

Business Plan

2016 / 17





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Setting the scene

Consumers



9.6 million
log-ins to internet
banking a day

(British Bankers' Association, 2015)



20.1 million
UK households
have motor insurance

(Association of British Insurers)



3 million

struggling with problem debt

(StepChange debt charity: Cutting the cost of problem debt)



2 million

UK adults do
not have a bank account

(Financial Inclusion Commission, 2015)

A changing population



1.1 million

increase in over 65s by 2020

(Office for National Statistics)



85+

fastest growing
age group in the UK

(Office for National Statistics)



7%

of UK workforce
is self-employed

(Office for National Statistics)



26%

of first time buyers
took out a

35-year mortgage in 2015

(Council of Mortgage Lenders, January 2016)



Our work

We regulate over

56,000

firms and

125,000

approved persons
in the UK

1,004

new firms
authorised in 2015

£250
million
paid out in redress
by payday lenders

We determined
30,000
applications from
consumer credit firms

134,000
consumers helped
by our contact centre in 2015

200,000
people visited
our ScamSmart hub

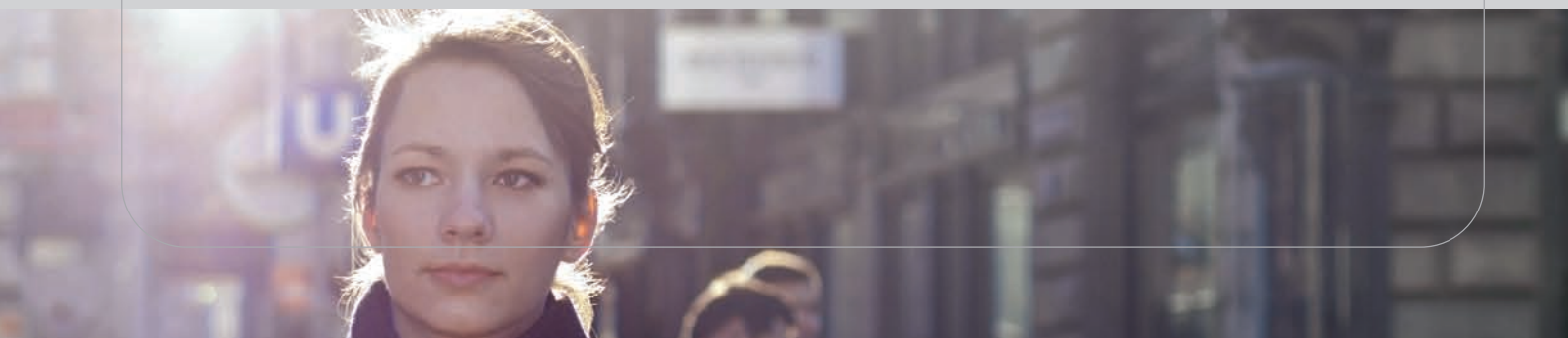
UK financial services

£1.9trillion
invested assets held
by UK insurers
(Association of British Insurers, 2015)

2.2million
people employed by
financial services in UK
(The City UK, March 2016)

12%
of UK total
economic output
(The City UK, March 2016)

Over
70,000
cash machines in UK
(Link, 2015)





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Chairman's foreword

John Griffith-Jones

Welcome to our 2016/17 Business Plan. It sets out our work programme and priorities for the coming year. It is an important document that explains how we will meet our three operational objectives of protecting consumers, promoting competition and enhancing market integrity to meet our overarching strategic objective of making markets work well.

A central input to the Business Plan is the Risk Outlook, which identifies trends in the markets and firms we regulate, and risks which the FCA needs to respond to. It sets out the context in which we operate and plays an important role in influencing our priorities for the coming year. Some of the risks we face are outside our control; international events and the direction of the economy being just two. Other, indeed most, risks to conduct tend to be long term and recurring, so it is unsurprising that our priority list is not much changed year on year. Indeed, we should be concerned if it is. Of our top seven this year, two new themes are prioritised: wholesale markets and the provision of advice. The others continue to merit their status.

The pension freedoms, for example, created new possibilities but also risks, which is why they continue to be a focus for us this year. On the one hand, these freedoms have given consumers more choice and ownership of what their retirement income looks like. On the other hand, we need to ensure that people taking these often critical decisions are protected when seeking the appropriate advice and guidance they need.



We need to ensure that people taking these often critical decisions are protected



We also remain alive to the risk – and potential rewards – of technological innovation. Technology can drive down the cost of accessing products and services, and can push up the quality of service. But it can present challenges to markets and regulators alike, including resilience, cyber-crime and financial exclusion.

Planning around risks allows us to take a proactive, market-wide approach to policy making, supervision and enforcement which, combined, seek to deter poor behaviour. It also ensures that we balance our resources appropriately between our ongoing work and what we deem to be our greatest risks, ensuring that we respond flexibly to other priorities or challenges that emerge.

Over the next year we will continue our valuable work with industry and consumers to develop policy and practice that both addresses current issues and takes account of emerging developments. I call this constructive deterrence, arguably the best form of regulation, seeking to prevent things from going wrong in the first place through proactive engagement. For example, our new regional programme, Live & Local, aims to take our messages more effectively to firms in our flexible category, many of whom are spread across the country.

The core of our work, however, will continue to be challenging poor conduct. We identify firms' culture and governance as one of our seven priorities because experience has demonstrated that poor culture and poor conduct are closely related. It is vital therefore that industry continues to work to deliver its own cultural change, thereby reducing regulatory infringements. Consistency and perseverance will undoubtedly be required, but the industry's goal to restore trust can only be sustainably achieved by this route.

We remain determined to ensure that markets work effectively and fairly and, where necessary, we will use our enforcement powers to reinforce our policy objectives and to provide effective deterrence from irresponsible behaviour.

The FCA will continue to be involved in the EU and international policy agenda, seeking particularly to maintain the wellbeing of the UK's market place, reinforced by the high conduct standards expected of a global financial centre.

This summer we will welcome Andrew Bailey who joins as our new CEO, taking over from Tracey in overseeing our important work programme.

I hope that both consumers and the industry will find this Business Plan useful, and I look forward to our continued work over the coming year.



John Griffith-Jones
Chairman



Experience has demonstrated that poor culture and poor conduct are closely related





Chief Executive Officer's introduction Tracey McDermott

The FCA has been given the responsibility of regulating a sector which plays a critical role in the lives of everyone in the UK and without which the modern economy could not function. It is our job to make markets work well – delivering for individuals, for businesses large and small and for our economy as a whole.

As we enter our fourth year, the external environment remains challenging. The firms we regulate are investing heavily in making the required changes to their business models, technology and culture to meet new regulatory requirements and new customer demands.

Our overall priority is to ensure an effective and proportionate regulatory approach which tackles the problems of the past without inhibiting the developments of the future. Key to this is delivering a sustainable model of regulation which allows us to focus our resources on the biggest risks to our objectives in a flexible and tailored way.

We have made significant progress on this over the past 18 months. Over the course of this year we will continue to embed sustainability in everything we do. We will impose new requirements where they are needed, encourage industry-led initiatives where appropriate and remove or adapt regulation where the benefits do not justify the costs. This year, we will review whether aspects of our rules may be outdated or no longer effective in advancing our statutory objectives, and consider which may need to be removed or redrafted to better do so. We will have a particular focus on how technology can be used to make compliance easier and more effective.



We will have a particular focus on how technology can be used to make compliance easier and more effective



As in previous years, the majority of our resources will be devoted to our core business: authorising firms and individuals; maintaining an oversight of business activities, conduct and behaviour and the effectiveness of competition in the sectors we regulate; prudentially supervising 24,000 firms and developing, implementing and enforcing domestic and international policy and rules.

We will conclude the authorisation process for consumer credit firms and integrate that work fully into our core business. Following the Government's announcement in the budget that we will take on responsibility for regulating claims management companies, we will work closely with the Ministry of Justice, the Treasury and the Claims Management Regulator (CMR) to ensure a smooth transfer of regulation.

To guide how we use our discretionary resources and provide additional focus for our core activities, this year we have highlighted seven priority themes around which we will organise that work. These are: pensions, financial crime and anti-money laundering, wholesale financial markets, advice, innovation and technology, firms' culture and governance, and treatment of existing customers.

These themes are set out in more detail in the plan with their associated work programmes. Effective governance at firms is critical to them embedding the right culture throughout the firm and achieving the right outcomes. We will continue to work with firms and other bodies on driving culture change throughout the sector. We will ensure the effective implementation of the Senior Managers and Certification Regime in the banking sector and develop our policy for its extension across the financial services sector.

On pensions, our Retirement Outcomes review will take an in-depth look at how well the market is working following the introduction of the pension freedoms in April 2015. We will also develop a framework for the new secondary annuities market and take forward the requirement to introduce a cap on exit fees in certain pension contracts.



We will continue to actively protect consumers and markets from the criminals who seek to exploit them



Our work this year also prioritises an accessible, affordable advice market that works for consumers; we will address issues in the treatment of long-standing life insurance customers and we will introduce remedies to stimulate shopping around, switching and greater transparency in the cash savings market.

Clean, efficient and effective wholesale markets are at the heart of the financial sector. This year we will deliver a major programme in support of our market integrity objective. Implementing the recommendations of the Fair and Effective Markets Review (FEMR) will see us extend key parts of the Senior Managers and Certification Regime to the wholesale Fixed Income, Currencies and Commodities markets. In the longer term, delivering the requirements of the MiFID II regime has the potential to fundamentally improve the service both retail and wholesale markets give their clients. This year we will also begin applying the new EU Market Abuse Regulation to cover new markets and platforms, further raising standards of transparency and reporting across industry.

On financial crime, we will continue to actively protect consumers and markets from the criminals who seek to exploit them. We will take tough action against wrongdoers, working closely with industry and law enforcement to do so. We will also take steps to help people to protect themselves against crime through our ScamSmart campaign. We recognise the challenges industry faces in ensuring effective controls to prevent the UK being used to launder criminal funds, while also maintaining services to the whole of society. We will explore ways in which technology solutions can help to deliver effective and proportionate anti-money laundering outcomes.

The impact of technology is one of the fastest-evolving of this year's priority themes. In particular, the potential of technology to improve not only how products and services are designed, but also how they are distributed. This year we will foster new ways to help firms of all sizes develop novel ideas for market through our 'Regulatory Sandbox', which offers firms a safe space to test innovation, reducing the regulatory burden whilst achieving greater compliance.

Under each priority theme, this plan summarises the outcomes we want our work to achieve. For the majority, achieving these outcomes will take longer than a one year time frame. We have, however, included them to show the direction of travel we seek. We believe this approach will give stakeholders a better understanding of the context and drivers of our work, and how it advances our overarching aims.

Our effectiveness and ability to deliver our objectives ultimately depends on our ability to recruit, retain and develop the right people. We will continue to further develop the FCA Academy and ensure our people are supported by the most efficient and effective systems and processes.

We regulate in a collaborative way whenever possible, and the views of all our stakeholders will continue to inform how we deliver our objectives. We look forward to working with you all in the year ahead to help ensure that firms, markets and consumers are well served.

Tracey McDermott
Chief Executive Officer

1

Our role



The FCA is the conduct regulator for 56,000 financial services firms and financial markets in the UK and the prudential regulator for over 24,000 of those firms.¹ We were established on 1 April 2013², taking over responsibility for conduct and relevant prudential regulation from the Financial Services Authority.

Our strategic objective is to ensure that the relevant markets work well. To advance our strategic objective we have three operational objectives³:



Protect consumers – to secure an appropriate degree of protection for consumers

All of our activities are ultimately driven, however, by our desire to embed a sustainable model of regulation for the long term. As set out in *Our Strategy*, published in 2014, we have sought to do this by taking a more ‘markets-based’ approach to regulation and more explicitly differentiating our approach to the different sectors we regulate and the different risks they pose.

Our approach is to look at markets or sectors as a whole and to take targeted action to drive the right incentives and conditions to deliver good outcomes for end users. Where there are common root causes then interventions at the market level can be an effective and powerful way of tackling and mitigating problems across a large number of firms, which in turn benefits a large number of consumers.



Protect financial markets – to protect and enhance the integrity of the UK financial system

Firms we regulate

When the FCA was set up in 2013, we regulated around 26,000 firms. In 2014, we took over the regulation of around 50,000 consumer credit firms, some of whom are already regulated by us for other activity. All of these consumer credit firms who wanted to carry out authorised business had to register with us.

They then had to apply for our authorisation by 31 March 2016 if they wanted to continue to carry on regulated credit activities. Due to legislative change⁴ a number of firms no longer needed to be authorised by us. Of those that did, some decided to become Appointed Representatives, some decided not to apply, some were no longer separately categorised as credit firms and others were not authorised.

With new firms joining and leaving the market, the total figure of regulated firms naturally fluctuates year on year. As we start the new financial year in 2016/17, we regulate over 56,000 firms and 125,000 approved persons.



Promote competition – to promote effective competition in the interests of consumers

Our approach to regulation

Our aim is to ensure that the UK has an effective, innovative and trusted financial services sector which meets the needs of its users – from individuals to multinational corporations. Our remit is a broad one and covers a wide range of firms, providing very different services to very different end users. As described in more detail in this Business Plan, we carry out a correspondingly broad range of activities to deliver our task.

¹ The PRA is the prudential regulator of banks, building societies, credit unions, insurers and designated investment firms, and is part of the Bank of England. We have a defined prudential regime for c. 24,000 firms. There is a larger population of consumer credit firms that are subject to high-level prudential resource requirements.

² The FCA was created by the Financial Services Act 2012 which amended the Financial Services and Markets Act 2000 (FSMA).

³ As set out under the Financial Services and Markets Act 2000.

⁴ Exemption for instalment credit agreements, 18 March 2015 (see FCA website).



Our aim is to identify and respond promptly and effectively to emerging issues, before they cause significant harm or grow in scale



We take a judgement-based, forward-looking and pre-emptive approach to assessing potential and emerging risks to our objectives. Our aim is to identify and respond promptly and effectively to emerging issues, before they cause significant harm or grow in scale. Where risks have crystallised, we focus on ensuring that effective remedial action is taken which tackles root causes, as well as ensuring redress is paid and enforcement action taken if appropriate.

We believe that effective competition between providers can be a powerful driver of better conduct and better outcomes for consumers. We seek to ensure that our regulation is proportionate, up to date and strikes the right balance between permitting innovation that delivers consumer benefits and ensuring adequate consumer protection.

Transparent and accountable

We set out to be transparent with our stakeholders about the work we do, the outcomes we are seeking and how we measure our performance and success.

The FCA is the conduct regulator for

56,000

financial services firms in the UK

We recognise that measuring changes to outcomes that result directly from regulatory interventions is challenging, not least because it can often take several years before the impact can be seen and because regulatory interventions rarely happen in isolation. We do, however, monitor and report on a range of performance factors, such as the delivery of our business plan commitments, whether we are meeting our service standards, and our operational effectiveness and efficiency. In this Business Plan we have also included further details on the outcomes we are seeking to achieve in a number of priority areas, as well as setting out indicative success measures we will use to assess progress.

Another key element to evaluating our performance is our outcomes-based performance framework. The framework breaks down our statutory objectives into outcomes that we would like to see in the industry, indicators of these outcomes and performance 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

2

Risk Outlook



Introduction

An assessment of risk forms the cornerstone of our planning process. From this we create a Business Plan that focuses our resources on priorities, while retaining some flexibility to respond to emerging issues.

This chapter sets out our Risk Outlook and discusses our thinking on medium to long-term risks. It analyses the fundamental causes of risk and how these affect the financial services market and its participants, both retail and wholesale. It looks at what causes risks to arise, including changing environmental pressures, and sets out how we consider the risks we have found across the financial markets.

We set out more explicitly the risks that drive our priority-setting in the 'Our priorities' section of this Plan.

How we assess risk

Macro-economic, socio-economic, regulatory and technology developments have created new demands, risks and opportunities for both financial services consumers and firms.

Our intelligence-led approach allows us to bring together information both externally derived and from across the FCA to develop a cohesive view of the risks, issues, challenges and opportunities in a particular sector, viewed through a number of different lenses. These include competition issues, firm and consumer behaviour, regulatory and legal changes, among others. We use this process to identify the risks we believe are the most significant against our objectives.

Assessing these mid-term risks is the foundation of our planning process. We use this assessment to help decide our priorities, while ensuring we can remain responsive to rapidly emerging risks.

Environmental drivers of risk

Macro-economic and socio-economic developments

Macro-economic developments influence financial markets and consumer behaviour. These developments affect the dynamics of risk and return, shape expectations and drive consumers' needs. In turn, they influence the products and services that firms are willing to offer, their profitability and the volume of financial products sold. The UK economy is integrated with the wider global economy through trade in goods, services and financial assets and is inevitably affected by global developments, as well as playing a part in driving them.

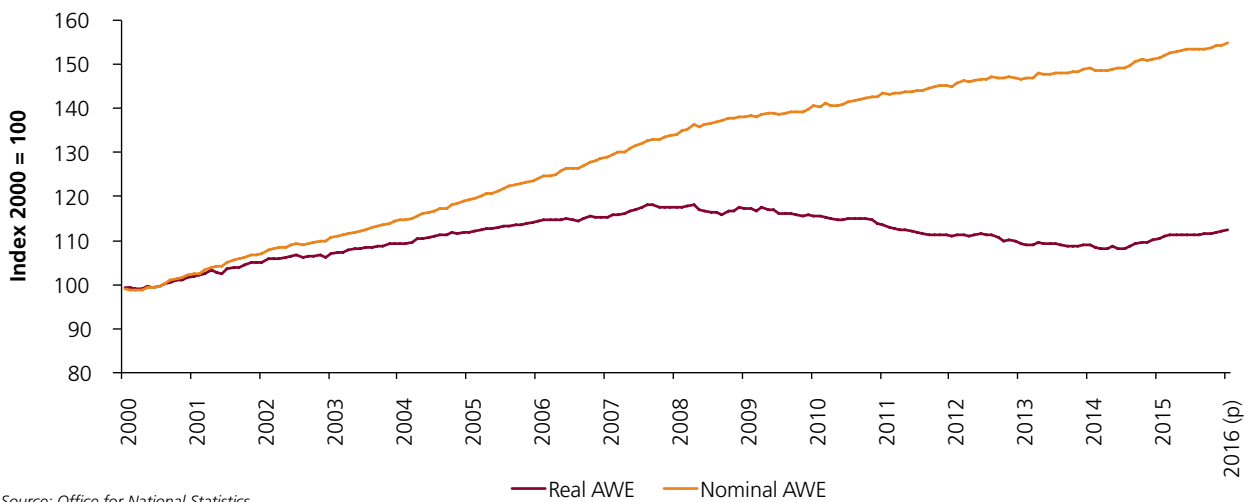
Socio-economics change the composition of UK society. This affects the ways in which people work, earn, save, spend and live. These developments influence the needs of our society, which the financial sector then adapts to meet. Some of these developments, including an ageing population, will have significant implications for financial services markets in the years to come.

Figure 1: Gross Domestic Product: year on year growth



Source: Office for National Statistics

Figure 2: Real average weekly earnings



Source: Office for National Statistics

Economic recovery driven by consumer spending

GDP growth in the UK remains around the historical average rate, as can be seen in figure 1, with the Office for Budget Responsibility (OBR) forecasting a GDP growth of 2.0% in 2016.⁵ UK growth is higher than many other European countries. However, the recovery from the 2008-9 recession has been relatively slow, both in the UK and internationally, and GDP has not caught up with its pre-recession trend. This slow recovery to date, plus growth going forward being stable around the historical average, may affect business models. While a ‘slow but stable’ forecast may motivate some firms to diversify and seek returns in other ways, other firms may become complacent and less motivated to review business models to reflect the new growth pattern and changed consumer needs. Firms might sell lower than expected volumes, and may respond by reducing their costs, seeking efficiency savings, or trying to sell more products to existing customers. Such changes to business models might create risks to consumers and market integrity.

The UK recovery remains reliant on consumer spending. Although nominal wages are increasing, with an increase of 2.1% on the year in the three months to January 2016⁶, real earnings remain below those immediately before the last recession, as shown in figure 2. When real wage growth is weak, consumer spending growth may rely more on the accumulation of debt which may become unsustainable

6 ONS, UK labour market bulletin, March 2016.

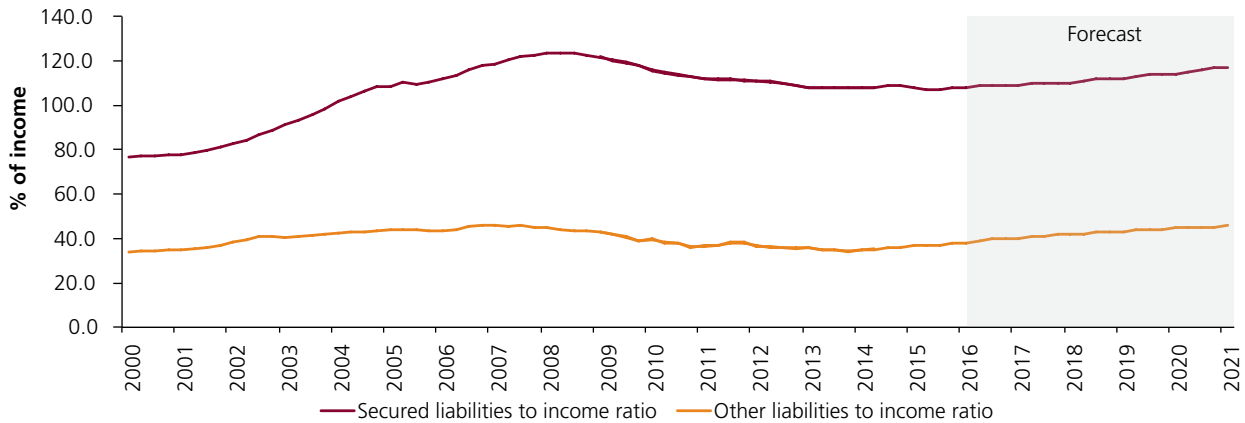


UK growth is higher than many other European countries. However, the recovery from the 2008-9 recession has been relatively slow, both in the UK and internationally



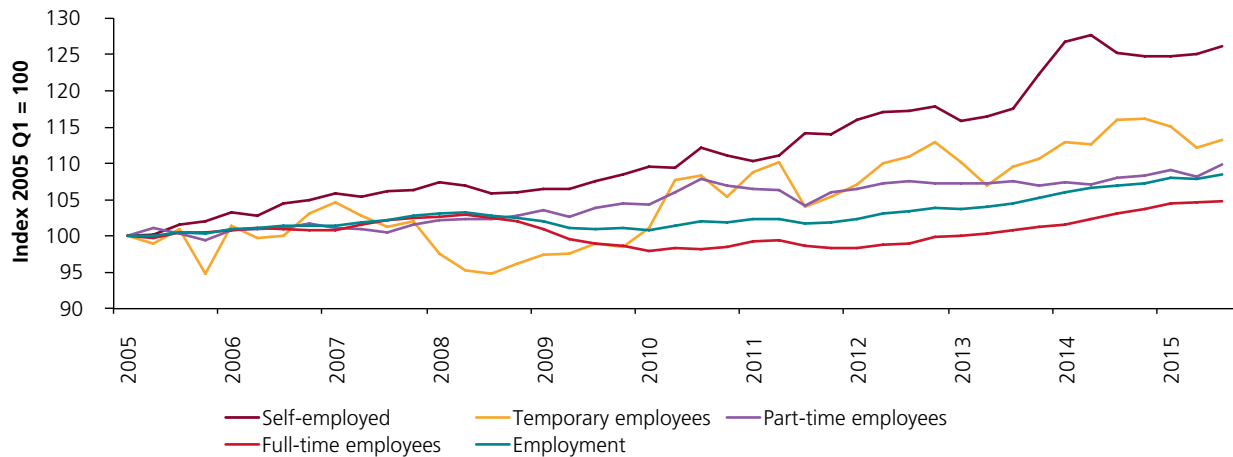
5 OBR, Economic Fiscal Outlook, March 2016.

Figure 3: Debt as a percentage of income



Source: Office for National Statistics and Office for Budget Responsibility

Figure 4: Labour market trends



Source: Office for National Statistics

over time. Although debt as percentage of income has been falling, it is projected to rise as shown in figure 3. Unsustainable levels of debt will make consumers more vulnerable in the event of a shock such as a reduction in income. This could quickly lead to them defaulting on their debt. It could also impact their long-term ability to access financial services products, or limit their credit options.

Employment patterns and the make-up of the working population have changed. As shown in figure 4, there has

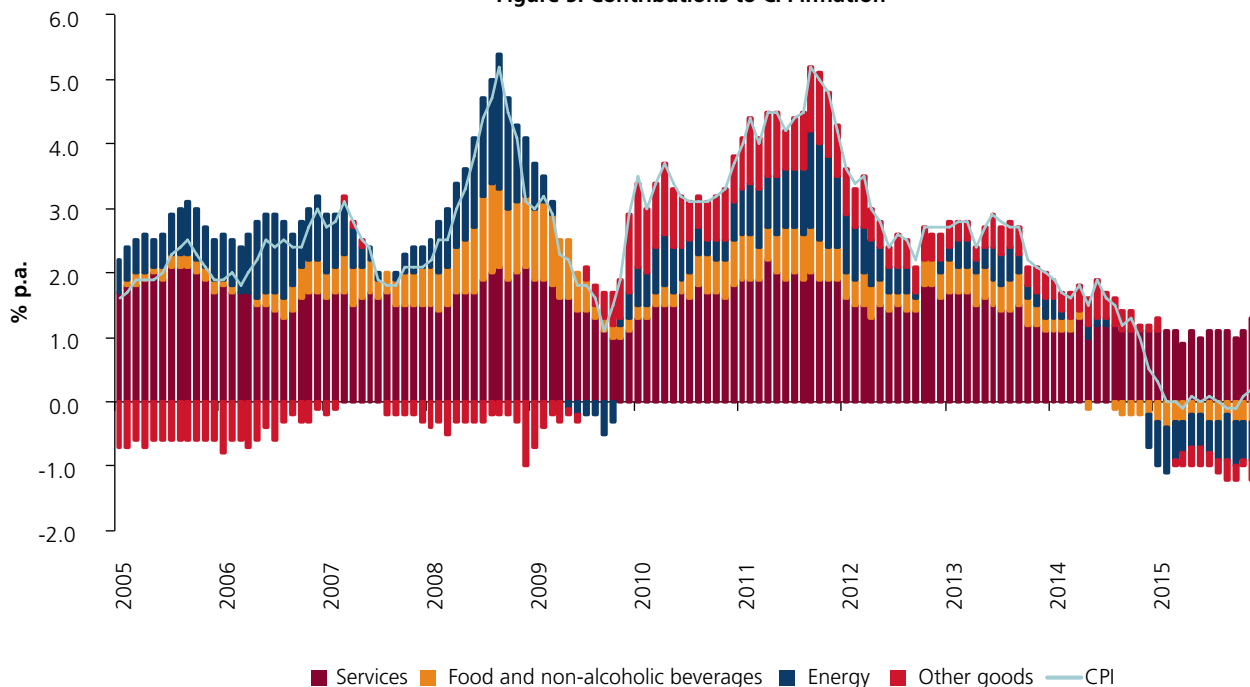
been an increase in self-employment, part-time work and temporary workers since the onset of the crisis (albeit with full-time employment rising at a slightly higher rate than part-time employment more recently). There also appears to have been a rise in the number of people employed on 'zero-hours contracts' in recent years. These kind of employment forms may involve less secure contracts and in some cases may make it harder for consumers to plan and save. This is likely to change the products and services consumers seek to fit their new income patterns.



Although debt as percentage of income has been falling, it is projected to rise

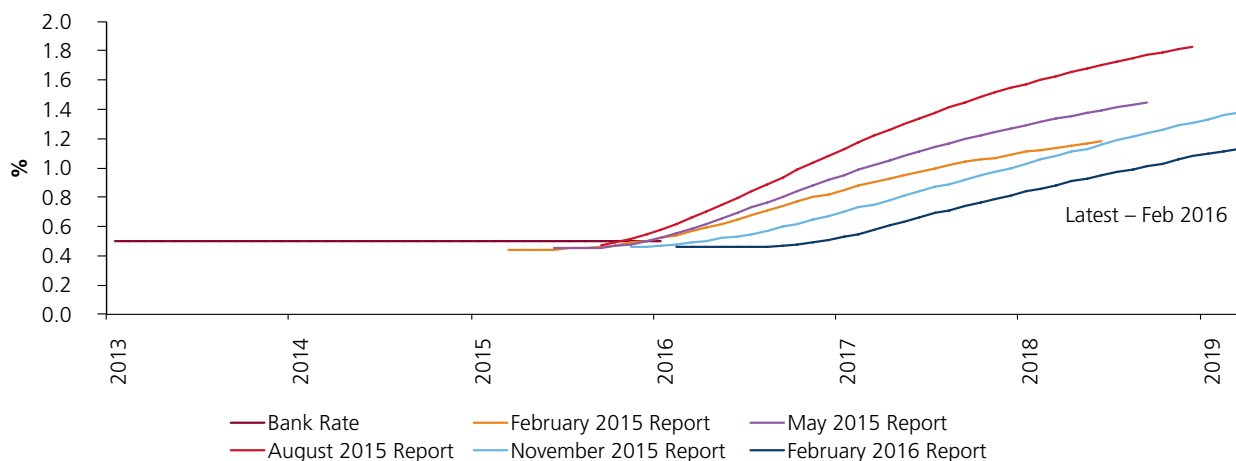


Figure 5: Contributions to CPI inflation



Source: Bank of England

Figure 6: Bank rate and forward market interest rates



Source: Bank of England

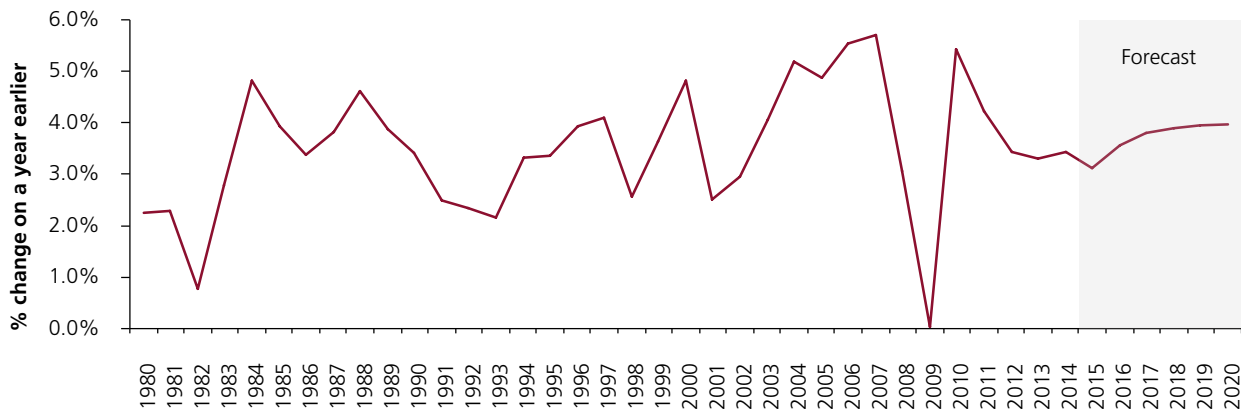
Inflation and interest rates are expected to remain low

UK inflation remains historically low and has been heavily influenced by external rather than internal factors, such as commodity prices, as can be seen in figure 5. Consumer Price Inflation is forecast to be below target until 2018.⁷ Figure 6 shows the Bank rate and the expected interest rates going forward.

A long-term low interest rate has important implications for global economies. It can encourage or sustain high levels of indebtedness among borrowers as bigger loans become both more affordable and riskier in the event of unforeseen monetary policy changes. It can also fuel a search for higher rates of return among savers, potentially encouraging riskier investments. Consumers may buy products that they do not understand or that are not appropriate for their needs and which leave them exposed to higher losses.

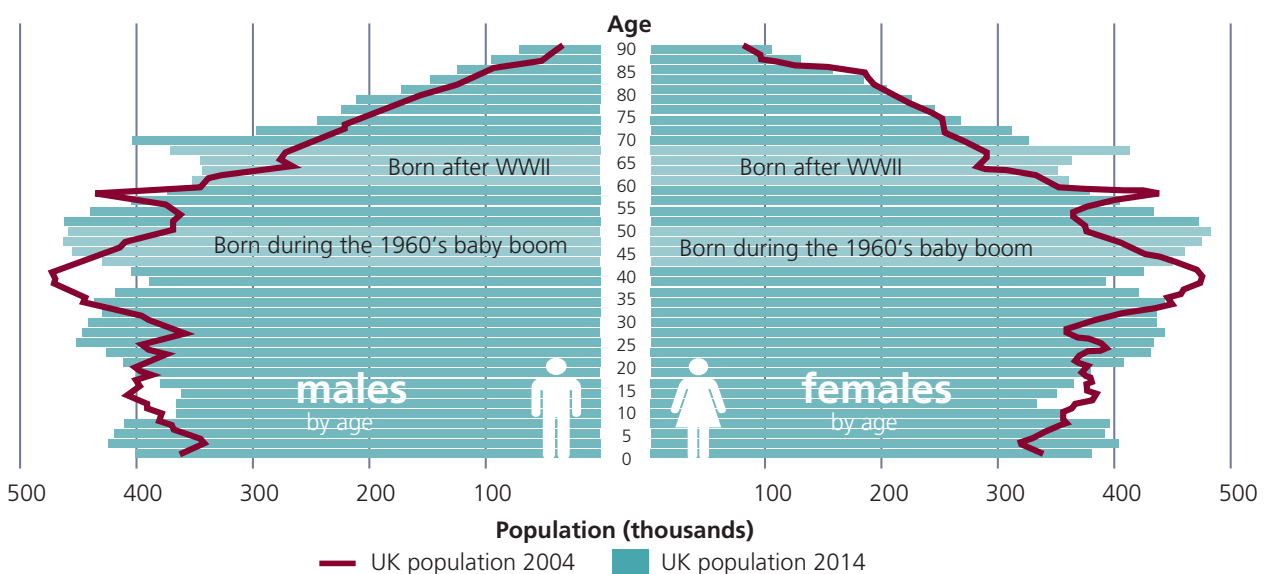
⁷ Bank Of England, Inflation Report, February 2016.

Figure 7: World GDP growth: actual and projected



Source: International Monetary Fund

Figure 8: Population change since 2004



Source: Office for National Statistics

Global growth is forecasted to be lower than expected

Global growth is projected at 3.4 percent in 2016⁸ as is shown in figure 7 above, which is lower than originally projected, following lower than expected emerging market activity and a more modest recovery in advanced economies.

In response to the reassessment of growth prospects and uncertainties, markets have become more volatile recently, including falls in equity and some commodity prices and exchange rate movements. We need to be aware of potential future shocks to the economy and the resultant risks, including on firms’ business models, both in terms of the asset value and the revenue assumptions that underpin these. The global outlook is influenced by ongoing and new economic or political shocks, such as geo-political tension and global political uncertainty, an ongoing slowdown in emerging markets, specifically commodity exporters and highly indebted emerging markets, lower trade and investment and unexpected monetary policy decisions.

The impact of changing conditions on markets

Shifting expectations about future growth or rate rises may cause increased volatility and uncertainty across bond, equity and other asset markets and firms may need to consider how best to mitigate against these risks.

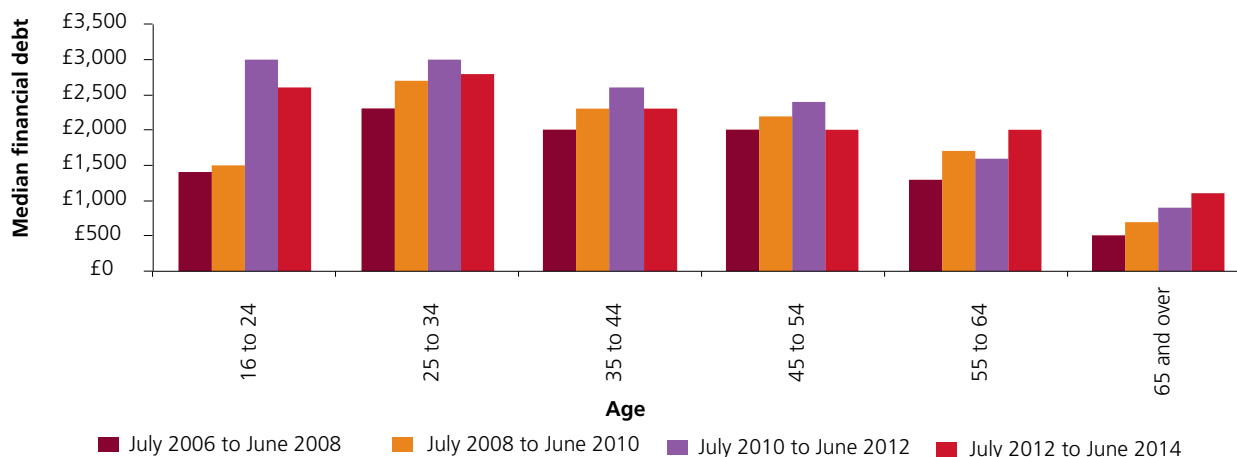
Market volatility has the potential to create capital losses, some of which may be unforeseen by investors who may not have understood the inherent risk of these often very complex products, resulting in unexpected losses. We cannot control volatility in markets. However, in maintaining market integrity we need to understand which developments can potentially damage confidence in, and access to, financial services. Maintaining trust and confidence in markets remains central to the effective operation of financial services as a whole.

Demographics are changing the composition of the UK population

The shape of the UK’s population is changing, as shown in figure 8. We are becoming an older society, as the Productive Population Ratio (PPR) – the percentage of the population aged 15-64 – falls. As our recently published discussion

8 IMF, World Economic Outlook, January 2016.

Figure 9: Median Financial Debt by Age, Great Britain



Source: Wealth and Assets Survey - Office for National Statistics

paper *Ageing population and financial services*⁹ highlights, the number of people over 65 is expected to increase by 1.1 million in just five years. This shift, combined with lower returns on assets, is creating new socio-economic patterns. People will have to work longer and find new ways to adequately fund their retirement, while intergenerational wealth divides may be becoming entrenched. This ageing population will have different needs to other consumers, so business models and products may need to adapt to meet their demands.

Younger people are, in many cases, starting work later than their parents did, often with higher levels of debt, as is shown in figure 9, including student loans. They are making important life decisions later in life, including renting for longer and delaying home ownership, and will work for longer compared to the previous generation. Firms will need to consider how to appropriately respond to these changing needs and adopt new ways of engaging younger consumers.

Policy and regulation

Policy and regulatory factors can affect firms' strategies, performance and the way they conduct business, thereby affecting the range of products and services offered and changing how consumers' financial needs are met. This applies not only to new regulations, but also the ongoing impact of previous regulatory initiatives such as the Mortgage Market Review and the Retail Distribution Review.

Ongoing implementation of post-crisis regulation

In response to the financial crisis, G20 finance ministers and the Financial Stability Board prioritised new market and prudential standards. The EU and UK government developed a new regulatory framework for the financial services sector, with many new regulations, such as CRD IV and Solvency II, now in force and the rest being implemented over the next three years.

The focus of policy makers is now shifting to assessing the overall impact of regulation and placing greater emphasis on supporting economic growth. The European Commission is seeking to create a Capital Markets Union to promote competitiveness by boosting access to capital, particularly for small and medium sized enterprises, and to reduce dependence on bank lending.

Referendum on EU membership

The UK's referendum on remaining part of the European Union will take place on 23 June 2016. As part of our normal activities, we are considering the issues that may arise, and that could have the potential to impact our objectives. This includes considering the immediate and short-term consequences of any vote to leave the EU, such as the potential for increased market volatility. The longer term consequences of any vote to leave would depend on the UK's eventual relationship with the EU, which would depend on the outcome of negotiations between the UK Government and the EU.

9 www.fca.org.uk/news/dp16-01-ageing-population



While the proportion of the market accounted for by crowd funding platforms is relatively small, it may grow and become more significant, bringing opportunities and risks



Regulatory focus is increasing the accountability of individuals

Both the financial crisis and subsequent cases of wrongdoing and conduct failure showed that the culture in parts of the market needed fundamental change, with those at the top having greater accountability.

The Fair and Effective Markets Review (FEMR) also recommended further strengthening of individual accountability, after finding that failures in professionalism had led to conduct issues.

In October 2015, the Treasury announced its plans to extend the Senior Managers and Certification Regime (SM&CR) to all FSMA-authorized firms. This will include all the firms we regulate. Implementation is currently expected to happen in 2018. Once the relevant legislation is passed, the PRA and FCA will consult on and develop the detailed rules and guidance required for implementation. In doing so, we will build on the work done and lessons learned from implementing the SM&CR for banks.

Policies and regulatory intervention are encouraging competition and innovation

Government and regulatory policy in many financial markets is prioritising competition and innovation, underpinning economic growth and productivity. Increased competition can benefit consumers through lower prices, increased quality and greater product variety. In retail banking, the FCA and PRA have worked to simplify the process for authorisation to encourage the entrance of new challenger banks.

European and domestic policy measures have also supported new and innovative products, for example alternative lending models such as peer-to-peer. This has increased borrowing and savings options for consumers, though as with more traditional business models of lending and borrowing there needs to be a focus within the lending chain on underwriting standards, and an awareness by lenders that the peer-to-peer business model does not provide consumers with depositor protections.

Non-regulated firms are moving into financial services. They can offer innovative products and services which

provide alternatives to those of traditional firms, challenging their business models and changing how third parties operate in financial markets. Some financial technology (FinTech) solutions, such as crowd-funding platforms, can improve access to financial services. Some of these firms, such as donation based or reward based platforms, sit outside our regulatory remit. While the proportion of the market accounted for by crowd funding platforms is relatively small, it may grow and become a more significant issue, highlighting the fact that innovation can drive competition and innovation, but may also come with new risks.

Policies and regulations affect the way different parts of the financial sector operate

In the housing market there are several drivers that affect the cost of housing. For example, the Government has introduced policies which aim to increase house building, widen access to the housing market and improve affordability. The funding for house purchases by financial institutions, on the other hand, is likely to be affected both by new securitisation capital requirements, which could impact the cost of mortgage funding and, in due course, by the adoption of a standardised floor approach by Basel which is also likely to lead to higher capital costs. The move to ring-fence retail banks may, over the medium to long term, impact the use of securitisation and thus increase funding costs. These factors could therefore give rise to risks to consumers from the reduced availability, or increased expense, of mortgage credit.

In the pension sector, Government policies are re-defining how consumers accumulate income and turn it into retirement funds ('decumulation'). Pension tax relief has been reduced, auto enrolment has been introduced and the 2015 pension freedoms give consumers much greater choice in how they access their pension savings.

A secondary market in annuities is scheduled to commence in April 2017 to allow existing annuity holders to sell their annuity for a lump sum. There are several risks we need to consider, for example, the risks of mis-selling and poor value for money for consumers, particularly those with small pension pots and the risk that our interventions undermine competition or stifle market development.

Government policies are increasingly transferring responsibility to consumers

In some areas, such as pensions, Government policies are increasingly shifting responsibility for financial planning to individual consumers, which brings with it both opportunities and risks, such as the adequacy of consumers' long-term financial planning.

As a result, many consumers have greater need for financial support and advice so they can properly assess their needs and decide how best to meet them. To analyse the barriers to consumers accessing guidance and advice, the Treasury and the FCA have completed the Financial Advice Market Review (FAMR). The Review makes a number of recommendations for the FCA, Government, and industry, aimed at creating a market that provides affordable and accessible financial advice and guidance.

Technology

Technology is rapidly driving the transformation of the financial services sector. It has the potential to increase competitiveness, innovation and efficiency, creating real benefits for both consumers and firms. However, it also creates risks, including for operational resilience, cyber-crime, protection of information and financial exclusion. Firms need to focus on both infrastructure and culture to ensure that new technologies benefit both consumers and markets.

Technology is transforming how consumers use and access financial services

The growth of mobile and digital channels offered by firms has been supported by the creation and take-up of supportive technology, from mobile payment and digital wallet services, such as Apple Pay, to integrated billing. These aim to reduce firms' costs while improving customer experience. However, these consumer channels may not meet the needs of people who do not have access to the internet or are not computer literate. In addition, the limited information and the speed of action consumers experience could lead to inappropriate decision making.

Consumers are increasingly using price comparison websites (PCWs). While this gives them greater information and product choice, it is also leading them to focus on headline prices alone, with the risk that their choices may be unsuitable. This focus on price alone may also affect competition on other product features. Developments in application programming interfaces may increase the feasibility of smart comparisons.

Other examples of how technology can change the way products and services are offered is through crowd-funding and peer-to-peer (P2P) networks. They present a challenge to the position of established intermediaries, stimulating competition and meeting a clear need from businesses that often have limited conventional funding options. However, risks exist for consumers who do not fully understand the risks of investing in these innovative products, for example, the risks of default and the lack of deposit insurance such as that available when consumers deposit their money with banks.

The use of smart data and advanced analytics within financial institutions

The growth in digital technology has created large volumes of data, which firms can filter and use in marketing and product development, driving risk-based pricing and more personalised products, such as telematics in cars and more health and lifestyle based insurance. While commercially sensible for firms, this could present problems for higher risk consumer groups, who may face increasingly higher prices and potentially be priced out of the market, or face affordability or access issues in the future. Financial services firms' use of consumer data for targeted marketing and tailored products also highlights potential security and privacy concerns, including hacking risks.

Advanced analytics are also shaping the wholesale market and have been for a number of years. Smart trading machines, high frequency and algorithmic trading now rely on large quantities of data to spot profitable trading opportunities and their development will bring risks as well as benefits.

Alternative models

Advanced technology has been used by specialised external firms, allowing financial services firms to reduce costs and improve services by outsourcing processes to these specialists. Firms using third parties and adopting innovations from outside the sector may mean we have less oversight of the disruptive implications of these technologies. This delegation of control could affect a firm's responsiveness and resilience in a crisis.

The expanding use of technologies such as Blockchain and Cloud technology can have benefits for individual firms and competition as they may disrupt existing business models. They also pose regulatory challenges.

New technology – risks and rewards

Blockchain technology represents an alternative approach to the safe storage of information of value such as trade execution, clearing and settlement and custody. It can provide for secure, transparent and immediate confirmation of information that can then be distributed to all interested parties without the need for a central record-keeping authority. While this new alternative approach has many advantages, it also presents new challenges related to data privacy, defect corrections, and trust in decentralised financial servicing.

Cloud technology when used appropriately can allow businesses to establish computing estates quickly via specialist firms that provide the computing hardware and associated services quickly and cost-efficiently. Firms can scale their business without large up-front investments, reducing barriers for new market entrants and improving competition. However, there are risks, including complexity of new outsource arrangements and increased dependence on the cloud service provider.



Legacy systems, cyber-attacks and organisational resilience

A lack of technological resilience among many firms, complexity as systems have evolved over time, the need to balance investment in innovation with maintaining existing systems and infrastructure and a lack of IT expertise at board level are some of the reasons this area continues to present significant challenges. Given the impact on firms, consumers and markets, this failure poses both conduct risks and potentially a systemic risk. Weaknesses in systems and a lack of expertise may expose firms to the increasing risk of cyber-attacks, posing risks to consumers and markets, though this is an issue that also applies to new entrants as well as firms with legacy systems. These attacks are inevitable but firms need to ensure that they have defences and plans in place to deal with them. We will focus on identifying the impact of operational resilience risks in the firms likely to cause the most disruption to markets and consumers resulting from an incident, and how firms deal with such risks and impacts.

Firm and market drivers

Firms' culture remains a central focus

Culture remains a key driver of significant risks in every sector and the root cause of high-profile and significant failings. It impacts on individual behaviours which in turn affect day-to-day decisions and practices in the firms we regulate. Culture is therefore both a driver, and potential mitigator, of conduct risk.

We have historically seen a number of examples of how poor culture can result in severe customer detriment and undermine markets, such as the sale of PPI products and attempts to manipulate foreign exchange benchmarks. We continue to focus on the culture within firms, and will hold management to account (including through the provisions of the Senior Managers and Certification Regime) where cultural issues lead to internal controls that fail to promote and support the right outcomes for consumers and the market.

Conflicts of interest still driving risk

Conflicts of interest in wholesale banking can come from a wide range of sources. These include 'vertical integration', where a firm provides a range of different client services, playing multiple roles with multiple clients, that could lead it to further its own interests rather than acting in the best interest of its clients. In some parts of the wholesale markets, potential over-reliance on a small number of large clients, or on clients who have a dominant market share, may cause some firms to be reluctant to report suspected misconduct.

In investment management, conflicts of interest may occur where market participants do not prioritise consumers' interests, and controls over how client money is spent may be lacking. The risk is heightened by limited consumer oversight and challenge.

We consider that conflicts of interest remain a key risk factor across markets, and will continue our work to ensure firms implement robust strategies to manage them.



3

Our priorities

How we decide our business planning priorities

Our work regulating firms is underpinned by our assessment of risk. Alongside the analysis of the medium to long term risks we explain in the Risk Outlook, we also bring together the intelligence we collect from a wide range of sources to enable us to form a view of the risks in each of the markets and sectors we regulate. This includes the information we have from our supervision and other engagement with firms and market participants, from our engagement with the Panels, from engaging with consumer bodies, findings from market research and interactions with consumers. This intelligence forms a rich picture of the markets we regulate and is the basis for our analysis of issues across the different financial sectors.

The core of our work, which takes up most of our resource, will always remain our day-to-day activities of developing policy, reviewing competition, authorising and supervising firms and setting and enforcing our rules. It is important that we maintain a sufficient presence across all sectors so that we are able to influence the participants effectively and, where necessary, crack down on poor behaviour rapidly.

However, we cannot mitigate every risk, nor do we aim to do so. Our resources need to be devoted to those areas where we believe we can have the most impact and make the most difference.

We, therefore, prioritise our work to focus on the areas that pose the highest risk to our objectives. We concentrate our resources on the markets and firms that are most exposed to risks that may give rise to poor outcomes for consumers, impact market integrity or where competition is not working for the benefit of consumers.

Priorities for 2016/17

As a result of our assessment of the risks we have identified seven priority themes for this Business Plan. These will form the primary focus of our discretionary work over the course of the year ahead:

- Pensions
- Financial crime and Anti-Money Laundering
- Wholesale financial markets
- Advice
- Innovation and technology
- Firms' culture and governance
- Treatment of existing customers

These priorities do not represent the totality of our work, but will be used to drive our decisions about our thematic projects and market studies and also inform the areas we will pay particular attention to in conducting our core activities.

Our priorities 2016/17



Pensions

Fair treatment for consumers, stronger competition and a market that meets consumer needs



Financial crime and Anti-Money Laundering

Better, proportionate and more efficient AML controls and consumers who are better able to avoid scams



Wholesale financial markets

Strong controls which protect market integrity and ensure clean, efficient and effective markets



Advice

Affordable, professional advice to meet consumers' changing and complex needs



Innovation and technology

Resilient systems and new sources of competition



Firms' culture and governance

Strong culture and governance which helps competition and consumers alike



Treatment of existing customers

Effective competition, a fair deal and greater transparency for long-standing customers



Pensions

This is a priority sector given the fundamental recent changes to the market. We will look across the sector to ensure our policies support fair treatment of customers and encourage competition. We will also target resources to raise consumer awareness, disrupt scams and take enforcement action against unauthorised businesses.

Risks

Policy changes and demographics will have major impacts on the pension sector over the longer term, with those aged 85-plus already the fastest growing segment of the UK population.¹⁰ Consumer choices throughout retirement are becoming both more complex and more significant.

Pension products with high costs/uncapped fees can disproportionately reduce fund values, with a significant cumulative impact on consumers' funds.

Some consumers have chosen alternative investments, with different risks and advice implications.

Some consumers are unable or unwilling to engage in their pension choices, and many struggle to contribute to a pension. This puts them at risk of an underfunded retirement.

Outcomes we seek

- Increased competition and innovation in the pensions sector, particularly in products that are good value for money for consumers.
- Firms offer consumers better value for money products and services and actively and honestly compete to keep them.
- Appropriate advice and guidance is available and meets consumers' needs.
- Consumers know how to access suitable pensions advice and guidance.
- Reduced harm to consumers from investment scams.¹¹
- Proportionate regulation which supports innovation and competition in the consumer interest.¹²

Our planned activities

Retirement Outcomes Review

Having considered market developments since the introduction of the pension reforms, other FCA work and wider initiatives, we expect to launch a review on Retirement Outcomes in 2016/17. The review will consider the impact of the pension reforms on competition and switching in the market.

¹⁰ www.fca.org.uk/news/dp16-01-ageing-population

¹¹ See further detail in the Financial Crime and Anti Money Laundering section of this Business Plan.

¹² See further detail in the Innovation and Technology section of this Business Plan.

This timing will allow us to integrate our review effectively with our related work and wider initiatives, including the Financial Advice Market Review, our ongoing consultation on changes to our pension rules and guidance, our data collection exercises and the Government's next steps on exit charges and pension transfers.

In addition, our data analysis has found that many people are using the pension freedoms to either release their pension pot as cash or to choose drawdown products. These changes in behaviour present different risks to the risks of selecting an annuity. We will conduct work to help us understand how consumers react to 'wake-up packs', which encourage them to take action, and how they use and respond to the various annuity comparison tools. We will undertake work to ensure that consumers are able to make choices that are in their best interests given their circumstances.

Early exit charges cap

In February 2016, the Treasury published the results of a consultation on potential barriers to people accessing the new freedoms. The government concluded that many people face early exit charges at a level that may create a barrier to accessing their pension savings. Parliament has given us a duty to impose a cap on early exit charges, and we will develop and consult on proposals to discharge this duty. We will be consulting on this to ensure that consumers are able to use their pension freedoms and transfer their pensions more freely without unnecessary barriers.

The science behind consumer choices

The pension freedoms offer consumers new options and choices. Understanding these choices can be difficult for people with little previous experience of engaging with financial services. Yet their decisions can have a significant impact on their financial wellbeing for the rest of their lives. Consumers need the right information and encouragement to shop around for the best deal for them.

From our behavioural economics work, we know that how choices are 'framed' has a major impact on consumer behaviour around financial services. In 2014, for example, we undertook a research experiment to see how framing affected the behaviour of consumers choosing annuities.

Our study revealed that framing annuities as an 'investment' (how much it would 'cost') consistently led to consumers making very different choices compared to framing from a 'consumption' perspective (how much they would get in return). Consumers consistently chose the products framed by 'consumption', even when other choices made better financial sense. We published this research to help firms, advisers and the Government-funded Pension Wise service as they developed their communications in light of the new pension freedoms.

Towards the end of 2015, we published our consultation, *Pension reforms – proposed changes to our rules and guidance*, which explained that our rules on shopping around apply equally to consumers looking to take advantage of the new pension drawdown options. Our *Retirement Income Market Study* underlined how important it is that firms clearly explain the options available and the benefits of shopping around. We are now working with firms on new behavioural trials to test how to improve consumer communications around retirement options. We will publish the results to help ensure firms give consumers the information they need, in ways they can understand.

Pension reforms – changes to our rules and guidance

Since the pension reforms were announced in the 2014 Budget, we have made a number of necessary changes to our Handbook to protect consumers and ensure that firms were clear about our expectations in the new environment.

We also reviewed all of our regulatory requirements related to pensions and retirement income and consulted on changes to them in October 2015. We will publish a policy statement in Q2 this year, which will summarise responses to our consultation paper, and publish the final rules and guidance.

Annuities Sales Practices

We will continue our review of firms' disclosures to existing customers about enhanced annuities through their non-advised sales processes.

We took an initial sample which indicated that customers may have been given insufficient information about the availability of enhanced annuities, their potential eligibility and the fact that they could receive a higher income if they shopped around. We have therefore asked several firms to carry out a more extensive sample review of their past annuity sales, and will assess the results of this work to decide our next steps.



Those aged 85-plus are already the fastest growing segment of the UK population



The secondary market in annuities

We will work with the Treasury, among others, to create a consumer protection model for the secondary annuities market which is scheduled for April 2017. We will issue a consultation paper to get input from stakeholders and consumers.

Accumulation¹³ – effectiveness of Independent Governance Committees

In 2016/17 we will undertake a review of the effectiveness of Independent Governance Committees (IGCs). The review will assess how effective IGCs are in helping pension providers deliver value for money for workplace pension policyholders. This will include their effectiveness against the recommendations made by the Independent Project Board, where we will work closely with the Department for Work & Pensions (DWP).

Cracking down on scams

The ability to release pensions as cash heightens the risk of people being targeted by fraudsters. We will co-ordinate our intelligence and activities on pension scams and unsuitable advice, enabling us to take action as necessary, and continue to run our ScamSmart campaign to educate and empower consumers to actively avoid scams.

Measures of success

- An improvement in consumers' satisfaction with their pension providers.
- A reduction in complaints about advice on pensions.
- Over time, increased evidence of a range of products in the market tailored to the new pension reforms.
- Increased consumer awareness and understanding of scams and techniques used by fraudsters.
- Greater use of our online resources to help consumers avoid scams.

¹³ Accumulation means saving for retirement.



Financial Crime and Anti-Money Laundering

The UK financial system is a major global hub which attracts investment and activity from across the world. However, this can also attract criminals and terrorist organisations seeking to hide the proceeds of crime among the huge volumes of legitimate business. It is imperative that the UK financial system has appropriate safeguards to prevent financial crime. At the same time, it is important we ensure that financial crime regimes are proportionate and operate efficiently and that any unintended consequences of regulation are minimised.

We also want to reduce and prevent the harm caused by investment scams, including pension scams, and increase consumer awareness of the dangers of investing in unauthorised schemes.

We recognise that these are areas where partner agencies also have responsibilities and a key role to play. We will undertake work on Anti-Money Laundering (AML) and scams in collaboration with law enforcement partners and other agencies, with actions being taken by the appropriate organisations.

Risks

In the search for profit and growth, firms may change the risk criteria they use to assess new clients leading to weaker checks and controls.

Higher costs and falling profits may cause firms to cut investment in systems and controls. The growth of digital tools increases the risk of online financial crime and cyber-attacks.

Financial crime requirements, together with a range of other factors, including reduced profitability, may cause banks to de-risk their product ranges inappropriately. This may restrict access to financial services to whole groups of individuals or businesses.

Consumers may become more vulnerable to fraudsters. Pension reforms create a new market for scammers.

Outcomes we seek

- The UK financial system is a hostile sector for money launderers, using intelligence effectively to take early action that prevents money laundering.
- The unintended consequences of Anti-Money Laundering regulation are minimised.
- Firms' AML processes do not exclude people unfairly or unreasonably from using financial services. We will explore new ways, including technology, of solving this issue.
- AML requirements are proportionate and operate efficiently.
- Harm to consumers from investment scams is reduced because:
 - we help consumers to spot the warning signs and avoid scams, including pension scams
 - we take action against those firms and individuals who perpetrate scams under the guise of regulated activity

Our planned activities

Anti-Money Laundering (AML)

We will continue our due diligence on firms and individuals applying for authorisation and our proactive supervisory assessments of firms whose business models present a higher inherent risk of money laundering.

We will roll out our Financial Crime Annual Data Return, enabling us to focus our supervision on the right firms. Where we find firms with material weaknesses in their money laundering controls, we will use our enforcement powers to send a deterrent message to industry and/or impose business restrictions to limit the level of risk. We will also refer cases to other law enforcement agencies where we identify suspected money laundering.

We will use intelligence, including from whistleblowers, to prevent money launderers using the financial system. To support this, we will further encourage good whistleblowing intelligence from the industry, either directly to firms covered by our new rules on whistleblowing or to us. We will continue to support individuals who blow the whistle

to the FCA, and ensure that we provide them with the anonymity they need, as best we can.

We will work closely with the Treasury on the EU's Fourth Money Laundering Directive (4MLD) which requires implementation in the UK by mid-2017. We will also continue to work with the European Supervisory Authorities on drafting guidance to support 4MLD.

The Financial Action Task Force (FATF) is a global inter-governmental body which sets standards for combating financial crime and related threats to the integrity of the international financial system. We will continue to be a major participant in the FATF and an FATF mutual evaluation review of the UK is scheduled for late 2017. We will continue to review and refine our AML supervisory approach so that it meets the latest international standards.

Proportionate and effective response to de-risking

We know that de-risking by banks is causing problems for some groups of consumers. While we do not control this process, we are undertaking work to help address the issue. We will complete our de-risking impact assessment in Q1 2016, giving us a clearer picture of the nature, scale and drivers of de-risking. We will work with Government, firms and others to create a proportionate strategic response.

We will also carry out work looking at how new technology can make AML processes more efficient, reduce financial exclusion, make it less onerous for customers and encourage easier switching between financial services providers.

Scams

We will focus on action against firms and individuals who perpetrate scams. We have a range of enforcement tools to tackle those engaging in unauthorised business, including civil court action to stop activity and freeze



We will further encourage good whistleblowing intelligence from the industry, either directly to firms covered by our new rules on whistleblowing or to us



ScamSmart campaign

Our 2015 ScamSmart¹⁴ campaign was an effective crime prevention campaign aimed at retired consumers and those approaching retirement. It stresses the importance of rejecting cold calls, checking our warning list before making an investment and getting impartial advice.

In 2016/17, we will run a new phase of the ScamSmart campaign which will include advertising, new information on our website, press activity and communications through partners. We will use this to build further awareness and strengthen our key messages around the dangers posed by investment scams.

As part of ScamSmart we created an interactive tool, the FCA Warning List, to help people avoid potential scams. We also publish consumer alerts which provide a list of organisations we suspect are active but not authorised and regulated by the appropriate regulator. We will continue to monitor and improve these resources as part of our ongoing prevention work.

assets, insolvency proceedings and, for the most serious cases, criminal prosecution.

Only a limited number of investment scams will fall within our remit, so effective co-ordination with other agencies and a continued focus on prevention, including better consumer education, is critical to achieving long-term success in this area.

We will co-ordinate our efforts across our supervisory, intelligence and enforcement functions in our work on scams and, in particular, those that are targeted at consumers' pensions. We will work closely with other regulators and law enforcement agencies through initiatives such as Project Bloom which tackles pension scams. We will also refresh our ScamSmart crime prevention campaign to help those most at risk to avoid being scammed.

We are a member of the Government's Joint Fraud Taskforce, announced in February, which brings together law enforcement agencies, firms and regulators to better identify and respond to fraud.

Measures of success

- Over the medium to long term, an improvement in firms' AML controls, measured through scores from our routine AML supervisory work.
- Over the medium to long term, an improvement in the perception of the UK's AML regime from international assessors and overseas authorities.
- Increased consumer awareness and understanding of scams and techniques used by fraudsters.
- Greater use of our online resources to help consumers avoid scams.

¹⁴ www.scamsmart.fca.org.uk



Wholesale financial markets

Clean, effective and competitive wholesale financial markets are vital to the UK's economic prosperity. Globally, they provide access to financing for firms and governments and investment opportunities for retail and institutional investors. Their effectiveness relies on them being, and being perceived to be, fair, transparent and efficient.

Risks

Heightened uncertainty about the global economic outlook and diverging monetary policies continue to create volatility in financial markets, which may undermine investor confidence and affect both prudential and conduct considerations.

Financial returns dictate business culture. Firms could prioritise financial results over good conduct in evaluating and incentivising staff performance.

Wholesale banks fail to strengthen their conflict of interest management and trader controls. Ineffective procedures and poor oversight of business, supplier and new client processes leads to misconduct and potential loss.

Outcomes we seek

- Clean, effective and competitive wholesale financial markets that enjoy the confidence of all who undertake market activity in the UK, including raising debt and equity capital and enabling risk management.
- We regulate wholesale financial markets proactively and respond to the way markets evolve to ensure market integrity.
- An enhancement of the monitoring and surveillance capability of the FCA, markets participants' and market infrastructures' across markets to detect, disrupt and deter market misconduct.
- An increase in the efficiency and effectiveness of primary markets to ensure they meet the needs of issuers and investors.
- Both corporate and individual market participants take responsibility for their part in maintaining clean, fair, effective and competitive markets. Firms and individuals understand the standards and rules that apply to them and are held accountable for their conduct.

Our planned activities

Market Abuse Regulation (MAR) and Markets in Financial Instruments Regulation (MiFIR)

As wholesale markets continue to evolve with new technology and market practices, the rules proscribing and

prohibiting abusive behaviour must remain effective and up-to-date.

In 2016 we will finish implementing, and start applying, the new EU Market Abuse Regulation (MAR). This will strengthen the existing UK market abuse framework by extending its scope to new markets, new platforms and new behaviours. Under the Markets in Financial Instruments Regulation (MiFIR), from January 2018 firms will be required to report across a wider range of fields and assets classes which will significantly contribute to the effectiveness of our market abuse efforts.

We will work further during the year to prepare for or embed these new regimes to produce the most effective response to the threat that market abuse poses to our markets.

Fair and Effective Markets Review (FEMR)

In 2014/15, the FCA worked with the Bank of England and the Treasury to conduct the Fair and Effective Markets Review (FEMR). This is a comprehensive and forward-looking assessment of the way wholesale Fixed Income, Currencies and Commodities (FICC) markets operate. The final report was published in June 2015 and made 21 recommendations for the UK authorities, the UK Government, international standard setters and the financial industry. We also provided advice and assistance to the Treasury on the FEMR recommendation to extend elements of the Senior Managers and Certification Regime (SM&CR) to authorised firms in FICC markets. Proposals to extend the SM&CR to all authorised firms are included in the Bank of England and Financial Services Bill now before Parliament.

In 2016/17 we will undertake work which includes:

- Supervising the major UK FICC benchmarks which are now regulated as a result of the recommendations of FEMR.
- Introducing enhanced regulatory reference rules as part of the new Senior Managers and Certification Regime to help firms prevent the 'recycling' of individuals with poor conduct records between firms.
- Providing advice and assistance to the Treasury on FEMR recommendations that require primary legislation, including the proposed extension of elements of the Senior Managers and Certification Regimes to all authorised firms, via the Bank of England and Financial Services Bill.
- Working with international counterparts to improve conduct and how wholesale financial markets at the global level are structured and operate, including supporting the Bank of England and other central banks in their work to develop a global FX code.
- Liaising with the new FICC Market Standards Board (FMSB) regarding emerging risks in global FICC markets and other important industry-led efforts to raise standards in these markets.
- Incorporating the Review's findings into our forward-looking supervision of FICC markets and market participants.

The new MiFID regime

We will work to ensure that the implementation of the Markets in Financial Instruments Directive (MiFID) II realises the potential of the legislation to change markets significantly for the better.

MiFID, which sets the conditions for authorisation and ongoing regulatory requirements for investment firms, and regulates buying, selling and organised trading of shares, units in collective investment schemes, bonds and derivatives, has been revised. The new regime, known as MiFID II, is a comprehensive set of reforms. It will reshape the secondary trading of financial instruments, particularly derivatives. It aims to ensure firms make the best interests of clients central to their business across retail and wholesale markets.

The European Commission has proposed¹⁵ that the date from which MiFID will apply should be put back by a year to January 2018. Domestically we will publish further consultation papers, following on from CP15/43, to make the necessary changes to our Handbook, primarily to add new conduct of business and organisational requirements. We will continue to educate and prepare firms for the implementation of the new rules and also develop our

¹⁵ http://europa.eu/rapid/press-release_IP-16-265_en.htm?locale=en

own capabilities in order to supervise against these requirements.

We will also continue to contribute to the practical work of the European Securities and Markets Authority (ESMA) on implementation and guidance on the interpretation of the legislation for market participants.

Primary market effectiveness

Primary markets play a crucial role in supporting prosperity and providing investment opportunities. In 2016/17 we will undertake a number of pieces of work to ensure the UK's primary markets continue to be effective, by:

- Contributing to the negotiation of the proposed new Prospectus Regulation (known as 'PD3'), and implementing smoothly and in a way that is sympathetic to the broader aims of the Capital Markets Union initiative.
- Working with market participants to examine options for improving the availability of information in the UK IPO process.
- Improving the effectiveness of the UK's primary debt markets to better meet the needs of issuers and investors.
- Reviewing the structure of listed markets more generally to ensure they continue to best serve the needs of the modern economy.

Asset management market study

We will continue our market study into asset management to assess if competition is working effectively and whether investors get value for money when they purchase asset management services.

Last year we published the terms of reference for this market study.¹⁶ We aim to publish an interim report in summer 2016 and a final report in early 2017.

Measures of success

- An upward trend in the reputation of the UK as a financial centre.
- An increase in confidence in relevant markets. This will be measured by perception surveys, data on trade volumes, fees and spreads in various asset classes and by the market cleanliness statistic, which provides an indication of the proportion of potential insider trading occurrences.

¹⁶ www.fca.org.uk/news/asset-management-market-study



Advice

Changing consumer needs and pension reforms mean access to affordable, professional advice is now more important for consumers than ever. They are now having to make more, and more complex, financial decisions for themselves. In our research, for example, only 37% of those buying an annuity last year¹⁷ used a regulated adviser. These choices can have a major impact on consumers' financial wellbeing in retirement. A well-functioning advice market is crucial to ensure people can access the support they need to make informed financial decisions at every stage of their lives.

Risks

Consumers need more support. As consumers' needs, finances and financial literacy become more varied and complex, the need for appropriate, accessible advice and products is growing.

Advisers may not always give consumers the most suitable investment advice, may offer a limited range of products or have staff reward schemes that motivate sales over suitability.

Consumers may reject paid-for financial advice because of the potential cost. They may choose non-advised sales, even when support is better for their needs.

Complex charging structures and poor transparency make it harder for consumers to compare products.

Outcomes we seek

- Affordable, accessible advice options that meet consumers' needs.
- Advice is of appropriate quality and suitable for consumers' needs.
- Advice, including low cost advice, is delivered in innovative and accessible ways.
- The cost of advice is clear and transparent.
- Firms develop good quality, transparent and low cost non-advised options for consumers who do not want advised services.

Our planned activities

Delivering the Financial Advice Market Review

The Financial Advice Market Review (FAMR) was established with the aim of identifying ways to make the UK's financial advice market work better for consumers. The Review had a wide scope, and aimed to look across the entire financial services market in order to improve the availability of support to help people with their financial decision-making, particularly those who do not have significant wealth or income.

We launched the Review in August 2015 and issued a joint Call for Input with the Treasury. The final report was published in March 2016. The report set out a series of recommendations aimed at stimulating the development of a market that provides affordable and accessible financial advice and guidance for everyone, at all stages of their lives. These included recommendations for the FCA to:

- Simplify and clarify the regulation of financial guidance.
- Support firms offering 'streamlined advice' on a limited range of consumer needs.
- Create a specialist Advice Unit operating in a similar way to the FCA's Project Innovate to give regulatory support to new automated advice models.
- Clarify certain rules relating to financial advisers including on cross subsidisation, training and fact finds.
- Consider introducing risk based levies or wider funding classes as part of the FSCS Funding Review.

¹⁷ FCA 'Retirement Income Market Data: July – September 2015': www.fca.org.uk/your-fca/documents/retirement-income-market-data-july-september-2015



The review also contained recommendations for the FCA, Government, and industry designed to increase consumer engagement with financial advice, including through the provision of workplace advice.

We will work on implementing the recommendations throughout the year, as well as developing clear policies to support the development of the advice market. The FSCS Funding Review will commence in April 2016.

The FCA and the Treasury will report jointly to the Economic Secretary and FCA Board in 2017 on the progress made towards implementation. In 2019, both organisations will conduct a review of the outcomes from FAMR.

Professionalism and the suitability of advice

Our supervisory focus will continue to be on supporting increased professionalism in the financial advice sector. We will increase our communications with the sector and continue to assess how suitable advice is, monitoring any changes that result from implementing proposals from the Financial Advice Market Review.

Measures of success

- An improvement in consumer satisfaction scores about financial advice.
- An improvement in consumer's complaints data about advice.

“

The FAMR report sets out a series of recommendations aimed at stimulating the development of a market that provides affordable and accessible financial advice and guidance for everyone, at all stages of their lives

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Innovation and technology

Technology plays a fundamental and increasingly pivotal role in delivering innovative products and services. We must strike a balance between supporting innovation that benefits consumers and ensuring they have adequate protection.

There are also risks associated with technology. We have a role to play in ensuring firms' technology and systems become more resilient to both cyber-attacks and more traditional outages, safeguarding consumers and markets and building confidence in the effectiveness of financial technology.

Risks

Widespread adoption of technology is likely to be limited by vulnerabilities in the design and management of systems and infrastructure.

Many firms remain reliant on complex IT infrastructures which can make it difficult for them to maintain key services such as payments. These risks may be exacerbated by the ring-fencing of retail banks, unless firms use appropriate planning to manage them.

Tighter margins are leading more firms to outsource processes to third-party firms, yet firms have little or no control over the security or functionality of these providers systems and processes.

Cyber-attacks are increasing and pose risks to consumers and markets. Some attacks are likely to be successful and firms may not have adequate defences or effective plans to identify and respond to them.

Rigid regulation may stifle innovation in financial services.

Outcomes we seek

- Our regulation encourages an increase in innovation to the benefit of consumers, ensuring customers' current and future needs are met affordably and appropriately.
- Our support of RegTech¹⁸ enables more efficient and effective regulation and compliance.
- Firms' and markets' technology becomes increasingly resilient to cyber threats. Tested and successful plans mitigate the impact of cyber-attacks, increasing confidence.
- Firms manage maintenance and change to infrastructure well. The frequency of events involving disruption of service or consumer loss reduces. If consumers suffer loss, firms deliver proportionate and timely redress.
- Firms' technology supports their current and future business strategy, enabling ongoing innovation which meets consumer and market needs

Our planned activities

Encouraging innovation, competition and new entrants to the market

We support innovation that advances our objectives and benefits consumers. Project Innovate is the FCA's response to the wave of innovation taking place in financial services. It helps firms of all sizes develop innovative ideas that meet consumer needs. We will increase both awareness and the capacity of Project Innovate to provide advice and support for innovative developments which increase competition in the interests of consumers.

We will increase our signposting of firms to regulators in other jurisdictions to encourage UK-based firms to grow internationally, and support non-UK investors entering the UK market.

We will launch a Regulatory Sandbox, creating a safe place for businesses to test new ideas to ensure they meet regulatory requirements. This will accelerate the development and testing of genuinely novel products which benefit consumers and provide a leading example to regulators in other countries. We expect more firms to come to market as a result.

We will use the results from our Call for Input on RegTech to shape our strategy to reduce the regulatory burden on firms

¹⁸ 'RegTech' is the adoption and use of technology to assist financial services firms to understand and meet their regulatory requirements more efficiently or effectively.

on both RegTech and FinTech¹⁹, while delivering greater compliance. We will also define our, and the industry's, risk tolerances in this area.

Operational resilience

Firms' reliance on complex infrastructures increases the potential for problems and outages of key systems. Our work in this area will include communicating to firms our expectations of them with regard to effective IT and operational resilience, and working with them to understand their capabilities in this area. This will include the ability for firms to identify key assets, manage and protect them appropriately, be able to detect when things go wrong, respond and recover effectively, as well as having the necessary governance in place to manage the risks and learn from experiences. We will also continue to carry out reactive work when outages occur to understand their impact on consumers and markets and how firms respond to them.

Keeping pace with developments in Big Data

We will use the results from our Call for Input on Big Data use in the general insurance sector to better understand how Big Data affects customers and whether it fosters competition. We will also analyse how our regulatory framework affects Big Data developments to decide whether we will conduct a market study or take a different approach. This will be our first detailed study of Big Data and we will use what we learn in our work with other sectors.

Cyber crime

We will continue to work collaboratively with the Treasury, the Bank of England and other authorities to ensure a joined-up and risk-based approach to cyber-crime. This will ensure we direct our resources at areas of greatest need and work directly with the firms and markets with the greatest risks.

We will also provide education tools to help all firms deal with the risk of cyber-crime and respond swiftly to cyber-attacks.

Automated advice

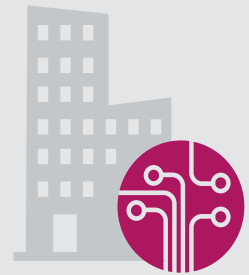
For new products, we will continue to monitor the development of automated advisory services (often described as 'robo advice') in the financial sector, as well as new drawdown products being designed and delivered in response to the new pension freedoms.

We have accepted FAMR's recommendation to create an 'Advice Unit' to support firms with automated advice models with the potential to deliver affordable and accessible financial advice to consumers.

¹⁹ 'FinTech' is the term which describes the intersection between finance and technology. It can refer to technical innovation applied in a traditional financial services context or to innovative financial services that disrupt the existing financial services market.

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innovative businesses
helped by Project
Innovate in our first year



Measures of success

- An increase in the number of requests for Innovation Hub support.
- Positive feedback from participants in the Innovation Hub, and new market entries.
- In the medium term, a reduction in the number of critical system failures or outages in firms.

A 'safe space' to test innovation

Consumer needs are constantly evolving and innovative solutions are required to meet them. Too often, however, firms have to spend considerable amounts of money bringing innovation to market, not least because they must meet regulatory requirements immediately. This acts as a brake on developing new services and products and limits competition.

We wanted to find ways to reduce the time and potential cost of getting innovative ideas to market. We also wanted to work with innovators to build in consumer protection from the start. So this Spring we plan to expand our successful Project Innovate to open a Regulatory Sandbox. This will give firms which meet our eligibility criteria a safe space to test innovation without immediately having to meet all the normal regulatory requirements.

They will be able to test new products, services, business models and delivery systems. Unauthorised firms will benefit from restricted authorisation for testing purposes, and all eligible firms will have the potential benefit of individual guidance, waivers and no enforcement action letters.

We want more firms to embrace innovation. One of our recommendations is for industry to consider setting up a not-for-profit company to act as a sandbox 'umbrella', and we look forward to their response. In the meantime, we hope our sandbox will speed up the time it takes for new and innovative products to reach market and start benefitting consumers.



Firms' culture and governance

We want to see firms managed in a way that promotes appropriate culture and behaviours. We want firms' governance and culture to contribute to delivering good outcomes for customers and market integrity, and to promote effective competition in the interest of consumers.

We expect firms to have effective governance arrangements in place to identify the risks they run in their business models and operations, and a strategy to manage and mitigate these risks to deliver fair outcomes to customers, clients and market integrity. While the specific design of governance arrangements provides an infrastructure for how firms are run, our focus is on their effectiveness. Firms' senior managers have a crucial role in demonstrating that they are accountable and responsible for their part in delivering effective governance, including taking responsibility and being accountable for the decisions they make and exercising rigorous oversight of the business areas they lead.

Culture is a set of shared values and norms that characterise a particular organisation – the mind-sets that drive behaviours in firms. Firms need to own and manage their cultures at all levels and understand the drivers that will help or hinder them to achieve the cultures they aspire to. We want firms to understand the importance we attach to delivering culture change, where it is relevant to our statutory objectives, and evidence it by outcomes, with clear indicators that the drivers of culture are measured, monitored and managed.

Boards have a critical role in setting the 'tone from the top'. We expect them to take responsibility for their firms' culture, ensure it remains high on firms' agendas and that this tone is replicated throughout the firm. Senior managers need to ensure that their firm's business processes, people and other drivers of culture support and reinforce the culture they want to embed.

This should, over time, result in improved culture and governance in the industry. It should also promote public confidence that firms have the right people in the right roles, working in the interests of consumers and markets.

Risks

Poor cultures in firms drive behaviours that result in poor outcomes for consumers and markets.

Firms' strategies, business models and governance arrangements are not aligned with firms' values and good conduct.

Incentive structures and performance management do not reward behaviours that act in the long-term interests of customers and market integrity.

Weak governance and lack of accountability create poor oversight of risks to customer and market integrity risks in how firms are run.

Outcomes we seek

- Firms develop a culture of accountability at all levels and senior individuals are fully accountable for defined business activities and material risks.
- Firms and senior managers can explain principles of good conduct towards customers and markets and incorporate them throughout their business, producing better consumer outcomes.
- Firms proactively identify the risks their strategies, business models and cultures present to delivering good market and consumer outcomes. They act to address them, using appropriate systems and controls and acting appropriately on whistleblowing intelligence.
- Firms ensure that their strategies, business models, systems and controls and other drivers of culture are aligned with firms' values and support good outcomes; incentive structures and performance management reward positive behaviours and create a culture that works in the long-term interests of the firm, its customers and market integrity.

- Firms take steps to proactively identify and address issues when things go wrong, and can demonstrate that they learn from such events.
- Increased trust in financial services in the UK.

Our planned activities

Accountability and governance

The key aims of the SM&CR are to enhance individual accountability at the most senior levels in deposit takers and PRA-designated investment firms, and enhance their standards of conduct at all levels. We expect firms and their senior managers to apply the spirit, as well as the letter, of the regime.

Our revised framework for insurers is another important part of our drive to raise standards of individual conduct across financial services. Different requirements exist to ensure proportionate requirements on firms, depending on whether they fall under Solvency II.

The new regimes should provide clarity for both firms and regulators about each senior manager's responsibilities. We will use firms' responsibilities maps and individual senior managers' statements of responsibilities throughout the regulatory lifecycle, including when approving individuals, supervising individuals and firms and considering enforcement. These tools will further help us to identify and assess key senior individuals in the context of their management and governance arrangements. We will use the new tools with relevant firms as part of our proactive engagement, for example to inform discussions about management and governance arrangements.

Relevant firms will also need to carry out fitness and propriety checks on all individuals subject to the Certification Regime, and comply with notification and training requirements for the application of conduct rules to all but ancillary staff.

We will continue to embed the new regime in our supervisory approach and processes, and focus on how SM&CR is integrated in the way deposit takers and PRA-designated firms are run.

We will also begin developing our policy on extending the accountability regime to all FSMA firms, including further developing the regime for insurers.

Culture

Our focus on the culture in financial services firms and its impact on conduct has been, and remains, a priority, and we will continue this work with firms and other bodies. As regulators, our focus is on the most significant drivers of good or poor mindsets and behaviours, such as incentives and remuneration, and the steps firms take which address associated risks. We are interested in the direction of travel of firms' cultures and if indicators show progress. We will use a range of supervisory tools and methods to engage with

firms individually on issues of conduct and culture, tailored to each sector. We will continue to demand high standards of conduct, backed by supervision and enforcement action if necessary so that appropriate culture remains a top priority for firms' management.

We have carried out significant work on incentives and performance management and we will continue our focus on remuneration. We have enhanced our Remuneration Code for dual-regulated firms to encourage more effective risk management, and to better align individual decision-making with good standards of conduct.

We want to ensure that remuneration policies and practices promote the link between risk and individual reward, discourage excessive risk taking and short termism and encourage sound and effective risk management. In turn, this will support positive behaviours and a strong and appropriate culture within firms.

In 2016/17, we will continue to review our regulatory framework governing remuneration, including supporting firms to understand and implement remuneration requirements. We will continue to review the firms' approaches to regime implementation to ensure these are in line with regulatory requirements and our wider objectives.

We will also continue to support and drive culture change as the conduct regulator. We will promote constructive discussions with various stakeholders, including industry and consumer groups, to gain a better understanding of how to achieve long-lasting cultural change across markets. This will include understanding the key drivers of culture and how they can be used to promote good conduct. We will also continue to offer support to, and participate in, the increasing number of initiatives on culture in financial services from outside the FCA.

FEMR

We have covered our Fair and Effective Markets Review work in the Wholesale financial markets section of this Business Plan.

Measures of success

Over the medium to long term:

- Senior managers are demonstrably accountable and effective, and there is a culture of accountability at all levels.
- Firms respond to material risk events by applying robust, comprehensive remuneration measures based on actual loss and harm.
- Firms can demonstrate that they act appropriately on whistleblowing intelligence.
- An increase in the proportion of crystallised risks that are self-identified and proactively addressed by the firms rather than by the regulator.



Treatment of existing customers

We have seen poor practice in the treatment of existing customers who become inactive (back books). This includes firms not informing customers about other available products, applying switching or exit fees or creating other barriers to reduce competition and discourage existing customers from changing providers or products.

Risks

Tougher economic conditions may lead to firms seeking to 'manage' back book customers into more expensive/default products.

A growing number of over-indebted mortgage holders and those with limited access to credit.

A future rise in interest rates may make it harder for borrowers, including those already in payment difficulties, to repay. If credit conditions tighten this can leave higher risk consumers with limited options.

Firms may restructure products, bundling together add-on services to make comparison difficult or lock borrowers into higher rates.

Firms may apply unjustified exit or switching fees which reduce competition.

Consumers' weak bargaining position could give Investment Management firms little incentive to compete on value for money.

Outcomes we seek

Existing consumers enjoy the benefits of increased competition and innovation by firms in products and services, particularly:

- Firms give more information to customers on renewal in the relevant sectors, making pricing more transparent.
- There is greater product choice and availability.
- Barriers to switching or exiting are removed.
- Firms pay due regard to the interests of their existing customers and actively engage with them to give them a good service and improved outcomes.
- Firms actively compete to retain customers rather than taking loyalty for granted.



We have seen poor practice in the treatment of existing customers who become inactive



Our planned activities

Competition in retail banking

In 2014, following concerns that essential parts of the UK retail banking sector do not compete effectively and fail to meet the needs of personal consumers or small and medium-sized enterprises (SMEs), the Competition and Markets Authority (CMA) launched its retail banking investigation.

We have worked with the CMA throughout this investigation, giving them constructive feedback and sharing our experience of financial services sectors. In 2015 the CMA published its interim findings and 15 provisional remedies. In March this year, the CMA also published four additional remedies focusing on overdrafts. This package of proposed remedies aims to:

- Increase customer awareness of the potential benefits of switching and prompt shopping around.
- Support customers' ability to make comparisons between providers.
- Make Business Current Account opening easier.
- Improve the switching process.
- Reduce the advantages banks have from incumbency (existing customers' reluctance to switch).



- Help SMEs compare the different loans available to them.

The CMA will publish its final report this summer and its provisional decision on remedies in May. The CMA has suggested it may make recommendations to the FCA to implement a number of the final proposals. We expect this to be a key element of our work to improve the effectiveness of competition in retail banking.

Cash savings market study follow-up

Our cash savings market study found that the market was not working well for many consumers. In particular, many providers hold significant amounts of consumers' savings balances in accounts opened more than five years ago. These older accounts pay lower interest rates than newer ones, and firms currently give little information to these customers about alternative products. Consumers are often put off switching because they expect it to be difficult and see little gain from opening another account.

We are developing a package of remedies to deliver improved customer awareness about the interest rates on their accounts, their providers' strategies to long-standing customers and to encourage more shopping around. In 2015, following consultation, we published our final rules for various disclosure remedies. This year, following completion of real-life trials, we will consult on a second package of remedies to improve transparency and increase shopping around and switching.



Consumers are often put off switching because they expect it to be difficult



Fair treatment of long-standing customers in the life insurance sector

In March 2016 we published a report setting out our findings from the thematic review of the fair treatment of long-standing customers in life insurance. We found a mixed picture in the firms we reviewed, demonstrating good practice in one or more areas and poor practice in other areas.

We have therefore decided to undertake further work in relation to this matter. We will consult on non-Handbook guidance which will provide firms with extra detail on the actions they should be taking in order to treat their closed-book customers fairly in the future. We will convene an industry-wide discussion with a view to industry reaching a voluntary solution to capping or removing exit and/or paid-up charges on investments of the type that were the subject of the thematic review.

We will work with the firms we reviewed to address the specific findings identified through our ongoing supervisory work. In addition, we will consider whether some of the firms have failed to meet our standards and, if so, whether remedial and/or disciplinary action is necessary in relation to these firms or others across the market.

Measures of success

Over the medium to long term we expect to see an upward trend in existing customers' perception of:

- Choice of products.
- Comparison between products and services.
- Ease of switching.

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Additional key workstreams



Other key elements of our work this year will include:

Sustainable regulation

We are committed to ensuring that the UK has robust, respected regulation. We will be tough when required but we also recognise that regulation must be able to adapt and evolve to the changing market place.

We will review whether aspects of our rules are outdated or are no longer an effective way of advancing our statutory objectives. Following this, we will consider whether any rules can be removed or redrafted to better achieve our statutory objectives.

The Enterprise Bill, currently being debated in Parliament, may also apply to the FCA. Under the legislation, regulators are required to have the cost of any changes in relevant regulations verified by the Regulatory Policy Committee. This builds upon existing requirements within FSMA, which require us to conduct cost-benefit-analyses when we consult on new policy.

Payment Protection Insurance (PPI)

The current complaints framework and our supporting supervisory work has so far resulted in over £22.2 billion redress being paid to over 12 million customers.

At the end of 2015, we published a consultation paper which proposed to set a deadline for making PPI complaints and to run a high-profile communications campaign telling consumers about it and signposting how to complain. Our consultation also proposed new rules and guidance for firms on handling PPI complaints after the Supreme Court's decision in the Plevin case.²⁰

In 2016/17, we will consider the responses to the consultation, decide our final approach and, if appropriate, publish a Policy Statement. We will also continue to monitor

²⁰ The Court ruled that the lender's failure to disclose the large commissions payable out of the consumer's PPI premium made their relationship unfair under s140A of the Consumer Credit Act.

and challenge firms to ensure that they continue to deal fairly and promptly with PPI complaints.

Prudential regulation

This year, our prudential work will focus on the continued implementation of the Capital Requirements Directive IV (CRD IV). We will be implementing changes to our Supervisory Review and Evaluation Process (SREP) to meet the European Banking Authority's (EBA) new guidelines that come into effect in 2016.

Other areas of focus will include implementing the Recovery and Resolution Directive (RRD) and helping firms to improve their wind-down planning in the event of a firm failing.

We will continue to ensure firms have appropriate mechanisms to protect client assets to ensure consumers are protected in the event of failure.

Ring-fencing

After the financial crisis, the Government decided to ring-fence core banking activities from other activities. This is to make it easier and less expensive to resolve banks which get into financial difficulty, and reduce the likelihood of disruption to key services provided by the largest retail banks.

The PRA is the lead regulator for implementing ring-fencing. We have key responsibilities for implementing the regime effectively and we will continue to work with firms as they finalise their plans for ring-fencing.

We will monitor and manage any potential negative impacts of ring-fencing on consumers, market integrity and competition.

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Ongoing activities



Our core day-to-day activities are:

Authorisation – gateway to operate in the financial market

It is vital that firms and individuals offering financial services compete effectively, run their businesses in the best interests of consumers and uphold the integrity of the market.

Firms undertaking 'regulated activities' have to be authorised or registered by us, unless they are specifically exempt. They must meet our threshold conditions before we allow them to operate in the market. Where we believe firms' behaviour may pose a significant risk to consumers or the market, we work with them to raise their standards and, failing that, we prevent them from entering the market.

Our authorisation process can vary in terms of the level of scrutiny we apply, depending on the risks a firm poses to our objectives. For firms that pose significant risks to our objectives, we apply a high degree of scrutiny in our review of business plans, resources, systems and controls to ensure we are confident that they have the right leadership and good practices in place to provide good outcomes for their customers. Firms which pose smaller risks to our objectives are authorised using a proportionate level of scrutiny.

We put great emphasis on the most senior individuals in firms and, as part of the approved persons regimes, including the Senior Managers Regime and the Senior Insurance Managers Regime, ensure our pre-approval processes are proportionate in the level of scrutiny depending on the risks the role of the individual and the firm pose to our objectives.

We believe that 2016/17 will see similar volumes of activity as in previous years, and expect to receive over 150,000 cases of different kinds.

In April 2014 we took over the regulation of around 50,000 consumer credit firms, some of whom were already regulated by us for other activity. Each firm is now going through an individual authorisation process, and the process for determining these firms' applications for authorisation will conclude in 2016/17.

Our competition powers and responsibilities

Promoting competition in the interests of consumers, both wholesale and retail, is an integral part of our objective to make markets function well.

Competition is essential to healthy functioning markets. It is a powerful driver of good consumer outcomes, as well as being essential for growth and global competitiveness. By ensuring markets are open, innovative and appropriately regulated, our aim is to deliver resilient and dynamic markets for financial services in the UK.

Armed with appropriate information and confidence that there are appropriate safeguards if things go wrong, consumers can exercise meaningful choice, driving competition and value. We need to ensure our rules offer consumers an appropriate degree of protection without being a barrier to new providers, products and services entering the market.

There are three main ways in which we pursue our competition objective:

- Using market studies and calls for inputs to see how competition in financial services is working, and identifying steps to improve how it works in the interests of consumers.
- Using competition law to take action against anti-competitive practices.
- Adapting the way we regulate to ensure markets are open and innovative.



We have already begun to implement remedies in the cash savings, general insurance and retirement income sectors to help ensure competition works better



Market studies look across a sector, at firm and consumer behaviour, to assess whether competition is working well for consumers. Since we were given our competition objective, we have used market studies and calls for input to analyse how competition is working in different sectors. So far, these have included cash savings, retirement income, general insurance, credit cards, investment banking, asset management and mortgages.

Market studies are about more than just understanding competition dynamics. We also look for solutions that provide conditions for the market to work better. We have already begun to implement remedies in the cash savings, general insurance and retirement income sectors to help ensure competition works better for consumers, and are currently considering a number of interventions in the credit cards market.

We have a broad range of tools to **tackle anti-competitive behaviour**. These include formal investigations, as well as a range of other tools, including notifying firms of potential areas of concerns so they can apply due diligence and consider whether they are fulfilling their obligations under competition law. Working alongside the UK and EU competition authorities, we are well placed to detect competition law breaches and to step in to take action quickly.

We also look at the **impact of regulation on competition**. We want to understand the impact our rules have on competition, and make amendments where necessary. We also want to find ways to support new market entrants and innovation. Project Innovate does this by giving firms practical support to help them with the authorisation process when they plan to bring products and services to market.

Supervising firms

Our priority in supervising firms is to ensure their customers, whether wholesale or retail, are at the centre of a firm's business and that firms recognise their obligation to protect the integrity of the markets in which they operate.

Our Supervision model classifies firms as either fixed portfolio or flexible portfolio. We previously used four categories (C1-C4) for the conduct classification of firms but, in line with our revised strategy, we have simplified this approach. The classification of a firm drives the nature and intensity of our conduct supervisory approach.

Fixed portfolio firms are a small population of firms (out of the total number regulated by us) that, based on factors such as size, market presence and customer footprint require the highest level of our supervisory attention. These firms are allocated a named individual supervisor and are proactively supervised using a continuous assessment approach.²¹

The majority of firms are classified as flexible portfolio.²² These firms are proactively supervised through a combination of market-based thematic work and programmes of communication, engagement and education activity, such as our latest programme of events – Live & Local. This work is based on the key risks we have identified for the sector

²¹ Details on the approach to fixed portfolio firms – www.fca.org.uk/static/documents/corporate/supervision-guide-fixed.pdf

²² Details on the approach to flexible portfolio firms – www.fca.org.uk/static/documents/corporate/supervision-guide-flexible.pdf

New regional programme of events

The vast majority of the firms we regulate ('flexible portfolio' firms) do not have a dedicated supervisor, relying on our knowledgeable Contact Centre as their first point of contact. We want to give firms choice about how they engage with us and when. After a successful pilot in 2015, this year we will be rolling out an extensive series of events in every corner of the UK in our 'Live & Local' programme. The Programme will focus on three main sectors: investments, mortgages and general insurance.

Across the UK's 12 regions, our Live & Local team will spend a month in a variety of locations in each region, working in partnership with local firms and advisers. We expect to see over 800 delegates in each region. Our senior management and senior industry figures will be supporting the programme and this will be an ideal opportunity for smaller firms to have access to them.

From running roundtables and surgeries, to supervisory workshops and focused sessions on culture and governance, we will help smaller firms and advisers understand how to provide compliant services. Our Positive Compliance programme will focus on the advice process, while other supervisory workshops will look at culture and professional governance.

Live & Local 2016 will take FCA expertise directly to firms, helping them deliver better, fairer and more competitive services.



in which the firms operate. These firms use our Customer Contact Centre as their first point of contact with us, as they are not allocated a named individual supervisor.

We also undertake ongoing systematic supervision of firms for prudential, CASS and financial crime purposes. Some flexible portfolio firms will be part of these systematic programmes.

There are three aspects to our supervision:

Pillar 1 – Ongoing proactive supervision of the firms which present most risk to our objectives.

Pillar 2 – Event-driven, reactive supervision of actual or emerging risks.

Pillar 3 – Thematic work which focuses on risks and issues affecting a number of firms across the market.

Where necessary, we look closely at firms' business models and culture to assess whether they are sound and robust. We focus on the most significant issues and seek to ensure that firms identify and tackle the root causes of problems. We place a great emphasis on the responsibility of senior management within firms and expect individuals within firms to be accountable for their activities. We need to be confident that firms do the right thing for their customers and markets if problems occur. When we find poor practice we use our supervisory and enforcement tools to mitigate risks, deter others and secure redress for consumers where necessary.

Overseeing primary and secondary markets

The UK is a leading global centre for issuing and trading securities with issuers from almost every sector, and a broad range of investors, operating in UK markets.

We oversee primary and secondary market activity. We do this in a way which is proportionate, risk-focused and forward looking, through educating the market and using a range of tools and techniques. Our rules help us protect market integrity by ensuring high standards of market practice and the appropriate level of disclosure. Our Market Monitoring function ensures we deter market abuse through investigations and taking legal action, while ensuring we cover a broad range of misconduct across all asset classes. We also educate the market about abusive practices or misconduct as we become aware of it.

Our role in primary markets, as the UK Listing Authority, is to oversee the capital-raising process, and to ensure that issuers of securities fulfil their obligations under domestic and European law.

Supervising Exchanges and administrators of benchmarks

We supervise Recognised Investment Exchanges both for conduct and prudential aspects. We aim to ensure that they, through their primary and secondary market services, promote fair, orderly and efficient markets that are open to competition and operate in the interests of market participants. These groups are international and diverse and our supervisors actively engage with other regulatory authorities, including the Bank of England (the supervisor of central counterparties) and regulators of financial markets in other jurisdictions.

We also supervise the administrators of the eight regulated benchmarks, and the submission activity of those banks which contribute to setting the LIBOR rate. These are relatively new functions, following recent legislative change. Our aim is to ensure that benchmarks are reliable and have integrity so that markets can rely on the rates set.

Our prudential responsibilities

The Prudential Regulation Authority (PRA) is the prudential regulator of the most systemically important financial firms. These are around 1,700 deposit takers, insurers and investment firms. We are responsible for the prudential regulation of all authorised firms not prudentially regulated by the PRA; around 24,000 firms which include asset managers, investment firms, platforms and infrastructure providers.

As with our supervision of conduct, our prudential supervision goes beyond a quantitative analysis of firms' financial resources. We consider systems and controls, governance arrangements and risk management capabilities including the risk of misconduct.

The aim of our prudential approach is to minimise the harm to consumers, wholesale market participants and market stability when firms experience financial stress or fail in a disorderly manner. Our starting principle is that, if firms are failing, they should be allowed to do so in an orderly way, whatever their size. For, usually smaller, firms which pose less risk to our objectives we take a reactive approach and allow for disorderly failure.

These prudential responsibilities help ensure we meet our statutory objective to protect and enhance the integrity of the UK's financial system. Given the direct links between conduct and prudential risk, our prudential approach also helps ensure relevant protection for consumers, particularly those under the Client Asset Source Book regime (CASS).



We take tough and significant action against firms and individuals who break our rules



Enforcement

We will continue to pursue our strategy of credible deterrence. We take tough and significant action against firms and individuals who break our rules, reinforcing proper standards of market conduct and ensuring firms put customers and clients at the centre of their businesses.

We have a range of Enforcement powers, including civil, criminal and regulatory, and use them proportionately to ensure the best redress for consumers. Where we find harm, we ensure firms deliver appropriate redress and compensation. Our Enforcement work is also proactive, aiming to identify potential problems early on. We also combat financial crime, including money-laundering, scams, market abuse and insider trading, often working closely with other organisations, both domestically and internationally.

Developing policy

We use our policy-making powers to promote and deliver robust, practical rules and frameworks which support our objectives. This applies both to policy that we initiate and to our work with external policy developments. When developing policy, we clearly set out what we expect from authorised individuals and other market participants with the aim of changing behaviour in financial markets. We consult widely and publicly with the industry, consumers and other relevant groups on our rules and guidance before we finalise them.

We use evidence and analysis to assess the costs and benefits of both our, and others', proposals to ensure they are aligned to our statutory objectives, general duties and regulatory principles. We also consider the impact and implications of rule changes on the wide range of different organisations and activities we regulate.

We play a key role in influencing and then implementing domestic and European legislation and international policy. Many of the rules and standards that we apply still come from European and international work. Through active engagement with a wide range of European and global bodies, we help to shape policy debates, share our regulatory experience and perspective, review the implementation

of agreed standards, and contribute to identifying and mitigating new and emerging issues.

Our policy work is guided by these principles:

- Prioritising and targeting our policy activities where they can make the most difference.
- Making or supporting new rules and guidance only if we believe it will be effective for, and proportionate to, the relevant problem.
- Reviewing rules, and encouraging others to do the same, where we believe they no longer achieve the right aims.
- Aligning our initiatives and strategy with the European and international agendas and timetables.

Our general approach to implementing EU legislation is usually to 'intelligently copy-out' agreed requirements into our Handbook, and only to go beyond what is required if we consider this is proportionate. When we have done so, it has generally been to preserve existing standards of consumer protection or to minimise possible competitive distortions, and always accompanied by public consultation and cost-benefit-analyses.

Understanding consumer behaviours

Our identification of risks is enhanced considerably by our understanding of the needs, experiences and behaviours of consumers who interact with the financial services markets.

In order to build our insight into consumers we use a variety of tools which include:

- A segmentation model called Consumer Spotlight. This recognises that not all consumers are exposed to all the risks that we identify. Nor are all consumers equally impacted by any particular risk. Consumer Spotlight aids our understanding of which consumers are most at risk from specific products, services or practices.

- Consumer Insight Annual Survey: we conduct extensive consumer annual surveys with all segments of consumers and across retail financial markets to provide insight into changes and trends in the interaction between firms and consumers.
- Market research: in addition to the Annual Survey programme, we also carry out one-off qualitative and quantitative market research in support of our frontline activities, particularly in relation to policy, supervision and competition work.
- Consumer Network: alongside our market research work conducted directly with consumers, we operate an extensive network with organisations, including charities that have an interest in representing the needs of particular groups of consumers. This network provides a rich source of information about the needs, experiences and behaviours of consumers across the markets.

Financial stability – working with the Financial Policy Committee

The Financial Policy Committee (FPC), is the UK's prime body for analysing financial stability and is the main lens through which the FCA views systemic risk. As part of our role to protect and enhance the integrity of the UK financial system, we closely monitor financial stability risks, including the soundness, stability and resilience of financial markets. Our Chief Executive is a member of the FPC and we work closely with the Bank of England on areas of interest to the FPC such as market liquidity and housing issues.

Raising consumer awareness

Our work directly protects millions of UK consumers. However, consumers also need to know how they can help and protect themselves. They need the information to ensure they do not fall victim to scams, check if a company is legitimate, understand their rights, and know how to complain and who to complain to.

We have an ongoing programme of work with firms to support greater transparency and disclosure of information to consumers across a wide range of sectors, and work closely with consumer groups to raise consumer awareness. We provide this information to consumers via our website, contact centre and communications campaigns. Last year we helped nearly 134,000 consumers by phone or email. Since 2014, we have been using funds recovered from the proceeds of crime to proactively give consumers the information they need to spot and avoid a scam. So far, over 200,000 consumers have visited our ScamSmart webpages or checked our Warning List.

Accountable and independent

We are an independent body, accountable to the Treasury and to Parliament.

We are funded by the firms we regulate, who pay us fees to be authorised to carry out regulated activities. How much they pay depends on their size, what type of business they are and the activities they carry out.

Shaping thinking on financial services

We are a significant and influential voice in international regulatory bodies, and work to develop effective cross-border cooperation and consistency. Our initiatives are frequently viewed internationally as ground breaking, both in terms of developing new approaches to financial regulation such as Project Innovate²³ and our Consumer Spotlight²⁴ work, and in the way we work with our stakeholders to shape policy and implement regulation.

We work closely with firms and other stakeholders on changes to policy, amending rules and implementing new legislation. We use Consultation, Discussion and Occasional papers to obtain stakeholders' views and experience to help us deliver change in the most efficient and effective way possible.

²³ <https://innovate.fca.org.uk/innovation-hub/project-innovate-next-steps>

²⁴ www.fca-consumer-spotlight.org.uk/

6

How we operate



Our budget 2016/17

Our annual budget reflects the cost of the resources we need to carry out our work in 2016/17.

The key elements of our budget are:

- The cost of our operating activities (our Ongoing Regulatory Activity), the largest element of which is our people.
- The total amount we charge the industry to fund our plans (our Annual Funding Requirement).
- Capital expenditure for the development of our information systems and new regulatory and operational requirements.

Operating costs

Our budget for our Ongoing Regulatory Activity (ORA) for the year is £502.9m, an increase of £23.9m (5.0%). This increase is solely due to the introduction of Consumer Credit into our ORA budget. Excluding new responsibilities for Consumer Credit, our budget has reduced by £7.6m (1.6%) to £471.4m as we have re-prioritised and delivered savings in a number of non-staff costs. In addition, depreciation has decreased as a result of some core IT assets being fully depreciated and lower capital spend on key strategic projects.

Operating costs (ORA)	2015/16 £m	2016/17 £m
Staff costs	279.9	316.8
IS costs	95.2	97.2
Depreciation	47.3	39.3
Accommodation and office services	30.5	31.5
Enforcement case costs	10.7	8.3
Professional fees	17.6	16.2
Training, recruitment, travel	16.2	12.7
Printing and publications	3.9	4.2
Other costs	3.1	1.8
Sundry income	(25.6)	(25.2)
Total ORA	479.0	502.9

The new Consumer Credit ORA budget of £31.5m mainly comprises staff costs in our Supervision, Enforcement & Market Oversight and Strategy & Competition divisions.



Excluding new responsibilities for Consumer Credit, our budget has reduced by £7.6m as we have re-prioritised and delivered savings in a number of non-staff costs



Annual Funding Requirement (AFR)	2015-16 £m	2016-17 £m	Movement	
			£m	%
Non Consumer Credit:				
ORA budget	479.0	471.4	(7.6)	(1.6%)
Recovery of scope change activities	2.6	10.2	7.6	292.3%
Non Consumer Credit AFR	481.6	481.6	0.0	0.0%
Consumer Credit:				
ORA budget	0.0	31.5	31.5	-
Recovery of scope change activities	0.0	6.2	6.2	-
Consumer Credit AFR	0.0	37.7	37.7	-
Total:				
Total ORA budget	479.0	502.9	23.9	5.0%
Total recovery of scope change activities	2.6	16.4	13.8	530.8%
Total AFR	481.6	519.3	37.7	7.8%
Financial Penalty Rebate	(43.6)	(49.6)	(6.0)	13.7%
Fees payable	438.0	469.8	31.8	7.2%

Annual Funding Requirement

Our AFR for 2016/17 is £519.3m, an increase of 7.8% which is again due to the first year of Consumer Credit in our ORA budget. Our AFR includes our ORA budget costs and the costs we need to recover for changes in scope to the FCA's regulated activities (including new responsibilities). In 2016/17 we will recover scope change costs for Accountability in the Banking Sector, the Mortgage Credit Directive and Consumer Credit. Consumer Credit firms have not been billed for the full costs of regulation during the setup and transition period and we will recover the estimated £62m outstanding deficit over ten years at £6.2m per annum.

Capital expenditure

Our capital expenditure budget reflects the ongoing delivery of IT systems and infrastructure development and refresh, as well as implementing the necessary IT change driven by legislation such as the Markets in Financial Instruments Directive (MiFID) and Regulation (MiFIR).

In 2018 our leases for our Canary Wharf properties come to an end and we have signed an Agreement for Lease for 20 years to move to The International Quarter (TIQ) in Stratford. We will incur fit out costs to get the building ready for occupation. Our current intention is to fund these costs by external financing, the costs of which will be recovered against the rent free period.

Capital expenditure	2015-16 £m	2016-17 £m
IT systems development	19.6	22.0
IT infrastructure	21.0	17.4
Property, plant and equipment	2.0	1.0
Total capital excluding TIQ	42.6	40.4
TIQ	1.9	25.0
Total capital	44.5	65.4

Payment Systems Regulator

The Payment Systems Regulator (PSR) is a separate legal entity based at the FCA, with its own board and statutory objectives. Details of its funding can be found in the PSR's Annual Plan.

Applying financial penalties

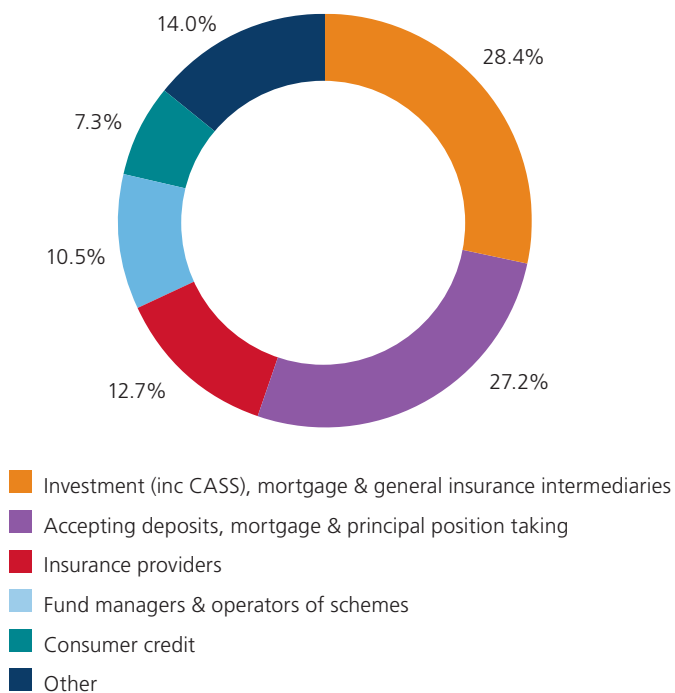
We must pay to the Treasury all the financial penalties that we receive, less certain enforcement costs.

We use these retained penalties to reduce our fees for firms, apart from the fees of the penalty payer themselves. We estimate the financial penalty rebate to be £49.6m in 2016/17.

Impact on our fee payers

Every year we consult with our fee payers on how we allocate our Annual Funding Requirement (AFR) between fee-blocks and how we set our fee rates for the forthcoming financial year. We do this via our fees consultation paper published in April 2016.

Our consultation paper summarises the main elements of our ORA budget and scope change costs and explains how we have allocated these across fee blocks, as well as any changes being made to the fee blocks. Among other things, our consultation paper also explains any proposed change to the minimum fee and gives details of the financial penalty scheme, our estimated financial penalty rebates for 2016/17 and our current and future proposals for consumer credit fees. The chart below reflects how we will be funded by industry sectors as proposed in our April 2016 consultation paper.



Value for Money

Our overarching Value For Money (VFM) strategy is to maximise the impact of delivering our statutory objectives and desired outcomes, while minimising costs. Our drive to deliver year-on-year improvements in effectiveness, efficiency and economy continues.

VFM criteria are being embedded in our decision-making process at all levels. This, together with reviews of our internal processes, benchmarking, and ensuring flexibility in our workforce, will drive further efficiencies.

We will focus on embedding VFM into our culture through a number of measures including a training and communications programme. We will work closely with other regulators to share expertise, best practice and resources where possible.

We will continue to develop a constructive relationship with the National Audit Office (NAO) to address recommendations coming from its reviews of the FCA. As the NAO observes, our strategic approach is evolving and we will be using the NAO's recommendations to build on our current VFM strategy.

Our people

It is important that we attract and retain the best regulatory talent. The FCA's employees are key to ensuring we meet our objectives, so we invest in their development to enable them to have the latest knowledge and capabilities. In addition to a rolling programme of events to keep staff informed of current economic and market developments, the FCA Academy, now in its third year, provides high standards of technical and management training. In 2016/17 we will expand our MSc in Financial Regulation with Henley Business School internationally, with plans to engage with overseas regulators and stakeholders. We will also expand our successful secondment programme among a wider range of regulated firms and consumer organisations.

Deepening the diversity of our workforce remains a priority. Our work on diversity has already delivered encouraging results, especially in early careers. We have seen an increase in general BAME applications from 42% to 47%, and an increase in offers for graduate programme positions from 18% to 27%. In 2016/17 we aim to build on this success by working more closely with our local community and using other tools to reach young talent.

Reporting on our achievements

The main way in which we report on our performance is through our Annual Report. To make our work more transparent throughout the year we also publish a quarterly data bulletin, which provides information about what we do and the markets we regulate.

In the Annual Report we report on a range of performance factors prescribed by FSMA, and self-imposed ones, such as the delivery of our business plan commitments, outcome measurement, operational effectiveness and efficiency, value for money and the key work we have delivered. This year, we have also added indicative measures that are specific to the priorities.

We also include several measures that analyse the efficiency and effectiveness of our work. Measures for our authorisations function include, for example, how we determine applications within the statutory service standards, the average time it takes us to make a decision on different types of cases, feedback from stakeholders on our process and quality assurance results. Examples from other areas include the redress we obtain for consumers, how we use our enforcement powers, the outcomes of our enforcement activity, the number of financial penalties we have levied, the number of fines and prohibitions and the impact of specific interventions.

We also use an outcomes-based performance framework, which examines the external markets we regulate and assesses the impact of our work on our statutory objectives in different financial sectors.

Achieving our outcomes will take time. We will continue to monitor them to assess whether progress is being made, and where we need to take further action.

Analysing our performance against our statutory objectives

We set out our framework for analysing our performance against the statutory objectives. We have a pragmatic approach to measuring how we perform against our statutory objectives and take into account the way we use our resources. This means we use all available research and analysis, rather than solely relying on designing large research programmes ourselves.

Measuring outcomes is challenging and regulatory success is hard to judge, especially as our success is often achieved by preventing problems from happening or worsening, which may not be as visible. Some of the difficulties we encounter include establishing cause-effect relationships, time lags between our actions and their impact and our limited control over issues that are heavily affected by external factors and the actions of others. These include market conditions, the general economic state, the work of other regulators and the political agenda.

Our overall framework, and its outcomes, indicators and the performance measures will evolve over time as we develop our performance framework further and identify better measures.

Working in partnership

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

We will work closely with Government to provide support as they introduce any changes resulting from the *Public financial guidance* review consultation.

We have a statutory Memorandum of Understanding with the PRA that sets out the responsibilities for each regulator. We regularly monitor performance against this, and coordinate and cooperate with the PRA across all relevant activities, which we actively and jointly oversee.

We work with the Bank of England, the Financial Ombudsman Service, the Financial Services Compensation Scheme, the Competition and Markets Authority and the Money Advice Service. As a member of both the UK Regulators Network and the UK Competition Network we engage with broader regulatory issues and priorities.



Achieving our outcomes will take time. We will continue to monitor them to assess whether progress is being made and where we need to take further action



During 2016/17 we will continue to work with the Money Advice Service including on its restructure to a new, slimmed down money guidance body charged with identifying gaps in the financial guidance market and commissioning providers to fill these gaps to ensure that consumers can access the debt advice and money guidance they need.

We also work with the Serious Fraud Office, the National Crime Agency, the City of London Police and other enforcement agencies to take action against firms and individuals who may have committed financial crime.

We also work closely with the Payments Systems Regulator (PSR), the independent economic regulator for the £75 trillion payment systems industry. The PSR is a subsidiary of the FCA, which was incorporated in April 2014 and became fully operational in April 2015.

Many new rules we make come from the need to implement European policy. The European Supervisory Authorities (ESAs) have significant powers to propose draft rules and make decisions that have major implications for national supervisors and firms.

We work closely with other European regulators and the ESAs, in particular the European Securities and Markets Authority (ESMA), and are influential in ensuring that we:

- Assist in and influence policy making.
- Are properly informed about relevant risks.
- Avoid duplication of regulatory activities.
- Improve the oversight of internationally active firms.
- Adopt a consistent approach to common European Community requirements.

FCA statutory panels

We are required to consult on the impact of our work with four statutory panels. These panels represent the interests of consumers, practitioners, smaller regulated firms and markets. We also consult with the Listing Authority Advisory Panel.

They play an important role in both advising and challenging us, and bring a depth of experience, support and expertise in identifying risks to the market and to consumers. We consider their views when developing our policies and when deciding and implementing other regulatory interventions. Each panel publishes its own annual report. The Panels are:

The Consumer Panel

This represents the interests of consumers, monitors how far we are fulfilling our statutory objectives with regard to consumers when developing rules or policy and provides us with advice and challenge.

The Practitioner Panel

The panel represents the interests of practitioners. It provides us with external input from the industry as a whole.

The Smaller Business Practitioner Panel

This represents smaller regulated firms, who may otherwise not have a strong voice in policy making.

The Markets Practitioner Panel

This panel reflects the interests of practitioners who are likely to be affected by our functions involving markets.

The Listing Authority Advisory Panel

This non-statutory panel advises the FCA on policy issues that affect issuers of securities, and on policy regulation proposals from the FCA listings function.

Annex A – Update on ongoing market-based activity

The table below lists a number of thematic reviews and market studies which we have publicly committed to, with timings for key delivery points in 2016/17. The list is not exhaustive and the FCA will undertake additional market-based work throughout the year in line with the priorities identified in our Business Plan, and as necessary to address emerging issues that arise in the year.

Project name

Timing (by calendar year)



Retail lending

Competition in the mortgage sector	Feedback statement by Q2 2016
Credit card market study	Report by Q3 2016
Mortgages: Embedding the MMR – Responsible Lending review	Findings in Q3 2016
Early Arrears in Unsecured Lending review	Complete in Q4 2016
Financially Vulnerable Customers review	Complete in Q3 2016
Staff remuneration and incentives in Consumer Credit review	Complete in Q3 2016



General insurance and protection

Big Data review	Report in Q3 2016
Appointed Representatives review	Complete in Q2 2016



Retail banking

Packaged Bank Accounts review	Complete in Q3 2016
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Wholesale banking & investment management

Asset Management market study	Interim report in Q3 2016; Final report in 2017
Investment and Corporate Banking market study	Interim report in Q2 2016; Final report in Q3 2016



Pensions and retirement income

Retirement Outcomes review	Launch in Q2 to Q3 2016
Annuities Sales Practices review	Complete in Q4 2016
Review of effectiveness of Independent Governance Committees	Launch in Q2-Q3 2016, complete in Q4 2017



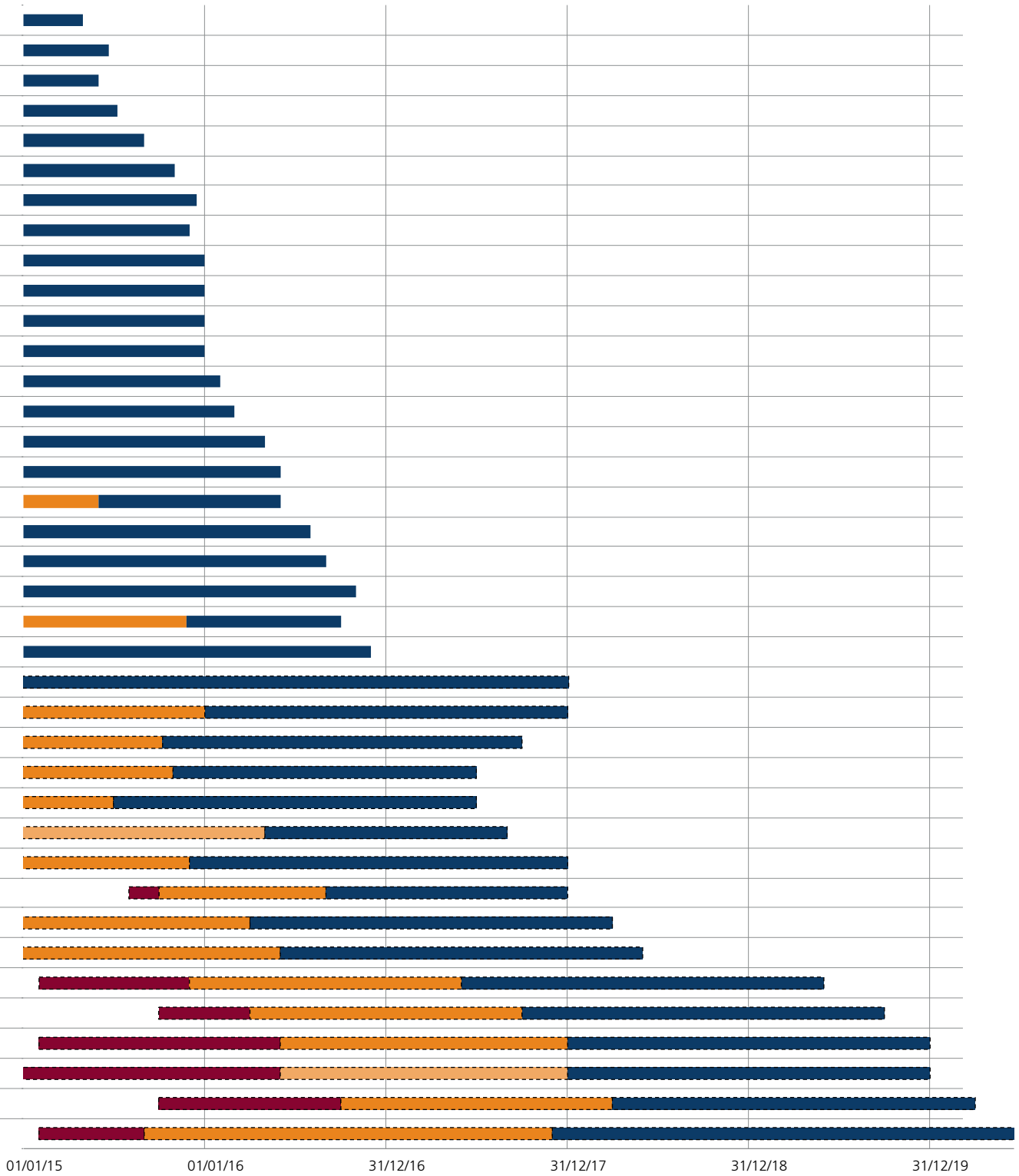
Retail investments

Inducements & conflicts of interest review update	Complete Q2 2016
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Annex B – EU initiatives

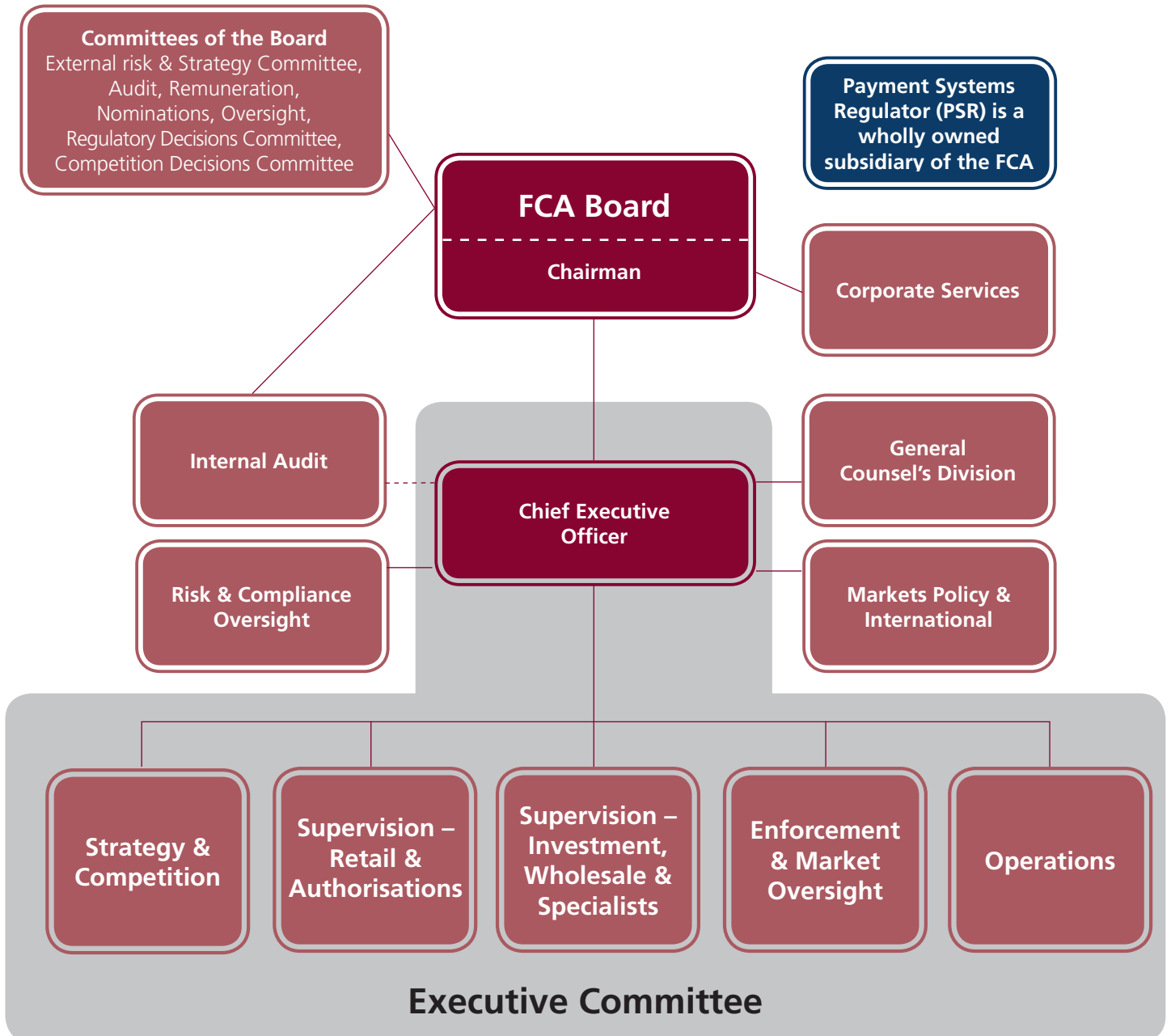
- Consultation/drafting
- Negotiation
- Transposition

Venture Capital Funds and Social Entrepreneurship Funds Regulation
Credit Ratings Agencies Regulation III
Central Securities Depositories Regulation (CSDR)
Alternative Dispute Resolution Directive / Online Dispute Regulation
Regulation on Wholesale Energy Markets
Transparency Directive II
European Market Infrastructure Regulation (EMIR)
Long Term Investment Funds Regulation (ELTIF)
Undertakings for Collective Investment in Transferable Securities Directive (UCITS V)
Accounting Directive
Capital Requirements Directive IV / Regulation (CRD IV/CRR)
Solvency II
Omnibus II
Mortgage Credit Directive (CARRP)
Audit Regulation and Directive
Market Abuse Regulation (MAR)
Regulation on Interchange Fees
Payment Accounts Directive (PAD)
AIFMD 3rd country passports
Single Euro Payments Area
EU Benchmarks Regulation
Packaged Retail Investment and Insurance Products Regulation (PRIIPS)
Markets in Financial Instruments Directive II and Regulation (MiFID II/MiFIR)
Insurance Distribution Directive (IDD)
Payment Services Directive II (PSD II)
Securities Financing Transactions Regulation
Anti Money Laundering Directive IV (4MLD)/Funds Transfer Regulation
Revised Shareholders' Rights Directive
Revised Data Protection Regulation
Securitisation Regulation (CMU package)
Regulation on Money Market Funds (MMF)
Bank Structural Reform Regulation
Prospectus Regulation (CMU package)
Pan European Venture Capital Funds Proposal (CMU package) (tbc)
Recovery and Resolution of non-bank financial institutions (tbc)
European System of Financial Supervision (ESFS) Funding and Governance Review
Pan European Framework for Covered Bonds (CMU Package) (tbc)
Capital Markets Union Package (CMU)



Dates are approximate and are subject to change

Annex C – FCA organisational chart



Financial Conduct Authority

