Report of the independent auditor and financial statements for the period ended 31 March 2013

Financial statements for the period ended 31 March 2013

Contents

Registered Number 1920623

Independent Auditor's Report to the members of the Financial Services Authority

I have audited the financial statements of the Financial Services Authority for the period ended 31 March 2013 which comprise the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position, Statement of Cashflows 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 the auditor

As explained more fully in the Directors' Responsibilities Statement, 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 and express an opinion on the financial statements in accordance with applicable law and 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 company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2013 and of its surplus for the period then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In my opinion:

- the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the part of the directors' remuneration report described as having been audited, has been prepared in accordance with the requirements of the Companies Act 2006, that would have applied if the FSA were a United Kingdom incorporated quoted company.

Matters on which I report by exception

I have nothing to report in respect of the following matters where the Companies Act 2006 requires me to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements or the part of the directors' remuneration report that is described as having been audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- I have not received all of the information and explanations I require for my audit.

Bryan Ingleby (Senior Statutory Auditor)
For and on behalf of the **Comptroller and Auditor General (Statutory Auditor)**
National Audit Office
157-197 Buckingham Palace Road
London SW1W 9SP

Statement of comprehensive income for the period ended 31 March

	Notes	Continuing operations 2013	Operations to be transferred 2013[1]	Total 2013	Continuing operations 2012	Operations to be transferred 2012[1]	Total 2012
		£m	£m	£m	£m	£m	£m
Administrative costs		(395.5)	(187.6)	**(583.1)**	(340.3)	(185.8)	**(526.1)**
Interest on bank deposits	18	1.7	-	**1.7**	1.8	-	**1.8**
Other net finance costs	14	(5.0)	-	**(5.0)**	(4.2)	-	**(4.2)**
Profit on disposal	5	-	-	**-**	12.8	-	**12.8**
Other income	7	16.7	22.6	**39.3**	21.9	23.8	**45.7**
Net costs for year		**(382.1)**	**(165.0)**	**(547.1)**	**(308.0)**	**(162.0)**	**(470.0)**
Fee income		400.4	167.6	**568.0**	338.7	167.2	**505.9**
Surplus before taxation	5	18.3	2.6	**20.9**	30.7	5.2	**35.9**
Taxation	8	1.8	-	**1.8**	(0.4)	-	**(0.4)**
Surplus after taxation		**20.1**	**2.6**	**22.7**	**30.3**	**5.2**	**35.5**
Net actuarial losses for the year in respect of the defined benefit pension scheme	14	(43.9)	-	**(43.9)**	(7.9)	-	**(7.9)**
Total comprehensive (loss)/ income for the year		**(23.8)**	**2.6**	**(21.2)**	**22.4**	**5.2**	**27.6**

1 - Operations to be transferred relate to the Prudential Business Unit and other operations that are transferring to the Prudential Regulation Authority (PRA) and the Bank of England (BoE) on 1 April 2013.

Statement of changes in equity for the period ended 31 March 2013

	£m
At 1 April 2011	**(93.7)**
Total comprehensive income for the year	27.6
At 31 March 2012	**(66.1)**
Total comprehensive loss for the year	(21.2)
At 31 March 2013	**(87.3)**

Statement of financial position as at 31 March 2013

Company Number: 1920623

	Notes	Continuing operations 2013 £m	Assets and liabilities to be tranferred 2013[1] £m	Total 2013 £m
Non-current assets				
Intangible assets	9	79.1	15.0	94.1
Property, plant and equipment	10	45.8	3.0	48.8
		124.9	**18.0**	**142.9**
Current assets				
Trade and other receivables	11	67.3	1.1	68.4
Cash and cash equivalents	11	392.0	-	392.0
Current tax asset	11	2.1	-	2.1
		461.4	**1.1**	**462.5**
Total assets		**586.3**	**19.1**	**605.4**
Current liabilities				
Trade and other payables	12	(543.7)	(21.7)	(565.4)
		(543.7)	**(21.7)**	**(565.4)**
Total assets less current liabilities		**42.6**	**(2.6)**	**40.0**
Non-current liabilities				
Trade and other payables	12	(12.6)	-	(12.6)
Net assets excluding retirement benefit obligation		**30.0**	**(2.6)**	**27.4**
Retirement benefit obligation	14	(114.7)	-	(114.7)
Net liabilities, including retirement benefit obligation		**(84.7)**	**(2.6)**	**(87.3)**
Accumulated deficit		**(84.7)**	**(2.6)**	**(87.3)**

1 – Assets and liabilities to be transferred relate to the Prudential Business Unit and other operations that are transferring to the PRA and the BoE on 1 April 2013.

	Notes	Continuing operations 2012 £m	Assets and liabilities to be tranferred 2012[1] £m	Total 2012 £m
Non-current assets				
Intangible assets	9	84.9	11.2	96.1
Property, plant and equipment	10	57.0	3.5	60.5
		141.9	**14.7**	**156.6**
Current assets				
Trade and other receivables	11	30.3	0.6	30.9
Cash and cash equivalents	11	72.0	-	72.0
		102.3	**0.6**	**102.9**
Total assets		**244.2**	**15.3**	**259.5**
Current liabilities				
Trade and other payables	12	(181.5)	(18.6)	(200.1)
Current tax liabilities	12	(0.2)	-	(0.2)
Borrowings	12	(1.2)	-	(1.2)
		(182.9)	**(18.6)**	**(201.5)**
Total assets less current liabilities		**61.3**	**(3.3)**	**58.0**
Non-current liabilities				
Trade and other payables	12	(17.0)	-	(17.0)
Net assets excluding retirement benefit obligation		**44.3**	**(3.3)**	**41.0**
Retirement benefit obligation	14	(107.1)	-	(107.1)
Net liabilities including retirement benefit obligation		**(62.8)**	**(3.3)**	**(66.1)**
Accumulated deficit		**(62.8)**	**(3.3)**	**(66.1)**

1 – Assets and liabilities to be transferred relate to the Prudential Business Unit and other operations that are transferring to the PRA and the BoE on 1 April 2013.

The financial statements were approved and authorised for issue by the Board on 3 June 2013, and were signed on its behalf by:

John Griffith-Jones…………………… Chairman

Martin Wheatley…………………….. Chief Executive Officer

Statement of cash flows for the period ended 31 March 2013

	Notes	2013 £m	Restated[1] 2012 £m
Net cash generated from operations	**18**	**358.0**	**(4.7)**
Corporation tax received/(paid)	8	1.8	(0.4)
Net cash from operating activities		**359.8**	**(5.1)**
Investing activities			
Interest received on bank deposits		1.7	1.8
Expenditure on software development	9	(29.1)	(28.1)
Purchases of property, plant and equipment	10	(11.2)	(12.9)
Proceeds from sale of asset		-	15.0
Net cash used in investing activities			
Returns on investment and servicing of finance		**(38.6)**	**(24.2)**
(Repayments)/proceeds from borrowings		(1.2)	1.2
Net increase/(decrease) in cash and cash equivalents		**320.0**	**(28.1)**
Cash and cash equivalents at the start of the year		**72.0**	**100.1**
Cash and cash equivalents at the end of the year		**392.0**	**72.0**

1 Restated – The prior year figures have been restated to reflect a correction to the proceeds from borrowing figure.

Financial statements for the period ended 31 March 2013

1. General information

The Financial Services Authority Limited (FSA) 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 FSA's operations and its principal activities are set out in the Directors' Report.

As part of the Financial Services Act 2012, the Prudential Regulation Authority (PRA) was formed as a subsidiary of the Bank of England (BoE) and the FSA transitioned to the Financial Conduct Authority (FCA) on 1 April 2013.

The transition of the FSA to the FCA comprised a name change (the legal entity that is the FSA continues post regulatory reform) and the transfer of circa 1,200 employees and certain assets and liabilities to the PRA and the BOE . The FCA's ability to raise funds from regulated entities and levy financial penalties will continue under the new Financial Services Act 2012, thus allowing the FCA to meet its statutory obligations.

The registered office is 25 The North Colonnade, Canary Wharf, London, E14 5HS.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the FSA operates.

These financial statements are the final set of financial statements for the organisation known as the FSA.

2. Significant accounting policies

a. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements separately disclose the Prudential Business Unit and other operations to be transferred including certain assets and liabilities, as operations to be transferred to the PRA and BoE on 1 April 2013.

The principal accounting policies applied in preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

b. Changes in accounting policy

i. New and amended standards adopted by the FSA:

There were no IFRS or International Financial Reporting Interpretations Committee (IFRIC) interpretations effective for the first time in the financial year beginning on or after 1 April 2012 that have a material impact on the company.

ii. New standards, amendments and interpretations issued but not effective for the financial year 1 April 2012 and not early adopted:

Amendment to IAS 19 'Employee Benefits'. The main change is that the expected rate of return on assets must be set equal to the discount rate, which will impact on the pension cost going forward. The effective date is 1 January 2013.

There are no other IFRS or IFRIC interpretations not yet effective that would be expected to have a material impact on the company.

c. Statement of comprehensive income

The format of the statement of comprehensive income has been designed to show net costs before fees levied to cover these costs. It is considered, that this format best represents the nature of the activities of the FSA, which involve carrying out statutory functions and levying fees to meet the net cost of those functions.

d. Revenue recognition

Most revenue is receivable under the Financial Services and Markets Act 2000 (FSMA), is measured at fair value and represents the fees to which the FSA was entitled for the financial year.

Sundry income is recognised when it is received for services provided which includes fees for applications, publications and training services and recovery of Scope Change and professional fees.

Any surplus revenue from the United Kingdom Listing Authority (UKLA) is held in reserves until such time that it is used to pay for future relevant expenditure.

Interest received on bank deposits is accrued on a time basis by reference to the principal outstanding and the effective interest rate applicable.

e. Property, plant and equipment

Property, plant and equipment is 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
Computer equipment (excluding software)	Up to five years
Furniture and equipment	Ten years
Motor vehicles	Four years

The assets' residual values and useful lives are reviewed and adjusted if appropriate at the end of each reporting period.

Subsequent expenditure is only capitalised when it increases the future economic benefits embodied in the specific asset to which it relates.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset, and is recognised in the statement of comprehensive income.

f. Intangible assets

In accordance with IAS 38: Intangible Assets, costs associated with the development of software for internal use are capitalised only where: the FSA can demonstrate the technical feasibility of completing the software; the FSA has adequate technical, financial and other resources available to it as well as the intent to complete its development; and, the FSA has the ability to use it upon completion. In addition, costs are only capitalised if the asset can be separately identified, it is probable that the asset will generate future economic benefits, and that the development cost of the asset can be measured reliably. Expenditure on research activities is recognised as an expense in the period in which it is incurred.

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.

Intangible assets are amortised on a straight-line basis over their expected useful lives, generally between three and seven years, with the expense reported as an administration expense in the statement of comprehensive income. Subsequent expenditure is only capitalised when it increases the future economic benefits embodied in the specific asset to which it relates.

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, development expenditure is charged to the statement of comprehensive income when incurred.

g. Impairment of property, plant and equipment, and intangible assets

During the financial year the FSA reviews the carrying value of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

The recoverable amount is the higher of the fair value less costs to sell, and 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 loss is immediately recognised as an expense.

When an impairment loss 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 loss been recognised for the asset in prior years. A reversal of an impairment loss is immediately recognised as income.

h. 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 its enforcement activities, the FSA gives indemnities 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 from the FSA under such indemnities.

i. Financial penalties

A liability to fee payers arises when a financial penalty is received. This liability is limited to the sum of the enforcement costs for that year agreed with the Exchequer. Once total financial penalties collected during the year exceed this sum a liability to the Exchequer arises.

Penalties levied and not yet collected at 31 March 2013 are included in both current assets: ‘trade receivables and remaining penalties uncollected’ and current liabilities: ‘trade and other payables’, subject to an assessment of recoverability.

j. Financial instruments

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of comprehensive income when there is objective evidence that an asset is impaired. The allowance recognised is measured as the difference between an asset’s carrying value and the estimated future cash-flows deriving from the continued use of that asset, discounted if the effect is material.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents comprise cash in hand, deposits and other short-term liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

The company’s financial risk management policy is disclosed below:

Credit risk

The FSA’s principal financial assets are cash deposits and cash, together with fee and other receivables.

The FSA's credit risk falls into two main categories:

i. the collection of fees from the financial services industry: the FSA has a strong record in collecting fees with bad debt experience averaging at less than 0.3% of fees receivable over the last three years; and

ii. the placement of those fees as deposits with various counter-parties: the FSA only invests with those financial institutions that meet its minimum credit rating as assigned by credit rating agencies. The FSA also spreads its deposits across a number of counter-parties in order to avoid concentration of credit risk.

Liquidity risk

The FSA manages its liquidity by carefully monitoring the projected income and expenditure related to its day to day business. Each month the FSA identifies long term liquidity up to the point when it next expects to bill the majority of fees. The FSA also has available to it for liquidity purposes, retained financial penalties (limited to the sum of the agreed enforcement costs for that year) collected during the financial year, which will be returned to fee payers in the following financial year. The FSA also has credit facilities available (see note 13).

Interest rate risk

Other than cash held in bank accounts, all of the FSA's cash and cash equivalents are fixed-rate fixed-term deposits and so are not sensitive to variations in interest rates.

k. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are treated as operating leases.

The FSA has no finance leases in place.

Rentals payable under operating leases are charged to the statement of comprehensive income 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.

l. Provisions

Provisions are recognised when the FSA has a present obligation, legal or constructive, as a result of a past event, if it is probable that the FSA will be required to settle that obligation and the amount can be reliably estimated. Provisions are measured at the directors' best estimate, at the balance sheet date, of the expenditure required to settle the obligation.

m. Taxation

The FSA is only liable to pay corporation tax on investment income subject to deductions for intangible fixed assets.

n. Retirement benefit costs

The FSA operates a tax-approved occupational pension scheme, the FSA Pension Plan (the 'Plan'), which is open to all employees. The pension plan was established on 1 April 1998 and operates on both a defined benefit basis (the Final Salary Section), which is closed to new members and to future accruals, and a defined contribution basis (the Money Purchase Section).

Final Salary Section (defined benefit)

The Final Salary Section of the Plan is a defined benefit plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on rate of accrual, age, years of service in the plan and compensation.

The charge to the statement of comprehensive income is the past service and interest costs of the liabilities, less the expected return on the Plan's assets.

The net liabilities of the Final Salary Section of the Plan are calculated by deducting the fair value of the assets from the present value of its obligations and they are disclosed as a non-current liability on the balance sheet.

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 market rate at the balance sheet date of high quality corporate bonds having maturity dates approximating to the terms of those liabilities. The calculation is performed by a qualified actuary using the projected unit credit method at each balance sheet 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 arising on scheme liabilities) are recognised in full in the statement of comprehensive income in the period in which they are incurred.

Past service cost is recognised immediately to the extent that the benefits are vested and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

With effect from 1 April 2010, members of the Final Salary Section of the Plan ceased to accrue further future benefits.

Money Purchase Section (defined contribution)

The Money Purchase Section of the Plan is a defined contribution plan where the FSA pays fixed contributions to a separate entity. The FSA has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Payments to the Money Purchase Section of the Plan are recognised as an expense in the statement of comprehensive income, 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.

3. Significant accounting judgements, estimates and assumptions

In the process of applying the FSA's significant accounting policies as described in note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimates, which are dealt with below):

i. New regulatory structure and effect on the accounts –The Financial Services Act 2012 came into effect on 1 April 2013 and we have reflected the impact this will have on the financial statements for 2012/13 and comparatives. We have done this in order to make the financial statements more transparent to the users.

The statement of comprehensive income has been split between Operations to be transferred and Continuing operations.

Operations to be transferred include the staff costs of the people moving to the PRA and the BoE on 1 April 2013 and the costs of the 18th and 25th floors of 1 Canada Square which will transfer to the BoE. Continuing operations reflect the costs of the divisions remaining with the FCA following legal cutover.

The statement of financial position has been split between Continuing operations and assets and liabilities to be transferred. This split reflects the assets and liabilities which will remain with the FCA and those that the BoE has agreed to purchase for net book value £3.5m. The net liability of £2.6m consists of the £3.5m less £6.1m income received in advance for the PRA. Material assets include: internally developed software and computer equipment relating to Analytical Reporting Tool (ART) and Solvency II and furniture and fittings on the 18th and 25th floor of 1 Canada Square. The liability transferring relates to Solvency II income received in advance.

The statement of changes in equity has not been split reflecting the fact that the retained earnings will remain with the FCA.

ii. Financial Penalties – Under FSMA the FSA had the power to levy financial penalties. Total financial penalty receipts were returned to fee payers in the form of a financial penalty rebate in accordance with our financial penalty scheme.

Following changes made by the Financial Services Act 2012, the FCA retains the power to levy financial penalties. However all financial penalty receipts from 1 April 2012, net of certain enforcement costs, are to be paid to the Exchequer. In 2012/13 we retained £38.2m of penalty receipts (representing the deductible enforcement costs). This forms the total rebate to be returned to fee payers in 2013/14.

iii. Intangible assets – under IAS 38, internal software development costs of £29.1m (2012: £28.1m) have been capitalised as additions during the year. Internally developed software is designed to help the FSA carry out its various statutory functions, such as holding details relating to regulated firms. These functions are particular to the FSA, so this internally developed software generally has no market value. Management judgement has been applied in quantifying the benefit expected to accrue to the FSA over the useful life of the relevant assets. Those expected benefits relate to the fact that such software allows us to carry out our functions more efficiently than by using alternative approaches (for example, manual processing). If the benefits expected do not accrue to the FSA (for example, if some aspect of our approach to discharging our statutory functions changes, perhaps due to the impact of implementing a European directive), then the carrying value of the asset would require adjustment.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

- Pension deficit – the quantification of the pension deficit is based upon assumptions made by the directors (as listed in note 14) 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 FSA's predecessor organisations receive different levels of pension increases.

4. Business and geographical analysis

We have restated the 2012 comparatives to reflect the split of the FSA into the two new regulatory bodies. The Prudential Business Unit and other operations to be transferred reflect the staff costs of the people moving to the PRA and the BoE on 1 April 2013 and the cost of the 18th and 25th floors of 1 Canada Square. Total continuing operations reflect the costs of the divisions remaining with the FCA following legal cutover. These include Conduct, Operations, Enforcement and Financial Crime and other central services divisions.

Prudential Business Unit and other operations to be transferred are responsible for:

- the prudential supervision of a large spectrum of firms, including UK banks and building societies, insurance firms, and investment and overseas banks;

- the specialist supervision of those firms' risks including capital management, credit risk, market risk, asset and liability management, liquidity, counterparty risk, spanning all asset classes, and leading technological change in risk analytics to facilitate the research and assessment of micro-prudential risk of regulated firms; and

- the development of policy and consequent handbook rules covering prudential standards for firms, the implementation of the prudential regime for liquidity, capital, accounting, operational risk and governance, as well as the negotiation of policy input into key prudential EU directives and specific international agreements.

Conduct is responsible for delivering a forward looking judgement-based approach to supervision, with wide-ranging responsibilities covering risk identification and mitigation, policy formulation and markets-related issues. It aims to:

- promote a well-regulated market that is efficient, orderly and fair;

- focus on fair outcomes for consumers and seek to ensure firms adhere to our conduct principles;

- contribute to a proportionate supervisory regime through effective risk identification and mitigation; and

- lead global regulatory reform by engaging with the European Supervisory Authorities and the wider European and international processes.

Operations worked in partnership with the rest of the business to deliver quality services and value for money. This included the set-up and maintenance of processes and systems required to deliver the FSA's objectives. The division focused on ensuring the company has the right people to deliver its regulatory strategy and that they are equipped with the appropriate tools and information needed to do their job to the best of their ability. The division also worked to attract, develop and retain talented people, as well as managing enhancements to its capabilities, keeping the office buildings and systems running, managing the finances and looking after staff interests.

Enforcement and Financial Crime Division (EFCD) conducted investigations when firms breach FSA rules or the provisions of FSMA, and also included a financial crime and intelligence function to support the FSA's strategic objectives. The EFCD carried out administrative, civil and criminal proceedings in the enforcement of FSMA, FSA rules and other regulatory requirements. It also worked with other regulatory bodies and law enforcement agencies in the UK and abroad. The Financial Crime and Intelligence Department helped to reduce the extent to which it is possible for a business to be used for financial crime. The department comprised policy, intelligence, sector and operations teams who together dealt with any issues involving money laundering, fraud or dishonesty, or market abuse.

Other central services reported directly to the Chairman and Chief Executive. The aim of these departments was to ensure that the Chairman and the Board were able to fulfil their stewardship and corporate governance responsibilities; and to provide support to the rest of the organisation.

Segmental information about the FSA's operations is presented below:

Period ended 31 March 2013	Prudential and other operations to be transferred	Conduct	Operations	Enforcement & Financial Crime	Other central services	Total Continuing operations	Total 2013
	£m	£m	£m	£m	£m	£m	£m
Administrative costs	(187.6)	(200.7)	(63.2)	(67.8)	(63.8)	**(395.5)**	**(583.1)**
Interest on bank deposits	-	-	1.7	-	-	**1.7**	**1.7**
Other net finance costs	-	-	(5.0)	-	-	**(5.0)**	**(5.0)**
Other income	22.6	12.8	1.1	2.6	0.2	**16.7**	**39.3**
Segmental Net costs for year	**(165.0)**	**(187.9)**	**(65.4)**	**(65.2)**	**(63.6)**	**(382.1)**	**(547.1)**
Fee income	167.6	-	400.4	-	-	**400.4**	**568.0**
Segmental Surplus /(deficit) before taxation	**2.6**	**(187.9)**	**335.0**	**(65.2)**	**(63.6)**	**18.3**	**20.9**
Taxation	-	-	1.8	-	-	**1.8**	**1.8**
Segmental Surplus /(deficit) after taxation	**2.6**	**(187.9)**	**336.8**	**(65.2)**	**(63.6)**	**20.1**	**22.7**

Period ended 31 March 2012 Restated[1]	**Prudential and other operations to be transferred**	**Conduct**	**Operations**	**Enforcement & Financial Crime**	**Other central services**	**Total Continuing operations**	**Total 2012**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Administrative costs	(185.8)	(156.9)	(74.8)	(76.3)	(32.3)	**(340.3)**	**(526.1)**
Interest on bank deposits	-	-	1.8	-	-	**1.8**	**1.8**
Other net finance costs	-	-	(4.2)	-	-	**(4.2)**	**(4.2)**
Profit on disposal	-	12.8	-	-	-	**12.8**	**12.8**
Other income	23.8	10.1	8.6	1.5	1.7	**21.9**	**45.7**
Segmental Net costs for year	**(162.0)**	**(134.0)**	**(68.6)**	**(74.8)**	**(30.6)**	**(308.0)**	**(470.0)**
Fee income	167.2	-	338.7	-	-	**338.7**	**505.9**
Segmental surplus / (deficit) before taxation	**5.2**	**(134.0)**	**270.1**	**(74.8)**	**(30.6)**	**30.7**	**35.9**
Taxation	-	-	(0.4)	-	-	**(0.4)**	**(0.4)**
Segmental surplus / (deficit) after taxation	**5.2**	**(134.0)**	**269.7**	**(74.8)**	**(30.6)**	**30.3**	**35.5**

1 Restated – The 2012 comparatives have been restated to reflect the split of the FSA into the two new regulatory bodies.

Geographical analysis

The FSA regulated entities that operate within the UK financial services industry, including the regulation of foreign domiciled entities operating within the UK. The foreign domiciled entities account for less than 10% of the fee base of the FSA therefore no geographical analysis is presented.

5. Surplus before taxation

The surplus before taxation for the period ending 31 March 2013 has been arrived at after charging/(crediting) the following:

	Note	2013 £m	2012[1] £m
Depreciation of property, plant and equipment	10	18.4	16.4
Amortisation of intangible assets	9	23.1	15.9
Impairment loss	9/10	12.5	5.8
Staff costs	6	326.9	301.9
Operating lease rentals		13.7	15.2
Loss on disposal	9/10	-	0.8
Profit on disposal		-	(12.8)
Regulatory reform costs		28.7	11.4

At 31 March 2013, a pre-tax surplus with a value of £2.6m (2012: £5.2m) was identified as being related to operations to be transferred to the PRA and BoE.

In accordance with its accounting policy, the FSA review the carrying value of intangible assets annually to determine whether there has been any impairment loss, and if so, the extent.

On 24 October 2011, the FSA sold the Transaction Reporting System (TRS) to the London Stock Exchange. The net profit on disposal was £12.8m.

Auditors

The National Audit Office was appointed as auditor on the 24 August 2010.

The auditor's remuneration for audit services is set out below:

Total fees	12 months to 31 March 2013 £'000	12 months to 31 March 2012 £'000
Fees payable to the National Audit Office for the audit of the FSA's annual accounts (excluding VAT)	80	70

6. Employee information

The average number of full-time equivalent employees (including executive directors) during the year to March 2013 was 3,596 (2012: 3,416). The average number of permanent full-time equivalent employees in each business unit/ division during the year was as follows:

	2013	Restated[1] 2012
Prudential	968	1,040
Conduct	1,452	1,263
Operations	624	560
Enforcement and Financial Crime	396	408
Other central services	156	145
Total	**3,596**	**3,416**

1 Restated - The 2012 figures have been restated to reflect the organisational change.

As at 31 March 2013, the FSA had 3,631 (2012: 3,502) permanent full-time equivalent employees on its payroll.

At 31 March 2013, the total number of full-time equivalent employees including contractors and secondees transferred to the PRA and BoE was 1,197.

Employment costs (including executive directors) comprise:	**Notes**	**2013 £m**	**Restated[1] 2012 £m**
Gross salaries and taxable benefits		268.7	247.4
Employer's national insurance costs		32.7	30.4[1]
Employer's defined contribution costs	14	25.2	24.0[2]
Other employer's pension costs included in administrative costs		0.3	0.1
	5	**326.9**	**301.9**
Net pension finance costs (included in other finance costs)	14	5.0	4.2
Actuarial losses in respect of the defined benefit pension scheme	14	43.9	7.9
Total employment costs		**375.8**	**314.0**

1 Restated - National insurance costs of £4.8m relating to incentive payments that were disclosed in Gross Salaries and taxable benefits in the prior year have been reclassified into Employer's national insurance costs.

2 Restated - Pension contributions of £8.0m made by employees that were disclosed in Employer's defined pension contribution costs in prior year have been reclassified into Gross salaries and taxable benefits.

At 31 March 2013, employment costs with a value of £116.9m (2012: £109.7m) were identified as relating to operations to be transferred.

7. Other income

Other income comprises:

	2013 £m	2012 £m
Application fees and other regulatory income	9.1	10.7
Transaction reporting services	-	3.7
Publications and training services	1.4	1.4
Solvency II income	18.3	23.0
Professional fees recovered	4.1	0.7
Other sundry income	6.4	6.2
Total other income	**39.3**	**45.7**

At 31 March 2013, other income with a value of £22.6m (2012: £23.8m) was identified as relating to operations to be transferred.

8. Taxation

The tax (credit)/charge on ordinary activities is:

	2013 £m	2012 £m
2008/09	(0.9)	-
2009/10	(0.1)	-
2010/11	(0.4)	-
2011/12	(0.4)	0.4
Corporation tax (credit)/charge for the year	**(1.8)**	**0.4**

Under a longstanding agreement with Her Majesty's Revenue and Customs (HMRC), the FSA is not subject to corporation tax on income arising from its regulatory activities but is subject to corporation tax on net investment income. The adjustments in respect of prior years result from the application of the corporation tax regime for intangible fixed assets which led to a tax credit of £1.8m.

There is an unrecognised deferred tax asset of £13.9m (2012: £7.1m) in relation to unused tax losses carried forward. This relates to the application of the corporation tax regime for intangible fixed assets. It is not considered probable that taxable profit will be available against which the unused tax losses can be utilised.

The total charge for the year can be reconciled to the accounting surplus as follows:

	2013 **£m**	**2012** **£m**
Surplus before tax	20.9	35.9
Tax at 24% (2012: 26%) thereon	5.0	9.3
Effects of:		
Adjustment for activities not subject to corporation tax	(5.0)	(8.9)
Current tax charge for the year	-	0.4
Effective tax rate for the year	0.0%	1.1%

9. Intangible assets

	Internally generated software £m	Other software costs £m	Total £m
Cost			
At 1 April 2011	**123.1**	**-**	**123.1**
Additions	28.1	-	28.1
Transfers	-	23.5	23.5
Disposals	(0.8)	-	(0.8)
Impairments	(12.8)	-	(12.8)
At 31 March 2012	**137.6**	**23.5**	**161.1**
Additions	28.3	0.8	29.1
Transfers	-	6.6	6.6
Disposals	(27.6)	(5.3)	(32.9)
Impairments	(8.6)	-	(8.6)
At 31 March 2013	**129.7**	**25.6**	**155.3**
Amortisation			
At 1 April 2011	**45.9**	**-**	**45.9**
Charge for the year	15.9	-	15.9
Transfers	-	10.8	10.8
Disposals	(0.2)	-	(0.2)
Impairments	(7.4)	-	(7.4)
At 31 March 2012	**54.2**	**10.8**	**65.0**
Charge for year	22.0	1.1	23.1
Transfers	4.3	0.8	5.1
Disposals	(27.7)	(5.4)	(33.1)
Impairments	1.1	-	1.1
At 31 March 2013	**53.9**	**7.3**	**61.2**
Carrying amount			
At 31 March 2012	**83.4**	**12.7**	**96.1**
At 31 March 2013	**75.8**	**18.3**	**94.1**

At 31 March 2013, work in progress with a net book value of £18.4m (2012: £29.7m) was included in internally generated software.

At 31 March 2013, intangible assets with a value of £15.0m (2012: £11.2m) were identified as intangible assets to be transferred to the PRA and BoE.

10. Property, plant and equipment

	Leasehold improvements £m	Computer equipment £m	Furniture and equipment £m	Total £m
Cost				
At 1 April 2011	**38.0**	**108.8**	**16.2**	**163.0**
Additions	0.5	12.1	0.3	12.9
Transfers	-	(23.5)	-	(23.5)
Disposals	-	(3.0)	-	(3.0)
Impairments	-	(0.9)	-	(0.9)
At 31 March 2012	**38.5**	**93.5**	**16.5**	**148.5**
Additions	1.9	8.8	0.5	11.2
Transfers	-	(6.6)	-	(6.6)
Disposals	(13.1)	(38.0)	(1.3)	(52.4)
Impairments	-	(0.7)	-	(0.7)
At 31 March 2013	**27.3**	**57.0**	**15.7**	**100.0**
Accumulated depreciation				
At 1 April 2011	**19.1**	**61.7**	**4.9**	85.7
Charge for year	2.7	12.4	1.3	16.4
Transfers	-	(10.8)	-	(10.8)
Disposals	-	(2.8)	-	(2.8)
Impairments	-	(0.5)	-	(0.5)
At 31 March 2012	**21.8**	**60.0**	**6.2**	**88.0**
Charge for year	2.8	14.0	1.6	18.4
Transfers	-	(5.1)	-	(5.1)
Disposals	(13.1)	(37.9)	(1.2)	(52.2)
Impairments	1.6	0.4	0.1	2.1
At 31 March 2013	**13.1**	**31.4**	**6.7**	**51.2**
Carrying amount				
At 31 March 2012	**16.7**	**33.5**	**10.3**	**60.5**
At 31 March 2013	**14.2**	**25.6**	**9.0**	**48.8**

At 31 March 2013, expenditure classified as work in progress with a net book value of £4.5m (2012: £8.3m) was included in property, plant and equipment.

The FSA reviewed the residual values used for depreciation calculations, with appropriate provisions made. This review did not identify any requirement for adjustment to the residual values used in the current or prior periods.

At 31 March 2013, property, plant and equipment with a value of £3.0m (2012: £3.5m) was identified to be transferred to the PRA and BoE.

11. Current assets

	Note	2013 £m	2012 £m
Fees receivable		7.6	1.2
Financial penalties receivable	12	44.3	1.7
Other debtors		1.7	10.6
Prepayments and accrued income		14.8	17.4
Trade and other receivables		**68.4**	**30.9**
Cash deposits		390.6	72.0
Cash		1.4	-
Cash and cash equivalents		**392.0**	**72.0**
Current tax asset	8	2.1	-
Total current assets		**462.5**	**102.9**

At 31 March 2013, current assets with a value of £1.1m (2012: £0.6m) were identified to be transferred to the PRA and the BoE.

Of the total cash deposits of £390.6m (2012: £72.0m), £343.7m (2012: Nil) relates to penalties collected on behalf of the Exchequer (see note 12).

The average credit period is 34 days (2012: 34 days). A late penalty charge of £250 is payable on periodic fees not paid by the due date. If payment is not received by the due date interest is charged on the outstanding balance at the Bank of England Repo rate plus 5%.

In accordance with IFRS 7, with the exception of prepayments and accrued income, all items within current assets are classified as loans and receivables.

All of the FSA's fee and other receivables have been reviewed for indications of impairment. Certain fee receivables were found to be impaired and a provision of £0.7m (2012: £0.5m) has been made for the estimated irrecoverable amounts from fees invoiced. This provision has been determined by reference to past default experience.

Financial penalties receivable were also reviewed for impairment and a provision made as set out below. These provisions are offset against the amounts receivable.

	2013 £m	2012 £m
1 April	14.6	6.6
Increase in provision for financial penalties	0.9	8.0
At 31 March	**15.5**	**14.6**

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

In addition, some of the unimpaired fee receivables are past due as at 31 March 2013. The age of fee receivables past due, but not impaired, is as follows:

	2013 £m	2012 £m
Not more than three months	0.8	0.2
More than one year	0.1	0.1
Total	**0.9**	**0.3**

FSA policy is to review receivables systematically for recoverability when they are more than three months past due. The amounts above are in the course of collection and the FSA had no specific evidence that any of these receivables are impaired.

The majority of the more than one year debt relates to a single debt. We expect payment of this in full from the firm's administrator.

Cash and cash equivalents

Bank balances and cash comprise cash held by the FSA and short-term fixed-rate bank deposits with a maturity date of 12 months or less. The carrying amount of these assets approximates to their fair value.

12. Liabilities

Current liabilities

	2013 £m	Restated[1] 2012 £m
Trade creditors and accruals	93.7	79.8[1]
Other taxation and social security	13.3	13.3[1]
Total financial penalties liabilities	426.2	71.7
Fees received in advance	32.2	35.3
Trade and other payables	**565.4**	**200.1**
Current tax liabilities	-	0.2
Borrowings	-	1.2
Total current liabilities	**565.4**	**201.5**

1 Restated – National insurance costs of £4.8m relating to incentive payments that were disclosed in Trade creditors and accruals in 2012 have been reclassified into Other taxation and social security.

At 31 March 2013, current liabilities with a value of £21.7m (2012: £18.6m) were identified to be transferred to the PRA and BoE.

Liabilities relating to financial penalties

	2013 £m	2012 £m
Penalties to be applied against future fees receivable (for 2013 this is equal to deductible enforcement costs)	38.2	70.0
Current liability to Exchequer at 31 March	343.7	-
Penalties uncollected at 31 March	44.3	1.7
Total financial penalties liabilities	**426.2**	**71.7**

Penalties Uncollected

	2013 £m	2012 £m
Penalties uncollected at 1 April	16.3	8.3
Penalties issued during the year	427.2	78.7
Write-offs during the year	(1.8)	-
Penalties collected during the year	(381.9)	(70.7)
Penalties uncollected at 31 March	**59.8**	**16.3**
Provision for bad debts	(15.5)	(14.6)
Net penalties uncollected at 31 March	**44.3**	**1.7**

Penalties Collected

	2013 £m	2012 £m
Penalties to be applied against future fees receivable	38.2	70.7
Penalties to Exchequer	343.7	-
Penalties collected during the year	**381.9**	**70.7**

Interest accrued of £0.4m on penalties received and held on behalf of the Exchequer from the 1 January 2013 to 31 March 2013 is included in current liabilities.

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and on-going costs. The average credit period taken for trade payables is 27 days (2012: 24 days). The directors consider the carrying amount of trade payables approximates to their fair value.

In accordance with IFRS 7, the following items are classified as financial liabilities measured at amortised cost:

- trade creditors and accruals; and
- financial penalties.

As at 31 March 2013, the FSA's liabilities have contractual maturities which are summarised below:

	Current			
	Within 6 months		6 to 12 months	
	2013 £m	2012 £m	2013 £m	2012 £m
Trade creditors and accruals	99.2	84.3	0.7	0.3
Fees in advance	26.1	35.3	-	-
Other liabilities	439.4	81.6	-	-
Total	**564.7**	**201.2**	**0.7**	**0.3**

Non-current liabilities

Non-current liabilities measured at amortised cost

	2013 £m	2012 £m
Lease accrual	12.6	15.9
Solvency II	-	1.1
Total non-current liabilities	**12.6**	**17.0**

The lease accrual of £12.6m (2012: £15.9m), 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 FSA's operating leases are set out in note 16.

As at 31 March 2013, the FSA's liabilities have contractual maturities that are summarised below:

	Non-current			
	1 to 5 years		Later than 5 years	
	2013 £m	2012 £m	2013 £m	2012 £m
Trade creditors and accrual	10.2	9.9	2.4	6.4
Fees in advance	-	0.7	-	-
Total	**10.2**	**10.6**	**2.4**	**6.4**

13. Credit Facilities

At the 31 March 2013 the available credit facilities were £76m, made up of a £75m revolving credit facility with HSBC Banking Group and a £1m overdraft facility with Lloyds Banking Group. The current available credit facilities of £115m are made up of two £50m undrawn committed borrowing facilities and an undrawn £15m overdraft facility.

These revolving credit facilities with Lloyds Banking Group and HSBC Banking Group expire on 24 April 2014, with any drawings made on the day prior to expiry being repayable in full by 24 April 2014.

The overdraft facility with Lloyds is available until further notice and will be reviewed periodically by the bank.

Any borrowings drawn under the above facilities would be unsecured.

14. Retirement benefit obligation

Since 1 June 1998, all employees joining the FSA, other than those joining from other regulatory bodies whose functions were transferred to the FSA, have been eligible only for the *Money Purchase Section* of the Plan. The *Money Purchase Section* is part of a flexible benefits programme and members can, within limits, select the amount of their overall benefits allowance that is directed to their pension plan.

From 1 April 2010, following consultation with members, the FSA ceased the accrual of future service regarding members of the *Final Salary Section* of the Plan. All active members of the *Final Salary Section* became deferred members at this date and their benefits calculated based on their Final Pensionable Salary as at 31 March 2010. Future salary increases after 31 March 2010 will not impact these members' pensions and their pension (in excess of any Guaranteed Minimum Pension) will increase broadly in line with the RPI for the period up to their retirement. From 1 April 2010, these members were also offered membership of the *Money Purchase Section*.

Final Salary Section

The most recent actuarial valuation of the FSA Pension Plan was carried out as at 31 March 2010 by an independent actuary, using the projected unit method, and was signed in March 2011. The results of this valuation have been updated for the purpose of IAS 19 as at March 2013, in order to allow for any changes in assumptions and movements in liabilities over the period.

The major assumptions used for the purpose of actuarial assumptions were as follows

At 31 March	2013	2012	2011
Corporate bond discount rate	4.55%	5.25%	5.60%
Expected return on plan assets	n/a[1]	5.25%	6.05%
Retail price inflation (RPI)	3.45%	3.30%	3.50%
Future pension increases	3.15%	3.05%	3.35%

1 – The expected return on assets assumptions as at 31 March 2013 is no longer required under the new IAS 19 accounting standard.

The change in discount rate has resulted in an increase of £68.6m in the present value of the pension fund obligation.

The change in the RPI assumption (including the impact on expected future pension increases) has resulted in an increase of £12.8m in the present value of the pension fund obligation and the deficit of the Plan.

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 2013 are based on an actuarial table 'SAPS Light, with CMI 2009 projections and a 1.25% floor'.

The table below illustrates the assumed life expectancies of staff when they retire:

	2013 Years	2012 Years	2011 Years
Retiring today aged 60			
Males	28.6	28.5	28.5
Females	29.8	29.7	29.6
Retiring in 15 years aged 60			
Males	30.0	29.9	29.8
Females	31.3	31.2	31.1

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.

Assumption	Sensitivity	Increase/(decrease) in pension obligation at 31 March 2013		Increase/(decrease) in estimated pension cost for 31 March 2014	
		£m	%	£m	%
Present value of funded obligation	Assumptions as above – no change	574.0	-	4.7	-
Discount rate	10 bps increase to 4.65%	(10.8)	(1.9%)	(0.4)	(8.6%)
Discount rate	10 bps decrease to 4.45%	11.2	1.9%	0.4	8.5%
Longevity	1 additional year of life at age 60	13.4	2.3%	0.6	13.1%
Inflation	10 bps increase to 3.55%	7.5	1.3%	0.3	7.3%

The amounts recognised in the statements of financial position are:

	2013 £m	2012 £m	2011 £m
Fair value of Plan assets	461.9	375.9	339.7
Less: Present value of funded obligations	(574.0)	(480.7)	(451.9)
Deficit in the scheme	**(112.1)**	**(104.8)**	**(112.2)**
Unfunded pension liabilities	(2.6)	(2.3)	(2.3)
Net liability recognised in the statement of financial position	**(114.7)**	**(107.1)**	**(114.5)**

A small number of current and former employees have benefit commitments that cannot be delivered entirely through the tax-approved scheme described above. At 31 March 2013 the liability is £2.6m (2012: £2.3m, 2011: £2.3m) to cover the cost of these commitments.

Amounts recognised in the statement of comprehensive income in respect of the defined benefit plan are as follows:

	2013	2012	2011
	£m	£m	£m
Expected return on plan assets	19.9	20.8	21.1
Interest cost on plan liabilities	(24.9)	(25.0)	(24.1)
Other net finance costs	**(5.0)**	**(4.2)**	**(3.0)**

Actuarial losses of £43.9m (2012: £7.9m, 2011: £13.3m) are recognised in the period in which they occur as part of the statement of comprehensive income.

Changes in the present value of the defined benefit obligation are as follows:

	2013	2012	2011
	£m	£m	£m
Opening obligation	(480.7)	(451.9)	(427.2)
Benefits paid	13.0	9.7	9.9
Interest cost on scheme liabilities	(24.9)	(25.0)	(24.1)
Actuarial (losses)	(81.4)	(13.5)	(10.5)
Closing obligation	**(574.0)**	**(480.7)**	**(451.9)**

Changes in the fair value of the Plan assets are as follows:

	2013	2012	2011
	£m	£m	£m
Opening fair value of plan assets	375.9	339.7	316.6
Expected return on plan assets	19.9	20.8	21.1
Actuarial gains/(losses)	37.5	5.6	(2.8)
Contributions by the employer	41.6	19.5	14.7
Benefits paid	(13.0)	(9.7)	(9.9)
Closing fair value of Plan assets	**461.9**	**375.9**	**339.7**

The fair value of the Plan assets and the expected rates of return are:

	Expected rate of return	Fair value £m	Expected rate of return	Fair value £m	Expected rate of return	Fair value £m
	At 31 March 2013		At 31 March 2012		At 31 March 2011	
Equity securities	n/a[1]	223.9	6.2%	171.1	7.1%	169.5
Debt securities	n/a[1]	184.7	4.2%	171.8	4.9%	140.4
Real estate	n/a[1]	28.1	5.1%	29.2	6.0%	27.2
Cash	n/a[1]	25.2	0.5%	3.8	0.5%	2.6
Closing fair value of Plan assets	**n/a**	**461.9**	**5.3%**	**375.9**	**6.1%**	**339.7**

1 – The expected return on assets assumptions as at 31 March 2013 are no longer required under the new IAS 19 accounting standard.

Cumulative actuarial losses recognised in the statement of earnings:

	2013 £m	2012 £m	2011 £m
Losses) at 1 April	(113.1)	(105.2)	(91.9)
Net actuarial losses recognised in the year	(43.9)	(7.9)	(13.3)
At 31 March	**(157.0)**	**(113.1)**	**(105.2)**

There are no deferred tax implications of the above deficit as corporation tax is only payable on interest receivable by the FSA.

The Plan assets do not include any of the FSA's own financial instruments, nor any property occupied by, or other assets used by the FSA.

The expected rates of return on individual categories of Plan assets are determined by reference to relevant market expectations at the beginning of the period for returns over the lifetime of the obligations.

The history of differences between expected and actual returns on plan assets and gains and losses on Plan liabilities is as follows:

	2013	2012	2011	2010	2009
Defined benefit obligation (£'m)	(574.0)	(480.7)	(451.9)	(427.2)	(310.0)
Fair value of Plan assets (£'m)	461.9	375.9	339.7	316.6	222.8
Net deficit (£'m)	**(112.1)**	**(104.8)**	**(112.2)**	**(110.6)**	**(87.2)**
Experience gains/(losses) on Plan assets:					
Amount (£m)	37.5	5.5	(2.8)	68.4	(78.1)
Percentage of Plan assets	8.1%	1.5%	(0.8%)	21.6%	(35.1%)
Experience gains/(losses) on Plan liabilities:					
Amount (£m)	nil	nil	(13.5)	(0.6)	0.6
Percentage of the present value of Plan liabilities	0.0%	0.0%	(3.0%)	(0.2%)	0.2%

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 Scheme Specific Valuation (SSV) as at March 2010 and requires an annual deficit contribution of £19.8m (£19.5m for the FSA and £0.3m for the Financial Ombudsman Service) to be paid over the 10 years from 1 April 2011 with the aim of removing the Plan deficit.

In order to mitigate the risks of significantly increased future annual pension deficit funding contributions the FSA decided to make a one-off additional £22.1m contribution in March 2013 to reduce the defined benefit pension scheme deficit that will be inherited by the FCA.

Money Purchase Section (defined contribution)

The total expense recognised in the statement of comprehensive income of £25.2m (2012: £24.0m) represents contributions payable to the plan by the FSA at rates specified in the rules of the Plan.

15. Capital commitments

The FSA had entered into contracts at 31 March 2013 for future capital expenditure totalling £5.5m (2012: £6.8m), which is not provided for in the accounts.

16. Operating lease arrangements

At the balance sheet date, the FSA had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows

	2013 £m	2012 £m
Within one year	18.1	20.0
In the second to fifth years inclusive	69.4	74.5
After five years	10.9	38.0
Total	**98.4**	**132.5**

Operating lease payments include rentals payable by the FSA for certain of its office properties. The FSA's significant lease arrangement is for 25 The North Colonnade, Canary Wharf.

17. Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel of the FSA is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. The key management personnel includes executive board members, the chairman and FSA directors. This includes senior management acting in the role of director for more than 3 months. Of this group, 25 (2012: 26) personnel received remuneration of £100k or more for the year. Further information on individual executive directors is provided in the audited part of the Corporate Governance Statement.

	2013 £m	2012 £m
Short-term benefits	7.1	7.9
Post-employment benefits	0.8	0.8
Termination benefits	0.3	0.6
Total	**8.2**	**9.3**

There were no other transactions with key management personnel in either year.

Significant transactions with other financial services regulatory organisations

The FSA entered into transactions with a number of other financial services regulatory organisations. The nature of the FSA's relationship with these organisations and the significant transactions entered into between the FSA and these organisations are set out below.

Whilst the FSA was required under various statutes to establish the financial services regulatory organisation set out in a) to d) below, it is the individual organisations themselves that are required to perform the functions.

Separately, while the FSA had the right to appoint and remove the directors of the various organisations, the Companies Act 2006 requires that the appointed directors have to exercise independent judgement.

The fact that the FSA did not have statutory responsibility for the functions of these organisations means that its separate powers to appoint and remove directors to the boards of these organisations, cannot be exercised for the benefit of the FSA. The failure to meet this test means that the FSA did not control these organisations as defined under International Accounting Standard 27 – Consolidated and Separate Financial Statements. It does, however, consider these organisations to be related parties.

a. **The Financial Services Compensation Scheme Limited (FSCS)**
During the year, the FSA 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 was £0.4m (2012: £0.3m). The net amount of fees collected that remained to be paid over by the FSA to FSCS at 31 March 2013 was £0.8m (2012: £nil).

b. **The Financial Ombudsman Service Limited (the ombudsman service)**
The FSA is the principal employer in the FSA Pension Scheme described in note 14. The ombudsman service is also a participating employer in the same scheme making contributions at the same overall rate as the FSA.

In 2005/06 the FSA entered into an agency agreement with the ombudsman service to collect tariff data, issue levy invoices and collect levy monies on its behalf regarding its fees for 2006/07 onwards. The charge for that service in the current year was £0.1m (2012: £0.1m). As at 31 March 2013, £1.1m of fees (including on-account fees) relating to 2013/14 invoices had been collected but not paid to the ombudsman service (2012: £0.1m).

The FSA acted as guarantor to the lease agreement for part of the ombudsman service premises. The lease is due to end on 1st November 2014.

c. **Money Advice Service (MAS)**
The FSA provided a revenue collection service to the MAS. The charge for this service in the period ended 31 March 2013 was £0.1m (2012: £2.3m).

As at 31 March 2013, the amount collected but not paid to the MAS was £3.1m, including 2013/14 on-account fees (2012: £0.1m).

d. The Office of the Complaints Commissioner (OCC)
The FSA funded the activities of the Complaints Commissioner through the periodic fees it raises. Up to 31 August 2004, the costs of those activities were met directly by the FSA. In August 2004, the OCC, a company limited by guarantee, was incorporated. Since 1 September 2004, the purpose of this company has been to administer complaints against the FSA that are handled by the Complaints Commissioner. In doing so, it employs staff, owns assets used by the Commissioner and his staff, and enters into contracts for goods and services in furtherance of complaints handling activities. During 2012/13, the FSA transferred £0.6m (2012: £0.6m) to the OCC to cover the latter's running costs, which have been expensed in the FSA's statement of comprehensive income. At 31 March 2013 the balance owing to the FSA from the OCC was £nil (2012: £nil).

The FSA acted 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 the Memorandum of Association of the OCC, the FSA had the right to appoint and remove the Complaints Commissioner, who is both a member, and a director of the company and as such has the ability to control the OCC. Because of this, the OCC is a subsidiary of the FSA. However, the scale of the activities of the OCC is immaterial compared to that of its parent company. Accordingly, the FSA has not prepared group accounts to include the OCC, on the grounds that the exclusion of the OCC from the FSA's accounts is not material to those accounts providing a true and fair view.

18. Notes to the cash flow statement

	Notes	2013 £m	Restated[1] 2012 £m
Surplus for the year from operations		20.9	35.9
Adjustments for:			
Interest received on sbank deposits		(1.7)	(1.8)
Amortisation of other intangible assets	9	23.1	15.9
Impairment loss on intangible assets	9	9.7	3.2
Loss on disposal of intangible assets	9	(0.2)	0.6
Depreciation of property, plant and equipment	10	18.4	16.4
Loss on disposal of property, plant and equipment	10	0.2	0.2
Impairment loss on tangible assets	10	2.8	0.4
Profit on disposal		-	(12.8)
Difference between pension costs and normal contributions	14	5.0	4.2
Payments made on unfunded pension liability	14	0.3	-
Additional cash contributions to reduce pension scheme deficit	14	(41.6)	(19.5)
Operating cash flows before movements in working capital		**36.9**	**42.7**
Increase in receivables	11	(39.6)	(15.4)
Increase/(decrease) in payables	12	360.7	(32.0)
Net cash generated from/(used by) operations		**358.0**	**(4.7)**

1 Restated – The prior year figures have been restated to reflect a correction to the Impairment loss on intangible assets.

19. Events after the reporting period

As part of the Financial Services Act 2012 the PRA was formed as subsidiary of the BoE and the FSA transitioned to the FCA on 1 April 2013, the effect of which has been disclosed in the financial statements. There were no other events after the reporting period.