement decided not to prohibit Mr Wilkins.

### **Terence Andrew Joint v FCA (26 November 2015)**

In this case the RDC decided to impose a financial penalty of £20,000 and a full prohibition on Mr Joint in respect of breaches of Statements of Principle 6 and 7. At the Tribunal, the FCA no longer sought a full prohibition order and instead contended that a prohibition order limited to significant influence functions was appropriate. This was not contested, although Mr Joint objected to a financial penalty. The Tribunal decided that a financial penalty was justified but considered that, in light of certain mitigating circumstances, the appropriate amount was £10,000.

### **Abi Fol Consulting Limited v FCA (8 February 2016)**

The RDC had concluded that the firm should not be authorised, as its sole director and shareholder, Mr Ladele, lacked probity. The Tribunal found that Mr Ladele was an honest and credible witness and had not been involved in the fraudulent activity in question. Making no criticism of the RDC, the Tribunal observed that it had reached its conclusion after fully examining the matter with the benefit of the evidence (including oral evidence) before it.

Eight RDC cases which were referred to the Tribunal during the year were awaiting a decision on the reference at the year-end (31 March 2016).

### **Third-party rights**

In May 2015, the Court of Appeal published its decision in *Achilles Macris v FCA*, which related to the issue of third-party rights. Enforcement had appealed the decision of the Tribunal on the basis that the judge had not adopted the correct test for resolving the issue of identification. The Court of Appeal dismissed the FCA's appeal on the basis that although the Tribunal judge had not adopted the correct test, he reached the right conclusion on the evidence before him. The Court of Appeal set out what it considered to be the correct test.

Following this decision, the RDC adjusted its view on third-party rights to ensure consistency with the test set out in *Macris*. This has resulted in the RDC giving third-party rights in some cases where it would not previously have done so. Since *Macris*, there have been three further Tribunal decisions on third-party rights, which are in line with the RDC view. The FCA has been granted permission to appeal the Court of Appeal's judgment in *Macris* to the Supreme Court.

### **Cases remitted to the FCA by the Tribunal**

The changes in legislation that came into effect when the FCA was created on 1 April 2013 included distinguishing between the powers of the Tribunal in relation to 'disciplinary references' and other references. In relation to non-disciplinary references (eg a decision to impose a prohibition order), the Tribunal may either dismiss the reference or 'remit' (send back) the matter to the FCA to consider in light of the Tribunal's findings<sup>7</sup>.

This year the RDC dealt with the first non-disciplinary case to be remitted to it – that of Tariq Carrimjee. The RDC concluded that, on the basis of the Tribunal's findings, it was appropriate to impose a prohibition order on Mr Carrimjee in relation to the CF10 (Compliance Oversight) and CF11 (Money laundering reporting) significant influence functions. Mr Carrimjee has referred this decision back to the Tribunal. A decision is awaited. The case of Andrew Wilkins was also remitted to the FCA this year (see above).

### **Ongoing case loads**

At the end of the period of this review – 31 March 2016 – the RDC had 40 open cases. Twenty were straightforward threshold conditions cases and RDC panels were considering six enforcement actions. Fourteen cases were stayed (ie halted temporarily), most at the request of the Serious Fraud Office (SFO).

<sup>7</sup> Section 133(6) of the Financial Services and Markets Act.

## Review of membership

The committee currently has 13 members. Between 1 April 2015 and 31 March 2016, six new members of the committee were appointed, including a new Chair and two new Deputy Chairs.<sup>8</sup> Three members retired<sup>9</sup> and one resigned due to pressure of other work commitments.<sup>10</sup>

The membership of the RDC comprises current and recently retired financial services industry practitioners and non-practitioners who are appointed for a fixed term (normally three years, but this can be extended to six). There are currently seven practitioners<sup>11</sup> and six non-practitioners.<sup>12</sup> Three members of the committee, including the Chair, are lawyers<sup>13</sup> and three are accountants.<sup>14</sup> Further details are set out on the FCA's website.<sup>15</sup>

RDC members are selected on the basis of their:

- experience of making independent evidence-based decisions
- working in senior and expert positions in financial services, and/or
- their knowledge and understanding of consumers and other users of financial services.

This range of skills and experience is intended to achieve fairness, enhance the objectivity and balance of the FCA's decision-making and help achieve consistency across cases.

We regularly review the membership of the committee. We are likely to begin further recruitment during the second half of 2016. The focus of any recruitment exercise will be on replacing those who have retired or resigned and to add to the committee's experience of the consumer credit sector, as we anticipate an increase in cases from this area. In addition, we aim to look for specific experience of consumer issues to reflect the importance of consumers to the FCA.

The diversity of the committee is considered when recruiting new members. It is important that the committee reflects, as far as possible, the regulated community and consumers.

<sup>8</sup> Tim Parkes, Elizabeth France, John Hull, Kevin Brown, Chris Cummings and Caroline Ramsay

<sup>9</sup> David Ashton, Martin Hagen and Andrew Long

<sup>10</sup> Richard Berliand

<sup>11</sup> Iraj Amiri, Nicola Beattie, Kevin Brown, John Callender, Peter Craddock, Chris Cummings and Caroline Ramsay

<sup>12</sup> Tim Parkes, Elizabeth France, Peter Hinchliffe, John Hull, Elizabeth Neville and Pauline Wallace

<sup>13</sup> Tim Parkes, Peter Hinchliffe and John Hull

<sup>14</sup> Iraj Amiri, Caroline Ramsay, Pauline Wallace

<sup>15</sup> [www.fca.org.uk/about/structure/committees/rdc-biographies](http://www.fca.org.uk/about/structure/committees/rdc-biographies)

## Resources

The RDC is supported by a secretariat of FCA staff, which comprises case management, legal and administrative functions. The team supports the Chair, Deputy Chairs and members to deal with cases efficiently and effectively to a high standard. The team monitors case inputs and timeliness, ensuring that cases are progressed appropriately, taking into account complexity, the requirements of the subjects of regulatory action, and resourcing.

The Chair reports to the FCA Board through the External Risk and Strategy Committee on resource requirements. The Board fully supports the RDC having enough resources to manage its caseload.

## The next 12 months

The RDC's current caseload will occupy some of our time over the next period. In 2016/17 we should receive clarity about the changes to our remit and operation proposed in the FCA's April Consultation Paper referred to above. This may result in the RDC receiving a number of partly contested cases, where we are asked to decide on penalties which have not been capable of agreement between Enforcement and the subject of an investigation which has led to a recommendation that enforcement action be taken. In addition, the RDC will take on a new role reviewing the processes adopted in settled cases which have not come before us. The continuing expansion of the extent of the FCA's regulatory responsibilities is likely over time to increase the number of cases we see, as is the introduction of the Senior Managers and Certification Regime. On the other hand, new contested cases stemming from the global financial crisis seem likely to diminish.

The priorities set out in the FCA's 'Business Plan 2016/17' indicate its focus, and may also result in an increased workload for the RDC in due course.



# Appendix 3 – Environmental Impact Report

The FCA is committed to good environmental practice as part of our overall approach to Corporate Responsibility and seeks to follow industry best practice. Sound environmental management and prudent use of resources also fits within the remit set by the Financial Services and Markets Act 2000 in so far as it supports one of the principles of good regulation: to make the most efficient and economic use of resources. We:

- recognise that appropriate use of resources delivers both environmental and financial benefits
- recognise that our staff are responsible for ensuring that the environmental policy is observed and that resources are used wisely
- commit to, where practicable, measuring, reporting and reducing our impact on the environment
- set objectives and targets for each of our key impacts and review the appropriateness of them regularly
- expect our suppliers to reflect our commitments to sound environmental practice and good corporate responsibility

We manage our business in an environmentally responsible manner with a continued focus on sustainability, including careful control over the use of resources and consumables, and minimisation of waste. In 2015/16 we again made good progress through a number of initiatives:

- we have reduced paper consumption by 18% following implementation of 'Follow Me' printing.
- as plant has come to end of life we have reduced energy consumption by replacing it with more efficient machinery, control systems and operating practices.
- we have also engaged in other activities such as Earth Hour and the installation of LED lighting.

## Performance commentary

### Buildings

We have two offices in London and one in Edinburgh: sole occupancy of 25 The North Colonnade (25TNC) which accounts for the majority of the FCA's estate; two floors of 1 Canada Square as a tenant; and Quayside House in Edinburgh, also as a tenant.

We refurbished our 25TNC headquarters in 2008 (improving the building's infrastructure) which reduced the

overall energy consumption from 18m to 10m kWh pa. Since April 2010 we began reporting under the Carbon Reduction Commitment and have since reduced our carbon emissions by 16%.

During 2015/16, we have furthered our commitment to reducing energy consumption by installing a variety of energy saving initiatives. We have implemented a new lighting control system; significantly reducing energy usage by automatically activating and deactivating lights as required during evenings, nights and early mornings.

While we strive for increased efficiency and reducing energy consumption year on year, the opportunities to gain further significant savings in our current premises are limited due to previous successful initiatives and our impending move from our two Canary Wharf offices to a new single office in Stratford during 2018, which constrains capital investments.

		2015	2016
<b>Non-financial indicators (CO<sub>2</sub>e in tonnes)</b>	Total gross emission for scopes 1 and 2	5,452	4,837
	Total net emissions for scope 1 <sup>1</sup>	65	56
	Total net emissions for scope 2 <sup>2</sup>	5,387	4,781
	Gross emissions scope 3 – business travel <sup>3</sup>	765	1,202
<b>Related energy consumption (kWh)</b>	Electricity: non-renewable	10,900,717	10,866,214
	Electricity: renewable	0	0
	Gas	348,798	295,030
<b>Financial indicators (£'000 excl. VAT)</b>	Total expenditure on energy	1,373	1,419
	Total expenditure on electricity	1,355	1,406
	Total expenditure on gas	17	12
	CRC offsetting payments	92	100
	Total expenditure on official business travel (excluding accommodation and subsistence)	1,688	1,327

<sup>1</sup> Excluding 1 Canada Square as included in the service charge.

<sup>2</sup> Excluding 1 Canada Square and Edinburgh as included in the service charge.

<sup>3</sup> Emissions for air and rail (domestic, European and international).

### Business Travel

To minimise the environmental impact of FCA business travel we implement a sustainable travel policy, prioritising the use of public transport, and encourage the use of the on-site video conferencing and conference-calling facilities.

There has been a decrease in non-UK air travel and rail travel. There has been an increase in domestic travel.

	Mode of travel	2015	2016
<b>Business travel CO<sub>2</sub>e kg with RF</b>	Air – Domestic (between UK airports)	610,381	615,042
	Air – Europe (short haul up to 3,700 km)	149,838	65,242
	Air – International (long haul over 3,700km)	764,899	416,249
	Rail	34,908	31,718

#### Notes:

1. CO<sub>2</sub>e conversion rates calculated under the class of average passenger as per guidance on DEFRA's website for business travel.
2. Radiative forcing (RF) is a measure of the additional environmental impact of aviation. Figures are 'with RF factors' which incorporate a 90% increase in emissions to include the effect of radiative forcing. These include emissions of nitrous oxides and water vapour when emitted at high altitude.
3. Flight distance uplift factor – figures do not include the 9% uplift factor.
4. Excludes travel booked and then claimed through expense reimbursement which is regarded as non-material.

### Waste

Although the best way to reduce waste is prevention, we recognise that not all waste can be prevented. Accordingly, we follow the waste hierarchy ('reduce, reuse, recycle, recover, disposal') in order to lower costs and reduce environmental impacts.

We recycle 68% of our general (non-hazardous) waste, a reduction of 3.5% from 2014/15 (71.5%). This reduction of recycled material is due to the removal of disposable plastic cups and the introduction of re-usable plastic beakers. Organic waste produced in the kitchens is converted into biogas and liquid fertiliser through aerobic digestion, and we donate surplus FCA furniture to a local school (Woodside Infant School).

We continue to operate a policy of zero waste to landfill.

		2015	2016	
<b>Non-financial indicators (tonnes)</b>	Total waste	604	531	
	Hazardous waste total	0.8	1.0	
	Non-hazardous waste	Incineration	172	170
		Recycled	431	360
<b>Financial indicators (£'000 excl. VAT)</b>	Total disposal cost	114	128	
	Hazardous waste – disposal cost	6	8	
	Non-hazardous waste – disposal cost	Incineration	38	36
		Recycled	69	83

### Paper consumption

#### Printing

We have introduced a 'Follow Me' print solution across all multi-functional device printers for more efficient printing. Printers are default configured to black & white and double sided to ensure the most efficient use of paper. All printing paper is recyclable paper and ordered through a sole supplier and print levels are continuously monitored. All printer equipment and consumables are disposed of and/or recycled in accordance with best practice print industry guidelines. In 2015/16, we have seen an 18% reduction of overall printing against previous years.

Indicators	2015	2016
Non-financial indicators (sheets of paper)	24,413,459	20,060,516
Financial indicators (£'000 excl. VAT)	122,642	100,775

\*The financial indicators do not include the reduced energy consumption from having more environmentally friendly printers.

#### Purged printing

The introduction of 'Follow Me' printing has saved us 6,320,847 sheets of paper in 2015/16 (the equivalent of 592 trees) from purged print jobs. These are print jobs that were sent to the printer but never released to print by the user and as such cancelled for printing.

#### Reprographics

Our reprographics service supplies digital colour and mono printing and a professional finishing service. Staff are encouraged to utilise the services of Reprographics for any specialist printing or photocopying requirements over 100 sheets.

		2015	2016
<b>Non-financial indicators (sheets)</b>	Paper consumption (A4)	2,820,000	3,128,181
	Paper consumption (A3)	53,000	21,818

### **Water consumption**

The 25TNC headquarters has reduced cistern capacity from 9 litres to 6 and uses urinal sensors to reduce the amount of water used in the lavatories.

		2015	2016
Non-financial indicators (m <sup>3</sup> )	Water consumption	40,764	39,964
Financial indicators (£'000 excl. VAT)	Water supply costs	85	85

### **Sustainable Procurement**

Our procurement policy requires suppliers to reflect our commitment to sound environmental practice, and encourages them to develop and supply goods and services that help reduce both our and the supplier's environmental impact.

### **Limitations of data**

There are currently some limitations on the accuracy of certain aspects of the data provided:

- official business travel does not include a CO<sub>2</sub>e value for road or Oyster travel because there is currently no system to capture this information or a recognised conversion factor that can be applied to the financial indicators.







Financial Conduct Authority



© Financial Conduct Authority 2016  
25 The North Colonnade Canary Wharf London E14 5HS  
Telephone: +44 (0)20 7066 1000  
Website: [www.fca.org.uk](http://www.fca.org.uk)  
All rights reserved

