Financial Conduct Authority

Annual Report

2013/14

Financial Conduct Authority
Annual Report and Accounts 2013-2014
(for the year ended 31 March 2014)

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

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Putting consumers at the heart of what we do

Chairman's statement

Looking back on the first year of the FCA, I am both proud of what we have achieved and energised by having made a strong start.

The FCA came into being just over a year ago, with the strategic objective to make markets work well. This clear mandate was underpinned by three operational objectives: secure an appropriate degree of protection for consumers; protect and enhance the integrity of the UK financial system; and promote effective competition in the interests of consumers. All of our activity and interventions this year have been made with those objectives firmly in mind.

Looking back on the first year of the FCA, I am both proud of what we have achieved and energised by having made a strong start. It has been a challenging but positive year of near constant change for the FCA, taking forward the vital task of translating our strategic and operational objectives into practice, and then planning the work of the organisation to meet those objectives.

We are a 'conduct' regulator; this is what is new about the FCA. This focus rectifies any imbalance of the past and ensures we ask ourselves what would be in the consumer's best interest. In putting conduct on the map as our ambition in our first year, we have gone a long way towards helping firms understand what we mean by putting the consumer at the heart of their thinking. We prudentially regulate a large number of firms as well, so our work takes that into account.

As a Board we are focused on whether we are on the path to achieving what we intended. Our performance measures, expressed as outcomes and indicators in this

Our agenda is certainly ambitious, with implementing the recommendations of the Parliamentary Commission on Banking Standards now set out in the Banking Reform Act, the guidance on pensions announced in this year's Budget and implementing the European and international agendas being top priorities, among many others.

report, are an essential part of how we assess whether the work we do and the interventions we make are having the desired effect. After only one year of operation, it is too soon to be sure that the metrics we consider to be relevant are moving in the right direction. I'm encouraged that we are considering the right measures and the organisation is transparently challenging itself.

History has taught us that we must take a forward-looking and proportionate approach to the way we regulate if we are to succeed. This is true across the world, and I am reminded of this whenever I meet with regulatory colleagues internationally. Prevention is better than a cure; firms and consumers alike agree that it is better for the regulator to anticipate and intervene to prevent bad outcomes. It is primarily the responsibility of industry to get things right in the first place. The best use of our resources is to be an effective deterrent to bad behaviour.

We are far more engaged in what is happening for consumers; we want to use the eyes and ears of millions of people who use financial products and services to help inform and direct our work. Only by talking to them will we understand what they want from the products and services they use. Conversations with consumers – and groups that represent them – have become an everyday part of life for many at the FCA, not least myself.

The change in our focus has been broadly welcomed by industry, and the engagement and response we have had from firms has helped us to achieve some positive outcomes. This report sets out examples of where, in working with industry and trade bodies, and being clear on our expectations, everyone has benefitted; this ranges from the work on interest-only mortgages to regulation on crowdfunding and more.

Both consumers and the industry expect us to meet our own high standards. In this spirit the FCA Board commissioned an independent inquiry into the events surrounding the publication of this year's Business Plan, which we will publish once completed.

None of what we have achieved in our first year could have happened without our people. We set out a very challenging plan for the first year of operation, and have managed the operational aspects of putting into practice such a significant amount of change to a high standard. Everyone at the FCA has worked hard to embed and deliver all aspects of our ambition, including a new and distinctive culture for the organisation. They can rightly be proud of their achievements. We will be transparent and accountable to our stakeholders and this, our first Annual Report as the FCA, is an important part of this.

Our agenda is certainly ambitious, with implementing the recommendations of the Parliamentary Commission on Banking Standards now set out in the Banking Reform Act, the guidance on pensions announced in this year's Budget and implementing the European and international agendas being top priorities, among many others. We have also established a brand new Payment Systems Regulator, and over the coming year we will be hard at work getting ready for its launch in April 2015.

Martin Wheatley's report highlights in more detail some of the key projects we delivered in our first year that are important to reflect on as we enter our second year. We have placed high expectations on ourselves in terms of delivery and we look forward to working with consumers and the industry to meet the challenges ahead.

John Griffith-Jones
Chairman, Financial Conduct Authority

Chief Executive's report

On 1 April 2013 we were established as the conduct regulator for the UK financial markets, taking over responsibility from the Financial Services Authority for the conduct regulation of all authorised firms, and the prudential regulation of the vast majority of these.

In our first year it has been crucial that we establish ourselves as a credible conduct regulator and I'm encouraged by our progress. We recently conducted research that showed that the majority of our stakeholders are clear on our objectives – this is a major achievement for a new regulator.

It has been a challenging and productive year as we have adapted to a widened regulatory remit, providing us with new responsibilities in competition, consumer credit and the oversight of LIBOR, while also tackling historic and emerging issues affecting the industry and consumers.

We have paid more attention to the culture in firms and how they establish and run themselves. This transition from traditional regulation to our focus on conduct has been a big change for all sectors, with every firm now having to look at the way it carries out its business and treats consumers. This includes individual customers in the branch or on the phone, right through to the largest wholesale firm.

Over the last year I have seen that change start to take effect in the boardrooms of firms across the country. There are signs that the industry is starting to rise to the challenge, proactively making changes to put consumers at the heart of the way they do business. For example, we have seen significant improvements in the way many firms remunerate their staff, removing conflicts of interest that risked mis-selling. What we want to see now is this change filter down to everyone involved in meeting consumer needs, whether on the trading floor or in a high street branch.

We have already had a positive impact. In competition we have established our capability quickly and launched our first market study into general insurance. We have brought a new perspective to the way in which we view firms through our use of behavioural economics; studies that allow us to understand the underlying cause of issues rather than just the symptoms.

> It has been a challenging and productive year as we have adapted to a widened regulatory remit, providing us with new responsibilities in competition, consumer credit and the oversight of LIBOR, while also tackling historic and emerging issues affecting the industry and consumers.

We have established and embedded a new model for how we supervise firms. The model puts conduct at the heart of how we look at firms and ensures we keep in balance the amount of resource we allocate to proactive, forward-looking work; reactive work responding to events as they emerge; and a thematic approach picking up on important themes across firms. This is a big change and moving all of the firms we regulate to this new model has been a significant achievement.

When we were established, we committed to intervening earlier, before it is too late. We have begun to make good on that commitment – our work on interest-only mortgages resulted in over two and half million customers being proactively contacted by their mortgage provider alerting them to the dangers of not having a strategy for future repayment. The duration of these loans means that risks to consumers may not crystallise for many years, but the importance of acting now has helped us to head off future problems.

Intervening earlier requires an ear to the ground. We need intelligence about what is happening in markets and better data on emerging trends. To achieve this we have built a broad range of relationships, reaching out to consumer groups and forging new ties with organisations that help us to hear more directly from consumers. The continuing of these strong links is crucial for the development of our intelligence gathering and I look forward to us furthering these over the next 12 months.

When thinking about data we are continually challenging ourselves, forcing ourselves to be smarter about what we ask firms to provide, how much we ask for and what we then do with it. We are also mindful that the UK financial sector now has two regulators and while the FCA and PRA have their own clear mandates and a strong sense of individual purpose, we of course work hard to ensure we act in a coordinated fashion where possible.

In wholesale markets we have been at the forefront of benchmark reform both domestically and internationally. Here in the UK we have established a regulatory regime for LIBOR, and internationally we have been working with a range of stakeholders to help implement mandates initiated by the Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO). Within these international forums we have also worked hard to drive positive outcomes for cross-border regulation, including a landmark step in updating the Markets in Financial Instruments Directive (MiFID) regulations that govern structure and practices in wholesale markets across the globe.

Be it internationally or domestically we have always kept the focus on helping consumers get a fair deal. Our commitment here is exemplified through our milestone agreement with the UK's biggest banks to adopt a same day 'retry' system for the collection of payments; saving customers millions of pounds in bank charges. In securing redress for consumers mis-sold financial products we have been instrumental in the construction of thorough redress schemes. This has led to the millions of consumers affected by the Payment Protection Insurance (PPI) and Card Protection Plan (CPP) mis-selling scandals receiving compensation. For small-business customers we also established a robust framework for millions of pounds of redress to go to those who were mis-sold interest rate swaps.

Despite these efforts, we continue to find evidence of behaviour we simply cannot accept. Where this happens we have not shied away from tough supervision or enforcement action against both firms and individuals; sending clear messages to the market about the standards we expect. Over the past 12 months we have undertaken landmark enforcement action against a number of firms and individuals, imposing over £425m in financial penalties and publishing 56 final notices in total. We have also continued to use our criminal powers in appropriate cases, securing five convictions this year. We have worked hard to tackle threats from investment fraud in the UK and overseas through disrupting schemes, educating consumers and taking court action to cease fraudulent schemes.

The past 12 months have also seen us take on the responsibility for the regulation of consumer credit, which has involved the transition of almost 50,000 firms into our regime alongside over 100 staff from the Office of Fair Trading (OFT). I am proud of our achievements in gearing up for this challenge, and I am encouraged by much of our early work in this challenging and complex sector.

And last but far from least, we have looked at ourselves with a critical eye. Our success is built on the experience and expertise of our people. To ensure we continue to attract and retain the best and brightest we have significantly invested in our people, initiating a number of new programmes to develop and further our staff. These measures will make sure that we continue to operate effectively and efficiently in the pursuit of good financial conduct, as well as making the FCA a great place to work.

The year ahead offers a range of new challenges; the world does not stand still and nor shall we. We welcomed the publication of the Parliamentary Committee for Banking Standards (PCBS) report, which is an important contribution to raising standards in the industry. The year ahead sees us implementing the Banking Reform Act, including important changes around the personal accountability we expect of the most senior individuals working in our banks. I look forward to building on our successes, and learning the lessons where we faltered, so that we continue to grow as a regulator and meet the high standards expected of us.

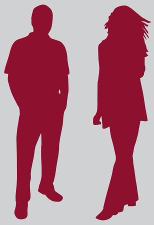
Martin Wheatley,
Chief Executive Officer

The year ahead offers a range of new challenges; the world does not stand still and nor shall we. We welcomed the publication of the Parliamentary Committee for Banking Standards (PCBS) report, which is an important contribution to raising standards in the industry.


Delivering consumer protection
Enhancing market integrity
Building competitive markets

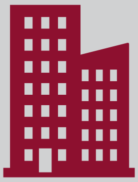
Introduction

This year the annual report is structured around our three operational objectives and provides information on the work we have done to advance them. Our objectives are:



To secure an appropriate degree of protection for consumers.

To protect and enhance the integrity of the UK financial system.



To promote effective competition in the interests of consumers.

Through the use of case studies and data, we focus the report on the key achievements and highlights of the year.

2013

April
Behavioural economics published
P44

May
Warning for consumers on interest-only mortgages
P28

June
Mobile phone insurance review
P31

July
RDR six-month review
P23

August
Redress package announced for mis-sold card protection
P28

September
Cash savings study
P43

October
We set out how we will regulate consumer credit including payday lending
P45

November
Markets conference
P39

December
New rules under our Mortgage Market Review
P23

January
£31m compensation agreed for Arch Cru redress scheme
P28

February
Transitions management review
P36

March
Retirement income study
P43

2014

1.

What we do

We ensure that financial markets function well. This means ensuring that the whole financial industry is run with integrity, that firms provide consumers with appropriate products and services, and consumers can trust that firms have their best interests at heart.

Our *Annual Report 2013/14* highlights some of our key achievements from the last year towards advancing our objectives, carrying out our functions as a regulator, and considering the regulatory principles set out for us by law.

We take a proportionate, judgement-based approach, assessing the risk a firm poses to our objectives and focusing our resources on the higher-risk firms.

We authorise financial firms to do business if they meet our standards. Once authorised, we supervise the way they work and where we see risks to consumers and markets, or where competition isn't working well, we decide on the appropriate response, including intervening early and taking action to prevent harm. This could include altering or creating rules, removing authorisation, taking supervision or enforcement action, or securing redress for consumers where necessary.

We take a proportionate, judgement-based approach, assessing the risk a firm poses to our objectives and focusing our resources on the higher-risk firms. Where we consider it necessary to make or amend our rules, we consult with the industry before introducing new policy.

We are committed to treating firms, consumers and other stakeholders with professionalism, ensuring we are easy to do business with. We aim to be as transparent as we can so that firms and consumers know what we have been doing, firms know what behaviours are acceptable, and consumers have the information they need to make the right decisions.

Protecting the financial markets

When a firm wants to enter the financial services markets, we focus on its conduct by analysing its business model to assess whether it has consumers at the heart of its business. For firms that are not supervised by the Prudential Regulation Authority (PRA) we also assess whether they can meet our prudential requirements.

We work with firms to help them become authorised, and we have engaged more with the organisations they may use to help them through our application process – for example, by hosting roundtables with the Association of Professional Compliance Consultants (APCC) and the UK Crowdfunding Association, to increase transparency and help firms do business with us.

We authorised 1,046 firms during our first year in operation.

Most firms that apply to be authorised meet our standards. We challenge those that don't, which leads to them making changes to improve their proposals or withdrawing their application.

Over 2013/14, we did not refuse any applications for authorisation or variations of permission. The percentage of applications that were withdrawn fell slightly over the year, but is now stable at around 10% (see Figure 1).

We refused a small number of waivers, payment services and e-money applications during 2013/14. The number withdrawn fell, but is still higher than other applications. This could be because of a lack of appropriate knowledge and experience among Small Payment Institutions (SPIs), and Authorised Payment Institutions (APIs) not being able to secure adequate safeguarding arrangements for customers' funds, which they are required to segregate from any other funds in a separate account.

If we find that an authorised firm is not meeting the basic standards (our threshold conditions), we take action. During 2013/14 we cancelled the permissions of 28 firms to conduct regulated business, and a further 237 firms took remedial steps to address breaches. We also cancelled the registrations of 32 payments services firms for basic failings, with a further 48 remedying breaches.

We acted for the first time to cancel the registration of a firm registered under the Third Money Laundering Directive. Recurring breaches related to a lack of adequate resources, as well as failures to comply with Ombudsman awards, cooperate with the relevant Authority, submit regulatory returns or pay our fees.

Supervising firms and individuals

We are risk-based and proportionate in our approach to supervision, which we base on three pillars, recognising the diversity among firms and markets, and allowing us to focus on the bigger issues.[1]

Pillar 1: Proactive firm supervision

We assess a firm's conduct risk and question whether the interests of consumers and market integrity are at the heart of how it is run.

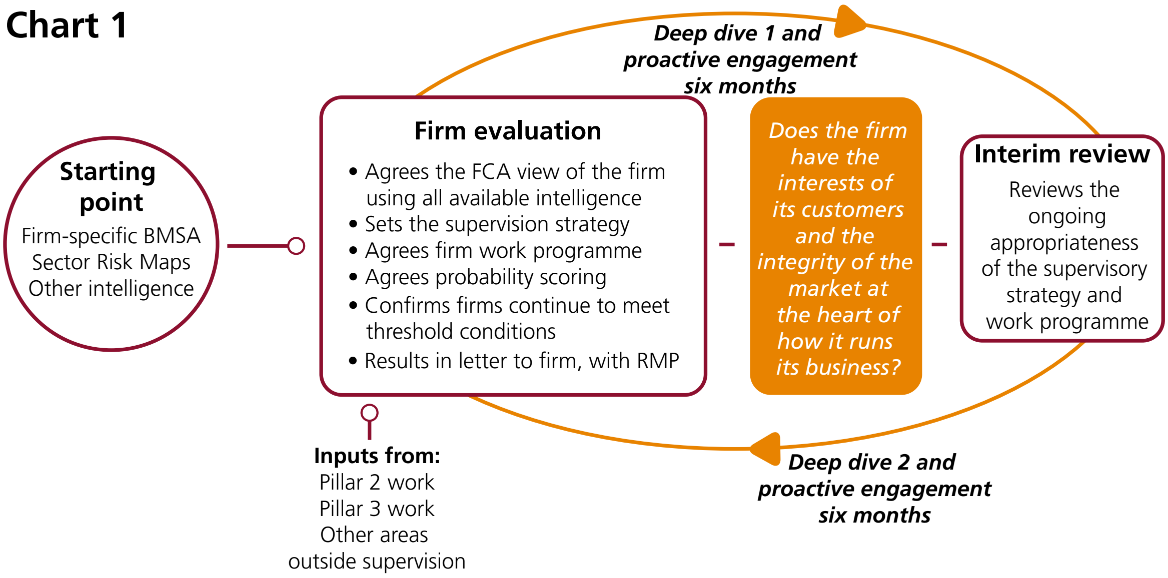
For retail and wholesale firms with a medium or large customer base or market presence, we carry out business model and strategy analysis (BMSA) to look at business models and strategies in detail, including analysing product profitability, prudential issues and data about customers. This, together with ongoing firm engagement, informs 'deep dive' assessments, which examine any particular risks we have identified. (See Chart 1.)

We successfully rolled out this approach to our large (C1 and C2) wholesale and investment banks. As a result we have had more in-depth engagement with these firms, not only to address current concerns but also to discuss future strategies to ensure we anticipate new developments appropriately. We have focused on areas of key conduct risk, engaging with senior management as well as board members and feeding back to the firms, uncovering areas that may need more focus and further discussion.

Some other examples of our pillar 1 work over 2013/14 include:

- In the asset management sector we carried out work to understand how firms consider customers in their product design. As a result, firms improved their arrangements.
- We identified that firms in the general insurance market[2] were not performing effective due diligence or oversight of their delegated agents in relation to customer outcomes and financial crime control. We tackled this through firm supervision and sectoral communications.
- We saw that board oversight of consumer outcomes in the London Market firms was inadequate, so we addressed this through supervision and supported our work with targeted trade body and market-level engagement.
- We continued to deliver our four-year rolling programme of assessments for retail intermediary firms, looking at how they identify risks and conduct issues and what they are doing to mitigate them. For these firms we divide the UK into 12 geographical

Chart 1

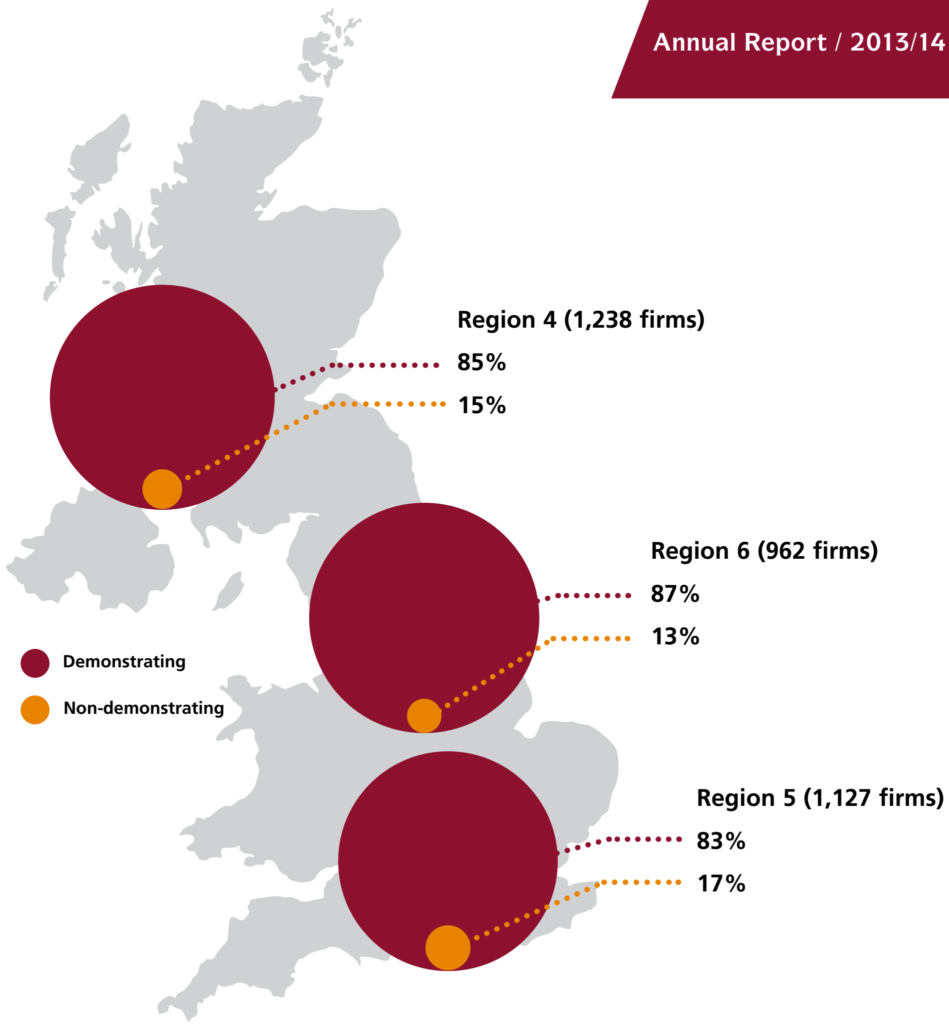


1 For more information on our supervisory approach see our website: www.fca.org.uk/about/what/regulating/how-we-supervise-firms/our-approach-to-supervision

2 See Chapter 4 for our case study on general insurance add-ons.

Chart 2

Over 2013/14 we looked at regions 4, 5 and 6: Scotland & Northern Ireland, South Central England and South Yorkshire. This showed that most firms are demonstrating that they are identifying and managing risks within their business.



regions and assess firms in three regions per year. This includes three phases: educational workshops; a firm-specific assessment; and follow-up work where we think a firm carries significant risks. (See Chart 2.)

Pillar 2: Event-driven, reactive supervision

We discover risks or problems in a number of ways, including through information from firms, as well as data analysis, whistleblowers and consumer complaints. Our response to an event depends on the nature and size of the problem and we focus on the issues that most affect our objectives (see Figure 2).

Some examples of our pillar 2 work over 2013/14 include:

- We intervened where we found financial promotions that did not meet our standards, which we have then had withdrawn or amended. For example, a bank was advertising fee-free mortgage applications, including free valuations, when our intelligence showed that some fees did apply and valuations were only provided when applying for a high loan-to-value mortgage. We immediately required the firm to revise the promotion to more accurately reflect the product.
- Firms proactively engage with us on problems and issues. For example, a bank told us that a payday lender was using technology (with customers' consent) that accessed customers' online banking to verify their identification. This jeopardised its anti-fraud protection under the Payment Services Regulations. We looked into this, working closely with the Office of Fair Trading, and asked the payday lender to stop this practice, which it did, pending further investigation.
- We have prompted some firms to better analyse the cause of risks and harm to consumers in their business. For example, in one firm we had concerns about how it was handling payment protection insurance (PPI) complaints. The firm agreed to amend its policy and review previous cases so customers got the right outcome.
- We used supervision tools, such as attestations, to ensure firms took remedial action. For example, a firm had reduced interest rates on two of its online savings accounts by 0.5% without giving prior notification to nearly 300,000 customers. We intervened and as a result loss was limited to around 2,000 customers who received redress totalling £14,500. We sought an attestation from the firm,

placing responsibility on the Chief Risk Officer to ensure the firm's commitment to provide redress to customers was delivered.

Pillar 3: Issues and products supervision

This work is based on our thematic reviews, which are sector risk assessments of what is and what could be causing poor outcomes for consumers and market participants, drawing on data analysis, information from our financial crime and enforcement investigations, market intelligence and input from our pillar 1 work.

Between 1 April 2013 and 31 March 2014 we completed and published 15 thematic reviews on a range of topics, including mobile phone insurance, the governance of unit-linked funds, outsourcing in the asset management industry, annuities and supervising retail investment firms.

June 2013

Case study: Retry system for banks

We said we would put consumers at the heart of what we do and ensure firms were doing this too. An example of how we did this early on was our agreement with industry on the retry system; working together for the benefit of consumers can often be more effective than writing new rules, and it certainly delivers results more quickly.

- We reached an agreement with seven of the UK's biggest high street banks to use a same day 'retry system' when processing direct debits and standing orders.
- It is estimated that penalty fees through the old system cost customers as much as £200m a year.
- With the new system, if the deposited money is not present when a debit is being taken, the bank will retry the payment in the afternoon to allow deposits to clear.
- We focused on an issue that has a big impact on customers' everyday banking experience.

Enforcing our rules

If we find that firms are not complying with our rules, we take action. In 2013/14 we took action against 34 firms and 28 individuals (excluding threshold conditions cases), imposed 46 penalties totalling £425m[3], issued 124 final notices and obtained 143 outcomes by using our enforcement powers (see Figures 3 and 4).

Promoting effective competition

We have an operational objective to promote effective competition in the interests of consumers. We also have a duty to promote effective competition when considering our consumer protection or market integrity objectives.

We believe that, at its best, competition can lead to lower prices, greater innovation, better design, better quality and wider choice, which ultimately leads to consumers being better off and growth in the economy. We have been building our internal processes and capabilities over the last year to help us deliver the competition objective. We were also granted concurrent competition powers under the Banking Reform Act, which enables us to refer issues to the Competition and Markets Authority for a Market Investigation Reference.

We have published guidance about our approach to our competition objective and our competition duty (see Chapter 4 for more information) and we have ensured that competition implications are appropriately considered in all the work we do.

We have worked closely with the OFT on its SME banking study and we have launched three market studies into general insurance add-ons, cash savings and retirement income.

Our approach to risk

We rolled out our risk framework, which brings together our vision, policy and approach to risk management. In

3 This figure reflects the total penalties issued (publicised) for the year 2013/14. It includes a penalty imposed in March 2013 (and included in 2012/13 financial statements) but published in April 2013. The figure therefore differs from the £420.9m in the financial statements to reflect this.

addition to setting out best practice in risk management, the framework establishes an internal ‘three lines of defence’ model. We have a comprehensive programme to train staff so that we fully embed the new framework.

Over the last year, we have made significant changes to the way we analyse risks to our objectives. We aim to embed quality risk management and an independent view of relevant internal and external financial issues.

Important elements of our governance are our Risk and Audit Committees, which regularly discuss risks to our objectives and our reputation. The Risk Committee has direct responsibility for reviewing and overseeing regulatory risks, and for ensuring that we have the correct mitigation strategies in place to foresee and address these.

Improving our Approved Persons regime

In 2013 the Parliamentary Commission on Banking Standards considered how to improve the accountability of senior individuals in financial services firms and published its final report. This included a significant number of recommendations that affect us and the firms we supervise, including abolishing the Approved Persons Regime (APER) for deposit takers (banks, building societies, credit unions and the nine designated investment firms regulated by the PRA) and replacing it with a regime that is more focused on individual accountabilities.

The Banking Reform Act also includes provisions to introduce a new senior management regime and raise standards of conduct by introducing a certification regime for employees of banks and certain financial firms.

We have since been working closely with the PRA to develop proposals to create an effective framework. We intend to consult on new rules in summer 2014 and implement them in 2015.

Measuring our performance

Accountability and transparency are fundamental to how we work, and a key part of this is how we measure performance and success, and report on our achievements.

Performance framework

We have developed an outcomes-based performance framework made up of four elements designed to measure different aspects of our performance. These elements differ from one another in timescale, scope and proximity to FCA actions.

Our framework breaks down our statutory objectives into outcomes that we would like to see in the industry, indicators of these outcomes and performance measures.

Our outcomes are aspirational and achieving them will take time; however, they tell us if we are heading in the right direction. This means that we will not usually seek to prove beyond a reasonable doubt that our actions have had the desired effect. We will instead demonstrate that we have contributed to the desired outcome.

The framework as a whole, the outcomes, indicators and certainly the performance measures are likely to change over time as we continue to develop our performance framework and identify better measures.

Measuring performance against the statutory objectives

Statutory objectives	Ensuring that financial services markets function well					
	Securing an appropriate degree of protection for consumers		Promoting effective competition in the interests of consumers		Protecting and enhancing the integrity of the UK financial system	
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	Competition contributes to improved consumer outcomes	Firms compete on clear costs and consumers have the information they need	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
Outcomes indicators	Fair products and services	Building trust and engagement	Value for money products and services	Competitive markets	Clean regulated markets	Attractiveness of market
	Improved consumer experience	Effective remedies	Getting better service	Clear and useful information	Low financial crime	Respected, joined-up regulation

We analyse our performance against broad industry sectors based on consumer need rather than how the financial services sector is structured:

- Capital Markets
- Mortgages & Consumer Lending
- Wholesale Banking
- General Insurance & Protection
- Savings, Pensions & Investments
- Banking & Payments

Measuring outcomes is challenging and regulatory success is hard to judge, especially as our success often exists in what we prevent from happening or worsening, which may not be as visible.

Some difficulties include establishing cause-effect relationships, the time lag between our actions and their impact, and our limited control over outcomes that are heavily affected by external factors.

Post-implementation reviews

Post-implementation reviews are targeted evaluations that tell us whether our interventions have had the desired effect, whether we used the right tool and how we can improve.

We aim to complete a post-implementation review of the Retail Distribution Review (RDR) by the end of 2014, to help us determine the extent to which it has delivered the outcomes it was designed to achieve.

Monitoring the delivery of our *Business Plan*

We set out in our *Business Plan* the work we intend to do over the coming year, how our work relates to our objectives and how we use our resources over a set period of time.

We report on what we have done to achieve our commitments in the *Business Plan* in the corresponding *Annual Report*.

Additional measurements

Operational

We monitor and report on our finances, people and systems, such as the expenditure against budget and forecasts, turnover rate, sickness, diversity, satisfaction of employees and training.

We also measure the economy, efficiency and effectiveness with which we use our resources, which enables us to identify areas that need more focus, opportunities for development, and where things are working well and improving.

Service standards

We track and report on our performance against our service standards for performing our regulatory functions, which we publish on our website.[4]

Enforcement Annual Performance Account

We publish our *Enforcement Annual Performance Account*, which includes information about enforcement investigations and their outcomes.

Reporting on regulatory failure

In April 2013, we published a paper, *How the Financial Conduct Authority will investigate and report on regulatory failure*, which summarises what we will take into account when deciding whether we need to investigate a possible regulatory failure.

4 www.fca.org.uk/about/governance/our-performance/standards

Our performance

Figure 1. Distribution of applications decided
This figure shows the outcome of applications received by the Authorisations team over 2013/14.

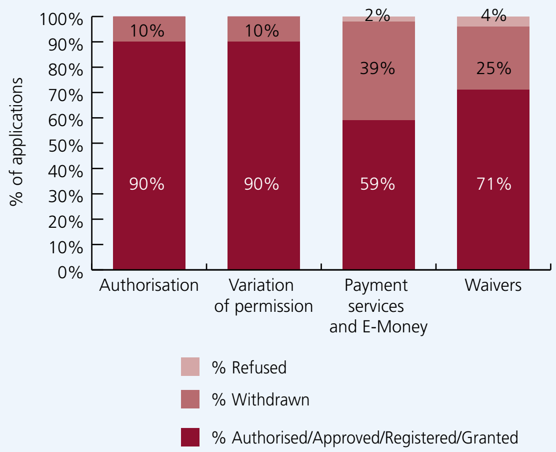


Figure 3. Case movements
This figure shows the number of enforcement cases opened and closed in the last three financial years, as well as the count of total cases.

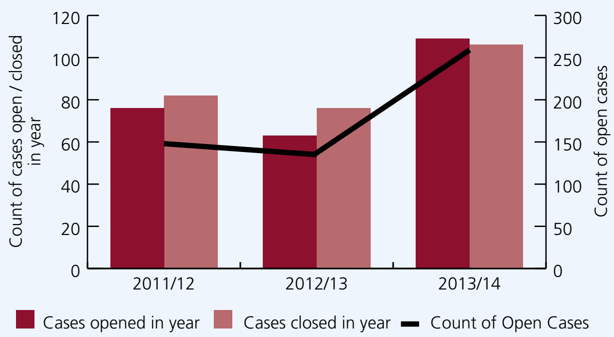


Figure 2. Pillar 2: Event-driven and reactive work – C4 Supervision
This figure shows the volume of potential breaches that have occurred in smaller (C4) firms, and how they are prioritised.

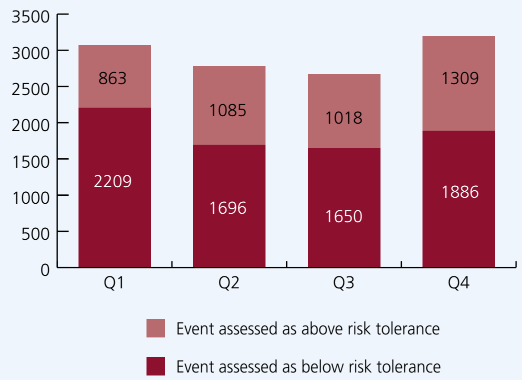
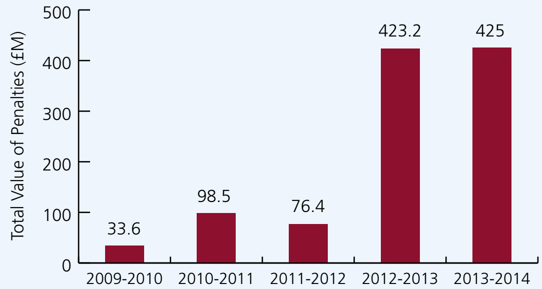


Figure 4. Financial penalties levied
This figure outlines the number and value of financial penalties levied by the FSA since 2009 and the FCA in its first year.



2.

Protecting consumers

We aim to secure an appropriate degree of protection for consumers.

Over the last year we have seen many instances where consumers have been at risk, such as through firms mis-selling products or services, failing to handle complaints appropriately, or failing to meet our standards for businesses.

Our work has led to firms and individuals improving their processes, paying redress to consumers, or being prevented from entering the financial markets.

This chapter sets out how we have delivered on our consumer protection aims in our *Business Plan 2013/14*, such as through:

- Preparing for the implementation of the Mortgage Market Review
- Increasing our supervision of firms that hold client money and custody assets
- Enhancing our listing regime
- Intervening early where we see a risk of consumers being harmed

Implementing the Mortgage Market Review (MMR)

The MMR rules introduce responsible lending, distribution and disclosure, arrears management and prudential requirements for non-deposit-taking mortgage lenders. We aim to ensure that consumers can still get mortgages they can afford, while preventing the poor practices in firms that we have seen in the past. The majority of MMR changes came into effect on 26 April 2014, so are not in this financial reporting year.

During 2013/14 we focused on ensuring that firms were ready to make the changes they need to make. We have:

- carried out online surveys – completed by around 4,000 firms
- run a series of workshops across the UK for lenders and intermediaries[5]
- published educational material on our website, such as a webcast and a guide to getting a mortgage for firms to give consumers[6]
- carried out ongoing engagement with trade bodies

In December 2013 we published new rules to enhance our reporting requirements (the information that we require firms to send us) and amended the Perimeter Guidance (PERG) in our Handbook to make the distinction between advice and information clearer.

In our second online survey in January 2014, all firms carrying out mortgage business said they would implement the MMR on time. Most did not ask for any more information, which shows they had a good understanding of our rules.

5 For some frequently asked questions from these workshops see: www.fca.org.uk/firms/firm-types/mortgage-brokers-and-home-finance-lenders/mortgage-market-review/mmr-intermediary-workshop-faqs
6 www.fca.org.uk/your-fca/documents/getting-a-mortgage-rules-that-affect-you

The Mortgage Credit Directive

The Mortgage Credit Directive (MCD) has been agreed by the European Parliament, Council and Commission and was published in the *Official Journal* on 28 February 2014. It must now be implemented no later than March 2016.

We supported the Government throughout the negotiation, and were able to share experiences from regulating the single largest mortgage market in the EU.

We also ensured that our national policy development, especially the MMR, took account of these discussions. This means that the UK is now well-placed to implement the MCD, while minimising further regulatory change.

Retail investment advice

Reviewing the Retail Distribution Review (RDR)

Since March 2013, we have been carrying out three phases of a review looking at how firms are meeting the requirements of the RDR. We have focused on how firms are disclosing their service and charging structure to clients, and whether firms that describe themselves as independent are actually offering an independent service in practice. On 30 January 2014 we fined Ewan King £19,900 and prohibited him from fabricating statements of Professional Standing to meet RDR qualification requirements.[7]

7 www.fca.org.uk/static/documents/final-notices/ewan-king.pdf

RDR

73%

of firms failed to provide all the required information on the cost of advice and the scope of their service

We completed the first phase in July 2013. While we identified a number of failings, at that time the disclosure requirements were relatively new. So to support firms we clarified our rules, including publishing examples of good and bad practice.

The second phase started in September 2013 and tested the progress made by firms. We still found significant failings in the disclosure of adviser charging models. For example, 73% of firms failed to provide all the required information on the cost of advice and the scope of their service.

On 7 April 2014, we published a report and a supporting video setting out how we expect firms to improve their standards, and that we may take enforcement action against two firms with the most significant failings. On 20 March 2014 we set out the standards that firms have to meet for advice to be considered independent, giving examples of good and bad practice.

Non-advised and simplified advice

In 2013 we assessed a sample of 13 retail investment firms to understand the implications for consumers of the significant increase in non-advised sales and the gradual emergence of streamlined, simplified advice processes in the market.

We focused on the extent to which these firms had developed their non-advised and simplified advice models to meet the needs of their target market, and how they help their customers buy the right products for their needs.

Platforms

Our new rules for platform service providers came into effect in April 2014 to bring greater transparency for consumers, remove bias and encourage competition in the market. These rules:

- require platforms to have an explicit charge for their services
- ban payments from product providers to platforms to pay for or offset the cost of platform services
- ban cash rebates to consumers, with certain exceptions

We carried out a thematic review at the end of 2013 to assess how prepared firms were for these rules. Our findings indicated they were prepared and that they had tried to understand what the changes would mean for their consumers, while still considering the impact on their own business models. However, firms need to focus more on communicating well with consumers, the needs of previously-advised consumers and adequate contingency planning.

Inducements

We carried out a review in 2013 to determine whether payments made by product providers to advisory firms under distribution services agreements could lead to adviser remuneration distorting the advice consumers receive.

Around half the firms we assessed had distribution services agreements that were not in line with our principles for businesses and our inducements rules. We published guidance for firms in January 2014 and are investigating two firms for potential breaches.

Pensions

Pensions liberation fraud

We looked at the potential for tax fraud when people access pension pots before the age of 55, and the potential for investment fraud where people transfer or switch their pension savings into illiquid high risk assets.

We have worked closely with other agencies, such as the National Crime Agency (NCA), The Pensions Regulator (TPR) and the City of London Police, to tackle risks to consumers. We warned firms of the risks of getting involved in such schemes and we continue to look at all parties affected by these activities including unregulated introducers, financial advisers, pension providers and consumers.

Self-invested personal pensions (SIPP) operators thematic review

We have begun work on a thematic review focusing on the financial strength of SIPP operators and the way they conduct due diligence on investments being put into personal pensions. We will publish our findings in 2014/15.

We have required firms not meeting our standards to protect their customers, including by not accepting high-risk investments because they lacked adequate

We imposed
46 fines
(totalling
£425m)
five public censures
and
26 prohibitions

arrangements to handle this type of business, and by increasing the level of capital they hold.

Pensions mis-selling project

Following the publication of *Advising on pension transfers with a view to investing pension monies into unregulated products through a SIPP* on 18 January 2013, we have been carrying out work to address the issues highlighted, including securing voluntary variations of permission for a large number of firms, preventing them from carrying out this activity.

We issued an alert on 28 April 2014 reminding adviser firms of their obligations, and a warning for consumers about the risks of investing in such products.

Working with other pensions organisations

We have worked closely with other organisations, such as the Department of Work and Pensions (DWP), the NCA, TPR and the Treasury. This enables us to inform and align our work with cross-Government work programmes.

In March 2014, we jointly published a guide with TPR to provide an overview of how workplace Defined Contribution (DC) pensions are regulated to protect the interests of consumers. This clarifies the focus and approach of each regulator, and is aimed at market participants such as trustees, advisers and pension providers.

ABI legacy audit of workplace pensions

Following the recommendations from the Office of Fair Trading's DC workplace pension market study in September 2013, the Association of British Insurers (ABI) agreed to an audit of legacy schemes.

We agreed to be part of the Independent Project Board, which was established to oversee the audit and its assessment of value for money.

Intervening early where we see risks

Over 2013/14 we intervened early in 21 cases where we identified a risk of harm to consumers. This means engaging earlier than we normally would in the course of an ordinary disciplinary investigation and agreeing an appropriate response. While this might involve formal action, it is more likely – in the interests of getting a good consumer outcome quickly and efficiently – to involve a voluntary agreement with the firm.

Four of these early interventions involved anti-money laundering at banks. One of these concerned very serious deficiencies in an investment bank's systems and controls to prevent money laundering, and we obtained a voluntary undertaking that the bank would not take on any new clients until we were satisfied that those issues were resolved.

In September 2013, we became concerned about the provision of professional indemnity insurance for 500 professional services firms. We secured the agreement of three firms to vary their permissions to ensure that clients were advised of the concerns and that premiums received from clients were appropriately segregated and safeguarded.

In other cases firms have agreed to make board changes, carry out customer redress exercises, change their approach to complaints handling, stop selling certain products, not publish or broadcast particular advertisements, cancel their authorisation or prepare a skilled persons report.

Taking action

In 2013/14 we imposed 46 penalties (totalling £425m[8]), five public censures and 26 prohibitions.

We have also taken action against firms and individuals operating a variety of unlawful schemes, such as boiler room frauds, land banking scams, and other 'get rich quick' investment schemes. This has included freezing assets, closing down unlawful schemes and pursuing civil and criminal action in appropriate cases.

8 This figure reflects the total penalties issued (publicised) for the year 2013/14. It includes a penalty imposed in March 2013 (and included in 2012/13 financial statements) but published in April 2013. The figure therefore differs from the £420.9m in the financial statements to reflect this.

We have

Issued

295

consumer warnings, of which half were about suspected boiler rooms

Processed a total of

6,593

reports of suspected unauthorised activity, of which

1,634

related to suspected boiler room activity

Secured the removal of

61

websites promoting suspected boiler rooms

We have warned the public about the risks of other types of investment scheme such as carbon credit and graphene scams, which often fall outside of our jurisdiction but nevertheless pose a risk to consumers.

We secured criminal convictions[9] against Michael Lewis, Gary Hexley and John Cooper – who, among other offences, breached the general prohibition (ie gave financial advice without being authorised to do so) – and against Benjamin Wilson for defrauding investors of over £21m, after pleading guilty to fraud, forgery and operating a collective investment scheme without authorisation. We also secured a criminal conviction for market abuse.

Where we have taken enforcement action we also sought to secure appropriate redress for consumers.

We have continued to work very closely with overseas regulators, receiving 1,022 requests for help in 2013/14.

Protecting consumers from financial crime

We secured four criminal convictions in 2013/14 and issued approximately 136 consumer alerts.[10] We also:

- issued 295 consumer warnings, of which half were about suspected boiler rooms
- processed a total of 6,593 reports of suspected unauthorised activity, of which 1,634 related to suspected boiler room activity
- secured the removal of 61 websites promoting suspected boiler rooms

We work closely with other agencies to tackle financial crime. For example, we supported Operation Rico, a two-year multi-agency and international investigation that resulted in 110 arrests in February 2014 in the UK, Spain, United States, Serbia and Romania in connection with boiler room activity.

Operation Rico targeted fraudsters selling bogus shares in carbon credits, gold, renewable energy, forestry, eco projects, wine and land, as well as other items. A total of 35 search warrants were executed, 14 boiler rooms were shut down and large amounts of cash, luxury vehicles and jewellery were seized.

9 Michael Lewis: www.fca.org.uk/news/exmortgage-advisor-sentenced-to-two-years-after-fca-action; Benjamin Wilson: www.fca.org.uk/news/fraudster-benjamin-wilson-sentenced-to-seven-years-imprisonment; for further details on Gary Hexley and John Cooper please refer to the Enforcement Annual Performance Account 2013/14.

10 For more information on our enforcement actions, see: www.fca.org.uk/firms/being-regulated/enforcement/alerts

Working with other organisations to secure compensation

We share information on industry trends and, where appropriate, intelligence and insights gained through our supervisory work with the Financial Services Compensation Scheme (FSCS) and the Financial Ombudsman Service.

We alert the FSCS to the risk of firms failing so they can prepare for the possibility that they will need to consider whether compensation may be payable. The Prudential Regulation Authority (PRA) makes the compensation rules for deposit takers and insurers and we make the rules for other sectors.

Following our consultation in October 2013 (CP13/11) we made rules so that all unincorporated associations and certain large partnerships became eligible to claim on the FSCS if an investment firm failed, in line with the Investor Compensation Schemes Directive. We also took action in relation to any large unincorporated associations that were not considered eligible for FSCS protection for lost deposits.

February 2014

Case study: Armed forces pensions

We identified that 'introducers' may be approaching armed forces service personnel, encouraging them to transfer out of their relatively secure forces pension and move into much higher risk self-invested personal pensions (SIPPs), investing in speculative overseas property development.

We have previously seen firms using introducers to bypass our regulation, issued an alert and taken enforcement action. So we referred this case to our Unauthorised Business Department for further investigation.

We also contacted the Royal British Legion (RBL), the Forces Pension Society and Help For Heroes to establish how widespread the problem was and alert them to it.

Our discussions gave us an opportunity to work in partnership with the RBL, as it has an interest in financial services and a significant number of members. This is an example of how we aim to gather and share consumer intelligence from a diverse range of sources.

Consumer redress exercises

Payment protection insurance (PPI)

We scrutinised firms' complaint handling processes on PPI redress and took action to correct shortcomings where appropriate. As a result, firms have agreed to reassess their previous PPI complaint decisions that were potentially unfairly rejected or inadequately redressed. Firms have also now sent letters to over three million high-risk customers who may have been mis-sold PPI but haven't complained.

We provide monthly updates on our website on refunds and compensation paid to customers who were mis-sold a payment protection insurance (PPI) policy. These figures come from 24 firms that made up 96% of complaints about the sale of PPI last year. By end-March 2014, the total amount paid out since January 2011 was £14.3bn.

Interest rate hedging products (IRHPs)

In 2012, we identified failings in the way that some banks sold IRHPs. In particular, we found that banks did not sufficiently explain the potential costs of exiting these products. The banks involved agreed to review their sales of IRHPs to certain customers, going back to 2001.

We designed the compensation scheme to be as quick, simple and fair as possible, ensuring that smaller businesses that were unlikely to have the specific expertise to understand the risks of these products get their money back, plus interest.

By May 2013, a robust and fully operational scheme was in place, with around 3,000 people ready to start reviewing cases. To ensure it was fair, we put in place independent reviewers to check the banks' work and look over complaints.

When firms found themselves in difficulties, we got the banks to agree to prioritise their cases, suspend payments on their swaps and not to foreclose or adversely alter their lending facilities while the decision on compensation is being made. The total redress payable under the scheme is estimated to be £1.7bn, with £600m paid to consumers by end-March 2014.

PPI

By end-March 2014 the total amount paid out since January 2011 was

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IRHPs

The total redress payable under the scheme is estimated to be £1.7bn with

£600m

paid to consumers as at end-March 2014

May 2013

Case study: Interest-only mortgages

For those interest-only mortgage holders set to repay by 2020, key findings of our study showed:

- Around 600,000 borrowers will see their mortgage mature in this period.
- About 90% of all interest-only borrowers have a repayment strategy (many of these borrowers will have had a mortgage linked endowment policy).
- Just under half of all interest-only borrowers are likely to have a shortfall, one-third of which are expected to be over £50,000. However, typically these individuals have relatively high incomes, high assets and high levels of forecast equity in the property at the end of the term, so many will have backup options even where their intended repayment strategy does not work out as they had hoped.

Over the next 30 years key findings are:

- 2.6 million interest-only mortgages will be due for repayment and 10% of these do not have a strategy to repay, while 90% do.
- 37% believe they may not have enough money to pay off the loan, yet our estimates suggest that the figure is closer to half (48%).

We worked with the Council of Mortgage Lenders (CML) and the Building Societies Association (BSA) to make sure lenders contacted their most at-risk customers to prompt them to check that their plan for repayment is on track and to consider their options.

Mis-selling card protection

In November 2012, we fined Card Protection Plan[11] £10.5m for the widespread mis-selling of its card protection and identity protection policies and ordered it to pay redress to consumers.

Since then we have worked closely with the firm and 13 banks and card issuers on a proposal that offers the best outcome for the largest number of customers. This resulted in the announcement of a consumer redress scheme in August 2013.

Seven million people who bought and renewed card protection and/or identity protection products since January 2005 from the firm, or from their bank or card provider, are eligible to claim compensation if they feel they were mis-sold. Redress per person will depend on the length of time the customer had the product.

Card protection costs about £30 a year, while identity protection costs about £80 a year. Overall up to £1.3bn could be paid to consumers in redress, with £260m paid to consumers by April 2014.

11 www.fsa.gov.uk/static/pubs/final/card-protection-plan.pdf

Mis-selling funds

In 2013 we used our powers under FSMA s.404 for the first time to impose a redress scheme following an industry-wide review into the sale of Arch Cru funds.[12]

The rules governing the consumer redress scheme required advisory firms to send letters to any customer who had received advice to invest in the Arch Cru funds offering them the opportunity to have the suitability of the advice reviewed.

Firms had to notify us of the number of cases in the scope of the scheme and the number of customers who wanted a review. For these customers, firms completed a template providing client-specific information, submitted it to us and we calculated the amount of redress due to the customer.

The firms were then required to send the redress offer to their customers who had six months from the date of the offer letter to accept it, and firms had a further 28 days to pay. The total scheme redress is estimated to be £31.8m, with £11.8m paid to consumers by April 2014.

12 www.fca.org.uk/consumers/financial-services-products/investments/news-and-investigations/cf-arch-cru/investors-cf-arch-cru-review

Protecting consumers' money and custody assets

Over 2013/14 we continued to increase our specialist oversight of firms holding money and assets for their clients (CASS). We focused our attention on strengthening, clarifying and enhancing our rules, and intensifying our focus on how firms are protecting their clients' assets.

As a result we have begun to see some change in the industry, but there is still some way to go. There has been improvement in basic compliance, such as firms having acknowledgement letters and segregating client assets.

Making and amending policy

We consulted on our proposals for firms carrying out investment business (CP13/5). These were driven by findings from our supervisory work, feedback from firms, recent insolvencies and court judgments.

We also consulted on and published rules for debt management firms that hold client money (QCP13/18 and PS14/3), including for firms that operate investment-based crowdfunding platforms (CP13/3 and PS14/4), and we implemented our client assets requirements in the Alternative Investment Fund Managers Directive (AIFMD) (PS13/5).

Taking action

We analysed client asset audit reports from firms carrying out investment business, prioritising the audits that posed the highest risk in terms of the amount of money involved, or the size of the assets and the nature, duration and number of breaches reported (see Figure 5).

After assessing firms' monthly Client Money and Assets Returns (CMAR) and other forms of intelligence, we took regulatory action against nearly 300 CASS firms.

We visited 53 firms (see Figure 6), leading to us requiring some to commission independent skilled person reviews and issue private warnings. We fined Xcap Securities Plc[13], SEI Investments (Europe) Limited[14], Aberdeen Asset Managers Limited and Aberdeen Fund Management Limited[15] a total of £8.2m for failing to protect client money and/or custody assets.[16]

Some firms were subject to a short-notice visit from us, focusing on whether they were complying with the requirement to have a CASS Resolution Pack. We have started reviewing whether CASS oversight is effective in firms and at board level, and we have begun work into the prime brokerage sector, including whether there is an appropriate level of CASS oversight.

We have also established direct relationships with individuals approved for the CASS operational oversight function (Cf10a) in large firms. We supervised these people through a series of meetings, in-depth visits and desk-based assessments.

13 www.fca.org.uk/static/documents/final-notices/xcap-securities-plc.pdf
14 www.fca.org.uk/static/documents/final-notices/sei-investments-europe-limited.pdf
15 www.fca.org.uk/static/documents/final-notices/aberdeen-asset-managers-limited.pdf
16 For more information on our enforcement actions, see: www.fca.org.uk/news/list?ttypes=Press+Release&yyear=&ssearch=

Enhancing our listing regime

In 2013 we consulted on a package of measures (CP13/15) to enhance the effectiveness of our listing regime, particularly targeted at strengthening minority shareholder rights and protections where they are at risk of being abused. These measures are intended to deal with cases where a controlling shareholder does not maintain an appropriate relationship with a premium listed company.

We have considered the need to be effective and proportionate while enabling all shareholders to play an active role in the governance of premium listed companies. Our measures will lead to increased confidence for investors, prompting greater access to capital for businesses and facilitating growth.

Sponsors

We set out proposals (CP14/2) for a competence regime to ensure that sponsors – which premium listed companies are obliged to appoint to advise them on compliance with the Listing Rules – are able to provide investors with confidence in the integrity of the premium listing regime.

We visited

CASS firms, leading to us requiring some to commission independent skilled person reviews and issue private warnings, and we fined three firms a total of **£8.2m** for failing to protect client money and custody assets.

These proposals are designed to deliver a more robust and transparent regime for sponsor competence, and will help ensure that shareholders are actively engaged and to make decisions on a properly informed basis.

BIS remuneration rules

In December 2013 we implemented changes to align our Listing Rules with the new Department for Business, Innovation & Skills (BIS) rules for disclosing executive remuneration by UK premium listed companies. These rules will reduce the burden of regulation by removing unnecessary duplication without lowering transparency and protection for investors.

Remuneration Code

The Remuneration Code sets out the standards that banks, building societies and some investment firms have to meet when setting pay and bonus awards for certain key individuals, including senior management and others who can place the firm at risk. It ensures that firms have risk-focused remuneration policies, which are consistent with and promote effective risk management.

For 22 firms, including the largest firms covered by the code, we and the PRA review remuneration policy proposals before bonuses are paid. These firms must send in a Remuneration Policy Statement that describes the key features of their remuneration schemes, how they comply with the code and any reductions that they have applied.

We have worked closely with the PRA on these reviews, focusing on applying reductions for conduct failings, including those highlighted through enforcement cases and other significant events.

Financial incentives

In March 2014 we published a report summarising how firms had responded to our guidance on financial incentives for frontline sales staff (published in January 2013), and whether firms are now managing the risks to consumers.

We found that our intervention had resulted in significant change, particularly at the largest retail banks. Nearly all firms had considered our guidance and many had made changes or improvements to incentives schemes and controls; however, there is more to be done. Almost all of the large and medium-sized firms involved in this work have completed improvement actions.

It will take time to see if the improvements we have seen are properly embedded and deliver real changes for consumers, or whether other pressures are put on staff to sell in an inappropriate way.

The revised Markets in Financial Instruments Directive (or MiFID II) means many investment firms will, from around the end of 2016, face new requirements on the way they remunerate staff.

We fined HomeServe Membership Limited (HomeServe)[17] £30.6m, our largest retail fine to date, for serious, systemic and long running failings, extending across many key aspects of its business. In particular, Homeserve mis-sold insurance policies, failed to investigate complaints adequately, its Board was insufficiently engaged with compliance matters, and it failed to identify and address inappropriate incentive structures.

We also imposed one of our largest ever retail penalties of £28m on the Lloyds Banking Group[18] for having inappropriate incentive schemes.

Wealth management

In July 2013 we published the outcomes of work that we carried out on the suitability of customer portfolios in wealth management firms, and began to analyse other current and emerging risks to consumers.

This has led to us looking at how wealth management firms identify and manage potential conflicts of interest when they sell discretionary and advisory clients' investment products that have been manufactured by the firm (or by another firm within the group).

17 www.fca.org.uk/static/documents/final-notices/homeserve-membership-limited.pdf
18 www.fca.org.uk/static/documents/final-notices/axa-wealth-services-ltd.pdf

In September 2013 we concluded a review of the fairness and clarity of firms' automatic renewal terms and practices in relation to home and motor insurance. We carried out this review in response to a rise in consumer complaints. It involved 19 firms covering nearly 90% of the insurance market.

We are also analysing how wealth management firms are identifying and managing potential conflicts of interest that could arise from using in-house investment products in their customers' portfolios.

On 12 September 2013 we fined AXA Wealth Services Ltd[19] £1.8m for failing to ensure it gave suitable investment advice to its customers.

General insurance thematic work

Motor Legal Expenses Insurance (MLEI) and Mobile Phone Insurance (MPI)

We looked at sales processes, transparency and consumer understanding across the MLEI and MPI markets. We found that these products can be useful for consumers, but there were a number of improvements to be made, particularly around how these products were explained, to close the gap between consumers' expectations and what the product delivered.

As a result of our feedback, most major insurers and intermediaries moved away from pre-selected opt-out selling of MLEI, as our research showed that most customers don't have the confidence to override the authority of the firm. Firms now have clearer and fairer policy terms and conditions, and improved claims and complaints handling processes.

We fined Policy Administration Services Limited[20] – an insurance intermediary that administers mobile phone insurance policies sold by Phones 4u Limited (Phones 4u) – £2.8m for poor complaints handling between June 2009 and September 2011, including failing to identify the root causes of recurring issues and put them right.

19 www.fca.org.uk/static/documents/final-notices/axa-wealth-services-ltd.pdf
20 www.fca.org.uk/static/documents/final-notices/pas.pdf

We also fined Swinton Group Limited[21] ('Swinton') – one of the largest insurance retailers on the high street – £7.3m for mis-selling. We found that Swinton's aggressive sales strategy meant that it failed to treat customers fairly in its telephone sales of monthly add-on insurance policies.

Automatic renewal terms and practices in home and motor insurance

In September 2013 we concluded a review of the fairness and clarity of firms' automatic renewal terms and practices in relation to home and motor insurance. We carried out this review in response to a rise in consumer complaints. It involved 19 firms covering nearly 90% of the insurance market.

We wanted to ensure that the way firms carry out automatic renewal serves the best interests of customers. We did not consider the validity of the practice of automatic renewal itself as we recognise that, provided it is carried out in the interest of consumers, it may be beneficial in some circumstances. For example, it is illegal to drive without having a valid motor insurance policy in place.

We found that improvements were needed in relation to firms' contractual terms relating to automatic renewal, such as whether renewal would take place and what notice would be given, as well as to the timing and content of their communications before and after the point of renewal, including how customers opt-out of automatic renewal.

All the firms involved in the review responded positively to our feedback and, where necessary, agreed to make appropriate changes to their terms and practices. We also discussed our findings with trade associations and consumer bodies and hosted a seminar in September 2013 to share our findings with the industry.

21 www.fca.org.uk/static/documents/final-notices/swinton-group-limited.pdf

Over 2013/14
we received

1,252

MPs letters

Premium finance

We looked at the activities of general insurance brokers who arranged premium finance for commercial customers alongside contracts of insurance, considering transparency and potential conflicts.

We found that many brokers had not understood that arranging premium finance as part of the sale of a general insurance policy formed part of the regulated sale. So they had often not taken adequate steps to understand and manage potential conflicts of interest when arranging premium finance.

We also looked at insurers' outsourcing of claim activities to private investigators. We found that insurers' systems and controls over private investigators required improvements. We reminded insurers that they were responsible for the actions of private investigators by giving firm-specific feedback and publishing a factsheet setting out our findings and expectations.

We have begun thematic work into mobile banking, looking at how firms are implementing this new technology while complying with good conduct rules, and how they are managing infrastructure resilience and financial crime challenges.

Technological resilience

Along with the Bank of England and the Prudential Regulation Authority (PRA), we are carrying out work agreed with the Financial Policy Committee in response to its recommendation to the Treasury in June 2012 to assess, test and improve the resilience of core parts of the UK financial sector to cyber-attacks. As a result, we have begun to address IT resilience for a number of banks, including securing remediation for customers who have suffered harm as a result of outages.

We have worked with the large UK retail banks to review and understand their plans to enhance the resilience of their systems. Where IT outages have occurred we have ensured that the root cause has been identified, mitigation plans are in place, customers who have been harmed are appropriately compensated and complaints procedures are clear, easy and incur minimal costs.

We have begun thematic work into mobile banking, looking at how firms are implementing this new technology while complying with good conduct rules, and how they are managing infrastructure resilience and financial crime challenges.

Engaging with our stakeholders

We receive a significant number of letters from local MPs regarding how our work affects their constituents, to which we respond within a maximum of 30 days. Over 2013/14 we received 1,252 MPs letters, a significant increase on the 933 letters received in 2012/13 (see Figure 7). A major part of this increase was due to high volumes of letters regarding consumer credit issues.

In January 2014 we commissioned research on our digital channels. We carried out a survey and held focus groups with firms, consumers and trade associations. Our findings will help us to ensure users can find and use the information they need.

We also carried out a series of roadshows, webinars and events in the lead up to the FCA taking over the regulation of consumer credit on 1 April 2014. We wanted to ensure that firms new to us could understand what it meant for them and how it would feel to be regulated. Nearly 800 people took part in our webinar in November 2013. We also published a guide for new firms: *Being regulated by the FCA, a guide for consumer credit firms*.

We also carried out a non-firm stakeholder survey to understand how they felt about the way we engage with them and what more we can do to ensure they understand our purpose, objectives and work.

Case studies

To find out more about some specific work we have done to protect consumers, see:

Our work on consumer scams:
www.fca.org.uk/consumers/scams

Our work on annuities and retirement income:
www.fca.org.uk/consumers/financial-services-products/pensions/annuities

A full list of our thematic reviews:
www.fca.org.uk/news/list?ttypes=Thematic+Review

Our performance

Figure 5. Number of client asset (CASS) audit qualifications

This figure shows the outcome of CASS audits undertaken, comparing outcomes from last three years.

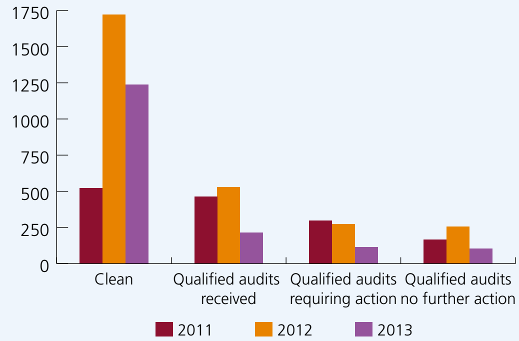
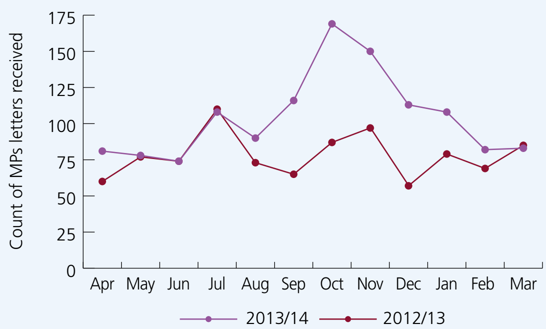


Figure 6. Number of CASS visits

This figure details the number of CASS visits carried out by the FCA in 2013/14, comparing this to the previous two years and known projections for 2014/15

Figure 7. Volume of MP letters received

This figure shows the number of MP letters received each month of 2013/14 as compared to 2012/13.



3. Enhancing integrity

We protect and enhance the integrity of the UK financial system. This benefits firms, individuals and society as a whole, and we continue to work to ensure markets are effective, efficient and reliable.

This chapter sets out how we have furthered this objective and delivered aims in our *Business Plan 2013/14*, including by:

- Developing our approach to risk
- Restoring confidence in benchmark settings
- Promoting appropriate levels of transparency and disclosure

Regulating wholesale conduct

We look at how market participants interact with each other and conduct their business in wholesale markets, including their trading and dealing activities. Our approach covers market infrastructures, investment banks and the wholesale activities of other banks, trading firms, asset managers and individuals.

We seek to ensure that:

- senior management are accountable for their capital markets activities, including principal and agency responsibilities
- there is a positive culture of proactively identifying and managing conflicts of interest
- there is orderly resolution and return of client assets and that firms embed appropriate controls

- firms' business models, activities and behaviours maintain trust in the integrity of markets and do not result in or permit market abuse, systemic risk or financial crime
- market efficiency, cleanliness and resilience is delivered through transparency, surveillance and the supervision of infrastructures, as well as their principal users
- all firms, acting as agents on behalf of their clients, put clients' best interests at the heart of their businesses
- we intervene early in wholesale markets to mitigate the risk of harm being transmitted to retail consumers

Asset management

Asset managers make investment decisions on behalf of customers who are unable or unwilling to do so themselves. We expect asset managers to put their customers' interests ahead of their own and, when spending customers' money, to control costs with the same diligence as they pursue returns.

Over 2013/14 we focused on how asset management firms act as good agents. We looked at fund structures, the complexity and clarity of how custody banks manage the sale of additional services to funds, the transfer of assets, outsourcing and use of dealing commissions.

We identified that firms had not actively considered what would happen if their service provider failed, and most did not have a credible plan in place to address how services to clients would be provided should that occur.

We expect firms to adequately mitigate any risks associated with outsourcing, including ensuring they have the expertise to perform adequate oversight of their service providers.

Alternative Investment Fund Management Directive (AIFMD)

The AIFMD aims to create a single market for alternative investment funds to foster efficiency and cross-border competition by deregulating national barriers and creating level playing fields through consistent rules for AIFMs.

We have focused on finalising policy issues and setting the rules. The final guidance on the AIFM remuneration regime was well received by the industry, as it sets out how firms can apply proportionality to the Directive's remuneration requirements.

Firms must submit an application and be compliant with AIFMD by 22 July 2014. We have had a positive response to our requests for early applications, with firms and depositories observing our guidance on application timeframes.

October 2013

Case study:
Asset management conference

We set out our strategy and launched a debate with industry on the future regulation of the asset management sector at our conference in October. The UK asset management industry has grown over the last 50 years, and now manages funds equivalent to 40% of GDP, as well as employing tens of thousands of people.

Our rules on the use of dealing commissions from 2006 were not being implemented by firms as we would expect. We worked with the industry on testing the rules, to tell us whether they were clear enough and if they needed further guidance, so the sector could continue to trade on its reputation of being reliable and transparent.

We also previewed findings from our thematic reviews on 'anti-money laundering, anti-bribery and corruption systems and controls' and 'outsourcing'.

Use of dealing commission

In October 2013 we launched a review of our rules on the use of dealing commission, following evidence of poor practices by investment managers reported in 2012.

We are focusing on the key interactions between investment managers acting as agents and managing investments on behalf of their clients, and brokers and other third parties with whom they execute trading decisions and acquire additional research services paid for with client commissions.

We have looked at how firms buy research services with dealing commission, the types of services they buy, and how brokers provide these services, to ensure fund managers spend their customers' money appropriately. We reviewed best execution across a number of businesses, focusing on ensuring firms are acting as good agents of clients.

In our policy statement (PS14/7) we reinforced our rules and provided greater clarity on what investment managers can pay for using client dealing commission. We will look at the potential need for wider reform alongside ongoing EU discussions on revising the Markets in Financial Instruments Directive (MiFID).

Fund fee structures

We carried out a review looking at the clarity of fund charges. We found examples of firms that provided their customers with a consistent, combined charge figure across all relevant documents and websites, but also examples of firms referring to different charge figures across multiple documents, making effective comparisons difficult.

To help investors make proper decisions, firms should consistently use a combined charges figure in all documents and websites.

Custody bank ancillary services

We assessed the importance of ancillary (or value added) services to the custody banks and whether the price of these services was clear.

While the fact that customers tend to buy custody services as a bundle makes analysis difficult, pricing is clear and has improved over the past few years. This has largely been driven by competitive pressures leading to improvements in services. We found no evidence of inappropriate practices, but we intend to keep this area under review.

Transitions management

Transitions management helps investment funds switch their assets from one manager to another. Last year funds transferred over £165bn of assets through transition management services.

We identified that although the 13 specialist providers in this market broadly met our requirements, the quality and effectiveness of controls, marketing materials, governance and transparency varied.

We gave specific feedback to these specialist providers and took enforcement action against State Street Bank Europe Limited and State Street Global Markets International Limited.[22]

Restoring confidence in benchmarks

LIBOR

Activities related to the setting of LIBOR have been a regulated activity since April 2013, following the recommendations of the Wheatley Review in September 2012, which included:

22 For more information see: www.fca.org.uk/static/documents/final-notices/state-street.pdf

- stopping certain currencies and tenors
- introducing a code of conduct for submitters
- approving individuals to carry out new controlled functions at the submitters and the administrator
- transferring administration to a new independent body – ICE Benchmark Administration Ltd (IBA) – on 1 February 2014

Our approach aims to restore the integrity of LIBOR and is comprised of three initiatives:

- **Banks:** We are currently undertaking a supervisory review of all LIBOR submitting banks. Their activities will also be subject to independent annual audits.
- **Benchmark administrator:** The administrator is now required to take an active role in monitoring the markets for abuse, and to have an oversight committee comprised of representatives from users and market infrastructure providers rather than just submitting banks. The administrator was required to, and has already, created a code of conduct for submitters and we expect the administrator to carry out regular audits.
- **FCA:** We have developed new analytical tools to monitor for market abuse and attempts to manipulate LIBOR.

Since April 2013, firms that participate in setting LIBOR have been required to seek approval of individuals responsible for overseeing benchmark submissions. As part of our normal approval process, these individuals were subject to a thorough assessment of their fitness and propriety, including in-depth due diligence checks of their previous conduct and, for most, a rigorous interview.

The responsibility for administering LIBOR passed from the British Bankers Association to IBA, which is owned by Intercontinental Exchange, a leading operator of regulated exchanges. As part of the authorisation process for IBA we also approved key individuals. Our approval assessment included interviewing non-executives and senior executives seeking to hold significant influence functions.

We fined ICAP Europe Ltd[23] £14m – the first broking firm to be fined – and we fined Coöperatieve Centrale Raiffeisen–Boerenleenbank B.A. (Rabobank)[24] £105m in relation to misconduct for LIBOR failings.

23 www.fca.org.uk/static/documents/final-notices/icap-europe-limited.pdf
24 www.fca.org.uk/static/documents/final-notices/rabobank.pdf

Protecting the markets from financial crime

We believe it is important to take action that minimises the possibility of a firm being used for financial crime. In July 2013 we held our first financial crime conference. Around 400 delegates attended from industry, government, law enforcement agencies and interest groups. We discussed issues such as our financial crime remit and best practice on collaborative working to make the UK a more hostile place for criminals to profit from their crimes.

Assessing firms' financial crime systems and controls

In July 2013 we published our first annual anti-money laundering (AML) report setting out our AML obligations, how we meet them, and the trends and emerging risks we're detecting across regulated firms.

During 2013, we secured voluntary undertakings from four banks to not take on any new high-risk and/or politically exposed persons (PEP) as customers while they corrected deficiencies in AML controls. The CEO of one of these banks has since provided an attestation that AML controls are now effective and many high-risk accounts were exited during the process.

We have also continued work on our Systematic Anti-Money Laundering Programme, completing assessments on four firms, with a fifth underway.

We published our first thematic review into trade finance in July 2013[25], which looked at 17 banks and found that while most had developed effective controls to ensure they were not dealing with sanctioned individuals and entities, most had failed to adequately consider money laundering and terrorist financing risk in trade finance.

25 www.fca.org.uk/news/tr13-03-banks-control-of-financial-crime-risks-in-trade-finance

LIBOR

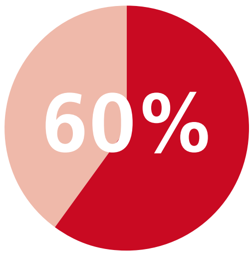
Since **April 2013,** firms that participate in setting LIBOR have been required to seek approval of individuals responsible for overseeing benchmark submissions

Whistleblowing

A total of

1,040

cases were made to us, an increase of



since 2012

In October 2013 we published our thematic review into 22 asset management and platform firms' AML and anti-bribery and corruption (ABC) systems and controls.[26] We found that AML controls varied across the sector. There were areas where some firms understood and met their obligations, and others where improvement was needed. Firms need better management of AML and ABC risks, particularly in relation to high net worth customers, offshore trusts and non face-to-face businesses.

We fined Standard Bank PLC £7.6m, EFG Private Bank Ltd[27] £4.2m and Guaranty Trust Bank (UK) Ltd[28] £525,000 for failings relating to its AML policies and procedures for high-risk customers.

We also fined JLT Speciality Limited[29] £1.8m and Besso Ltd[30] £315,000 for a failure to take reasonable care to establish and maintain effective systems and controls for countering the risks of bribery and corruption.

Whistleblowing

In October 2013 we hosted a seminar to discuss transparency and whistleblower protection, which was attended by whistleblower support groups, trade bodies and charities, other regulators and financial services representatives. We also contributed in 2013 to consultations on whistleblowing conducted by the charity Public Concern at Work and the Department for Business, Innovation and Skills.

A total of 1,040 whistleblower cases were made to us in 2013, an increase of over 60% since 2012 (see Figure 8).

Tackling market abuse

In criminal cases we normally seek to confiscate the proceeds of financial crime under the Proceeds of Crime Act 2002 (POCA). The total value of confiscation orders we obtained under POCA in 2013/14 was over £4.1m. Of this, £2.6m related to insider dealing cases and £1.5m related to unauthorised business cases.

Over the last year we have concluded market abuse cases against two individuals: Michael Coscia in relation to manipulative behaviour known as 'layering', in high frequency trading[31] of commodities futures, which is the first time we have taken action against a high frequency trader; and Mark Stevenson in relation to intraday manipulation in the gilts market.[32]

These cases resulted in financial penalties of £597,933 and £662,700 being imposed against Mr Coscia and Mr Stevenson respectively, and a prohibition from working within regulated markets. We also concluded a case against 7722656 Canada Inc, formerly carrying on business as Swift Trade Inc[33], for engaging in market abuse, which resulted in a financial penalty of £8m.

We have secured one criminal conviction in relation to market abuse.

We exercised our new power to publish information about a matter in relation to which a warning note has been issued. We issue warning notices to firms and individuals against whom we are minded to take enforcement action. We issued seven warning notices in 2013/14 for significant failings in relation to an interest rate benchmark.

We have also set out to educate firms by holding forums concentrating on market conduct issues and re-launching our *Marketwatch* publication. We have visited firms to assess their market abuse systems and controls, while also continuing with our enhanced suspicious transaction report supervisory programme.

We have also instigated a number of short selling restrictions, supporting other National Competent Authorities. These restrictions look to enhance market integrity across trading venues in Europe by preventing disorderly price declines.

We continue to enhance our surveillance, detection and investigation capabilities, which allow us to effectively process notifications of suspicious trading.

26 www.fca.org.uk/news/thematic-reviews/tr13-9-anti-money-laundering-and-anti-bribery
27 www.fca.org.uk/static/documents/final-notices/efg-private-bank.pdf
28 www.fca.org.uk/static/documents/final-notices/guaranty-trust-bank-uk-ltd.pdf
29 www.fca.org.uk/static/documents/final-notices/jlt-specialty-limited.pdf
30 www.fca.org.uk/static/documents/final-notices/besso-limited.pdf

31 www.fca.org.uk/static/documents/final-notices/coscia.pdf
32 www.fca.org.uk/static/documents/final-notices/mark-stevenson.pdf
33 www.fca.org.uk/static/documents/final-notices/7722656-canada-inc.pdf

Market cleanliness

We analyse the scale of share price movements in the two days ahead of regulatory takeover announcements and identify movements that are abnormal compared to a stock's normal movement.

We publish our statistics annually, but the level of such abnormal pre-announcement price movements (APPMs) does not provide a precise measure of the level of suspected insider dealing. Since 2010, we have seen a significant decline in the measure of the market cleanliness statistic for takeover announcements from close to 30% to 15.1% in 2013 (see Figure 9).

Foreign exchange (FX) market

In 2013, we became aware of allegations of inappropriate conduct regarding the foreign exchange market and began an investigation, alongside several other agencies, into a number of firms.

This investigation is ongoing and has prompted unprecedented global cooperation. The lessons learned and relationships built during the LIBOR investigations have helped to ensure this process is as efficient and effective as possible.

Overseeing infrastructure with the Bank of England

We have a memorandum of understanding (MoU) in place with the Bank of England and the Prudential Regulation Authority (PRA). This aims to ensure coordinated oversight of the markets and infrastructures for which we or the Bank of England have supervisory responsibility (including Recognised Investment Exchanges and Recognised Clearing Houses, see below).

The Deputy Governor of Financial Stability at the Bank and our CEO met in January 2014 and concluded that this cooperation worked well. We will continue to annually review the MoU, taking into account feedback from the industry and publishing our findings.

Recognised Investment Exchanges (RIEs)

On 1 April 2013, we retained responsibility for supervising RIES, while the supervision of Recognised Clearing Houses transferred to the Bank of England. RIEs are a critical part of market infrastructure in providing organised trading facilities across a wide range of markets.

We have refined and focused our supervisory approach for RIEs on key issues around market integrity and investor protection, such as operational resilience, effective systems and controls to identify and prevent abusive trading activity and effective governance. This has involved greater focus on, and interaction with, the group holding companies that own, oversee and operate UK RIEs.

We published a policy statement in May 2014 looking into competition in the markets for services provided by RIEs (see Figure 10).[34]

Multilateral Trading Facilities (MTFs)

We have implemented a new framework for supervising Multilateral Trading Facilities which, alongside RIEs, provide organised trading facilities across a wide range of markets. This is proportionate to both the risk each MTF operator poses to our objectives and the nature and scale of the MTF's activities.

We have engaged with UK MTF operators to outline the framework, which combines targeted supervisory engagement with cross-MTF thematic work. We have designed and implemented our approach to ensure that MTFs are supervised to an equivalent standard to RIEs.

34 www.fca.org.uk/news/firms/ps146-competition-in-the-markets-feedback-on-cp1316-and-final-handbook-text

November 2013

Case study: Markets conference

Our markets conference covered the range of our activities across primary and secondary markets at a time of significant change due to international regulation.

We spoke about the importance of international regulation to UK financial markets, as well as some of the big challenges facing industry, including MiFID and changes to commodities derivatives regulation. We also discussed our updates to the Listing Regime, and our approach to wholesale conduct.

Attendees included representatives from trading firms, exchanges, investment banks, and trade associations.

Trading firms

We moved 430 trading firms (interdealer brokers, agency brokers, high frequency traders and others with an impact on the market infrastructure) into our new supervisory approach. This involved reviewing firms' activities, business models and the drivers of conduct risks, including trade culture, behaviour and controls.

We are also looking at the impact these firms have on market infrastructure; our results will feed into our supervisory strategies for these firms.

Regulated Covered Bonds (RCBs)

We have regard to investor confidence and the reputation of the UK-covered bond market, ensuring a low risk of default in timely payment of the bonds. We have monitored each programme's ability to meet the regulatory requirements and assessed each issuer's ability to comply with its obligations.

We have assessed the implementation of policy changes that became effective on 1 January 2013, strengthening the robustness of the UK regime and increasing transparency in this market.

Commodities

In February 2014 we published an update on our website detailing how commodity markets are changing and how we are responding, reflecting our remit for regulating commodity derivatives.[35]

Primary Information Providers (PIPs)

In January 2014 we finalised new rules governing PIPs[36], which distribute information to the market in a secure and timely way on behalf of issuers of UK listed securities.

Transaction reporting

Certain firms that execute eligible transactions are required to report the details of those transactions to us. We use this information in a number of ways, including monitoring for market abuse and market dislocations.

Over the last year we reviewed a significant number of cases where firms were suspected of failing to report their transactions correctly and we took action to rectify any errors. This included asking firms to re-report incorrect historic reports, requesting specific individuals to attest to the quality of the reports they were submitting, issuing private warnings, and commissioning skilled person's reports. We fined the Royal Bank of Scotland[37] £5.6m for incorrectly reporting transactions they made in wholesale markets and, in some instances, failing to report transactions at all. We also visited a selection of firms to assess their compliance with our regime.

We communicated with the industry through our *Marketwatch* newsletter, our website and helplines, as well as holding a transaction reporting forum for market participants in April 2013 that addressed policy, supervisory and technical issues.

Enhancing our mutuals regime

We have agreed a renewed strategy for mutuals[38], aiming to deliver a more rigorous and proactive registrar function and meet the new requirements placed on us by legislation.

This will fundamentally change the way we deal with applications. We will take on a more proactive role in monitoring mutual societies and analysing emerging issues, reviewing our risk appetite for mutuals and streamlining our working practices.

Investment banks

Investment banks use public markets or their own balance sheets to facilitate the exchange of capital between borrowers and savers in wholesale markets. They can act in multiple capacities for the same client or in the same transaction.

We have focused on ensuring that:

- firms understand the capacities in which they act (as principal or agent) and manage the conflicts of interest that arise from acting in multiple roles

35 See www.fca.org.uk/static/documents/commodity-market-update-1402.pdf and www.fca.org.uk/static/documents/guide-to-commodity-markets-regulation.pdf

36 www.fca.org.uk/static/documents/policy-statements/ps14-02.pdf

37 www.fca.org.uk/news/rbs-fined

38 We register and record documents for mutual societies, including industrial and provident societies, friendly societies, building societies and credit unions. Find out more at: www.fca.org.uk/firms/firm-types/mutual-societies.

- firms use information properly
- firms properly control traders' behaviour and traders comply with our market conduct regulations and with firms' duties to clients

Over 2013/14 we conducted significant work on securing improvements to banks' governance and controls, particularly in relation to identifying and managing conduct risks. We have also increased our external engagements with key industry associations and other regulators.

We fined JP Morgan £137.6m for serious failings in its Chief Investment Office (CIO). The breaches occurred in connection with the $6.2 billion trading losses sustained by CIO in 2012. These losses arose as a result of what became known as the 'London Whale' trades, and were caused by a high-risk trading strategy, weak management of that trading and an inadequate response to important information which should have notified the firm of the huge risks present in the CIO's Synthetic Credit Portfolio.

Improving funds authorisation

We are responsible for authorising collective investment schemes that are offered to the UK public. In September 2013, we wrote to the Chancellor to confirm some changes we are implementing to reduce fund authorisation times.

Fund type	Current timeframe	Proposed timeframe from April 2014	Proposed timeframe from April 2015
Non-UCITS (retail)	six months (statutory)	three months (voluntary SLA)	two months (voluntary SLA)
Non-UCITS (qualified investor)	six months (statutory)	two months (voluntary SLA)	one month (voluntary SLA)
UCITS	two months (statutory) and 75% within six weeks (voluntary SLA)	90% within six weeks (voluntary SLA)	No change

Feedback from industry practitioners suggests that our new improved service standards have moved into line with Ireland and Luxembourg, where both UCITS and non-UCITS schemes are typically authorised in six to eight weeks.

We have introduced a streamlined application process, including new easy-to-use application forms, and increased our resources to better engage with the industry.

Our performance

Figure 8. Whistleblowing
This figure shows the number of whistleblowing contacts received by the FCA and subsequent action from these contacts.

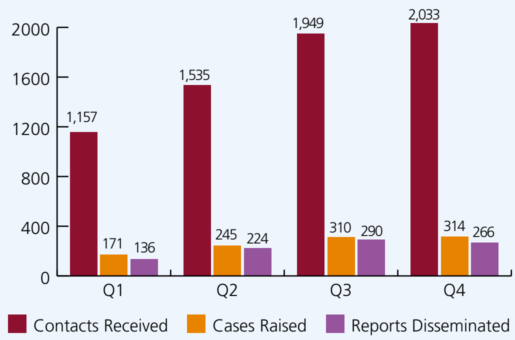


Figure 9. Market cleanliness
This figure shows the scale of share price movements in the two days ahead of regulatory takeover announcements and identifies movements that are abnormal compared to a stock's normal movement. This figure shows the year-on-year trending.

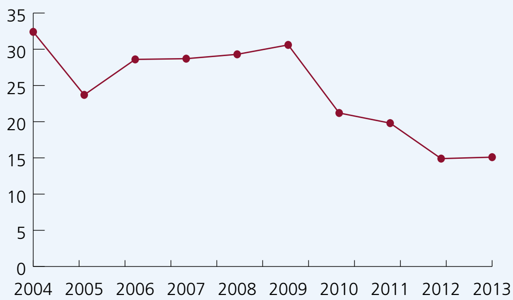
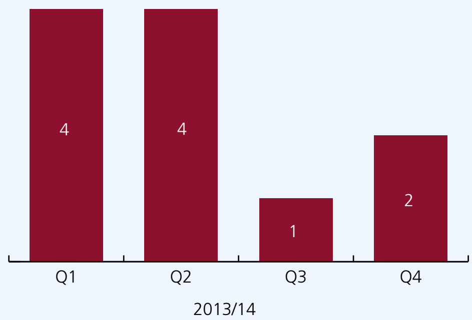


Figure 10. Priority 1 incidents in infrastructure firms
Priority 1 incidents generally relate to significant market outages or reporting errors, which could affect the orderly functioning and resilience of the markets.



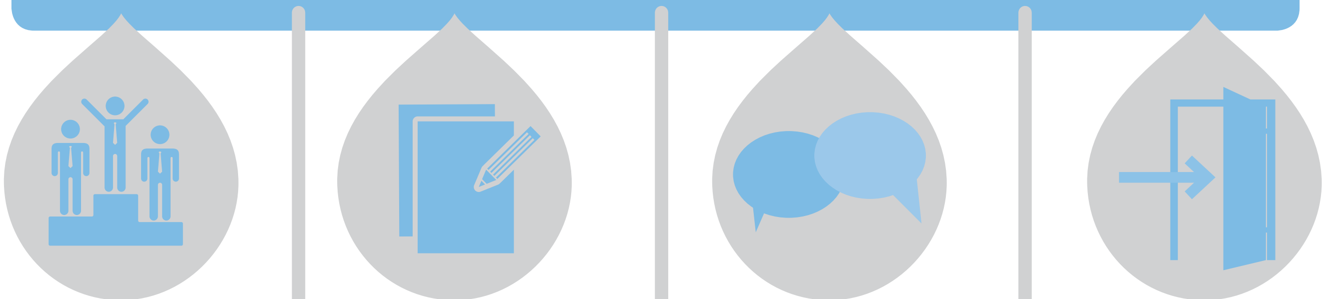
4.

Building competitive markets

We promote effective competition in the interests of consumers. We also have a competition duty, so whenever we advance our other objectives we do it in a way that complies with that duty.

Over the last year we have built up our internal processes and capabilities to help us achieve this and begun a programme of studies into certain markets to explore ways of making competition work more effectively in the interests of consumers.

This chapter sets out how we have furthered our competition objective and duty, and delivered on the aims in our *Business Plan 2013/14* by:



- Using our authorisation and supervision models to consider competition concerns
- Carrying out market studies
- Working closely with other authorities
- Reducing barriers to entry

Building our ability to promote effective competition

In July 2013 we set out how we aim to advance competition in *The FCA's approach to advancing its objectives*, and in October 2013 we published our approach towards carrying out market studies (see below).

We have built up our internal competition function and considered the competition implications of all new policy proposals. From April 2015 we will have concurrent powers to enforce competition law and refer cases to the Competition and Markets Authority (CMA) to be investigated. We are currently reviewing our Handbook to ensure it is consistent with our competition mandate.

We have also rolled out an online introductory training course on competition to all of our staff and delivered more advanced training to around 100 staff across the organisation.

Carrying out market studies

Our market studies focus on areas that pose the highest risk to consumers from ineffective competition. We have worked closely with the OFT on its SME banking study, and we have launched three market studies of our own.

General insurance add-ons

In March 2014 we published the provisional findings of our first market study, which looked at the market for add-on insurance. We found that consumers could be significantly overpaying when buying these products and that ineffective competition could lead to bad outcomes for them. We will consult on our proposals for how we intend to tackle this in 2014.

Cash savings

We began a study into the cash savings market, looking at which consumers switch accounts and how often, how well they understand the products, the number and variety of accounts available, and how they are sold. We will publish our preliminary findings and our final report in 2014.

Retirement income

On 19 March 2014 the Government's Budget announcement made some significant changes to the pension and retirement markets. The options (either individually or in combination) available to consumers drawing benefits from April 2015 will be to:

- buy an annuity or alternative retirement income product
- take income from their pension pot
- fully withdraw their pension pot, subject to tax at their marginal rate

To support consumers, the Government announced the creation of an impartial guidance guarantee. Schemes and providers will be required to offer free (at the point of delivery) impartial guidance to consumers on their available retirement options.

We are:

- working with the Government, industry bodies and consumer organisations to develop the framework for the impartial guidance guarantee, which will be offered to individuals from April 2015
- continuing with our market study into retirement income, the focus of which will be more forward looking, with a greater emphasis on potential risks and competition concerns in the new landscape

April 2013

Case study: Behavioural economics and general insurance add-ons

Behavioural economics is now an important regulatory tool for the FCA and we use it to analyse consumers and the markets we regulate. We published two papers in April 2013 giving insights into how consumers make decisions and where they are vulnerable to mistakes.

In July 2013 we announced a market study into the £1bn general insurance add-on market (a general insurance add-on is an insurance product sold alongside goods or services eg, a car or holiday), testing whether competition was actually working for consumers.

We found consumers were potentially being overcharged £200m each year for these products, which they rarely need or use.

We used an innovative behavioural experiment to review the experiences of over 1000 consumers and carried out behavioural research to understand if buying decisions are affected by different sales tactics. Key findings included:

- 69% of consumers could not remember how much they paid for the product
- 25% of consumers did not know they could buy the product separately
- 58% did not compare their product with other policies on the market

We are now proposing:

- a ban on pre-ticked boxes to ensure consumers actively choose to buy an add-on and are clear when and how they are purchasing a product
- a requirement for firms to publish claims ratios to highlight low-value products
- improvements to how add-ons are offered through price comparison websites, such as how and when on the website they are introduced to consumers
- a requirement for firms to ask customers who buy an add-on to confirm they want the product in the days following the sale of the primary product

- carrying out a thematic review looking at firms' retention strategies and sales techniques when selling annuities to existing customers, using good and poor practice to develop the guidance framework and the market study

Working with other organisations

In April 2013 we published a memorandum of understanding with the Office of Fair Trading (OFT) to ensure close communication and cooperation, and we will work closely with the new Competition and Markets Authority, which came into existence on 1 April 2014. We have also liaised closely with the Competition Commission since the launch in June 2013 of the current market study into payday lending.

In December 2013 the chair of the Competition Commission inquiry group met our CEO and we were invited to a hearing in March 2014. We met regularly to share high-level outlines, timings and risks of upcoming work, including our work on price caps, and information on data sharing that the Competition Commission collected as part of its market investigation.

Reducing regulatory barriers to entry and expansion for banks

In March 2013, our predecessor (the Financial Services Authority) and the Bank of England published a review of their requirements for firms entering into or expanding in the retail banking sector, including proposals to make it easier, quicker and more cost-effective for new banks to enter the market and for existing banks to expand.

We have implemented all of our proposals from the report and have seen an increase in the number of firms discussing the possibility of becoming a bank – up from seven in March 2013 to 23 a year later. We are also offering enhanced upfront support to prospective applicants – since the review we have held 44 pre-application meetings with 31 firms compared to a total of 48 pre-application meetings in 2010 to 2012.

We have also seen considerable interest in the new mobilisation phase, which offers firms the option to be authorised at an earlier stage and with less effort, but with a restriction on the business that they can undertake. They can then 'mobilise' with the certainty of being authorised when raising capital, investing in IT systems and hiring staff. There are two recently authorised banks using this mobilisation process and one bank has successfully completed mobilisation and is now fully operational.

5. Consumer credit

We took over the regulation of consumer credit on 1 April 2014 from the Office of Fair Trading (OFT). This includes consumer lending (eg, credit cards, payday loans and peer-to-peer lending), debt management and collection services, and credit broking.

Over the last year we have carried out intensive work to engage and consult with the market and other key stakeholders to ensure a safe and smooth transition, to be operationally prepared and to develop a clear set of priority areas where we have seen potential risk to consumers.

While we recognise the importance of a healthy, vibrant, innovative and competitive credit market in the UK, we are committed to tackling poor firm conduct and ensuring that consumers are protected from harm.

Consulting on our consumer credit regime

In October 2013, we consulted on the detailed proposals for our regime for the consumer credit market, including our proposals on high-cost short-term credit (payday loans) and debt management. We received 300 responses to our consultation from a wide range of stakeholders. Respondents generally welcomed our overall approach. We considered all the specific points that were raised as part of that process, and acted on many of them.

In February 2014, we published the final detailed rules for our consumer credit regime, which included tougher requirements for payday lenders, as well as a guide for firms that are new to FCA regulation. Work on a cap on the cost of high-cost short-term credit started last year and we expect to consult on our proposals in July.

In October 2013, we also consulted on our proposals for the fees we will charge consumer credit firms to apply for authorisation in 2014/15 and the framework for our annual periodic fees. In response to early feedback, we published an update to these proposals to address concerns regarding the impact on small firms.

In March 2014, we confirmed the final application fees and consulted on the details of the annual periodic fees.

External stakeholder engagement

Throughout 2013/14 we engaged extensively with firms, trade bodies, consumer groups and the Government to ensure an effective transition to our regime.

We used a variety of methods to ensure, in particular, that firms regulated by the Office of Fair Trading (OFT) were aware of the transfer, what they needed to do to be registered for interim permission[39] by 1 April 2014, how they would be regulated from April 2014 onwards, and what we expected of them as FCA-regulated firms.

This included letters, phone calls, meetings, trade press articles, speeches at events across the UK, targeted roadshows, webinars, and press and radio advertising.[40]

Taking over from the OFT

We worked closely with the OFT to ensure a smooth handover of all existing consumer credit activities on 1 April 2014 (1,009 applications for either a new license or a variation of an existing license, and 24 enforcement cases).

39 Licensed firms were required to have interim permission from the FCA to carry on credit business from 1 April, ahead of the full authorisation process, which will begin from October 2014.
40 For more information see: www.fca.org.uk/firms/firm-types/consumer-credit

April 2014

Case study: : Consumers in vulnerable circumstances

To understand more about the experiences of consumers most at risk of unmanageable debt, we conducted research looking at the attitudes towards, and use of, credit for people on the lowest incomes.

Our research identified three distinct borrower groups – survival borrowers, lifestyle borrowers and reluctant borrowers – and explored how these groups use credit and the reasons for doing so. Our research also shows how debts can become unmanageable, and the strategies people use to cope with spiralling debts, which can trigger financial loss and affect health and wellbeing.

While many of the people we interviewed had low awareness of the help and support available to them, debt advice is effective in helping people get out of unmanageable debt. So helping people get the right advice and solution they need, before debt gets out of control, is vital. As we take over the regulation of this sector, we welcome a broader debate with stakeholders to encourage more people to get access to good quality advice earlier, before they reach crisis point.

This work will help us as we engage in discussions with stakeholders, including firms, about consumer outcomes for this market. This includes the work we have already announced in our business plan on tackling risks in high-cost short-term credit, addressing issues with credit cards, overdrafts, logbook lending, financial promotions and improving debt management.

This project fits in with a wider programme of work we have begun to ensure firms across the financial services market create and put into practice appropriate strategies to address the needs of consumers in vulnerable circumstances. For this we are working with a range of external organisations such as Macmillan Cancer Support, the Office of the Public Guardian, Age UK and Citizens Advice.

On 1 April 2014 we had 49,405 firms registered for consumer credit interim permission. These firms represent a diverse range of business models and industries (see Figure 11).

In December 2013, we announced details of rebate payments to firms that applied for interim permission and have previously, or subsequently, paid for an OFT licence covering a period of time after March 2014.[41]

Building our systems and structure

We managed the transfer of data and 100 staff from the OFT to us, changing our internal design and structure, and ensuring our processes and offices were tailored as necessary to accommodate the additional staff. We also developed a training programme for our staff who are new to credit and for OFT staff who are new to us.

We developed new systems and made changes to existing technology. In September 2013 we opened our online system, which allowed firms with an existing credit licence from the OFT to register for an interim permission.

On 1 April 2014 we put in place a new online application system for firms to apply for authorisation to carry out credit business, and we updated our website to provide firms and other stakeholders with guidance and support.

We have developed tools to scrutinise firms' business models in various consumer credit market sub-sectors and we analysed our risk tolerances, undertaking market and consumer research to inform our thinking and planning. We have planned work that reflects our priorities, determining specific areas in which to undertake market studies or thematic reviews.

Developing our priorities

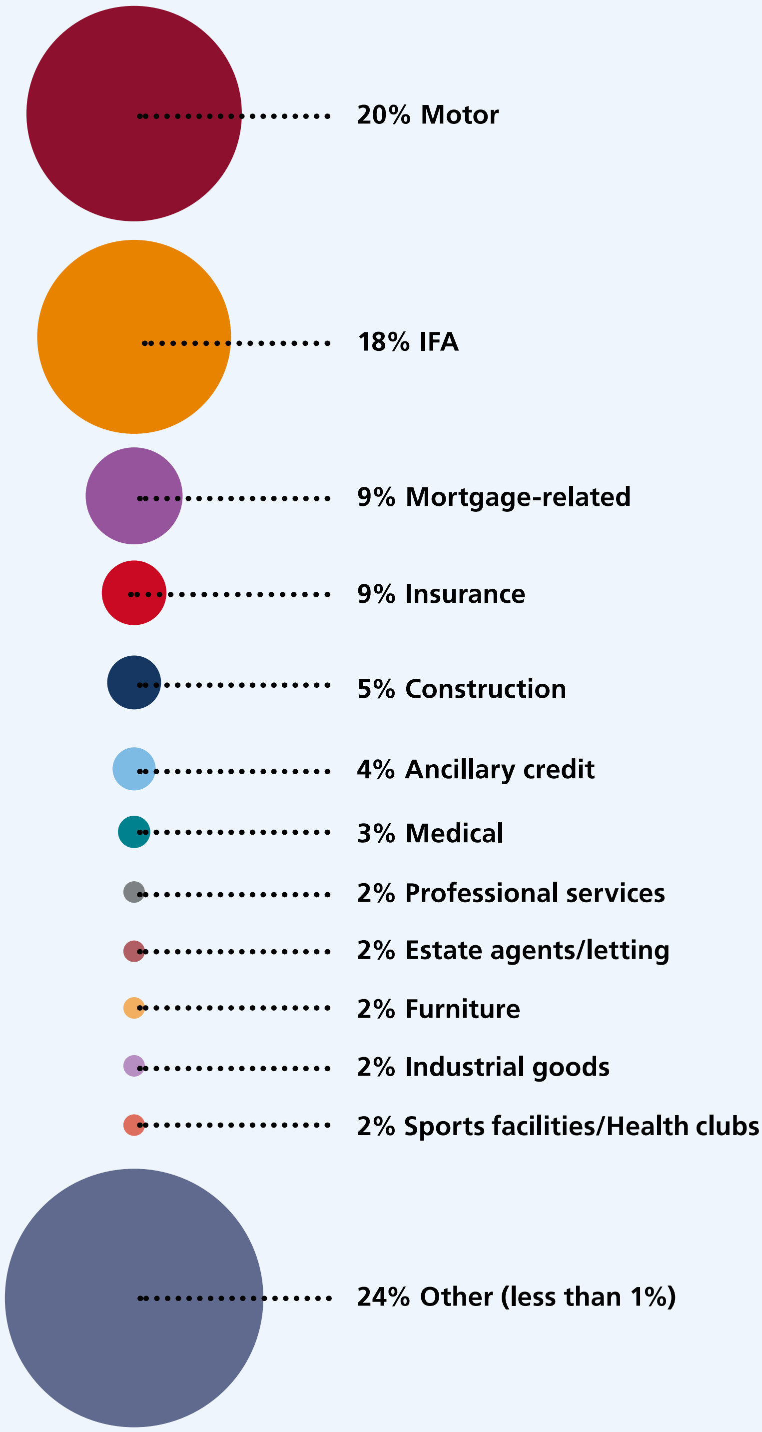
We commissioned market and consumer research to help us define our priorities and identify areas in which to carry out market studies or thematic reviews.

This research also covered a series of in-depth assessments on four specific areas of the market: overdrafts, debt management, credit cards and logbook loans.[42]

41 www.fca.org.uk/firms/firm-types/consumer-credit/rebates
42 www.fca.org.uk/firms/firm-types/consumer-credit/consumer-credit-insights

Our performance

Figure 11. Number of interim permissions
This figure shows the split of new consumer credit firms that were granted interim permission, by company type. This highlights the diverse and broad spectrum of firms now under our remit.



6.

International

We implement, supervise and enforce EU and international standards and regulations in the UK. As part of this we contribute to international debates and policy-making processes, ensuring that our objectives are embedded in international regulation.

European and international committee engagement

In 2013/14 we continued to engage fully with the European Securities and Markets Authority (ESMA), in which we chair a number of committees and taskforces and actively participate in a wide range of groups developing policy and regulatory rules at the EU level. Our CEO is a member of both the Board of Supervisors (BoS), and the Management Board (MB).

We have also continued to engage with European and global standards setters. In particular we have actively participated in the work of the European Banking Authority (EBA) and European Insurance and Occupational Pensions Authority (EIOPA) on issues within our competency.

We have also continued to engage with European and global standards setters.

We have also continued to play a significant role in the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB). We are represented at all levels and our delegation is led by our Chief Executive in IOSCO and Chairman in FSB.

In 2013/14 we became a member of the International Association of Insurance Supervisors (IAIS), the European Systemic Risk Board (ESRB) and the International Financial Consumer Protection Organisation (FinCoNet). We have also played a key role in supporting the Treasury in the UK engagement with the Financial Action Task Force (FATF).

European and international initiatives

Legislative initiatives

Over 2013/14 we were heavily involved in numerous legislative initiatives:

Markets in Financial Instruments Directive (MiFID) II

In January 2014 MiFID level 1 was completed when political agreement was reached on the revisions to the framework legislation. We worked with ESMA in 2013/14 on preparing level 2 measures for implementation across areas such as investor protection and intermediaries, secondary markets, commodity derivatives and market data.

We worked with the Prudential Regulation Authority (PRA) and the EBA to support them in developing technical standards and guidelines that are particularly important for investment firms.

Promoting consistency and integrity in benchmarks

We have been working as part of an ESMA Task Force on benchmark-setting processes to establish European principles for benchmarks to be implemented and to serve as a temporary framework until European legislation is in place.

We have co-chaired the IOSCO Board Level Task Force on Financial Market Benchmarks since 2012, which together with the Commodities and Futures Trading Commission (CFTC), issued 19 principles for financial benchmarks in July 2013.

We have promoted the implementation of these principles in the UK, including meeting significant administrators to highlight what is expected of them and to encourage them to self-assess their benchmarks against the principles.

We have also co-chaired the FSB Official Sector Steering Group (OSSG), which is responsible for coordinating and maintaining the reviews of existing interest rate benchmarks (initially LIBOR, EUIBOR and TIBOR) and examining the feasibility and viability of adopting additional reference rates.

In 2014 two subgroups of the OSSG were formed to analyse FOREX market structure and FOREX benchmarks. We are a member of both of these subgroups and will contribute to their final reports, which are due towards the end of 2014.

Capital Requirements Directive (CRD) IV

On 1 January 2014 CRD IV was implemented. We worked with the Prudential Regulation Authority (PRA) and the EBA to support them in developing technical standards and guidelines that are particularly important for investment firms. For example, in 2013 they produced technical standards for calculating the main aspects of the capital requirements (including the fixed overheads requirement for investment firms).

Market Abuse Regulation (MAR)

In July 2013 MAR was agreed and will replace the current Market Abuse Directive 2004 (MAD) when it comes into force in 2017.

Since September 2013 we have been participating actively in ESMA, developing the detailed technical rules necessary for implementing MAR.

Fourth Money Laundering Directive

The new European Directive tasks the ESAs with drafting binding technical standards and guidelines on a wide range of factors that, together, will shape Europe's AML regime significantly. We have continued to chair the ESA's Joint Committee Anti-Money Laundering Sub-Committee and taken an active role in its subgroups.

Central Securities Depository Regulations (CSDR)

In February 2014 the CSDR was provisionally agreed, introducing a harmonised authorisation and supervision framework for EU CSDs as well securities settlement within the EU.

We also worked closely with an industry-led forum that is committed to introducing a standard settlement cycle for the UK by 6 October 2014, which will promote efficiency and integrity within securities settlement in the UK.

Credit rating agencies (CRAs)

As part of the third iteration of the EU's credit rating

In November 2013 the revised Transparency Directive came into force. This will ensure that appropriate standards of transparency for listed issuers are maintained throughout the EU and will help to protect investors.

agency regulations (CRA III), the Commission directed ESMA to draft regulatory technical standards on three matters relating to technical and regulatory aspects of the legislative framework. We worked on drafting these through ESMA technical committee meetings, discussions and consultations with market participants.

As a member of IOSCO's committee on credit rating agencies, we also published a revised version of the Code of Conduct Fundamentals for credit rating agencies.

European Market Infrastructure Regulation (EMIR)

EMIR came into force in 2013 and promotes risk management and transparency standards for the trading of OTC derivatives within the EU.

We have promoted the effective implementation of new obligations under EMIR to ensure orderly and transparent derivatives markets. This has included:

- carrying out implementation reviews
- working with ESMA to maximise the consistency of interpretation
- actively participating in the relevant ESMA workstreams on developing further technical standards
- participating on international colleges and in international forums
- discussing cross-border implementation of derivatives rules

Transparency Directive

In November 2013, the revised Transparency Directive came into force. This will ensure that appropriate standards of transparency for listed issuers are maintained throughout the EU and will help to protect investors. We have ensured that the revised text continues to allow the UK to maintain higher standards of transparency where it is appropriate.

Prospectus Directive

The Prospectus Directive generally requires the publication of a prospectus when securities are either offered to the public or admitted to trading on a regulated market.

In 2013/14 we actively participated in ESMA drafting and consultation on Regulatory Technical Standards (RTS) in relation to publishing supplements to the prospectus.

Alternative Investment Fund Management Directive (AIFMD)

On 22 July 2013, the UK transposed the AIFMD into UK law, which creates a comprehensive regulatory and supervisory framework for AIFMs at European level. Interpreting and implementing the Directive continues to involve liaison between the FCA, ESMA and the Treasury.

Providing technical support

We have also provided the Treasury with technical support on the negotiations of a number of legislative initiatives, which concluded in 2014. These included:

- **Payment Accounts Directive**, which is a common framework to address issues such as access to a basic bank account, switching payment accounts, and the transparency and comparability of payment account fees and charges.
- **EU Regulation on Packaged Retail and insurance-based investment products (PRIIPS)**, which requires a product manufacturer to produce a standardised Key Information Document.
- **Undertakings for Collective Investment in Transferable Securities (UCITS) V**, which amends UCITS legislation on depository functions, remuneration policies and sanctions.
- **Bank Recovery and Resolution Directive (BRRD)**, which establishes a common framework for the recovery and resolution of credit institutions and investment firms. This will apply directly to approximately 250 FCA-regulated investment firms and may catch other FCA-regulated firms indirectly.

We also provided the Treasury with technical support on the negotiations of a number of European initiatives that have yet to conclude. These included:

- **Payment Services Directive (PSD) II**, which sets the rules for payment services and payment services providers.
- **Insurance Mediation Directive (IMD 2)**, which establishes updated common standards and a registration regime for the sale of insurance and reinsurance across the EU, covering professional requirements, pre-sale disclosures and consumer protection measures.
- **European Long Term Investment Funds (ELTIF)**, which aims to increase the pool of funds available for infrastructure investment by creating a harmonised framework of product regulation for funds investing in long-term assets, suitable for retail as well as professional investors.
- **Money Market Funds**, which is proposed new harmonised framework for European Money Market funds with requirements relating to investment policy, liquidity, capital buffers, and valuation among other things.
- **European System of Financial Supervision (ESFS)**, which we have been fully involved in at all stages and responded in-depth to the European Commission consultation. This included detailed engagement with the ESAs, the European Parliament and the European Commission to share our insights.

We have also been involved in numerous workstreams at international level. These have included:

- Significant contribution to the work that IOSCO has performed on the implementation of Principles for Price Reporting Agencies in the Oil Market, helping to deliver greater transparency on the setting of these important commodity prices.
- Significant contribution to IOSCO's review of storage infrastructures, which will consider how aspects of the warehousing of commodities can affect their price in the physical markets.
- Chairing the IOSCO Multilateral Memorandum of Understanding (MMoU) on Cooperation and Exchange of Information Screening Group which has 101 IOSCO members as signatures as of 31 March 2014.
- Working with the OECD's high-level principles developed as a response to the G20 call for the OECD and other international organisations to develop common principles on consumer protection in financial services. The OECD is consulting on seven of its ten principles we have led on the development of two of them (equitable and fair treatment of consumers and competition).

Bilateral relationships

Our senior executives engage regularly with partners and policy makers from Europe, the US and across the globe to discuss issues of joint importance, share best practices and look for ways of enhancing cooperation.

This has included some of our senior executives visiting regulatory counterparts in the US, China, Germany, Italy, Denmark and Russia, as well as key EU stakeholders in Brussels. We hosted visiting delegations from Japan, South Korea, Australia and Switzerland.

In November 2013, we hosted visitors from over 40 authorities at our International Regulators Seminar, which gave us an opportunity to share best practices and common experiences. We provided supervisory and policy-related assistance by responding to a large number of requests for information and best practice examples.

We continued to transfer existing supervisory memoranda of understanding (MoUs) and cooperation agreements, and arrange new agreements with international regulatory authorities. While the bulk of agreements were transferred in 2012/13, a number were finalised in 2013/14. We continue to work at all levels to ensure full coordination between UK authorities in our international engagement.

November 2013

We hosted visitors from over

40 authorities

at our International Regulators Seminar

7.

How we operate

We work hard to ensure we maintain an effective operational platform to achieve our commitments, and that we recruit, support and develop the right people to carry out our work with integrity.

Value for money

We have to adhere to an 'efficiency' principle to ensure that we use our resources in the most efficient and effective way. So in 2013 we developed a value for money framework to use across our major supervisory and policy initiatives.

In March 2014, the National Audit Office (NAO) published *Regulating financial services*.[43] This report examined the progress both we and the PRA made in 2013/14 in developing and implementing our regulatory approaches. The report did not formally assess value for money, but it did set out a number of recommendations, which we will follow through over 2014/15 and beyond.

Embedding transparency

We published a discussion paper in March 2013 and a feedback statement in August 2013, setting out our proposals for how we and the financial industry could become more transparent. We also published a transparency framework to help us make decisions on whether and how to pursue any new transparency initiatives, as well as evaluating their impact.

In November 2013, we published our service standards portfolio on our website, which helps external stakeholders hold us to account.

We published our *Enforcement Annual Performance Account* for 2012/13 in July 2013, providing more information about the nature of our cases and the challenges we face in our investigations. It also contained more information than has previously been published about performance, such as details about the average length of our cases.

We expect firms to be increasingly transparent and we have already seen progress over the last year. In March 2014, we published our market study into the general insurance add-on market, which said we intend to require firms to publish claims ratios of low-value products and increase pressure on firms to improve product value.

We have changed how we report on our performance to give firms useful information about what they can expect from us. We are introducing a range of key performance indicators (KPIs) for some of our processes, to replace some of our voluntary service standards. This will help us focus on our operational delivery, such as how quickly we process authorisation applications, and improve our transparency (see Figure 12).

Preparing for the Payment Systems Regulator (PSR)

We established the PSR in April 2014 and it is now preparing for its full operational launch in April 2015, when it will begin regulating. The PSR has already begun work reviewing a range of issues to consider if and where more fundamental change may be needed.

43 www.nao.org.uk/wp-content/uploads/2015/03/Regulating-financial-services.pdf

We have a Memorandum of Understanding (MoU) with the PRA that covers how we carry out our responsibilities and supports our commitment to working in an independent but coordinated way.

While many of these issues will be particular to the payments industry, the PSR has adopted our policies and procedures for most of its operations.

Coordinating with the Prudential Regulation Authority (PRA)

In December 2013, following a recommendation by the Financial Policy Committee, we worked with the PRA and the Bank of England to launch a survey to assess firms' resilience against cyber-attack and identify areas of weakness.

We have a Memorandum of Understanding (MoU) with the PRA that covers how we carry out our responsibilities and supports our commitment to working in an independent but coordinated way. We monitor our performance against the MoU on a regular basis, including through quarterly coordination meetings with the PRA supported by detailed reports. However, we both recognise that, with differing objectives and responsibilities, it will sometimes be appropriate to take different approaches.

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-authorised person in a way that would adversely affect financial stability. As of end-March 2014 it had not used this power.

We have set up a Policy Liaison Committee to ensure we have a joined-up approach to making policy, and a Joint Data Management Committee to oversee how we share information and coordinate how we collect data from firms. We have also established several joint working teams to deliver individual areas of policy and potential enforcement cases where we have common interests, and domestic supervisory colleges for individual firms and groups to identify and mitigate risks.

Authorising dual-regulated firms

For firms that are regulated by both regulators, the PRA assumes a lead role and manages a single administrative process for firms. The PRA consults with us and either obtains our consent to authorise a firm or considers any objections we make. As our philosophy and approach has developed we have spent more time with the PRA understanding its considerations and in turn explaining our approach.

Over 2013/14, we have successfully implemented this way of working and, together with the PRA, we ensure that the process is managed as efficiently as possible for firms. We have also worked with firms to establish what we expect from a conduct perspective and what it means to put customers at the heart of what they do.

We have continued to assess approved persons applications for dual-regulated firms, focusing on their competency to perform the role. We operate our significant influence function (SIF) regime jointly with the PRA, interviewing candidates for senior roles in high-impact and high-risk firms.

Working with the Money Advice Service

We oversee the work of the Money Advice Service, which is responsible for providing free, impartial money advice across the UK, and for funding and coordinating the provision of debt advice.

During 2013/14, we worked with the Money Advice Service as it continued to meet the demand for advice, receiving contacts from 16 million customers, with over half a million taking steps to manage their debt, save regularly, save for retirement, and protect assets and dependents. It also funded the delivery of almost 163,000 free face-to-face debt advice sessions to people in England and Wales through partners.

In May 2013, when we published research setting out the risks faced by people who have interest-only mortgages, the Money Advice Service worked closely with us, the Council of Mortgage Lenders and industry to create

Freedom of Information

Breakdown of requests received

Media

87

Legal advisers

70

Consumers

164

a set of resources on its website to help consumers understand more about this type of lending. A range of banks, including Lloyds Banking Group and Santander, sent out the details of Money Advice Service's resources to their customers.

In early 2014, we worked together in the run-up to our taking on new responsibilities for consumer credit to ensure that consumers were able to access the right advice before taking out a payday loan. We developed a risk warning for all providers of high-cost short-term credit to display, which advised people of organisations they could turn to for help. It became a requirement for providers to display this on online promotions from 1 April 2014.

The Money Advice Service developed an interactive tool to help people consider alternatives to taking out a payday loan and signpost them to free debt advice, where appropriate. This significantly increased the number of consumers using the Money Advice Service to help them manage their finances.

Freedom of Information

The Freedom of Information Act 2000 (FoIA) requires us to respond to requests for information within 20 working days in most circumstances.

During 2013/14, we received 748 requests, of which 473 were progressed as formal FoIA requests. This is an increase of around 3% since 2012/13. We closed 445 of these requests – 87% within the statutory deadline (see Figure 13).

The most frequent topics related to high profile, complex and sensitive issues that attracted media coverage, such as information about complaints, mortgages, the Co-operative Bank, whistleblowing and Keydata.

We disclosed material in 50% of cases where we held the information requested, compared to 40% in 2012/13.

We published a new *Publication Scheme Guide to Information*, which sets out the information we routinely publish. We have also added more information to our disclosure log where the information is of wider public interest.

Breakdown of requests received

Media	Number of requests submitted
Centaur Media	22
Citywire	10
Financial Times	10
Thomson Reuters Media	10
Investment Reporter (Money Marketing)	4
Incisive Media	4
BBC	4
Open World News	3
Daily Telegraph	3
Freelance journalists	2
Bloomberg News	2
Last Word Media	2
Montel Magazine	2
The Guardian	2
The Times	1
New York Times	1
Yorkshire Post Newspapers	1
Channel 4 News	1
Bull Dog Social Media	1
London Love Business	1
The Independent	1
Legal advisers	**Number of requests submitted**
Pinsent Masons LLP	14
Stephenson Harwood LLP	8
Thirteen Old Square Chambers	4
Slater & Gordon (UK) LLP	3
Berg Solicitors	3
Other legal advisers	38
Others	**Number of requests submitted**
Consumers	164
Financial advisers	54
Whatdotheyknow.com	21
PR companies	21
Students/Universities/Colleges	9
Consumer campaign groups	7
MPs	3
Others, eg private companies	37

Appeals against our decisions about disclosure

If a requester is unhappy with the response we provide, or the way in which their request has been handled, we review the case. Once our internal review process has been exhausted, the requester can complain to the Information Commissioner's Office (ICO) if they are still not satisfied.

If any party is unhappy with the ICO's decision they can appeal to the First Tier (Information Rights) Tribunal and, following that, if still dissatisfied, to the Upper Tribunal (but only on a point of law and with permission).

In 2013/14 the Court of Appeal dismissed an appeal from a complainant against an Upper Tribunal decision that ruled in our favour, deciding that the Information Commissioner was correct to uphold our reliance on Section 40 (personal data), to protect the identities of more junior members of staff. The Court also ordered the appellant to pay us 50% of our counsel's fees (£4,350).

Volume of requests made under the Data Protection Act 1998 (DPA)

We are required to notify the ICO each year of how we process personal data. We submitted our notification in November 2013, which is published on the ICO's website.

We must respond within 40 calendar days to subject access requests made by individuals who want to know what information we hold about them. Over 2013/14 we received 88 subject access requests (compared to 80 in 2012/13) and responded to 90 (including several carried forward from 2012/13), all within the statutory period.

Costs

Complying with FoIA and the DPA cost us just under £853,000 in 2013/14 (compared to £825,000 for 2012/13), which includes processing requests under both pieces of legislation, time spent by business areas and the cost of Tribunal appeals.

We cannot recover this expenditure from requesters because there is very limited scope within FoIA and the DPA to charge for information. We used external lawyers on complex requests and appeals (£32,000+VAT in 2013/14) compared to £9,846 in 2012/13. We estimate that the average cost to process each case is £847.41.

Improving performance and increasing efficiency

Improving our authorisations processes

We have increased the efficiency and effectiveness of 60% of our authorisations processes. We have embedded a significantly enhanced quality assurance framework, enabling us to assess performance against factors including decision making, adherence to procedure and timeliness (see Figure 14).

Since July 2013, we have been asking a sample of applicants to rate their experience with our authorisations processes, looking at overall satisfaction scores to identify the factors that firms rate as most important (see Figure 15).

April 2014

Case study: Launch of a new case management system (INTACT)

We launched a new platform to gather and manage information about our contact with firms and consumers. This will also help us engage with firms better and reduce our turnaround times for correspondence. We will be able to respond to emails within two working days, and to letters within five.

Our Contact Centre has been able to be more efficient due to the stability and usability of INTACT. For example, call reports (those collated to show how many people are calling about certain topics) which previously took two weeks to build are now available in ten minutes.

INTACT also helps us quickly and routinely identify intelligence that requires further action to minimise or prevent harm to consumers. For example, we were contacted recently by a consumer who had identified that a regulated firm had been cloned. We contacted the firm and within two weeks we had published a warning to consumers.

Improving the accuracy of our partial fees

We have improved the accuracy of the partial-year fees that we charge new firms. Firms previously had to pay for the entire quarter in which they join, but they will now only pay for the month in which they join.

Achieving our services standards

We are committed to achieving our services standards, although our performance can be affected by factors outside our control (see Figures 16 and 17).

For example, we are responsible for issuing notifications to European regulators for solo-regulated UK-authorised firms that want to passport into the European Economic Area (EEA). When European firms want to establish themselves in the UK, we assess their notifications based on conduct risks, EU directives and adherence to local rules (see Figure 18).

We have explored other ways of identifying whether we are delivering appropriate long-term outcomes. For example, we have assessed whether firms that were approved in the last year have been subject to enforcement action, or whether newly-approved individuals were suspended by their firms within a year of their approval (see Figure 19).

Enhancing our systems and capabilities

We are working towards replacing a number of key systems, including ONA (our web-based system that allows firms to submit regulatory applications and notifications online), our Register and our contact centre support system. These replacements will provide firms and consumers with a faster, flexible, more reliable service.

We have delivered:

- a contact centre system that will support the increased volume of calls as a result of our taking on the regulation of consumer credit
- a supervision event management system
- a portal that allows consumer credit applications to be validated and submitted online

We will replace significant elements of ONA in October 2014, and completely replace ONA and our Register in the first half of 2015.

Our Information System Investment Programme (ISIP) continues to make improvements to our infrastructure, as well as the systems that firms use to send us information.

We have reviewed the progression of ISIP over the last two years to check it is meeting its objective of ensuring our systems are able to support our key regulatory functions and deliver greater value for money. We have also worked to understand investments that we may need to make in future.

Enhancing our contact centres

In February 2014, the Customer Contact Association reviewed our contact centres and awarded us with a global standard certification (see Figures 20, 21 and 22).

Over the last year we have:

- piloted webchat as another way for consumers to contact us
- replaced unreliable telephony systems with new cloud-based technology and integrated with our new contact management system
- launched a specially trained team to handle the interim permission phase of consumer credit regulation – this team responded to 24,000 queries in its first six months of operation
- trained our contact centre staff to provide flexible and expert advice

Handling complaints

We maintain a scheme to investigate complaints made against us (see Figure 23). This came into force on 1 April 2013 and also covers complaints made against the PRA and the Bank of England for certain functions.[44] In 2013/14 we made compensatory payments totalling £24,121 under the scheme.

As a result, we have identified and recommended changes or improvements to some of our business processes, including:

- the need for the Customer Contact Centre to exercise particular caution where providing responses to callers on a specific subject matter
- the need to ensure that key information contained on our website is reviewed to ensure that it properly reflects the up-to-date and correct position
- the need for one business area to ensure that it did not inadvertently act outside the scope of its authority

Our response to the *Complaints Commissioner's Annual Report 2013/14*

Where complainants remain dissatisfied following our consideration of a complaint they are entitled to refer their complaint to the Independent Complaints Commissioner. Sir Anthony Holland published his annual report for 2013/14[45] before retiring from his post on 30 April 2014. The new Commissioner is Antony Townsend.

The published reports on individual cases, together with our responses (where applicable), can be found on the Commissioner's website.[46]

Corporate responsibility

We play a key role in protecting and enhancing the integrity and stability of the UK financial system. So we lead by example to influence positive change, not only in our organisation, but across the financial services industry. We seek to:

- be an employer of choice
- safeguard our resources
- support staff to understand the communities we serve
- be accountable both internally and externally

Our people

We expect our people to display backbone, strength as a team, professional excellence, curiosity, and being already on the case. These are our cultural characteristics and they are intended to build an organisation that is able to anticipate sector issues and act early. We use our performance management process to embed these characteristics.

Our 2013 staff survey showed that 81% of people thought we have achieved a high level of staff engagement in our first year of operation, and 94% said they could see the link between performance and our cultural characteristics.

We have a People Strategy, with a three-year plan for strengthening the skills and knowledge of our staff in a conduct environment. This will also deliver an updated approach to reward, leadership and talent development, which will be key in attracting and retaining our best people.

44 www.fca.org.uk/about/governance/complaining-about-us

45 www.fscc.gov.uk/documents/annual/Annual%20reports/AnnualReport_2014.pdf

46 www.fscc.gov.uk/final.html

We filled **596** positions in 2013/14

of which **334** were filled with external hires

We arranged **132** secondments

and hired **21** graduates onto a new emerging talent programme.

We have focused on our ability to attract people to work at the FCA. We filled 596 positions in 2013/14, of which 334 were filled with external hires. We also arranged 132 secondments and hired 21 graduates onto a new emerging talent programme.

During the year we have established partnerships with Saïd, Cranfield and Henley business schools. We will launch an MSc in Financial Regulation in 2014, a first in our sector. These activities, along with a rigorous technical training curriculum, will make the FCA a career destination for industry and regulatory talent.

Equality and diversity

We have an Executive Diversity Committee (EDC), whose role includes providing direction, making decisions on diversity-related matters, monitoring diversity-related activity, championing diversity, and monitoring and developing best practice.

We comply with the Public Sector Equality Duty and the Equality Act 2010 and we assess the impact of both of these on our policies and actions.

More details about our approach to equality and diversity can be found in our Annual Diversity Report (Appendix 3).

Environment

We have reduced our CO_2 emissions, the amount of energy we use and the water and waste we produce, as well as increasing the amount of waste that we have recycled.

To achieve this we educated employees about current environmental issues and introduced new initiatives. Key performance indicators in recycling and energy consumption demonstrate our commitment to sustainability.

In 2013/14 we have minimised how much energy we use by 10% and increased recycling to over 70%.

Community

We support a Community Engagement programme that is focused on primary and secondary school workshops, personal volunteering and team-building community challenge days. This:

- adds value to the community through pro-active engagement
- develops staff skills, which aid their personal and professional development
- brings learning and development back to the business to help us be a more effective regulator

Throughout 2013, 603 people volunteered, contributing a total of 5,050 hours.

Charitable donations

As we are funded by industry, we do not donate money from the fees we levy to any particular charity. Instead we encourage our staff to donate their own time and money to charitable causes. We have a Charity Committee to support staff with their charitable ideas and initiatives.

In 2013, Marie Curie Cancer Care and The Lee Spark Foundation were our official charities for the year and we also ran events for Comic Relief as an additional fundraiser. In 2014, we will be supporting Cancer Research UK and Contact the Elderly. We will also hold a one-off event for Shelter.

In 2013, our Charity Committee worked with staff and helped to raise:

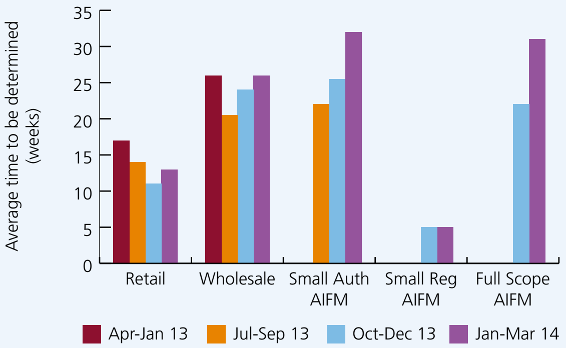
- Marie Curie Cancer Care – £9,103.85
- Lee Spark Foundation – £5,396.62
- Comic Relief – £8,472.41

We also work with JustGiving to record how our staff donate to individual charities. In 2013 FCA staff donated £120,070.83 to 216 charities through this route.

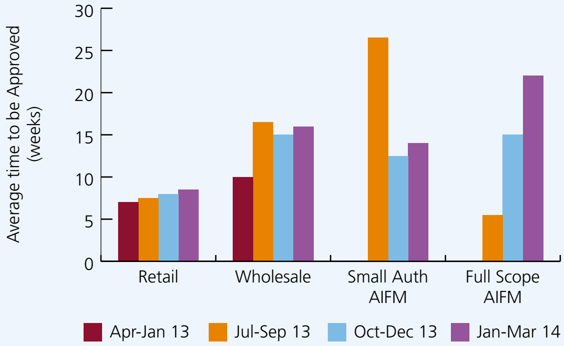
Our performance

Figure 12. Average processing times where FCA is the sole decision maker
This figure outlines how quickly we process applications within authorisations, highlighting our process efficiency.

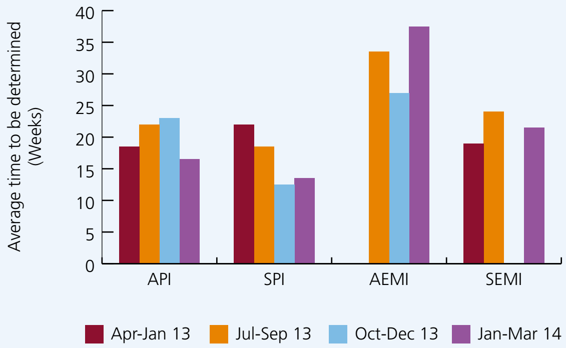
Authorisation



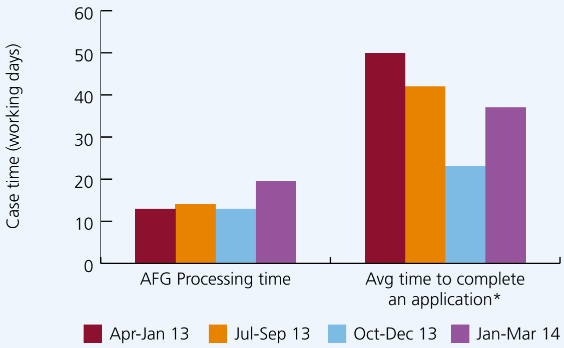
Variation of Permission (VoP)



Payment Services and E-Money



Waivers



*This includes lapsed time whilst the FCA waits for more information from applicants.

Figure 13. FOIA requests closed during 2013/14
The graph shows all 445 FOIA requests closed during the year, split by category.

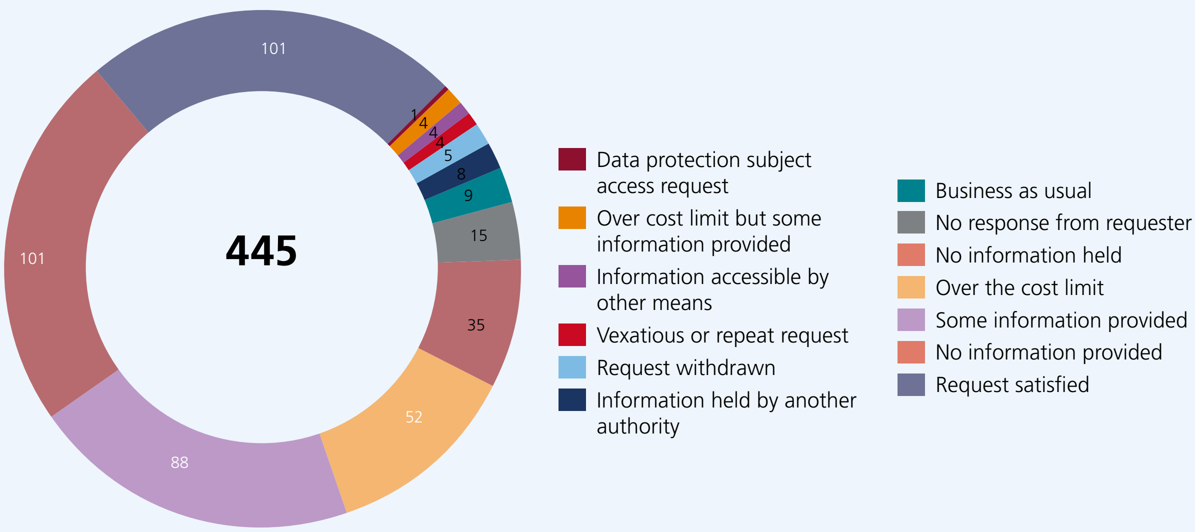


Figure 14. Authorisations Quality Control results
This figure shows the results of the quality control checks done with authorisations that assess performance against five factors of authorisations including decision making, adherence to procedure and timeliness.

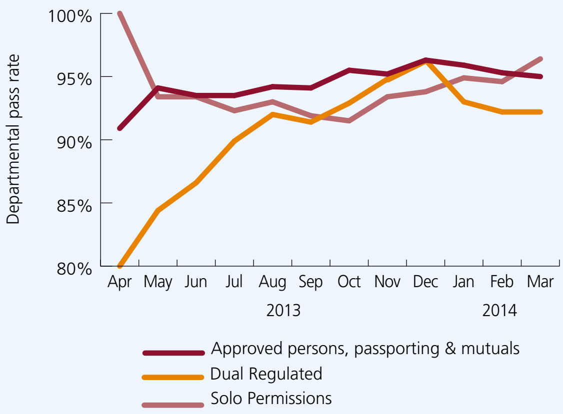


Figure 15. Corporate Authorisations: External Stakeholder Survey
This figure outlines the results of the external stakeholder survey we send to applicants after the authorisation process, broken down by area and type of process. We use it to gauge our stakeholders experience in a number of areas, to drive changes and improvements where there are perceived weaknesses.

Any score above zero in net promoter surveys indicates there are more ‘promoters’ than ‘detractors’.

Figure 16. Authorisations Statutory service standards
This figure highlights the performance of authorisations regarding its statutory service standards.

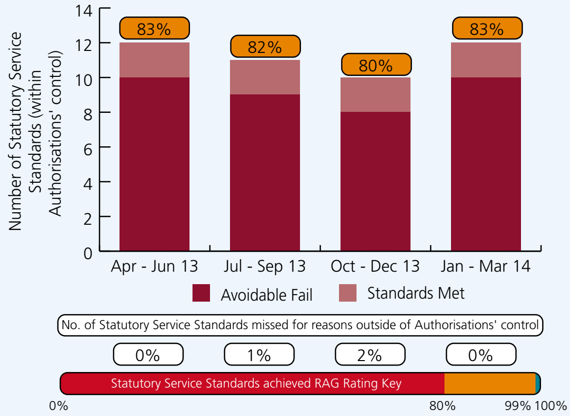
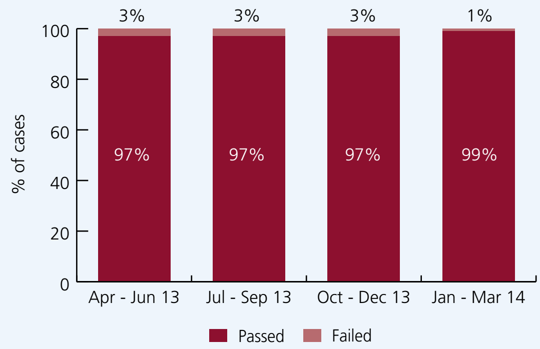


Figure 17. Mutuals voluntary service standard
This figure shows how the FCA has met its voluntary service standard to process applications from mutual societies.



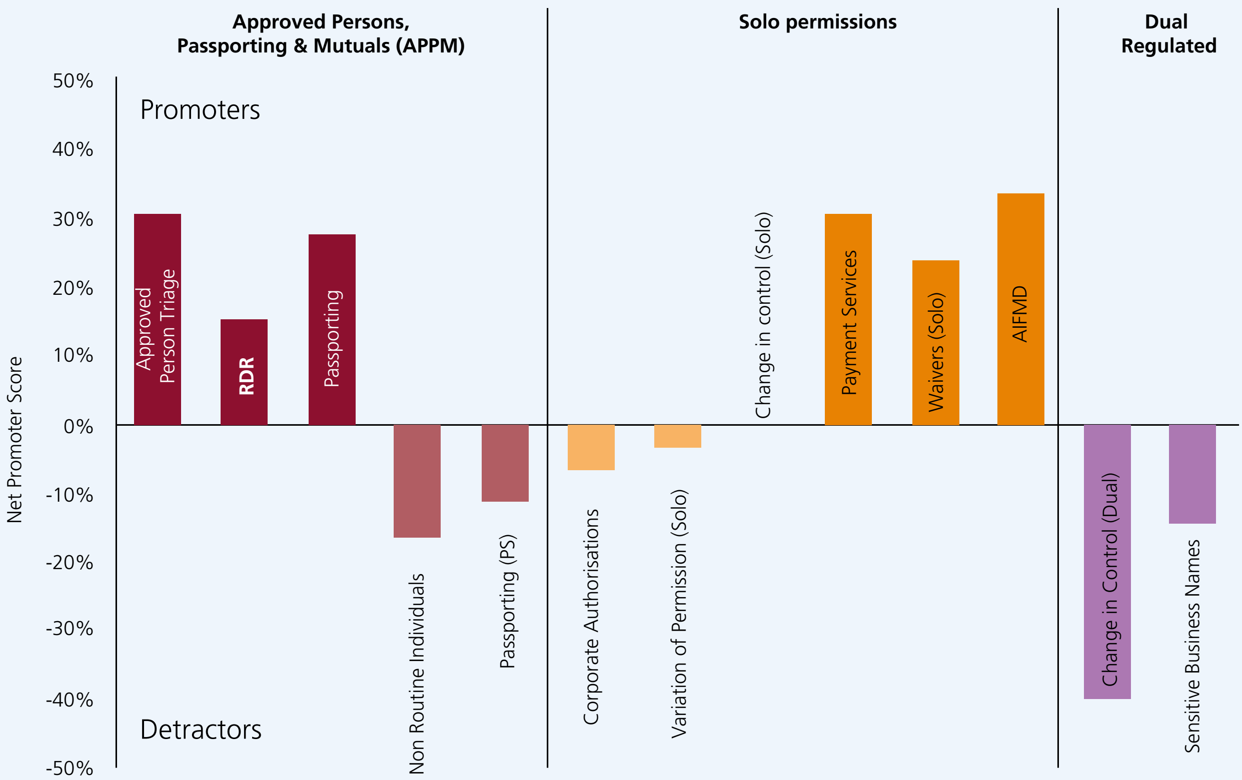


Figure 18. Achieving our passporting statutory service standards
This figure highlights the performance of authorisations regarding its statutory service standards for passporting.

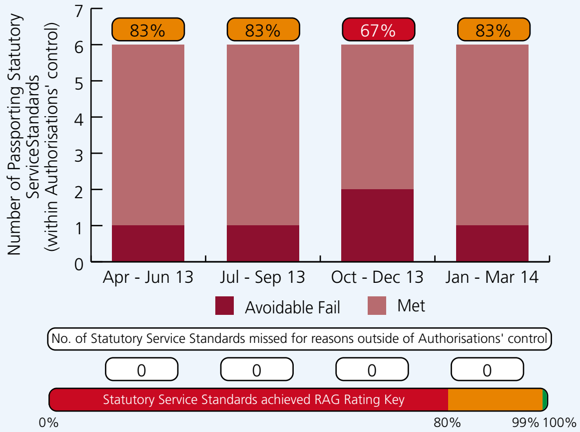


Figure 19. Approved Persons process: suspensions after receiving approval
This figure shows the number of suspensions of approved persons and the time lapse between approval and suspension. We use this as a proxy for the effectiveness of our approved persons process, whereby a suspension near the time of approval may suggest weaknesses in the process.

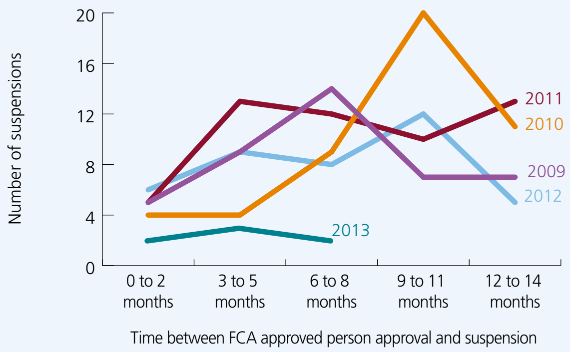


Figure 20. Contact centre service standards
This figure shows the monthly performance of the customer call centre in responding to calls and correspondence. This is split by firms (F) and consumers (C). The standards are set for 80% of calls being answered in 20 seconds and 90% of correspondence responded to in 12 working days.

Aggregated contacts (calls and correspondents) within service standard (%)

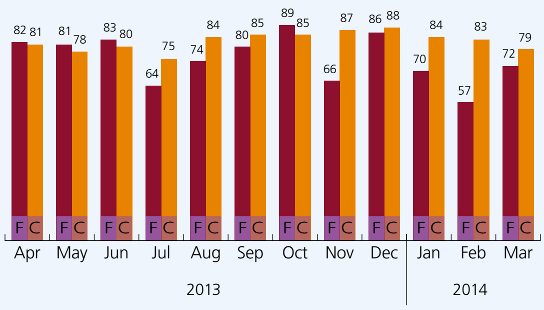


Figure 21. Firm calls – Top 5 subjects (April 2013 – March 2014)
This figure shows the breakdown of calls made by firms to the customer contact centre by category.

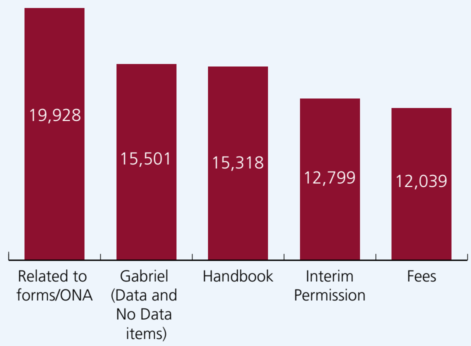


Figure 22. Consumer Calls – Top 5 Subjects (April 2013 – March 2014)
This figure shows the breakdown of calls made by consumers to the customer contact centre by category.

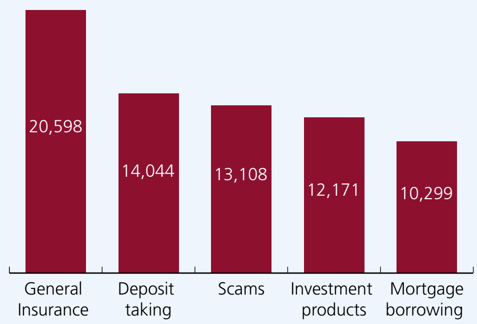
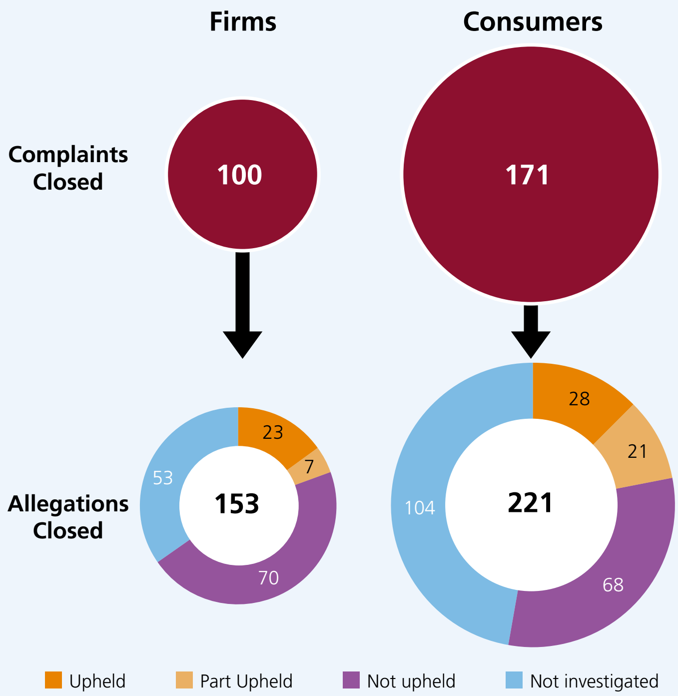


Figure 23. Complaints Closed during 2013/14
This figure shows the number of complaints and allegations closed within the last year. The scheme provides for us to not investigate complaints where, for example, we consider the complaint to amount to no more than dissatisfaction with our general policies or with the exercise of, or failure to exercise, a discretion where no unreasonable, unprofessional or other misconduct is alleged. The scheme also provides for complaints to be excluded and deferred in certain circumstances




Delivering consumer protection
Enhancing market integrity
Building competitive markets

8.

Strategic report

Purpose

The purpose of this report is to help our stakeholders assess how the directors have performed their duty to promote the success of the FCA under section 172 of the Companies Act 2006 for the benefit of its members as a whole. It also aims to provide further insight into the financial statements and add a forward–looking perspective to the FCA's financial position.

The UK's new regulatory system

The Financial Services Act 2012 set out the new regulatory system for the UK. It created two new regulatory bodies which came into existence on 1 April 2013 to replace the Financial Services Authority (FSA): the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

The FCA's strategic and operational objectives

The FCA's strategic objective under the Financial Services and Markets Act 2000 (FSMA) is to ensure that the relevant markets function well. To support this, it delivers its work through three operational objectives:

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

Our *Business Plan 2014/15* sets out how we will shape our activities, integrate new responsibilities, implement and improve our models and systems, develop our people and ensure that our priorities remain focused on achieving our objectives.

The Annual Report sets out how we measure our performance against our statutory objectives (*Measuring our Performance).*

The FCA's business model

The FCA regulates the financial services industry in the UK, supervising the conduct of over 50,000 firms and the prudential standards of those firms not covered by the PRA.

Fees and other income

Fee income: the FCA does not receive funding from the UK government rather it funds the cost of delivering its objectives by raising fees from the firms it regulates. It is given the powers to raise fees under FSMA. During 2013/14 it raised £435.4m in fees directly from those fee payers. Fees are raised to cover the FCA's budgeted costs and adjusted the following year should any variance against budget arise. This is analysed further in Table 1 below. Scope change costs are treated differently as discussed further below under *Costs*.

Other income: comprises application fees, income from publications and fees charged to other regulatory organisations for operational services provided.

Interest income: represents interest earned on deposits placed with various counter-parties in accordance with the FCA's approved treasury policy and administered by an external agency treasury service provider.

Penalties: the FCA levies penalties on firms following disciplinary action, although it neither budgets for these nor uses them directly to fund its activities other than for short-term working capital purposes. Penalties received in the financial year, subject to a deduction retained by the FCA to cover agreed enforcement costs for that year, are paid over to the Exchequer.

Fee raising responsibilities for other bodies: The FCA also raises fees on behalf of a number of other financial services bodies: the PRA; the Financial Services Compensation Scheme (FSCS); the Financial Ombudsman Service (the ombudsman service); the Money Advice Service (MAS); and the Financial Reporting Council (FRC). This means that firms can see, in one place, their total regulatory costs. 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 to each of the bodies under these SLAs, are recognised as sundry income in the FCA's financial statements.

Costs

Ongoing Regulatory Activities (ORA): reflects the cost of the FCA's core operating activities to be recovered in fees each year and can be reconciled to the financial statements in Table 1.

Scope change: under certain circumstances, including when legislation is introduced by Parliament, there may be changes to the scope of the FCA's regulated activities (including new responsibilities). Material activities resulting from this *scope change* are controlled separately so they are individually identifiable from a cost and fee perspective. These activities are included as part of the cost of ORA once the scope change activity has been fully embedded into the FCA's on-going responsibilities.

During 2014/15, the FCA will integrate **consumer credit**, having taken over this new responsibility and circa 100 staff from the Office of Fair Trading on 1 April 2014. The OFT ceased to exist from that date. The consumer credit activities are anticipated to be fully integrated from the beginning of the financial year 2016/17. The FCA will start recovering costs from those firms that are authorised in the financial year 2014/15. The section on Consumer Credit in the Annual Report provides more details on this new responsibility and our progress thus far.

On 1 April 2014, the **Payment Systems Regulator** (PSR) was established as a wholly-owned subsidiary of the FCA. The PSR will have responsibility for the £75 trillion payment systems industry. It is a separate legal entity with its own statutory objectives and board. Its objectives will be to promote competition and innovation, and to ensure responsiveness to consumer needs. The PSR will be fully operational and the FCA will be recovering costs from the organisations it regulates from 1 April 2015.

Pension costs: the FCA recovers fees on the basis of the cash costs of pension contributions, rather than on the basis of the accounting charges for pension provisions. There are plans in place to reduce the pension scheme deficit of £126.4m (2013: £114.7m) to nil over the period to 31 March 2023. 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.

Table 1: Funding the FCA's net costs	2014 £m	2013 £m
Actual net ORA costs for the year	434.5	528.2
Cost under-spend vs. budget	11.2	8.2
Budgeted ORA Costs	**445.7**	**536.4**
Scope change: Regulatory Reform	2.6	31.6
Scope change: Retail Distribution Review/Other	3.3	2.4
Additional periodic fees	3.3	8.2
Total Additional Fees Levied	**9.2**	**42.2**
Prior year surplus vs. Budget returned to fee payers	(19.5)	(10.6)
Transferred to the PRA/BoE	–	(119.0)
Fee income per Financial Statements	**435.4**	**449.0**

Financial performance of the FCA during the year

An analysis of the FCA's performance during the year and its position at the end of the financial year are set out below and in the financial statements. The comparative figures are those of the FCA's continuing operations, i.e. excluding those results, assets and liabilities transferred to the PRA and Bank of England (BoE). The key statistics from the financial statements for the FCA for the years to 31 March 2014 and 2013 are summarised in Table 2 and analysed in further detail below.

Result for the year ended 31 March 2014 (Statement of comprehensive income)

The FCA made a loss of £29.3m for the year ended 31 March 2014. This was driven by two key factors:

- a deficit after tax of £2.9m (2013 continuing operations: surplus £22.8m), the detail of which is analysed further below; and
- an actuarial loss of £26.4m (2013: £43.9m) in respect of the defined benefit pension scheme (the FCA retained the FSA's pension scheme following regulatory reform). The reduction in the actuarial loss was due to actual experience against the assumptions being closer than in the prior year.

Year on year, fee income fell by £13.6m from £449.0m to £435.4m. The reduction in fee income was driven mainly by the FCA returning an extra £8.9m to fee payers in 2013/14 compared to 2012/13 (2014: £19.5m returned; 2013: £10.6m returned).The under-spend year on year is largely due to the FCA not being at full headcount.

Other income increased during the year by £18.7m from £16.7m in 2013 to £35.4m in 2014. This was primarily driven by the following items:

- Fees for interim permission applications for consumer credit totalling £11.3m (2013: nil); and
- Recharges to the PRA for services under the Provision of Services Agreement following regulatory reform of £7.6m.

Interest income was £0.8m in 2014 (2013:£1.7m). The FCA is entitled to earn interest on penalties levied in advance of such penalties being paid over to the Exchequer on a quarterly basis. The quarterly penalty regime came into force in 2014 hence reducing the interest earned by the FCA during the year (prior year penalties were retained for the full year).

The reconciliation of actual net ORA costs to the financial statements is set out in Table 3.

Table 2: Key statistics from the financial statements

		Continuing Operations		
	Key Financial Statistics	**2014 £m**	**2013 £m**	**Movement £m**
Statement of comprehensive income	Fee income	435.4	449.0	(13.6)
	Other income	35.4	16.7	18.7
	Administrative expenses	(469.8)	(441.4)	(28.4)
	Other interest/finance/taxation	(3.9)	(1.5)	(2.4)
	(Deficit)/surplus after tax	**(2.9)**	**22.8**	**(25.7)**
	Net actuarial loss re pension	(26.4)	(43.9)	17.5
	Total comprehensive loss for the year	**(29.3)**	**(21.1)**	**(8.2)**
Statement of financial position	Retained deficit at 31 March	(116.6)	(87.3)	(29.3)
	Comprising:			
	ORA reserves	24.4	27.8	(3.4)
	Advanced funding	5.9	5.9	–
	Cumulative scope change costs	(20.5)	(6.3)	(14.2)
	Retained reserves before pension deficit	9.8	27.4	(17.6)
	Pension deficit	(126.4)	(114.7)	(11.7)
	Total retained deficit	**(116.6)**	**(87.3)**	**(29.3)**
	FCA cash and deposits	**27.9**	**48.3**	**(20.4)**

Table 3: Reconciliation of Actual net ORA costs to Net costs in financial statements for the year		2014 £m	2013 £m
Actual net ORA costs for the year per Table 1 above		**434.5**	**528.2**
Less:	Difference between accounting charge and cash cost of pension scheme	(14.7)	(36.1)
	Transferred to PRA/BoE	–	(119.1)
Add:	Impairment costs: market monitoring systems	–	18.4
	Tax credit (received from HMRC in 2014)	–	1.8
	Scope change (outside of ORA)	15.1	6.1
	Scope change Regulatory Reform (outside of ORA)	3.4	28.7
	Scope change total	18.5	34.8
Net costs per financial statements		**438.3**	**428.0**

The overall increase in net costs of £10m (2.3%), from £428.0m to £438.3m (excluding the various items separately shown above) was principally driven by an increase in the average number of full-time equivalents of 2.4% (from 2,451 to 2,511) leading to a corresponding increase in employment costs of 3.1%.

Scope change costs totalling £18.5m in 2014 (2013: £34.8m, primarily Regulatory Reform), fell by £16.3m following the transition to the new regulatory structure. In 2014 scope change costs relate to consumer credit, Alternative Investment Fund Managers Directive (AIFMD) and costs relating to setting up the new PSR.

Cumulative scope change costs will be recovered by the FCA in future years from appropriate fee blocks. The FCA will recover the AIFMD costs from fee payers in 2014/15 and full recovery of all consumer credit set-up costs will begin from 2016/17 onwards.

Statement of financial position at 31 March 2014

The FCA had net liabilities of £116.6m at 31 March 2014 (2013: £87.3m deficit), primarily as a result of pension liabilities of £126.4m (2013: £114.7m pension liabilities).

Excluding the pension deficit, the FCA had a net surplus of £9.8m (2013: £31.9m).The pension liabilities will not crystallise for many years and the approach to managing and funding the pension deficit is explained in note 14 to the financial statements.

As at 31 March 2014 the FCA had £102.9m of cash and cash equivalents (2013: £392.0m). Of this, £27.9m (2013: £48.3m) represented the FCA's own cash, the balance predominantly representing penalties collected due to be paid over the Exchequer.

Cash balances decreased by £289.1m during the period. This was mainly due to the 2013 penalties of £343.7m owing to the Exchequer for the full year being paid in April 2013. In 2014 the FCA penalties collected and owed to the Exchequer were paid on a quarterly basis. This resulted in a £275.9m reduction in net penalties payable to the Exchequer (March 2014: £67.8m; March 2013: £343.7m). The FCA's own cash balances fell by £20.4m as it continued to invest in technology projects such as Intact.

Movement in the FCA's reserves

The FCA's retained deficit of £116.6m includes the retirement benefit obligation of £126.4m. Of the £24.4m ORA reserves £10.0m has been proposed to be used to reduce fees levied against firms in 2014/15. The movements in the FCA's reserves can be summarised as in Table 4.

Table 4: Movements in the FCA's reserves

Statutory Reserves Summary	ORA Reserves £m	Scope Change/ Other £m	Advanced Funding £m	Total Retained Reserves £m	Pension Deficit £m	Total £m
At 1 April 2013	**27.8**	**(6.3)**	**5.9**	27.4	**(114.7)**	**(87.3)**
Returned to fee payers	(17.1)	(2.4)		**(19.5)**		**(19.5)**
Under-spend	11.2			**11.2**		**11.2**
Additional periodic fees/ scope change levies	3.3	5.9		**9.2**		**9.2**
Scope change (net costs)		(18.5)		**(18.5)**		**(18.5)**
Adjustment	(0.8)	0.8				
Pension movement					(11.7)	**(11.7)**
At 31 March 2014	**24.4**	**(20.5)**	**5.9**	**9.8**	**(126.4)**	**(116.6)**

Principal risks and uncertainties facing the FCA

The FCA's key risks are set out in more detail in the FCA's *Business Plan 2014*. The key drivers behind these risks to delivering our objectives are set out in our *Risk Outlook 2014.*

The paramount risk for the FCA is the failure to meet its statutory objectives. This relies on both its ability to influence the culture and conduct of the industry it regulates and its own internal operations. The principal risks for the organisation are therefore:

- **External Regulatory Risk:** The risk to our operational objectives from the activities and conduct of the firms and markets we regulate, which could cause markets not to work in the interest of consumers or harm the integrity of the financial system or leave consumers with an inadequate degree of protection.

- **Internal Operational Risk:** The risk caused by human factors, inadequate or failed processes and systems within the organisation which would constrain or prevent the delivery of our operational objectives.

- **Reputational Risk:** The risk of damage to the reputation of the FCA arising from our own decisions and actions to the extent that it limits our credibility with stakeholders and constrains our ability to deliver our objectives.

- **Environmental Risk:** The risk in our operating environment such as political, legislative or socio-demographic change which can impact our existing risk portfolio or give rise to new Regulatory or Operational risk.

The FCA's key financial risks (liquidity, credit, counter-party and final salary pension scheme risk) are set out in more detail in the Going Concern section below.

Going Concern

The directors have considered the FCA's Business Plan 2014 and, in particular, the following risks and uncertainties in assessing the FCA as a going concern as set out below:

i. **Liquidity risk**: The FCA's strong fee covenants are underpinned by the statutory powers granted to it to raise fees to fund its regulatory activities. Of the firms on which the FCA currently levies its fees, the top one hundred are responsible for 51% of those fees. The FCA is also well placed from a liquidity perspective, with £27.9m in cash reserves at 31 March 2014, and an available overdraft facility of £20m;

ii. **Credit risk:** The FCA's 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;

   c. Critical Accounting Judgments and Key Sources of Estimate Uncertainty that have been considered by the Directors are the estimated useful economic life of internally developed software and the assumptions underpinning the pension deficit as set out in note 3 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

S Pearce

Secretary

23 June 2014

9.

Directors' report

The directors present their report for the year ended 31 March 2014.

The directors use the Strategic Report (page 64) 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 steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

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 2014 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

S Pearce

Secretary

23 June 2014

Corporate governance statement for the year ended 31 March 2014

The Financial Services and Markets Act (FSMA) requires the organisation to have regard to generally accepted principles of good corporate governance as applicable. The FCA's Board is committed to meeting high standards of corporate governance and this report sets out how the FCA is governed in line with the principles of the UK Corporate Governance Code (the Code). The Board considers that the FCA complies with the Code as far as is appropriate.

FSMA requires the FCA to be accountable to its stakeholders through a number of ways including via an Annual Public Meeting and to report to the Treasury on the extent to which its regulatory objectives have been met. The FCA is funded by the industry it regulates through its statutory fee-raising powers and it operates independently of Government, but is accountable to the Treasury and to Parliament through obligations set out in FSMA. The FCA ensures it consults 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 Business Practitioner Panels.

The Board sets the FCA's strategic aims and ensures the necessary financial and human resources are in place for the FCA to meet its statutory objectives. It provides leadership of the organisation within a framework of prudent and effective controls which enables risk to be assessed and managed. The membership of the Board is stipulated by FSMA and, in accordance 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
- three executive directors and four non-executive directors appointed by the Treasury.

A majority of Board members are non-executive directors and all the non-executive directors are considered to be independent. Appointments to the Board are subject to the Code of Practice issued by the Office of the Commissioner for Public Appointments. The Board is of sufficient size to ensure that the requirements of the business can be met and that changes to the Board composition and any of its committees can be managed without undue disruption.

In order to discharge its duties effectively, the Board and its Committees met regularly during the year and details of the number of meetings held and attendance at those meetings are set out in Table 1. The membership of the various committees is set out in Table 2.

Table 1
Board and Committee Attendance

Name	Scheduled Board Meetings	Additional Board Meetings*	Remuneration Committee	Audit Committee	Risk Committee	Oversight Committee	Expiry of current term
Clive Adamson	10/10	3/3					31/3/2016
Andrew Bailey	9/10	2/3					n/a
Amanda Davidson	10/10	2/3	4/4	4/4			31/3/2016
Amelia Fletcher	10/10	3/3			4/4		31/3/2016
John Griffith-Jones	10/10	3/3	4/4			3/3	31/3/2018
David Harker	10/10	3/3	4/4	4/4		3/3	31/3/2016
Mick McAteer	10/10	2/3		3/4	4/4	2/3	31/3/2015
Tracey McDermott	10/10	2/3					31/3/2016
Jane Platt	9/10	3/3	2/4		3/4		31/3/2016
Brian Pomeroy	10/10	3/3		4/4	3/4		31/3/2016
Lesley Titcomb	10/10	2/3				1/1	31/3/2016
Martin Wheatley	10/10	3/3					31/3/2016

Key
* Additional to those scheduled at the start of the year.

All directors were appointed to the FCA Board with effect from 1 April 2013. The chair was appointed for a five year term, until 31 March 2018, and all other directors were appointed for a three-year term with the exception of Mick McAteer and Andrew Bailey. Mr McAteer was appointed for a 15 month term due to expire on 30 June 2014 but this term has since been extended and will now expire on 31 March 2015. Mr 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.

The executive directors had continuous employment contracts with the FCA, which are subject to the following notice periods:

Director	Notice period
Martin Wheatley	12 months
Clive Adamson	6 months
Tracey McDermott	6 months
Lesley Titcomb	6 months

The following directors were previously directors of the Financial Services Authority:

Director	Original appointment date
Brian Pomeroy	1 November 2009
Mick McAteer	1 November 2009
Amanda Davidson	1 May 2010
Martin Wheatley	1 September 2011
John Griffith-Jones	1 September 2012

Table 2
Committee membership during the year:

Audit Committee	Risk Committee	Remuneration Committee	Oversight Committee
Brian Pomeroy (Chair)	Mick McAteer (Chair)	Amanda Davidson (Chair)	John Griffith-Jones
Amanda Davidson	Amelia Fletcher	John Griffith-Jones	David Harker
David Harker	Jane Platt	David Harker	Mick McAteer
Mick McAteer	Brian Pomeroy	Jane Platt	Lesley Titcomb (Until July 2013)
			Christopher Woolard, FCA Director of Policy, Risk & Research (from August 2013)†

†This appointment maintained the requirement that the chief executive or his nominee be a member of the Oversight Committee

There is a clear division of responsibility between leading the Board and the executive responsibility for the running of the organisation. John Griffith-Jones, as chair, leads the Board and ensures its effectiveness, and Martin Wheatley, as chief executive, is responsible for developing and delivering the strategic objectives agreed with the Board.

The non-executive directors have a variety of skills and experience that are appropriate for the requirements of the FCA. Should any conflict of interest arise, whether personal or professional, appropriate steps are taken to protect both the director and the FCA and to ensure that all decisions are taken without any suggestion of undue influence. The Board appointed Sir Brian Pomeroy as senior independent director. During the year, the non-executive directors met privately without members of the executive present.

The chair and company secretary ensure that the Board's agendas are set in line with the priorities of the organisation and review papers before their circulation 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 meeting.

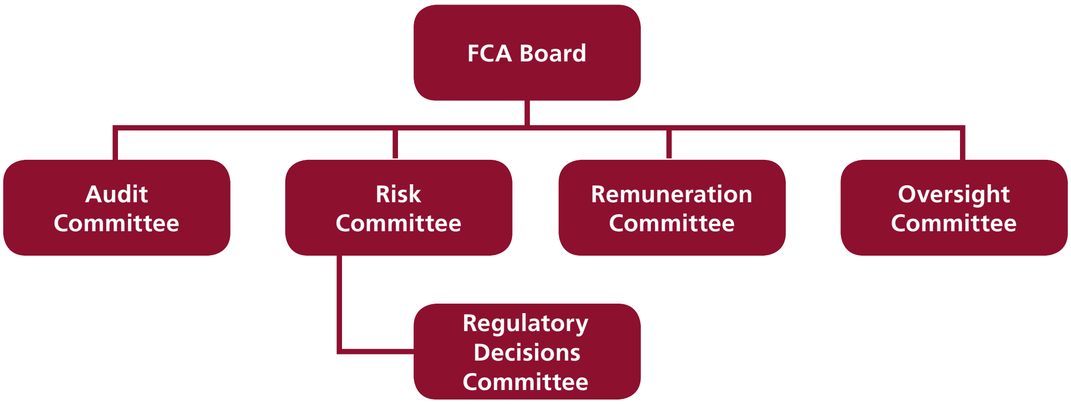
Each director has access to the advice and services of the company secretary, who also advises the Board on aspects of governance matters. The company secretary is also responsible for providing access to external professional advice for directors, if required.

The company secretary arranges induction for new directors that is appropriate for their knowledge and experience. Members of the Board also receive ongoing professional development briefings on relevant issues.

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.

In accordance with good governance, an evaluation of the effectiveness of the FCA Board and committees was commenced shortly after the end of the financial year and is being conducted by external consultants. An externally facilitated review of the Board of the FCA's predecessor, the FSA, was completed in May 2012. This review developed considerations and recommendations to inform discussions on the operating style and composition of the FCA Board.

Governance structure of the FCA



Committees of the Board

Audit Committee

The Audit Committee's purpose is to be responsible for reviewing and providing assurance to the Board on the effectiveness of the FCA's internal controls and risk management systems, the integrity of the financial statements in the annual accounts and the statements that relate to financial controls and internal risk, and oversight of the external audit process.

The committee does not review external risks to the FCA's statutory objectives, which is the responsibility of the Risk Committee, nor does it review individual firms.

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 2.

The committee met on four occasions during the year. The FCA chief executive, chief operating officer, and respective directors of Policy Risk and Research and Authorisations each attended at least one session. The director of Internal Audit and the lead audit partner from the National Audit Office (NAO) or his alternate attended each of the meetings at the request of the committee chair. Private sessions were held with the internal and external auditors during the year without management present.

The committee also held private sessions with a number of members of the senior leadership team and on its own without management present.

To discharge its functions the Committee has carried out the following during 2013/14:

- Monitored the integrity of the financial statements.
- Reviewed the financial reporting judgments and disclosure issues.
- Reviewed pension plan arrangements.
- Reviewed the FCA's financial policies.
- Reviewed and challenged the identification of internal risks, including financial management risks, information systems risk and people risks (as reflected in the risk report), and managers' mitigation of these risks.
- Reviewed the operation of the FCA's whistleblowing policy and received reports on specific issues.
- Reviewed compliance by FCA staff with key internal policies and procedures including the operation and management of the Staff Code of Conduct.

- Reviewed potential and actual litigation against the FCA.

- Reviewed and approved the audit universe (i.e. the internal audit framework).

- Monitored the introduction by Internal Audit of Risk Responsive Audit Reviews following a successful pilot exercise.

- Reviewed and approved the audit plans for internal audit.

- Monitored management's responsiveness to internal audit findings.

- Reviewed the quarterly reports from internal audit.

- Oversaw the FCA's relationship with the external auditor, including consideration of its independence. Information on fees paid to the auditor is given on page xx;

- Received the external auditor's audit strategy for the financial year.

- Reviewed the chair's expenses.

- Reviewed programme and project management in the FCA.

- Monitored the development of information systems including the Intact Programme.

- Monitored the development of the self-assessment capability within the FCA as an important element in building the first line of defence.

- Received updates from the NAO on progress of the value for money study of the new regulatory framework.

Risk Committee

The committee has responsibility for the review and oversight of the external risks to the FCA's statutory objectives, the Board's approach 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 internal risks, which are the responsibility of the Audit Committee.

In discharging its responsibility, the committee received regular reports from the FCA's executive, Head of Risk, Internal Audit Director and the Chairman of the RDC. Throughout the year, the committee held sessions with the respective directors of the FCA's Markets, Supervision and Policy Risk and Research Divisions. It reported to the Board on its consideration of the risk areas and reports derived from each.

The committee sought assurance from the FCA executive that:

a. the major external risks to the FCA's statutory objectives and its reputation, arising within the environment that the FCA regulates, were identified and prioritised appropriately; and

b. the executive had mitigation strategies in place to address these risks and that the scope and coverage of these mitigation strategies supported the delivery of the FCA's outcomes.

During the year, as part of its responsibilities, the committee:

- discussed its concerns relating to the oversight and prioritisation of risk. The committee found it a useful exercise to request the views of the FCA's Independent Panels on the top five risks to the FCA's objectives; going forward, each Panel will be asked to provide its views on evolving external risks;

- sought to understand how the FCA would ensure that it would be able to fulfil its new competition objective. The committee saw risks in both the operational demands of this objective, as well as how the FCA would develop its conceptual model to allow it to understand risks to the FCA's outcomes as a result of market failure. Accordingly, it requested that the FCA's chief executive and Director of Policy Risk and Research update the committee on how the organisation was building its competition capability;

- required assurance that the FCA was building a consistent approach to reporting and recording risks within its operations. Work was ongoing in this area throughout the year;

- noted the risks associated with the pace of change around firms' business models and the culture in the financial sector; risks that the FCA sought to address in its 2013 Risk Outlook. It discussed these ongoing concerns with the FCA's executive and has asked for further information on the progress made in implementing a programme of positive culture change amongst firms; and

- discussed cyber risks, receiving updates from the FCA's Head of Risk on the subject. It was useful to understand the FCA's resilience work with firms in this area and the extent to which firms were treating cyber-crime as a major risk together with consideration of lessons learned from work undertaken so far.

The committee also reviewed the statements to be included in the Annual Report and Accounts concerning risks to the environment in which the FCA regulates; reviewed reports from the internal auditors; and kept under review the operation of the RDC. In both the case of internal audit and the RDC, a report was submitted to each meeting of the committee and its content discussed with senior representatives from the relevant areas.

Internal controls
The Board was responsible for ensuring the FCA had a sound system of internal controls and risk management (internal risks being overseen by the Audit Committee and external regulatory risks by the Risk Committee). The Audit Committee reported at least quarterly to the Board on internal controls and internal risk management. The Audit Committee received regular reports from managers on financial, operational and compliance control and the risk management systems. In addition it received and reviewed reports from the Director of Internal Audit summarising work undertaken, findings and actions by managers.

The system was designed to provide reasonable but not absolute assurance against material misstatement or loss and to manage rather than eliminate risks to the FCA's statutory objectives. The Board's policy on internal controls and risk management included established processes and procedures for identifying, evaluating and managing significant risks.

The internal control processes were in place throughout the year.

Key features of the internal control system included the following:

- Risk reporting that highlighted the key internal and regulatory risks faced. This facilitated discussion on the best course of action to mitigate the key risks and helped senior managers make decisions on priorities and resource allocation. This was regularly reviewed by the Executive Operations Committee and the Executive Committee and formally reported to the Audit Committee on a quarterly basis through the consolidated risk report.

- A review of the framework of controls to mitigate the key internal (and regulatory) risks faced.

- Internal Audit's provision of independent assurance to the FCA Board and management on the effectiveness of risk management and controls over all of its activities.

- The audit universe, which contained all the FCA's activities, systems and projects that contribute to controlling the risks to the organisation. Each unit within the universe was assessed appropriately to support the prioritisation of reviews by Internal Audit. The audit universe and priorities were revised periodically. Factors considered included risk, business criticality and materiality.

- The terms of reference of the Internal Audit function were reviewed during the year.

- Clear reporting lines and delegated authorities, which were reviewed on a regular basis.

- The external audit, including interim and final audit, which provided assurance to the Board and senior management in relation to financial controls.

- Clear segregation of the FCA's supervisory operations and those of the internal treasury function.

- Ensuring appropriate policies and procedures were contained within the staff handbook.

- The performance management framework, which included setting objectives on an annual basis and a formal appraisal process.

- Directors' and senior managers' commitment to maintaining an appropriate control culture across the FCA, which was regularly communicated to all staff.

Remuneration Committee
The Remuneration Committee's function is to determine the remuneration of the most senior members of the executive and to review and make recommendations to the Board in respect of the FCA's remuneration policy. The committee is also responsible for reviewing and making recommendations to the Board in respect of the remuneration payable to directors of various associated bodies. During the year, the committee met on four occasions.

Oversight Committee
The Oversight Committee was established for the purpose of providing support and advice to the Board on its relationship with the Money Advice Service (MAS) and its obligations under FSMA in respect of the MAS, such as approving its annual budget and business plan. During the year, the Committee met on three occasions and key individuals from the MAS also attended. The Board has the ability to extend the scope of the Committee to carry out other assignments as specifically mandated by the Board, for example, to review the plan and budget of the Financial Ombudsman Service and/or the Financial Services Compensation Scheme from time to time if required.

Regulatory Decisions Committee
The Regulatory Decisions Committee (RDC) makes the final decisions on behalf of the FCA on certain contested matters.

The members of the committee are appointed to use their experience and expertise in financial services to decide how the FCA should use particular authorisation, supervisory and enforcement powers. These include the power to stop firms or individuals providing regulated financial services and the levying of fines for breaches of the FCA's rules and legal requirements.

The RDC becomes involved after the relevant division of the FCA has concluded that it is appropriate for the FCA to use particular powers against a firm or individual. The division will submit 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.

The RDC is independent from the division that has conducted an investigation or considered an application for authorisation. The involvement of someone who has not been involved in establishing the evidence on which a decision is based is required by law and helps ensure that decisions are fair

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, taking into account the public interest, to achieve fairness, enhance the objectivity and balance of the FCA's decision making and to assist in improving consistency across sectors and cases.

During the period under review, six members of the RDC were appointed by the Board.

The FCA's Risk Committee received quarterly reports from the RDC Chairman, who also attended Risk Committee meetings to discuss significant matters in those reports.

Remuneration report

This section of the remuneration report is not subject to audit. (The Remuneration Table (page 79), FCA Median Pay Calculations Table (page 79) 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 a performance-related annual individual incentive award;
- additional flexible benefits; and
- pension contribution

Remuneration focus for 2013/14

The focus during the year has been on improving the quality of performance conversations and ensuring there is greater consistency in the use of the FCA's performance management tools. The performance and reward framework has been developed so it is clearly aligned to the FCA's new cultural characteristics.

In order to attract and retain the quality of staff, particularly senior executives, required to deliver the organisation's statutory objectives to a high standard, it was important for the executive to focus reward clearly on performance. The pay review principles have been updated to reflect this and the HR presence in business moderation activity has been strengthened.

A loss of key people into the industry and staff turnover has been a concern this year. A review was undertaken to look at non-pay related benefits which might be upgraded to increase the attractiveness of the overall remuneration package. This initiative resulted in an increase in the holiday allowance for all staff, but with the amount of additional entitlement differentiated by grade.

2013/14 Remuneration review

The Remuneration Committee determined the remuneration of the executive directors. 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 2013/14, but this was a matter for managers' judgement against our common set of performance standards, to ensure that the best performing members of staff, at all levels, received appropriate recognition for their performance.

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 directors 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.

Annual incentive award

During the period under review, from 1 April 2013 to 31 March 2014, the executive directors were eligible to be considered for a performance-related incentive award up to a maximum of 35% of their average base pensionable salary applying during the previous year. Non-executive directors were not eligible to be considered for an individual incentive award.

Other benefits

A sum was available for each director which could be spent against a range of benefits. The sum for the chair and executive directors is included in 'other benefits' in the remuneration table. The chief executive also had access to a car and driver and the relevant portion of this cost is included in 'other benefits' in the remuneration table.

Pensions

The FSA 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. Where a director is not a member of the Plan, they may be entitled to receive a non-pensionable supplement in lieu of pension contributions. The sums paid to the chair and each of the executive directors are shown in the remuneration table.

The remuneration table below sets out the pay, incentives and other benefits for the directors.

Directors' remuneration

The following table is provided in accordance with statutory and regulatory requirements. The information set out in pages 79 to 80 has been audited by the National Audit Office. The table sets out the remuneration paid or payable to the Directors in respect of the year to 31 March 2014.

Where Directors have served for part of the year only, the remuneration figures are shown as pro-rated.

Remuneration Table

	Basic Salary /Fee		Performance related pay		Other benefits		Total Remuneration (excluding pension)		Pension		Total Remuneration	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Chair												
John Griffith-Jones [1]	**170**	99	**–**	–	**2**	–	**172**	99	**20**	12	**192**	111
Executive Directors												
Martin Wheatley [2,5]	**460**	430	**–**	86	**109**	112	**569**	628	**41**	39	**610**	667
Clive Adamson [3,5]	**291**	n/a	**–**	n/a	**30**	n/a	**321**	n/a	**43**	n/a	**364**	n/a
Tracey McDermott [3,5]	**271**	n/a	**–**	n/a	**26**	n/a	**297**	n/a	**32**	n/a	**329**	n/a
Lesley Titcomb [3,4,5]	**250**	n/a	**–**	n/a	**24**	n/a	**274**	n/a	**41**	n/a	**315**	n/a

	FYE Fee awarded		Fee paid	
Non-Executive Directors [6]	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Andrew Bailey [7]	**–**	n/a	**–**	n/a
Amanda Davidson [8]	**45**	35	**35**	35
Amelia Fletcher [9]	**35**	n/a	**35**	n/a
David Harker [9]	**35**	n/a	**35**	n/a
Mick McAteer [10]	**45**	35	**44**	35
Jane Platt [11]	**35**	n/a	**Paid to NS&I**	n/a
Brian Pomeroy [12]	**65**	62	**65**	62

Remuneration ratio [13]	2014	2013
Highest Paid Director's Total Remuneration [14]	**£569,123**	£629,543
Median Remuneration of Employees [14]	**£62,616**	£64,301
Median Remuneration of Total Workforce [14]	**£63,199**	n/a
Ratio (to Employees) [14]	**9.1**	9.8
Ratio (to Total Workforce) [14]	**9.0**	n/a
Number of employees paid in excess of highest paid Director [15]	**Nil**	Nil

Notes

Chair

1 John Griffith-Jones was appointed as a non-executive director and chair designate of the FCA on 1 September 2012 and took up his role as Chair on 1 April 2013. His fee has remained unchanged.

John Griffith-Jones is not a member of the company's Pension Plan and received a non-pensionable supplement in lieu of pension contributions. This amount is included under 'Pension' in the table above.

Executive Directors

2 Martin Wheatley is not an active member of the company's Pension Plan and received a non-pensionable supplement in lieu of pension contributions. This amount is included under 'Pension' in the table above.

Included in Martin Wheatley's Other benefits is the value of the benefit in kind relating to the provision of a car and driver.

3 Clive Adamson, Tracey McDermott and Lesley Titcomb were appointed to the Board on 1 April 2013. The Remuneration Committee agreed an increase in their salaries to £300,000 per annum with effect from 1 November 2013.

4 Lesley Titcomb had a period of voluntary, unpaid career leave between 12 August – 24 September 2013.

5 The Remuneration Committee has agreed, following representation by the chief executive, not to award bonuses for the year to 31 March 2014, pending the publication of the independent investigation into the handling of the FCA's announcement of proposed supervisory work in the life insurance market. Once the outcomes of the review are known, the Remuneration Committee will confirm whether the Executive Directors' bonuses will be awarded and at what level.

Non-executive Directors

6 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 2013/14. An additional fee of £10,000 per annum is payable to any non-executive director who has been appointed to chair the Audit, Remuneration or Risk committee of the Board.

7 Andrew Bailey was appointed as a non-executive director of the FCA on 1 April 2013 but did not receive a fee.

8 Amanda Davidson was appointed Chair of the Remuneration Committee with effect from 25 April 2013 but waived her additional fee.

9 Amelia Fletcher and David Harker were both appointed as non-executive directors on 1 April 2013.

10 Mick McAteer was appointed Chair of the Risk Committee with effect from 25 April 2013.

11 Jane Platt was appointed as non-executive director on 1 April 2013 but waived her fee for 2013/14. It was agreed that her fee would instead be paid to her primary employer, National Savings and Investments (NS&I).

12 Brian Pomeroy was appointed Chair of the Audit Committee with effect from 4 July 2012 and Chair of the company's Pension Plan with effect from 1 June 2010.

The annual fee for chairing the Pension Plan was set at £20,000 with effect from 1 April 2008 and remains unchanged for 2013/14 as recommended by the Remuneration Committee and agreed by the Board.

Remuneration ratio

13 The Accounts Direction from the 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 (i) the median remuneration of the organisation's total workforce for 2014 and (ii) the median remuneration of its employees for both 2014 and 2013.

The remuneration ratio represents the difference between the highest paid director and the median full-time equivalent, annualised remuneration of the Total Workforce / Employees at the reporting period end date (excluding the highest paid director) expressed as a multiple.

This is the FCA's first year of complying with this requirement. In accordance with the agreed Accounts Direction, for this year only, the table above includes current and prior year median pay calculations for Employees and for 2014 for the Total Workforce. Going forward, only the Total Workforce calculation will be required. Definitions are as follows:

- **Remuneration** is total remuneration and includes salary, performance-related bonus and benefits (whether monetary or in-kind). It does not include severance payments or employer pension contributions;
- **Employees** is defined as only those individuals employed directly by the FCA (permanent employees and fixed-term contractors paid through the FCA's payroll);
- **Total Workforce** includes Employees, temporary staff, contractors and other short-term resource.

14 The remuneration of the highest-paid director in the year to 31 March 2014 was **£569,123** (2013: £629,543). The difference between the highest paid director's total remuneration for 2013 shown in the directors' remuneration table and the median pay calculation is due to the difference in the basis of the calculation, being actual amounts paid versus March full year equivalent respectively. The remuneration of the highest-paid director is **9.1** (2013: 9.8) times the median remuneration of the Employees, which was **£62,616** (2013: £64,301). The highest paid director's remuneration is **9.0** times the median remuneration of the Total Workforce, which was **£63,199**. The fall in the Employees ratio from **9.8** in 2013 to **9.1** in 2014 is mainly attributable to two factors: i) the highest paid director and other executive directors' remuneration does not include a performance-related bonus for 2014 as this has not been awarded pending the outcome of the independent investigation into the handling of the FCA's announcement of proposed supervisory work in the life insurance market; and ii) the transfer of the employees from the Prudential Business Unit and other operations to the Prudential Regulation Authority/Bank of England, the average salary for these employees being higher at both Associate and Technical Specialist grade than those equivalent employees engaged in the continuing operations of the FCA.

15 In 2014 **no employee** received remuneration in excess of the highest-paid director (2013: nil). In 2014, Employees' remuneration ranged from **£15,623** to **£328,284** and for the Total Workforce, from **£15,623** to **£390,000**. In 2013, Employees' remuneration ranged from **£14,177** to **£490,702**. The fall in the upper limit of the range of Employees' remuneration from £490,702 in 2014 to £328,284 in 2013 is due to the second-highest paid director leaving the predecessor organisation, the FSA on 31 March 2013. This was following the institutional reform of the financial services regulators.

The Board of the FCA


John Griffith-Jones
Chair


Martin Wheatley
Chief Executive


Clive Adamson
Executive Director


Andrew Bailey
Non-executive Director


Amanda Davidson
Non-executive Director


Amelia Fletcher OBE
Non-executive Director


David Harker CBE
Non-executive Director


Mick McAteer
Non-executive Director


Tracey McDermott
Executive Director


Jane Platt
Non-executive Director


Sir Brian Pomeroy CBE
Non-executive Director


Lesley Titcomb
Executive Director


Simon Pearce
Company Secretary

10.

Financial statements for the period ended 31 March 2014

Registered Number 1920623

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 for the year ended 31 March 2014 under the Financial Services and Markets Act 2000. The financial statements comprise: the 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, Accounting Officer and auditor

As explained more fully in the Statement of Directors' and Accounting Officer's Responsibilities, the Directors and the Accounting Officer 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 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently 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 the Financial Conduct Authority's affairs as at 31 March 2014 and of the deficit 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 prepared in accordance with the Companies Act 2006; and
- the financial statements have been properly prepared in accordance with the Financial Services and Markets Act 2000 and HM Treasury's directions issued thereunder.

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 Strategic Report 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 HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse **Date: 25 June 2014**
Comptroller and Auditor General

National Audit Office, 157-197 Buckingham Palace Road
Victoria, London, SW1W 9SP

Statement of comprehensive income for the period ended 31 March

	Notes	Total 2014 £m	Continuing operations 2013[1] £m	Operations transferrred 2013[1,2] £m	Total 2013 £m
Administrative costs		(469.8)	(441.4)	(141.7)	**(583.1)**
Other income	7	35.4	16.7	22.6	**39.3**
Interest on bank deposits		0.8	1.7	-	**1.7**
Other net finance costs	14	(4.7)	(5.0)	**-**	**(5.0)**
Net costs for year	**4**	**(438.3)**	**(428.0)**	**(119.1)**	**(547.1)**
Fee income		435.4	449.0	119.0	**568.0**
(Deficit)/surplus before taxation		**(2.9)**	**21.0**	**(0.1)**	**20.9**
Taxation	8	**-**	1.8	-	**1.8**
(Deficit)/surplus after taxation		**(2.9)**	**22.8**	**(0.1)**	**22.7**
Net actuarial losses for the year in respect of the defined benefit pension scheme	14	(26.4)	(43.9)	-	**(43.9)**
Total comprehensive (loss)/ income for the year		**(29.3)**	**(21.1)**	**(0.1)**	**(21.2)**

1 The 2013 figures have been re-classified to reflect the reallocation of central overhead costs out of the Prudential Business Unit back into the Continuing operations of the FCA. This is to make the 2013 and 2014 segmental analysis for the FCA's Continuing operations comparable year on year.

2 Operations transferred represent the Prudential Business Unit and other operations transferred 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 2014

	£m
At 1 April 2012	**(66.1)**
Total comprehensive loss for the year	(21.2)
At 31 March 2013	**(87.3)**
Total comprehensive loss for the year	(29.3)
At 31 March 2014	**(116.6)**

Statement of financial position as at 31 March 2014

Company Number: 1920623

	Notes	Total 2014 £m	Continuing operations 2013[1] £m	Assets and liabilities transferred 2013[1,2] £m	Total 2013 £m
Non-current assets					
Intangible assets	9	72.9	80.2	13.9	**94.1**
Property, plant and equipment	10	39.8	46.2	2.6	**48.8**
		112.7	**126.4**	**16.5**	**142.9**
Current assets					
Trade and other receivables	11	34.2	67.7	0.7	**68.4**
Cash and cash equivalents	11	102.9	392.0	-	**392.0**
Current tax asset	8/11	0.4	2.1	-	**2.1**
		137.5	**461.8**	**0.7**	**462.5**
Total assets		**250.2**	**588.2**	**17.2**	**605.4**
Current liabilities					
Trade and other payables	12	(224.8)	(543.7)	(21.7)	**(565.4)**
Short term provisions		(2.7)	-	-	**-**
		(227.5)	**(543.7)**	**(21.7)**	**(565.4)**
Total assets less current liabilities		**22.7**	**44.5**	**(4.5)**	**40.0**
Non-current liabilities					
Trade and other payables	12	(10.7)	(12.6)	-	**(12.6)**
Long term provisions	12	(2.2)	-	-	**-**
Net assets excluding retirement benefit obligation		**9.8**	**31.9**	**(4.5)**	**27.4**
Retirement benefit obligation	14	(126.4)	(114.7)	-	**(114.7)**
Net liabilities including retirement benefit obligation		**(116.6)**	**(82.8)**	**(4.5)**	**(87.3)**
Accumulated deficit		**(116.6)**	**(82.8)**	**(4.5)**	**(87.3)**

1 The 2013 figures have been re-classified to show the actual transfer of assets to the PRA and the BoE on the 1 April 2013.
2 Assets and liabilities transferred represents the Prudential Business Unit and other operations that transferred to the PRA and the BoE on 1 April 2013.

The financial statements were approved and authorised for issue by the Board on 23 June 2014, 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 2014

	Notes	2014 £m	2013 £m
Net cash (used by)/generated from operations	**18**	**(273.8)**	**358.0**
Corporation tax received	8	-	1.8
Net cash (used by)/generated from operating activities		**(273.8)**	**359.8**
Investing activities			
Interest received on bank deposits		0.8	1.7
Expenditure on software development	9	(25.2)	(29.1)
Purchases of property, plant and equipment	10	(7.4)	(11.2)
Transfer of assets to PRA	9/10	16.5	-
Net cash used in investing activities		**(15.3)**	**(38.6)**
Returns on investment and servicing of finance			
Repayments of borrowings		-	(1.2)
Net (decrease)/increase in cash and cash equivalents		**(289.1)**	**320.0**
Cash and cash equivalents at the start of the year		392.0	72.0
Cash and cash equivalents at the end of the year		**102.9**	**392.0**

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 Strategic Report.

Under the FCA's Accounts Direction from Her Majesty's Treasury (HMT) 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:

i. Median pay disclosures (included alongside the remuneration table in the directors' report);

ii. Exit packages (included here in note 6): compulsory redundancy and other departure costs that have been incurred in accordance with the FCA's redundancy policy;

iii. Balances with other government bodies (included here in note 11 and 12).

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 FCA operates.

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 comparatives for the Prudential Business Unit and other operations that transferred including certain assets and liabilities, as operations that 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 FCA:

There are no new or amended IFRS or International Reporting Interpretations Committee (IFRIC) interpretations that would be expected to have a material impact on the company.

ii. New standards, amendments and interpretations issued but not effective for the financial year 1 April 2013 and not early adopted:

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 FCA, 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 FSMA, is measured at fair value and represents the fees to which the FCA was entitled for the financial year.

Sundry income is recognised when the services are provided which includes fees for services provided to other financial service regulatory organisations, applications, publications, training services and professional fees.

Consumer Credit interim permissions income is recognised once an application has been made.

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 FCA can demonstrate the technical feasibility of completing the software; the FCA has adequate technical, financial and other resources available to it as well as the intent to complete its development; and, the FCA 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 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 FCA 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 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 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 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.

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 FCA 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 FCA under such indemnities.

i. Penalties

A liability to our 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. This liability is returned to the fee payers through reduced fees in the following year. Once total penalties collected during the year exceed this sum, a liability to the Exchequer arises.

Penalties issued and not yet collected at 31 March 2014 are included in both current assets and current liabilities and are 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.

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 FCA 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 FCA has a present obligation, legal or constructive, as a result of a past event, if it is probable that the FCA 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

Under an agreement with Her Majesty's Revenue and Customs (HMRC), the FCA is not subject to corporation tax on income arising from its regulatory activities but is subject to corporation tax on net investment income subject to deductions for amortisation of intangible assets.

n. Retirement benefit costs

The FCA 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 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 (including unvested past service cost) is recognised immediately in the statement of comprehensive income.

Money Purchase Section (defined contribution)

The Money Purchase Section of the Plan is a defined contribution plan where the FCA pays contributions at defined rates to a separate entity.

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 FCA'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.

The financial statements separately disclose comparatives for the Prudential Business Unit and other operations that transferred to the Prudential Regulation Authority (PRA) and the Bank of England (BoE).

The statement of changes in equity has not been split reflecting the fact that the retained losses remained with the FCA.

ii. The consumer credit responsibilities of the Office of Fair Trading (OFT) transferred to the FCA on 1 April 2014, along with 105 employees. In the run up to the transfer, the FCA incurred certain set up costs of £22.7m (2013: £3.9m) which were offset by fees of £11.3m (2013: nil) collected for interim permissions. The FCA will continue to incur set up costs in integrating consumer credit responsibilities until the 1 April 2016, when the expectation is that firms with interim permissions will be authorised. From 1 April 2014 until 31 March 2016, all firms that continue carrying out regulated credit activities will have to apply for full authorisation with the FCA.

iii. The OFT rebate scheme came into effect on 31 December 2013 following HMT making a Statutory Instrument giving the FCA the power to put in place a scheme to make payments to eligible consumer credit licensees. The OFT transferred £30m to the FCA to deliver the scheme and the corresponding rebate payments to eligible licensees. As at 31 March 2014, rebate cheques issued to eligible licensees totalled £22.6m. The FCA is entitled to be re-imbursed up to a maximum amount of £1 million for its costs associated with making payments to eligible licensees under the scheme. The cash balance remaining on 31 March 2014 that relates to the OFT rebate scheme was £7.2m. The FCA must transfer to HMT (as the OFT ceased to exist on 1 April 2014), the balance remaining not used for the purpose of the scheme or to re-fund the FCA's costs, as soon as practicable after 31 December 2014.

iv. Intangible assets under IAS 38, internal software development costs of £25.2m (2013: £29.1m) 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 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 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 FCA (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 FCA's predecessor organisations receive different levels of pension increases.

4. Business and geographical analysis

In accordance with IFRS 8 *Operating Segments,* we have restated the 2012/13 comparatives to reflect the expenses and revenues of those segments which form part of the FCA's continuing operations. These are: Authorisations; Markets; Supervision; Enforcement and Financial Crime; Policy, Risk and Research; Operations; and other central services divisions.

Authorisations is responsible for the protection of the financial services perimeter to ensure that industry participants do not pose an unacceptable degree of risk to consumers. It assesses and processes applications made by individuals and entities in relation to applications for authorisations, registrations, variations of permission, cancellations, approved persons and changes in control.

Markets focuses on ensuring that financial markets are efficient, stable, fair and resilient, so that client money and assets are protected, and high standards of conduct are adhered to by all participants. This work combines all regulatory disciplines to deliver the FCA's responsibilities for the supervision of market infrastructures, the supervision of market trading firms, the formulation and negotiation of markets policy, the identification and investigation of market abuse, the functions of the UK Listing Authority and the activities of the Client Assets Unit.

Supervision is responsible for the conduct supervision of the majority of financial services firms operating in the UK, as well as the prudential supervision for those firms not prudentially supervised by the PRA. The division is responsible for delivering the FCA's consumer-focused, forward-looking approach and, through its work, aims to secure an appropriate degree of protection for consumers, protect and enhance the integrity of the UK financial system, and promote effective competition in the interests of consumers.

Enforcement and Financial Crime (EFC) conducts investigations when firms breach our rules or the provisions of FSMA, and also includes a financial crime and intelligence department to support the FCA's strategic objectives. EFC carries out administrative, civil and criminal proceedings in the enforcement of FSMA, our rules and other regulatory requirements. It also works with other regulatory bodies and law enforcement agencies in the UK and abroad. EFC helps us to reduce the extent to which it is possible for a business to be used for financial crime. EFC comprises policy, intelligence, sector and operations teams who together deal with any issues involving money laundering, fraud or dishonesty, or market abuse.

Policy, Risk and Research acts as the FCA's radar. Its primary function is to gather and use a wide range of data, information and intelligence from across the organisation, firms and elsewhere to help identify and assess risks in financial markets, and to design strategies to solve these. This includes the development, negotiation and implementation of conduct policy, and delivery of the FCA's competition and consumer-focused approach to regulation. It is also responsible for the FCA's risk strategy and operation of our three lines of defence.

Operations support the FCA in delivering its statutory objectives. Included are costs for information systems (IS), accommodation, depreciation, amortisation, pension and staff costs for IS, Finance, Facilities, Human Resources and the COO's office.

Other Central Services/Costs includes those divisions that report directly to the Chairman and Chief Executive, in addition to the costs of scope change activity such as consumer credit and the centrally held provision for performance incentive pay for the organisation. The aim of these departments is to ensure that the Chairman and the Board are able to fulfil their stewardship and corporate governance responsibilities; and to provide support to the rest of the organisation.

Geographical analysis

The FCA regulates 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 FCA therefore no geographical analysis is presented.

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

Period ended 31 March 2014	Authorisations £m	Markets £m	Supervision £m	Enforcement and Financial Crime £m	Policy, Risk and Research £m	Front Line Total £m	Operations £m	Other central Services/ Costs £m	Total 2014 £m
Administrative costs	(17.2)	(24.5)	(52.6)	(48.1)	(26.5)	**(168.9)**	(220.0)	(80.9)	**(469.8)**
Other income	5.1	6.5	0.7	1.2	-	**13.5**	9.0	12.9	**35.4**
Interest on bank deposits	-	-	-	-	-	-	0.8	-	**0.8**
Other finance costs	-	-	-	-	-	-	(4.7)	-	**(4.7)**
Net costs for year	**(12.1)**	**(18.0)**	**(51.9)**	**(46.9)**	**(26.5)**	**(155.4)**	**(214.9)**	**(68.0)**	**(438.3)**
Fee income	-	-	-	-	-	-	435.4	-	**435.4**
(Deficit)/surplus before and after taxation	**(12.1)**	**(18.0)**	**(51.9)**	**(46.9)**	**(26.5)**	**(155.4)**	**220.5**	**(68.0)**	**(2.9)**

Period ended 31 March 2013 Restated[1]	Authorisations £m	Markets £m	Supervision £m	Enforcement and Financial Crime £m	Policy, Risk and Research £m	Front Line Total £m	Operations £m	Other Central Services/ Costs £m	Continuing operations Total £m	Operations transferred Total £m	Total 2013 £m
Administrative costs	(16.7)	(21.5)	(44.9)	(46.7)	(17.4)	**(147.2)**	(205.0)	(89.2)	**(441.4)**	**(141.7)**	**(583.1)**
Other income	5.4	5.6	0.3	2.7	-	**14.0**	1.1	1.6	**16.7**	**22.6**	**39.3**
Interest on bank deposits	-	-	-	-	-	-	1.7	-	**1.7**	-	**1.7**
Other finance costs	-	-	-	-	-	-	(5.0)	-	**(5.0)**	-	**(5.0)**
Net costs for year	**(11.3)**	**(15.9)**	**(44.6)**	**(44.0)**	**(17.4)**	**(133.2)**	**(207.2)**	**(87.6)**	**(428.0)**	**(119.1)**	**(547.1)**
Fee income	-	-	-	-	-	-	449.0	-	**449.0**	**119.0**	**568.0**
(Deficit)/surplus before and taxation	**(11.3)**	**(15.9)**	**(44.6)**	**(44.0)**	**(17.4)**	**(133.2)**	**241.8**	**(87.6)**	**21.0**	**(0.1)**	**20.9**
Taxation	-	-	-	-	-	-	1.8	-	**1.8**	-	**1.8**
(Deficit)/surplus after taxation	**(11.3)**	**(15.9)**	**(44.6)**	**(44.0)**	**(17.4)**	**(133.2)**	**243.6**	**(87.6)**	**22.8**	**(0.1)**	**22.7**

[1] The 2013 figures have been re-classified to reflect the reallocation of central overhead costs out of the Prudential Business Unit back into the Continuing operations of the FCA. This is to make the 2013 and 2014 segmental analysis for the FCA's Continuing operations comparable year on year.

5. Deficit before taxation

The deficit before taxation for the period ending 31 March 2014 has been arrived at after charging the following:

	Note	2014 £m	Continuing operations 2013 £m	Operations transferred 2013 £m	Total 2013 £m
Staff costs	6	**216.6**	210.0	116.9	**326.9**
Amortisation of intangible assets	9	**29.0**	22.5	0.6	**23.1**
Depreciation of property, plant and equipment	10	**13.3**	18.2	0.2	**18.4**
Impairment loss	9/10	**1.7**	12.5	-	**12.5**
Loss on disposal	9/10	**2.3**	-	-	**-**
Operating lease rentals		**13.8**	13.7	-	**13.7**
Regulatory reform costs		**3.4**	28.7	-	**28.7**

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:

	12 months to 31 March 2014 £'000	12 months to 31 March 2013 £'000
Fees payable to the National Audit Office for the audit of the FCA's annual accounts (excluding VAT)	78	80

6. Employee information

The average number of full-time equivalent employees (including executive directors) during the year to March 2014 was 2,511 (2013: 3,596). The average number of permanent full-time equivalent employees in each business unit/division during the year was as follows:

	Total 2014	Continuing operations 2013[1]	Operations transferred 2013[1]	Total 2013
Prudential Business Unit	-	-	968	**968**
Authorisations	264	263	-	**263**
Markets	265	239	12	**251**
Supervison	596	575	-	**575**
Policy, Risk and Research	206	202	-	**202**
Enforcement and Financial Crime	427	359	37	**396**
Front Line	**1,758**	**1,638**	**1,017**	**2,655**
Operations	514	581	43	**624**
Other central services	239	232	85	**317**
Total	2,511	**2,451**	**1,145**	**3,596**

[1] The 2013 figures have been re-classified to show the actual transfer of people to the PRA and BoE on the 1 April 2013 and to reflect the new organisational structure for the FCA's continuing operations.

As at 31 March 2014, the FCA had 2,589 (2013: 3,631) permanent full-time equivalent employees on its payroll.

Employment costs (including executive directors) comprise:

	Notes	2014 £m	Continuing operations 2013 £m	Operations transferred 2013 £m	Total 2013 £m
Gross salaries and taxable benefits		177.7	171.9	96.8	**268.7**
Employer's national insurance costs		21.2	22.1	10.6	**32.7**
Employer's defined contribution costs	14	17.6	15.7	9.5	**25.2**
Other employer's pension costs included in administrative costs		0.1	0.3	-	**0.3**
Total	**5**	**216.6**	**210.0**	**116.9**	**326.9**
Net pension finance costs (included in other finance costs)	14	4.7	5.0	-	**5.0**
Actuarial losses in respect of the defined benefit pension scheme	14	26.4	43.9	-	**43.9**
Total employment costs		**247.7**	**258.9**	**116.9**	**375.8**

Exit packages

Redundancy and other departure costs incurred in accordance with the FCA's 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 between the FCA and the individual concerned.

Exit package cost band	Number of compulsory redundancies 2014	Number of other departures agreed 2014	Total 2014	Number of compulsory redundancies 2013	Number of other departures agreed 2013	Total 2013
£0 – £10,000	2	-	**2**	-	2	**2**
£10,001 – £25,000	7	4	**11**	-	8	**8**
£25,001 – £50,000	18	4	**22**	7	11	**18**
£50,001 – £100,000	14	4	**18**	6	1	**7**
£100,001 – £150,000	1	-	**1**	2	2	**4**
£150,001 – £200,000	1	-	**1**	-	-	**-**
£200,001 and above	1	-	**1**	-	1	**1**
Total number of exit packages	**44**	**12**	**56**	**15**	**25**	**40**
Total costs 2014/2013			**£2.8m**			**£1.9m**

7. Other income

	2014 £m	Continuing operations 2013 £m	Operations transferred 2013 £m	Total 2013 £m
Application fees and other regulatory income	**10.6**	9.1	-	**9.1**
Consumer credit interim application fees	**11.3**	-	-	-
Publications and training services	**1.0**	1.4	-	**1.4**
Professional fees recovered	**0.9**	-	4.1	**4.1**
Solvency II income	**-**	-	18.3	**18.3**
Other sundry income	**11.6**	6.2	0.2	**6.4**
Total other income	**35.4**	**16.7**	**22.6**	**39.3**

8. Taxation

The tax on ordinary activities is:

	2014 £m	2013 £m
Corporation charge/(credit) tax for the year	-	(1.8)

The application of the corporation tax regime for intangible fixed assets resulted in a nil corporation tax charge for the year. The FCA is due a refund of the on account tax payments made for 2013 of £0.4m reflected in current assets (note 11).

There is an unrecognised deferred tax asset of £19.0m (£13.9m) in relation to unused tax losses carried forward. It is not considered probable that taxable profits will be available to utilise the unused tax losses.

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

	2014 £m	2013 £m
(Deficit)/surplus before tax	(2.9)	20.9
Tax at 23% (2013: 24%) thereon	-	5.0
Effects of: Adjustment for activities not subject to corporation tax	-	(5.0)
Current tax charge for the year	-	-
Effective tax rate for the year	0.0%	0.0%

9. Intangible assets

	Internally generated software £m	Other software costs £m	Work in progress £m	Total £m
Cost				
At 1 April 2012	**107.9**	**23.5**	**29.7**	**161.1**
Additions	-	-	29.1	**29.1**
Transfers (note 10)	33.3	5.4	(32.1)	**6.6**
Disposals	(27.6)	(5.3)	-	**(32.9)**
Impairments	(0.3)	-	(8.3)	**(8.6)**
At 31 March 2013	**113.3**	**23.6**	**18.4**	**155.3**
Assets transferred to PRA	(12.9)	(0.8)	(0.9)	**(14.6)**
Additions	-	-	25.2	**25.2**
Transfers (note 10)	13.0	2.2	(17.0)	**(1.8)**
Disposals	(4.1)	(0.6)	(0.3)	**(5.0)**
At 31 March 2014	**109.3**	**24.4**	**25.4**	**159.1**
Amortisation				
At 1 April 2012	**54.2**	**10.8**	**-**	**65.0**
Charge for the year	19.2	3.9	-	**23.1**
Transfers (note 10)	2.4	2.7	-	**5.1**
Disposals	(27.7)	(5.4)	-	**(33.1)**
Impairments	1.1	-	-	**1.1**
At 31 March 2013	**49.2**	**12.0**	**-**	**61.2**
Assets transferred to PRA	(0.6)	(0.1)	-	**(0.7)**
Charge for year	23.3	5.7	-	**29.0**
Disposals	(4.1)	(0.6)	-	**(4.7)**
Impairments	1.4	-	-	**1.4**
At 31 March 2014	**69.2**	**17.0**	**-**	**86.2**
Net book value				
At 31 March 2013	**64.1**	**11.6**	**18.4**	**94.1**
At 31 March 2014	**40.1**	**7.4**	**25.4**	**72.9**

10. Property, plant and equipment

	Leasehold improvements £m	Computer equipment £m	Furniture and equipment £m	Work in progress £m	Total £m
Cost					
At 1 April 2012	**38.3**	**85.4**	**16.5**	**8.3**	**148.5**
Additions	-	0.5	0.1	10.6	**11.2**
Transfers (note 9)	1.5	5.6	0.4	(14.1)	**(6.6)**
Disposals	(13.0)	(38.1)	(1.3)		**(52.4)**
Impairments	-	(0.4)	-	(0.3)	**(0.7)**
At 31 March 2013	**26.8**	**53.0**	**15.7**	**4.5**	**100.0**
Assets transferred to PRA	-	(2.1)	(1.0)	-	**(3.1)**
Additions	0.1	-	-	7.3	**7.4**
Transfers (note 9)	1.2	5.5	0.7	(5.6)	**1.8**
Disposals	(5.6)	(8.0)	(1.2)	(0.3)	**(15.1)**
At 31 March 2014	**22.5**	**48.4**	**14.2**	**5.9**	**91.0**
Depreciation					
At 1 April 2012	**21.8**	**60.0**	**6.2**	**-**	**88.0**
Charge for year	2.8	14.0	1.6	-	**18.4**
Transfers (note 9)	-	(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**
Assets transferred to PRA	-	(0.1)	(0.4)	-	**(0.5)**
Charge for year	2.9	8.9	1.5	-	**13.3**
Disposals	(4.4)	(8.0)	(0.7)	-	**(13.1)**
Impairments	-	0.3	-	-	**0.3**
At 31 March 2014	**11.6**	**32.5**	**7.1**	**-**	**51.2**
Net book value					
At 31 March 2013	**13.7**	**21.6**	**9.0**	**4.5**	**48.8**
At 31 March 2014	**10.9**	**15.9**	**7.1**	**5.9**	**39.8**

11. Current assets

	Note	2014 £m	Continuing operations £m	Operations transferred £m	Total 2013 £m
Fees receivable		2.3	7.6	-	**7.6**
Net penalties receivable	12	13.8	44.3	-	**44.3**
Other debtors		1.0	1.3	0.4	**1.7**
Prepayments and accrued income		17.1	14.5	0.3	**14.8**
Trade and other receivables		**34.2**	**67.7**	**0.7**	**68.4**
Cash deposits		27.1	46.9	-	**46.9**
Cash deposits: on behalf of the Exchequer		67.8	343.7		**343.7**
Cash		0.8	1.4	-	**1.4**
Cash: OFT rebate scheme		7.2	-	-	**-**
Cash and cash equivalents		**102.9**	**392.0**	**-**	**392.0**
Current tax asset	8	0.4	2.1	-	**2.1**
Total current assets		**137.5**	**461.8**	**0.7**	**462.5**

Included in trade and other receivables balances above are amounts due from government bodies as follows:

	2014 £m	2013 £m
Balances with other central government bodies	-	44.5
Balances with local authorities	5.2	-
Balances with public corporations and trading funds	0.4	1.2
Intra-government balances	5.6	45.7
Balances with bodies external to government	28.6	22.7
Total trade and other receivables	**34.2**	**68.4**

The average credit period is 34 days (2013: 34 days).

All of the FCA's fee and other receivables have been reviewed for indications of impairment. Certain fee receivables were found to be impaired and a provision of £0.5m (2013: £0.7m) has been made for the estimated irrecoverable amounts from fees invoiced. This provision has been determined by reference to past default experience.

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

	2014 £m	2013 £m
At 1 April	15.5	14.6
Increase in provision for financial penalties	7.8	0.9
Total at 31 March	**23.3**	**15.5**

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 2014. The age of fee receivables past due, but not impaired, is as follows:

	2014 £m	2013 £m
Not more than three months	0.1	0.8
More than one year	-	0.1
Total	**0.1**	**0.9**

Our policy is to review receivables systematically for recoverability when they are more than three months past due. Receivables over 3 months due that were not impaired were classified as such as the FCA has received confirmation of impending payments.

Cash and cash equivalents

Bank balances and cash comprise cash 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	2014 £m	Continuing operations £m	Operations transferred £m	Total 2013 £m
Trade creditors and accruals	75.6	93.7	-	**93.7**
Other taxation and social security	8.7	13.3	-	**13.3**
OFT rebate scheme	7.2	-	-	**-**
Net penalties payable	130.1	426.2	-	**426.2**
Fees received in advance	3.2	10.5	21.7	**32.2**
Trade and other payables	**224.8**	**543.7**	**21.7**	**565.4**
Short term provisions	2.7	-	-	-
Total current liabilities	**227.5**	**543.7**	**21.7**	**565.4**

The short term provisions primarily comprise of professional fees, including in relation to an independent investigation into the handling of the FCA's announcement of proposed supervisory work in the life insurance market.

Included in trade and other payable balances above are amounts due to government bodies as follows:

	2014 £m	2013 £m
Balances with other central government bodies	107.9	407.6
Balances with local authorities	4.7	1.1
Balances with public corporations and trading funds	0.6	1.2
Intra-government balances	**113.2**	**409.9**
Balances with bodies external to government	111.6	155.5
Total trade and other payables	**224.8**	**565.4**

Net penalties payable

	Note	2014 £m	2013 £m
Penalties to be returned to fee payers		39.1	38.2
Penalties payable to Exchequer		77.2	343.7
Net penalties receivable	**11**	13.8	44.3
Net penalties payable		**130.1**	**426.2**

Net penalties receivable

	Note	2014 £m	2013 £m
Penalties receivable at 1 April		59.8	16.3
Penalties issued during the year		420.9	427.2
Write-offs during the year		(11.5)	(1.8)
Penalties collected during the year		(432.1)	(381.9)
Penalties receivable		**37.1**	**59.8**
Provision for bad debts		(23.3)	(15.5)
Net penalties receivable at 31 March	**11**	**13.8**	**44.3**

Penalties collected during the year

	2014 £m	2013 £m
Penalties to be returned to fee payers	39.1	38.2
Penalties payable to Exchequer	77.2	343.7
Penalties paid to Exchequer	318.2	-
Underpayment to Exchequer from previous years	(2.4)	-
Penalties collected during the year	**432.1**	**381.9**

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and on-going costs. The average credit period taken for trade payables is 27.5 days (2013: 27 days). The directors consider the carrying amount of trade payables approximates to their fair value.

As at 31 March 2014, the FCA's current liabilities have contractual maturities which are summarised below:

	Within 6 months		6 to 12 months	
	2014 £m	2013 £m	2014 £m	2013 £m
Trade creditors and accruals	80.3	99.2	2.5	0.7
Fees received in advance	3.2	26.1	-	-
Other liabilities	141.5	439.4	-	-
Total	**225.0**	**564.7**	**2.5**	**0.7**

Non-current liabilities

Non-current liabilities measured at amortised cost

As at 31 March 2014, the FCA's non-current liabilities measured at amortised cost, have contractual maturities that are summarised below:

	1 to 5 years		Later than 5 years	
	2014 £m	2013 £m	2014 £m	2013 £m
Lease accrual	10.7	10.2	-	2.4
Long term provisions	2.2	-	-	-
Total	**12.9**	**10.2**	**-**	**2.4**

The lease accrual of £10.7m (2013: £12.6m), 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 17.

13. Credit Facilities

At the 31 March 2014 the available credit facilities were £115m, made up of two £50m revolving credit facilities with Lloyds Banking Group (LBG) and HSBC Banking Group and a £15m overdraft facility with LBG. Both revolving credit facilities were terminated on the 8 April 2014.

The current available credit facility consists of a £20m overdraft facility with LBG which is available until further notice and will be reviewed periodically by the bank.

14. Retirement benefit obligation

The FCA operates the FSA Pension Plan (the Plan) which has both a defined benefit section (the Final Salary Section) and a defined contribution section (the Money Purchase Section).

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 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.

Final Salary Section

The most recent actuarial valuation of the Plan was carried out as at 31 March 2013 by an independent actuary (Towers Watson), using the projected unit method. The results of this valuation have been updated for the purpose of the IAS 19 retirement benefit as at 31 March 2014, in order to allow for any changes in assumptions and movements in liabilities over the period.

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

At 31 March	2014	2013
Discount rate	4.40%	4.55%
Retail price inflation (RPI)	3.45%	3.45%
Future pension increases	3.10%	3.15%
Plan membership census dates	31/03/2013	31/03/2010

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 corporate bonds of appropriate durations.

The change in discount rate has resulted in an increase of £17.3m 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 2014 are based on CLUB VITA tables.

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

	2014 Males	2014 Females	2013 Males	2013 Females
Retiring today aged 60 (years)	28.5	30.8	28.6	29.8
Retiring in 15 years aged 60 (years)	29.9	32.3	30.0	31.3

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 in pension obligation at 31 March 2014 £m	%
Present value of funded obligation	Assumptions as above – no change	610.9	-
Discount rate	10 bps decrease to 4.30%	12.0	2.0
Longevity	1 additional year of life expectancy at age 60	14.4	2.4
Inflation	10 bps increase to 3.55%	7.9	1.3

The amounts recognised in the statements of financial position are:

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Fair value of Plan assets	487.2	461.9	375.9	339.7	316.6
Less: Present value of funded obligations	(610.9)	(574.0)	(480.7)	(451.9)	(427.2)
Deficit in the Plan	**(123.7)**	**(112.1)**	**(104.8)**	**(112.2)**	**(110.6)**
Unfunded pension liabilities[1]	(2.7)	(2.6)	(2.3)	(2.3)	(2.1)
Net liability	**(126.4)**	**(114.7)**	**(107.1)**	**(114.5)**	**(112.7)**

1. A small number of current and former employees have benefit commitments that cannot be delivered entirely through the tax-approved scheme described above.

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

	2014 £m	2013 £m
Expected return on plan assets	n/a	19.9
Interest cost on plan liabilities	n/a	(24.9)
Net interest on the net defined benefit liability/(asset)	(4.7)	n/a
Other net finance costs	(4.7)	(5.0)

Actuarial losses of £26.4m (2013: £43.9m) are recognised in the period in which they occur as part of the statement of comprehensive income.

Cumulative actuarial losses recognised in the statement of changes in equity:

	2014 £m	2013 £m
Losses at 1 April	(157.0)	(113.1)
Net actuarial losses recognised in the year	(26.4)	(43.9)
At 31 March	(183.4)	(157.0)

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

	2014 £m	2013 £m
Opening obligation	(574.0)	(480.7)
Benefits paid	10.9	13.0
Interest cost on Plan liabilities	(25.8)	(24.9)
Actuarial (losses)	(22.0)	(81.4)
Closing obligation	(610.9)	(574.0)

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

	2014 £m	2013 £m
Opening fair value of plan assets	461.9	375.9
Expected return on plan assets	21.1	19.9
Actuarial (losses)/gains	(4.4)	37.5
Contributions by the employer	19.5	41.6
Benefits paid	(10.9)	(13.0)
Closing fair value of Plan assets	**487.2**	**461.9**

The fair value of the Plan assets and asset allocation at 31 March:

	Asset allocation 2014 %	Fair value 2014 £m	Asset allocation 2013 %	Fair value 2013 £m
UK equity securities	12.0	58.5	11.3	52.1
Overseas equity securities	38.0	185.1	37.2	171.8
Corporate bonds	21.7	105.7	21.8	100.9
Index linked gilts	21.2	103.3	18.1	83.8
Fixed index gilts	0.1	0.5	-	-
Real estate/property	6.3	30.7	6.1	28.1
Other	0.7	3.4	5.5	25.2
Closing fair value of Plan assets	**100.0**	**487.2**	**100.0**	**461.9**

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

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 Scheme Specific Valuation (SSV) as at March 2013 and requires 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.

Money Purchase Section (defined contribution)

The total expense recognised in the statement of comprehensive income of £17.6m (2013: £25.2m) represents contributions payable to the plan by the FCA at rates specified in the rules of the Plan.

15. Capital commitments

The FCA had entered into contracts at 31 March 2014 for future capital expenditure totalling £6.5m (2013: £5.5m), which is not provided for in the accounts.

16. Operating lease arrangements

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

	2014 £m	2013 £m
Within one year	19.5	18.1
In the second to fifth years inclusive	60.2	69.4
After five years	0.3	10.9
Total	**80.0**	**98.4**

Operating lease payments include rentals payable by the FCA for certain of its office properties. The FCA'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 FCA is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. The key management personnel includes the chairman, executive board members and other non-executive directors. This includes senior management acting in the role of director for more than 3 months. Of this group, 12 (2013: 25) personnel received remuneration of £100k or more for the year.

	2014 £m	2013 £m
Short-term benefits	3.6	7.1
Post-employment benefits	0.4	0.8
Termination benefits	-	0.3
Total	**4.0**	**8.2**

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 are set out in FSMA.

The FCA is required under various statutes to ensure that each of the Financial Services Compensation Scheme (FSCS), the Financial Ombudsman Service (the 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. 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.

The FCA considers all of the above organisations to be related parties.

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 was £0.4m (2013: £0.4m). The net amount of fees collected that remained to be paid over by the FCA to FSCS at 31 March 2014 was £0.4m (2013: £0.8m).

b) The Financial Ombudsman Service Limited

In 2005/06 the FCA 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 (2013: £0.1m). As at 31 March 2014, £0.1m of fees had been collected but not paid to the ombudsman service (2013: £1.1m).

The FCA acts as guarantor to the lease agreement for part of the ombudsman service premises. The lease is due to end on 1 November 2014. The FCA is also guarantor to a lease agreement for the FOS's new premises in Exchange Tower, Harbour Exchange, London, E14. The lease is for a 15 year term commencing 1 September 2014.

The ombudsman service is also a participating employer in the FSA Pension Plan described in note 14 and makes contributions at the same overall rate as the FCA.

c) Money Advice Service

The FCA issues levy invoices and collect levy monies on behalf of MAS. The charge for this service in the financial year ended 31 March 2014 was £0.1m (2013: £0.1m).

As at 31 March 2014, the amount collected but not paid to the MAS was £0.2m (2013: £3.1m).

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, information systems, enforcement and intelligence services, contact centre and data migration. The annual charge for these services in the financial year ended 31 March 2014 was £7.6m (2013: nil).

As at 31 March 2014, the amount collected but not paid to the PRA was £0.3m, (2013: nil).

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 BoE (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 2016.

The FCA funds the activities of the OCC through the periodic fees it raises. During 2013/14, the FCA transferred £0.6m (2013: £0.6m) to the OCC to cover running costs, which have been expensed in the FCA's statement of comprehensive income. At 31st March 2014, the balance owing to the FCA from the OCC was £0.1m (2013: nil).

The FCA acts as guarantor to the lease agreement for the OCC's premises. The lease is due to end in October 2016. The FCA has also guaranteed the OCC's funding for 2014/15 amounting to £0.6m.

By virtue of certain provisions contained in FSMA, the FCA (together with the BoE and HMT) has the right to appoint and remove the Complaints Commissioner, who is both a member and a director of the company. However, the scale of the activities of the OCC is immaterial compared to those of the FCA and has been accounted for at fair value through the statement of comprehensive income.

The FCA and BoE have jointly announced the appointment of Antony Townsend as the new Commissioner from 1 May 2014, following the retirement of Sir Anthony Holland.

18. Notes to the cash flow statement

	Notes	2014 £m	2013 £m
(Deficit)/surplus for the year from operations		(2.9)	20.9
Adjustments for:			
Interest received on bank deposits		(0.8)	(1.7)
Amortisation of other intangible assets	9	29.0	23.1
Impairment on intangible assets	9	1.4	9.7
Loss/(profit) on disposal of intangible assets	9	0.3	(0.2)
Depreciation of property, plant and equipment	10	13.3	18.4
Impairment on tangible assets	10	0.3	2.8
Loss on disposal of property, plant and equipment	10	2.0	0.2
Increase in provisions	12	4.9	-
Difference between pension costs and normal contributions	14	4.7	5.0
Payments made on unfunded pension liability	14	0.1	0.3
Additional cash contributions to reduce pension scheme deficit	14	(19.5)	(41.6)
Operating cash flows before movements in working capital		**32.8**	**36.9**
Decrease/(increase) in receivables	11	35.9	(39.6)
(Decrease)/increase in payables	12	(342.5)	360.7
Net cash (used by)/generated from operations		**(273.8)**	**358.0**

19. Events after the reporting period

On the 1 April 2014 the Payments Systems Regulator (PSR) was incorporated. The PSR is a company limited by shares (wholly owned by the FCA). The PSR's objectives are to promote innovation, competition and the interests of service users within the payments systems industry. At present the focus is on defining the regulatory approach the PSR will take and ensuring that it is fully operational to carry out its responsibilities for launch in April 2015.

Consumer credit responsibilities of the OFT transferred to the FCA on 1 April 2014, along with it 105 employees from its consumer credit operations and a number of in-flight applications for consumer credit licences. Thereafter, the OFT ceased to exist.

Financial Conduct Authority

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