

Financial Conduct Authority



Business Plan 2013/14



Business Plan
2013/14

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Chairman/Chief Executive introduction



The Financial Conduct Authority (FCA) is coming into existence at a critical time in the history of financial services. As the global crisis appears gradually to recede, we still find ourselves dealing with major conduct scandals from the past. The scale of the mis-selling of Payment Protection Insurance, the behaviour surrounding the manipulation of LIBOR, and other instances of material consumer detriment have convinced everyone that things must change as far as conduct in financial services is concerned.

Our job is to require, through regulation, that such a change takes place in the culture of financial firms so they learn the lessons from the past to prevent errors being repeated. We will do this by creating an environment supportive of good conduct but where the incentives and opportunities for bad behaviour are low and the potential costs are high.

Our responsibilities extend to all consumers, whatever their age or financial circumstances and whether an individual, small company or a major participant in the wholesale markets. The challenge for us in building the FCA is to use the full range of our powers under the new legislation to make financial markets work well, so that everyone can use the UK's financial services with renewed confidence.

This is the FCA's first Business Plan and our first opportunity to set out our priorities for the year ahead. At the same time we are publishing our FCA Risk Outlook, which sets out the challenging economic backdrop, plus the framework against which we will assess the condition of the markets and will seek to identify future risks to our objectives. Many of these are complex and will require intervention over several years. This document is not attempting to be comprehensive in that regard but is designed to give a clear indication of how we will operate for the next twelve months.

New statutory objectives

Underpinning our work is our strategic objective of making markets work well and our three operational objectives which are:

- Delivering consumer protection – securing an appropriate degree of protection for consumers.
- Enhancing market integrity – protecting and enhancing the integrity of the UK financial system.
- Building competitive markets – promoting effective competition in the interests of consumers.

The FCA has a renewed focus on consumers. We will work in a number of areas to ensure that our objective of consumer protection is met, including work to ensure that firms' strategies are aligned with producing good outcomes for consumers – for example, through our work on product governance and incentive structures in firms.

Our work on wholesale conduct will help us underpin market integrity, as will our new approach to the supervision of trading platforms. Clean markets are key to ensuring the integrity of the UK financial system and we continue to prioritise tackling market abuse to address this.

Our new competition objective is a significant change and we will make sure that we are equipped to deliver it. This will involve building a new Competition department; embedding competition analysis in the FCA, assessing what is happening in the marketplace and the impact on competition of any intervention we may consider. We will work with, and learn from, the Office of Fair Trading in particular.

Not all of our work is new. We carry forward many tried and tested procedures from the Financial Services

“Our culture should reflect the world around us and change in response to it”

Authority (FSA) as well as some major policy initiatives: the Mortgage Market Review, the rules on retail investment advice and extensive engagement with Europe on important Directives. At the same time we have a big task preparing ourselves to regulate consumer credit from 2014.

New culture

Our culture should reflect the world around us and change in response to it. A major risk for any regulator is a natural tendency to become bound, often unconsciously, to the conventional thinking and approaches of the day. We need to build a new regulatory culture that stresses openness – and therefore predictability – by learning from our own experience and from others. We need to make it natural to question ourselves so that we avoid ‘group think’ and are continually looking to explore new approaches and perspectives, be it from our staff, other regulators and the world at large.

We will be open and accountable. Our Discussion Paper on transparency and accountability and our Policy

Statement on publishing regulatory failure reports are only the start of a continual process of becoming more open and holding ourselves to account.

New approach

Our first year as a new regulator will be an exciting and challenging time but one for which we are well prepared. We know that we will be scrutinised and judged by how we perform against our new statutory objectives. We are introducing new approaches and techniques to the way we do much of our work. But we cannot succeed wholly in isolation. Our outcomes will be greatly enhanced by the conscious cooperation of the firms we regulate and by the vigilance of their customers. With both of these stakeholder groups we want our relationships to be open, our messaging to be clear and our interventions to be effective. While there will be no room for the poor behaviour of the past, there is every intention of combining financial markets that work well with better outcomes for consumers. All are essential for the long-term sustainability of the industry.



John Griffith-Jones, Chairman Designate



Martin Wheatley, Chief Executive Designate

1. Executive Summary



Our strategic priorities are driven by three components:

- **the key forward-looking risks in the FCA Risk Outlook;**
- **our operational objectives; and**
- **addressing crystallised risk.**

The Business Plan sets out how we will achieve this, including the prudent use of our resources.

To achieve our priorities we have a broad range of regulatory tools available, from supervisory actions and policy responses to research initiatives and engaging with consumer bodies.

These tools are available to us throughout the regulatory lifecycle, from authorising a firm, overseeing its day-to-day conduct and taking enforcement action when conduct has fallen short of what is expected.

Below we have outlined the three components of our strategic priorities, which are explained in detail throughout this Business Plan. A reference table is in Appendix 8.

1.1 – Our strategic priorities

Key forward-looking risks from the FCA Risk Outlook (Section 2.1)

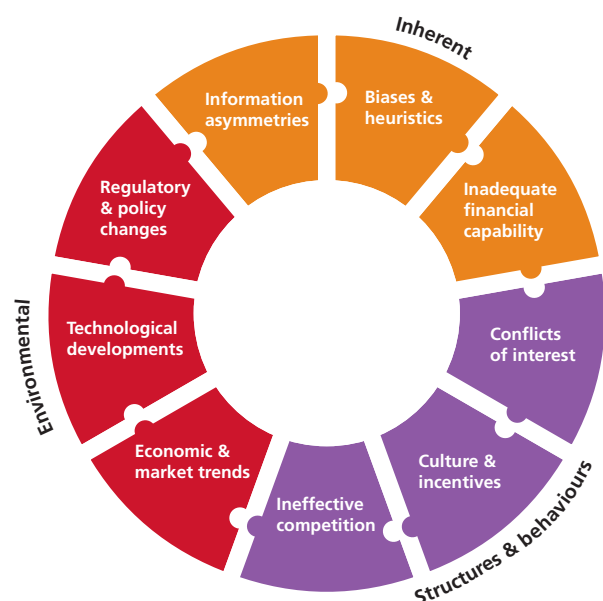
Major priorities will be to address the key forward-looking risks outlined in the FCA Risk Outlook, and strongly influence the conduct of financial services. These risks are:

- Firms do not design products or services that respond to real consumer needs or that are in consumers' long-term interests.

- Distribution channels do not promote transparency for consumers on financial products and services.
- Over-reliance on, and inadequate oversight of, payment and product technologies.
- Shift towards more innovative, complex or risky funding strategies or structures that lack adequate oversight, posing risks to market integrity and consumer protection.
- Poor understanding of risk and return, combined with the search for yield or income, leads consumers to take on more risk than is appropriate.

We will also consider the three main causes of conduct risk set out in the FCA Risk Outlook.

Figure 1



- **Inherent factors** – A range of inherent drivers of conduct risk interact to produce poor choices and outcomes in financial markets. These drivers are a combination of supply-side market failures (e.g. information problems) and demand-side weaknesses (e.g. inbuilt biases), which are often exacerbated by low financial capability among consumers.
- **Structures and behaviours** – Structures, processes and management (including culture and incentives) that have been designed into and become embedded in the financial sector, allowing firms to profit from systematic consumer shortcomings and from market failures.
- **Environmental factors** – Long-running and current economic, regulatory and technological trends and changes that affect the factors explored in Chapters 1 and 2 and are important drivers of firm and consumer decisions.
- **Payment Protection Insurance** – focusing on ensuring that consumers who have been mis-sold PPI promptly receive appropriate redress, plus other work into examining complaints handling (Section 3.4).
- **Interest rate swaps** – overseeing the review and redress process to ensure that fair and reasonable outcomes are being reached and that appropriate redress is paid to small businesses where due (Section 3.4).

Our operational objectives (Sections 2.2 to 2.4)

Our operational objectives are contained in the Financial Services Act 2012 and are set within the context of our strategic objective, which is to ensure that relevant markets function well. They are:

- **Delivering consumer protection** – securing an appropriate degree of protection for consumers.
- **Enhancing market integrity** – protecting and enhancing the integrity of the UK financial system.
- **Building competitive markets** – promoting effective competition in the interests of consumers.

Addressing crystallised risk

- **London Interbank Offered Rate (LIBOR)** – reforming the setting and governance of LIBOR, plus pursuing other significant cross-border investigations in relation to LIBOR and other benchmark rates (Section 2.3).

1.2 – Key European and international priorities

The importance of the UK maintaining its influence internationally is a high priority for 2013/14. We will work at every level with other UK authorities, maintaining and developing a strong, influential voice that promotes the UK's regulatory priorities and objectives. We will engage in a positive manner, coordinating effectively and working closely with the Prudential Regulation Authority (PRA), Bank of England and the Treasury.

In the Journey to the FCA, which we published in October 2012, we recognised that an increasing part of our work will be to implement, supervise and enforce EU and international standards. We committed to engaging actively in international debates and rulemaking, to ensure that standards set on consumer protection and market integrity are consistent with our objectives. The following international priorities are discussed throughout this Business Plan:

- Provide leadership in the discussions on EU and international issues and establish the FCA as a credible and influential member of the EU and global community.
- Ensure that our EU and international engagement is coordinated with the UK regulators.

“To be an open, transparent regulator, we must be held to account.”

Figure 2

Statutory objectives	Ensuring that relevant 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 will treat them fairly, with problems fixed promptly and effectively	Competition contributes to better consumer outcomes and firms do not exploit consumers' behavioural bias	Firms compete on clear costs and quality of service and consumers have the information they need	Consumers trust authorised firms to be fit and proper, to keep their assets secure and for financial markets to be clean and protected from abuse	FCA is part of a respected regulatory system that enables firms to know where they stand and contributes to the attractiveness of financial markets
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

- Influence global policy debates to promote a framework that makes markets work well for consumers.

We are also influenced by our obligations to implement already agreed EU requirements.

1.3 – Measuring our performance

To be an open, transparent regulator, we must be held to account. Central to this is the need to evaluate our performance. Last year the FSA consulted representatives from firms, consumer groups and other stakeholders on what they expect of the FCA and what the FCA's statutory objectives mean to them. We used this to help develop outcomes against which we can measure our performance. Later in 2013 the FCA will publish its approach to evaluating its performance.

Underpinning this will be a detailed performance framework against our statutory objectives as detailed in Figure 2.

We are also considering eight key success measures that represent some of the things we should achieve in the next two or three years. They will measure how we:

- successfully intervened earlier to the benefit of consumers;
- dealt quickly and efficiently with crystallised risks;
- actively involved and engaged with our stakeholders and put consumers at the heart of what we do;
- addressed competition issues to the benefit of consumers;
- successfully influenced international policy;
- have been able to deliver judgement-based, early intervention regulation;
- delivered business as usual; and

- encouraged positive cultural change in financial services firms.

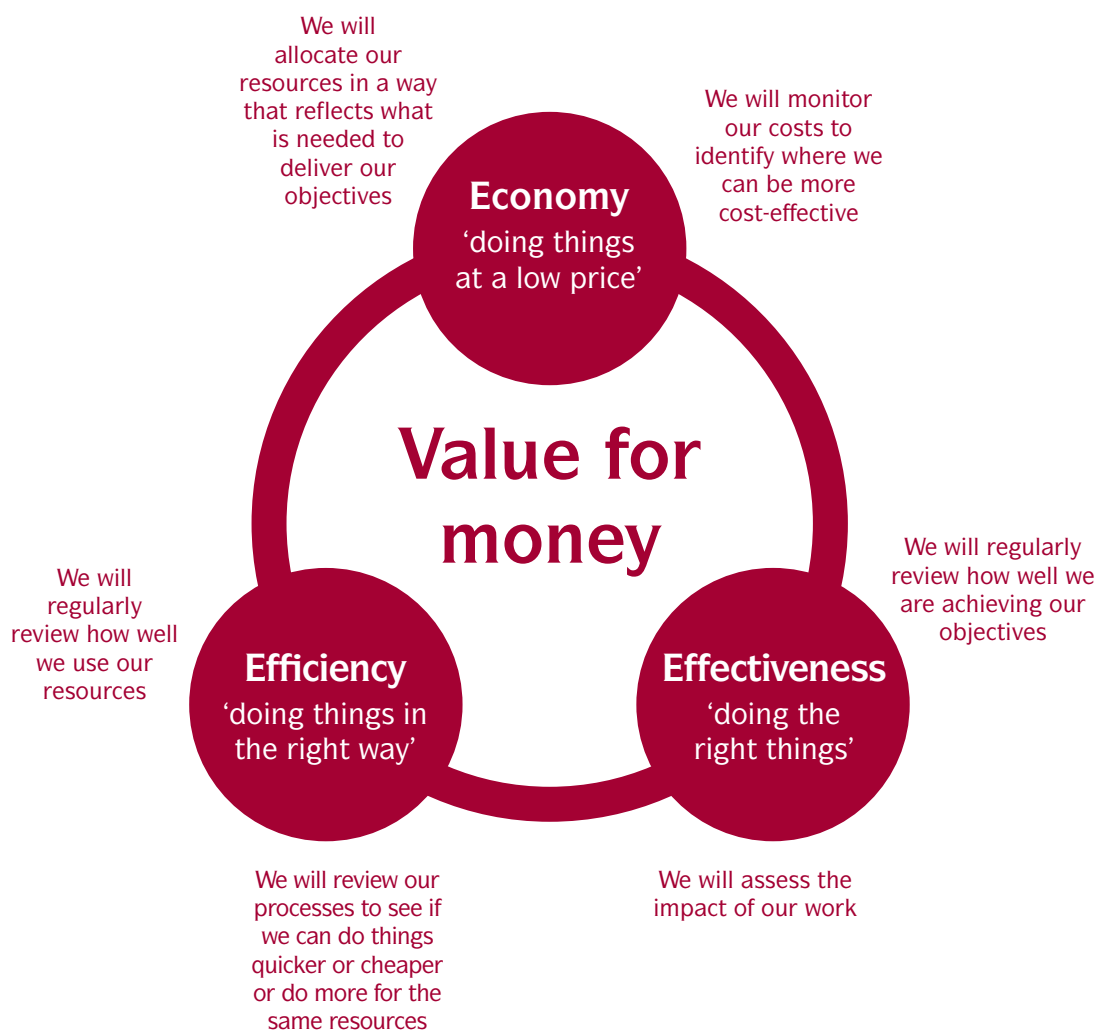
1.4 – Using our resources effectively

Using our resources effectively

Another key measure of our performance as a regulator is the value we deliver to stakeholders. In line with the

National Audit Office (NAO) guidelines that we will be audited on, we consider value for money (VfM) (defined as the optimal use of resources to achieve intended outcomes) in our decision-making. To measure this we have developed a VfM framework, which we use across our major supervisory and policy initiatives.

This will be coordinated as follows:



Box 1: Executive Planning and Risk Committee (EPRC)

EPRC oversees the balance of FCA resources to policy, projects and risk. It is responsible for:

- Proposing the FCA Risk Outlook and Business Plan priorities.
- Risk management within the FCA, including external, firm and organisational risk, before its presentation to the Risk Committee (external risks) and Audit Committee (internal risks).
- Providing direction on the use of FCA resources to deliver against risks.
- Approving resources for new policy projects.
- Providing direction on the resource requirements for new projects including policy, risk and operational projects and significant thematic work.

Risk appetite framework

We need to take on a significant amount of risk if we are to meet our strategic and operational objectives. Our risk appetite framework is a statement of our appetite, both absolute and relative, to take on risks of different types and across our various activities. It will be reviewed and agreed by our Board annually.

In all cases, our over-riding principle will be to target our resources to best achieve our objectives. We also recognise that, as well as risks to our objectives that have not yet caused harm, there are risks that are already happening, and we have legal obligations that we have to fulfil under UK and EU law and under the terms of international regulatory agreements. We will seek to balance our resources across these priorities and within our risk appetite for each. To do this, we will classify our activities and assign our resources through a single risk framework comprising four layers:

- Our mandatory activities (i.e those prescribed by UK and EU law, and by international agreements to which we are a signatory).
- Forward-looking strategic priorities.
- Other major work areas (normally agreed at divisional level).
- Responses to crystallised events that threaten, or have exceeded, our risk appetite.

2. Achieving our objectives



We will supervise the conduct of approximately 26,000 firms across all financial industry sectors and the prudential standards of approximately 23,000 firms not regulated by the Prudential Regulation Authority (PRA). We will use all of our powers to ensure that firms continue to meet our standards, that markets operate with integrity, and that consumers are protected.

Our Supervision, Markets, Enforcement, Authorisations and Policy, Risk and Research (PRR) divisions will work together to ensure that we meet our objectives.

We will take a risk-based, proportionate approach to supervision, recognising the diversity among firms and markets, and allowing us to focus on the bigger issues, either in individual firms or within and across sectors. We will be a more proactive regulator, acting earlier and decisively. Our PRR division will act as the FCA's radar, identifying risks and allowing us to address them before they cause harm.

We will develop and use a range of policies to increase consumer protection and market integrity. Many of our rules are now made and influenced by what is decided in Europe and internationally. We will work closely with the Bank of England (BoE), the Treasury, the European bodies and other relevant stakeholders to ensure that these rules are appropriate and proportionate, and that the UK's interests are represented in their development.

Market integrity benefits firms, individuals and society as a whole, and our Markets division will work to ensure markets operate in such a manner. We will take a proportionate, risk-based approach and identify the issues that have wider, longer-term effects on consumers and market integrity.

We are committed to a credible deterrence strategy through our enforcement actions. This means that we will use our enforcement powers to take action against

firms and individuals who abuse the system and to deter others from doing so.

We recognise that poor outcomes for consumers may result from anti-competitive factors in markets, including information problems, market structures and consumer biases. We will work to ensure that markets operate competitively to support positive outcomes for consumers.

The rest of this chapter is set out as follows:

- In Section 2.1 we consider our FCA Risk Outlook, which identifies current and future risks to our objectives.
- In Sections 2.2 to 2.4 we discuss how, in addition to our FCA Risk Outlook work, we will achieve our objectives.
- In Section 2.5 we outline the framework we will use to achieve our objectives.

2.1 – Conduct risks to our objectives

The conduct risks we have identified are based on what the main risks are in firms' behaviour that could stop us achieving our objectives, and how much of this risk we are willing to accept (our 'risk appetite'). We set this out in more detail in our FCA Risk Outlook. In this section we set out the conduct risks we have identified and the work that we are carrying out in 2013/14 to tackle them.

Risk: Firms do not design products or services that respond to real consumer needs or are in consumers' long-term interests

Product governance

Poor product governance can cause conduct risk in a number of ways. Unconscious consumer biases are inherent and can be manipulated by product design

“We will work together across the FCA to identify issues, particularly on early intervention.”

and sales processes. There may also be a lack of oversight over a product’s lifecycle, which may lead to complex or unclear products that are not in the best interest of consumers.

We will be prepared to intervene earlier to prevent or minimise harm to consumers before it becomes widespread. We will be prepared to make judgements on whether firms have identified an appropriate target market, and if distribution strategies and product oversight are likely to deliver fair outcomes for consumers.

Where necessary we will intervene directly in the design and distribution of products rather than relying on information from firms to prevent harm to consumers. We will use the range of product interventions we developed in 2011, up to and including banning products.

Product intervention

As well as supervisory work to address the risks related to developing and distributing products, we will carry out thematic reviews of firms’ product governance processes across retail and wholesale markets to ensure that the outcome is appropriate for consumers. We will take tough action if standards are not adequate. We are also looking into replacing the existing guidance with rules to strengthen our requirements. More details on our supervisory approach can be found in Section 2.5.

We will work together across the FCA to identify issues, particularly on early intervention. Supervisors and Enforcement will work to identify potential issues at an early stage and will draw on the expertise across the FCA to take appropriate action.

We will also discuss introducing product intervention powers and developing high-level principles on product governance with the European Commission (EC) and the European Supervisory Authorities (ESAs).

Product Design and Oversight: Fund fee structure

In the asset management sector fund fees have increased in the last decade, additional ‘hidden’ fees have increased and overall charging structures have become more complex as performance fees have become more common. There is evidence that fee structures exploit consumers’ behavioural bias, a key cause of risk. For example, firms may:

- use complex fee structures that make price comparisons difficult;
- apply more complex fee structures to retail customers than institutional clients; and
- downplay the long-term impact of apparently small increases in annual charges.

In 2013/14 we will undertake a project that will highlight the behaviours and practices of asset management firms in relation to charging structures that harm consumers. Initial evidence suggests that fund fees are high in the UK compared to comparable markets and charging structures do not promote informed consumer choice.

Mortgage arrears and forbearance management

A key area of our focus in 2013 will be the fair treatment of mortgage borrowers who have experienced financial difficulty. We will conduct a thematic review of firms’ arrears handling procedures and forbearance management. This will consider the appropriateness of firms’ strategies when dealing with long-term arrears forbearance management, including recent developments in arrears management practices, and assess firms’ delivery of fair outcomes for consumers.

Following previous thematic reviews, which led to a number of successful enforcement cases, we expect firms to be able to clearly demonstrate how they comply with our rules in this area, ensuring fair and appropriate outcomes for borrowers in arrears.

Competition – General approach

This will involve detailed work from various teams within the Policy, Risk and Research division, including our Competition department. We will update stakeholders regularly on the initial outcomes of this work.

We will address competition through our policy and supervision work and by making sure we have the right tools and engage with stakeholders to deal with competition issues in pursuit of our competition objective. In our work over 2013/13 we will develop our competition expertise and focus on:

- how we identify risks;
- early intervention – using our range of regulatory tools to prevent competition issues becoming widespread;
- examining barriers to entry and exit; and
- undertaking market studies to help strengthen our understanding of competition issues in markets

More detail on our competition work can be found in Section 2.4

Risk: Distribution channels do not promote transparency for consumers on financial products and services

Financial incentives

In 2012, the FSA published guidance on the risks to customers from financial incentives after our thematic work showed that most incentive schemes are likely to cause mis-selling and firms are not managing this properly. We welcome the significant changes that some firms are now making to reduce the risks in their schemes.

In 2013/14 we will conduct a wider review to assess how firms responded to this guidance and whether they have

established schemes and controls that avoid the risk of mis-selling. We want firms to manage their incentive schemes properly, so that consumers are less likely to suffer.

Depending on how firms react to our guidance, we will consider more intrusive supervision, including strengthening our rules. We will also take action against individual firms that are not managing the risks from their incentive schemes.

Financial promotions

Consumers are influenced by, and rely on, the information they get from financial promotions when making their purchasing decisions. We have a team dedicated to reducing the potential risk of harm to consumers caused by misleading promotions.

The team will review financial promotions across all sectors to ensure firms provide consumers with information that is fair, clear and not misleading and we will take action where this is not achieved. We anticipate reviewing a number of promotions and taking forward cases as necessary.

The FCA has a new power to ban financial promotions and publish the details relating to it. Using this power will deliver a number of benefits. In particular and most importantly, it allows us to take swift action to protect consumers in a transparent and visible way. Publishing a ban will inform and warn consumers of the misleading promotion and encourage a broader understanding of how promotions can be unfair, unclear and misleading. For firms it will allow them to see real and varied examples of where they fall short of our requirements and allow them to proactively improve their own financial promotions. We hope this power will deter firms from misleading consumers. Where this is not the case, we are ready to use this power.

We will also adopt a more streamlined and robust approach to firms that consistently produce promotions

that can mislead, confuse or be unfair to consumers. This may involve greater use of our supervisory and enforcement powers.

Conflicts of interest

Our Firm Systematic Framework (FSF) helps to address some of the issues involved in conflicts of interest. In 2013/14 we will also review the management of conflicts of interest in the asset management sector.

Asset managers act as agents for their customers, making investment decisions in financial markets on their behalf. Confidence in the integrity of asset managers is central to the trust between the industry and its customers.

This means that when making investment decisions, or buying products and services for customers, asset managers must always act in customers' best interests, putting customers' interests ahead of their own and treating all their customers fairly.

Acting as an agent for customers may create conflicts between the interests of a firm and its customers or between the interests of different customers. Policies to properly manage conflicts of interest mean customers avoid unnecessary costs and have fair access to all suitable investment opportunities. Properly managing conflicts improves the returns earned by customers and enhances general confidence in the UK asset management industry.

In 2012/13 we carried out initial work on conflicts by visiting firms and providing them with detailed feedback.

We communicated the findings from this first stage of work to firms through a 'Dear CEO' letter in November 2012. We concluded that the seriousness of the issues identified requires us to take action to ensure firms comply with the rules. In 2013/14 we will carry out a second stage of visits to firms.

Custody banks

Firms are facing considerable pressure on their business models and strategies and consequential changes in business models may lead to harm to consumers as firms are pushed to exploit areas of profitability.

The custody bank business model is evolving and the basic premise of providing safekeeping and custody of client assets – which is high volume and low margin – is facing strain in the ongoing low interest-rate environment and because of changing regulatory requirements.

Consequently, custody banks have become increasingly reliant on revenues from secondary services such as:

- securities lending;
- foreign exchange ('custody FX sweep' and 'direct FX');
- collateral and cash management;
- derivatives clearing; and
- data analytics, research services and transitions management.

There is a risk that the pressure on firms to improve profitability could lead to harm to consumers.

We want to investigate the transparency of secondary services to establish whether investors are being disadvantaged or charged excessively.

In 2013/14 we will assess the secondary services of custody banks to measure the impact of current practices on their business models, on direct clients and, where possible, on the indirect end-consumer. We intend to identify the scale of any issues and develop a strategy for reducing risk where we find issues.

Transition management (TM)

TM allows improved performance through increased portfolio returns and better risk management.

TM clients are usually pension funds, local authorities or other institutional managers for whom transitions occur infrequently. They are typically unadvised, so information can be irregular when negotiating and reviewing such transitions.

The use of affiliates by transition managers, unclear fee structures and complex legal and pre/post-transition documentation can result in poor customer outcomes. This may have an immediate impact on pension fund holders and cause a deterioration in market confidence, with clients choosing not to use TM to manage portfolio allocation risk.

There is evidence that the level of transparency and market conduct among TM participants is not to the standard we require.

In 2013/14 we will undertake a project to review practices across the main TM industry participants to assess whether customers are being treated fairly.

Product Design and Oversight – Fund fee structure

Our work in this area will also contribute towards mitigation against this risk. Full details of our work can be found on page 16.

Retail investment advice

We will continue to monitor developments and changes in the retail investment market as firms adapt to the new landscape. All firms in the distribution chain for retail investment products will need to consider the effects of the rules on retail investment advice on their business models and propositions. We will be monitoring these developments closely by analysing individual sectors and the overall shape of the market ('macro' analysis), and analysing how individual firms adapt and their business models

manage the associated risks ('micro' analysis). Further information on retail investment advice can be found in Section 2.2.

Wholesale conduct strategy

Our wholesale conduct strategy will recognise that even among wholesale counterparts, differences in participant sophistication mean that some participants should be given greater protection than others. Our work on 'payment for order flow' reflects this approach.

Payment for order flow is a practice that can influence where orders are directed for executives, which can take the form of brokers receiving payment from market makers for every order sent to the market maker. The risk is that the broker is incentivised to send the client's order to the market maker that pays the most per order rather than the market maker offering the best price for the consumer. Clients are unaware of these payment arrangements, which are included in the spreads they are offered, posing a risk to price formation and market integrity.

Dealing commissions and stock-lending fees may not be properly disclosed and poor management of conflicts of interest may lead to excessive prices being paid out of client funds for services received. Paying for corporate access with dealing commission is not transparent and creates a conflict of interest between asset managers and their customers, making it difficult for customers to judge how well their money is being spent or whether the asset manager is acting in their best interest. Overall fees may be presented in a way that makes it difficult for the consumer to work out what is being charged in total. Even in wholesale markets, some participants have different degrees of expertise and will need to be given higher protection than others. We therefore place different regulatory requirements on firms depending on the type of participant they are conducting business with and the type of service provided.

“We will review the risks that price comparison websites present to consumers and whether they comply with regulatory requirements.”

We will increasingly focus on the culture, systems and controls that govern these relationships and be more willing to intervene where we believe poor conduct could have a negative impact on the integrity of the markets or on the reputation of the UK as a place to do business.

LIBOR / Wheatley Review

The attempted manipulation of LIBOR highlighted the weaknesses in some banks' conflict of interest management. The Wheatley Review will result in LIBOR-related activity being brought into the regulatory perimeter, which will raise the standards of governance and systems and controls around the submission of rates, and will create new Controlled Functions, which will come into effect on 1 April 2013. Further detail on our work on LIBOR is in Section 2.3.

Packaged Retail Investment Products (PRIPs)

The European Commission (EC) is concerned that the existing disclosure requirements for PRIPs (which include investment funds, structured products and insurance contracts used for investment purposes) vary according to the legal form a product takes, rather than its economic nature or the risks it poses for retail investors. Providing good quality, consistent information will help consumers make better informed decisions, offering them better protection.

In 2013/14 we will work with the Treasury to influence PRIPs regulation. We are keen to make sure that the new documents will be genuinely useful for consumers, as well as practical for firms to produce. Once the high-level regulation is complete, we will work with all three ESAs to develop detailed technical requirements.

Risk: Over-reliance on, and inadequate oversight of, payment and product technologies

Insurance – Price comparison firms

Price comparison firms have been responsible for major structural changes in the way the industry

manufactures, prices and distributes retail insurance products, particularly motor and increasingly home insurance products. We will review the risks that price comparison websites present to consumers and whether they comply with regulatory requirements.

New payment methods / Mobile banking and payments

It is likely that new payment methods, particularly those enabling consumers to make payments with their mobile phones, will increase rapidly in popularity over the next few years. Mobile banking and payments services may have benefits for consumers, including greater convenience. However, it is important that firms also consider the potential risks to their customers when launching these services.

Following initial work on mobile banking and payments in 2012, we identified a number of potential risks to consumers, including:

- consumers suffering fraud on their accounts;
- consumers being inadequately informed about how to use the services or protect themselves from fraud; and
- firms failing to properly consider the needs of their customers when developing and marketing mobile banking and payment services.

During 2013/14, we will intervene to ensure that firms offering such services are taking appropriate steps to protect consumers. This may include firms providing suitable information to consumers on what the services do and how to use them, ensuring customers' funds are secure at all stages of the payments chain and that any unauthorised transactions are appropriately refunded.

Technological resilience/banking

We will address the risks to retail customers arising from

a major failure of core banking and payment systems. This includes implementing the lessons learned from the RBS Group systems failure in the summer of 2012, including a better understanding of the root causes of major events like this and the action required to minimise the impact on banks' customers.

Market infrastructure

Firms are placing new demands on market infrastructure in the trading strategies they use, such as the increased use of algorithmic and high-frequency trading. This creates new risks to the operational resilience of market infrastructure.

We will use our supervisory framework of regulated investment exchanges and multi-lateral trading facilities (MTFs) to assess whether the market infrastructure's operational risk management is sufficient to respond to the risks these new demands place on operational resilience. As well as this, we will maintain a full picture of the risks around technology-dependent trading strategies may pose to market integrity.

The Payment Services Directive (PSD)

The Payment Services Directive (PSD) is currently being reviewed. The FCA and the Treasury will seek changes to make it clearer and to promote competition and innovation, which should make the new Directive more able to embrace future technological change.

The EC has announced their intention to complete the PSD review in 2013. The closely-related second Electronic Money Directive (2EMD) will not be reviewed until 2014 because it has not yet been implemented in some Member States.

Risk: Shift towards more innovative, complex or risky funding strategies or structures that lack adequate oversight, posing risks to market integrity and consumer protection

CRD IV

We are the prudential regulator for a large number of investment firms currently covered by the Capital Requirements Directive (CRD). They will therefore need to implement the changes introduced in CRD IV.

CRD IV is the EU legislative response to the Basel Committee on Banking Supervision's 'Basel III' agreement for internationally active banks, and represents a major strengthening of the prudential regime. CRD IV represents a major change in approach from the current CRD, because the majority of the CRD IV text will be by way of a regulation, which will be directly binding on the firms and/or the regulators. As a result, large parts of the current prudential rules for CRD firms in the FSA Handbook (e.g. BIPRU) will disappear.

The FCA will need to consult on those parts of CRD IV where it can still retain its own rules and guidance and, within the tighter constraints of the new EU legislation, seek to implement the changes in as proportionate and risk-based manner as possible. There will be many areas of detailed change, which could affect individual investment firms differently, according to their own individual circumstances, including current capital structures and business models.

The EC proposed implementation date of 1 January 2013 was delayed. We will continue to undertake all preparatory work that is possible in the absence of finalised legislative text and expect all firms in scope to do likewise. Timing for implementation now depends on the implementation date agreed through the EU legislative process. We will proceed with the necessary preparations to be ready to begin collecting data under Common Reporting for the period beginning 1 January 2014, should the legislation and related standards be in place by then. Transitional periods and phasing in of various parts of the new requirements will run through to 1 January 2019.

Risk: Poor understanding of risk and return, combined with the search for yield or income, leads consumers to take on more risk than is appropriate.

General approach

We are currently establishing a detailed strategy to deal with the complex issues underlying this risk and decide how best to intervene. This will involve significant scoping and research work across the FCA, coordinated by our Policy, Risk and Research division. We will update stakeholders regularly and as appropriate on the initial outcomes of this work.

Interest-only mortgages

We have been looking into the maturity of interest-only mortgages, considering the risk of existing interest-only mortgage customers being unable to repay the amount due at the end of their mortgage term.

We are working closely with relevant industry and consumer bodies. We will be reporting on the findings from our initial review shortly. We will also continue to monitor product developments that aim to resolve the issue and will intervene where we have concerns about particular products.

2.2 – Consumer protection

Much of our work addressing the key forward-looking risks in the FCA Risk Outlook also contributes towards meeting our consumer protection objective. In addition to the work highlighted in Section 2.1, we will be carrying out work in other areas to ensure that consumers are protected, which is outlined below. Section 2.5 also expands on our consumer-focused work through our supervision strategy.

Domestic supervision initiatives

The Mortgage Market Review (MMR)

The MMR will ensure that the mortgage market works better for consumers by tackling responsible lending, distribution and disclosure, arrears management and prudential requirements for non-deposit-taking mortgage lenders. We have already published our Policy Statement (PS12/16) on the MMR and our final rules come into effect on 26 April 2014.

In 2013 we will engage with firms covered by the MMR in a number of ways. Building on the roadshows that we held in early 2013, we will conduct online surveys and workshops throughout the year. We will also publish the results of our readiness tracking in Q3 2013 and Q1 2014.

To help effectively supervise the MMR, our Policy division will:

- enhance our reporting requirements (the information that we require firms to send us); and
- review our Perimeter Guidance (PERG) to see how we can make the boundary between advice and information clearer ahead of implementation of the MMR.

We will continue to monitor how ready the industry is to implement the new MMR rules when they come into effect. We will support the industry through ongoing communication including:

- early engagement and education with firms and their relevant trade bodies;
- monitoring how ready firms are to implement the MMR;
- feeding back to the industry on our findings from the readiness tracking, with further education given where needed;

- engagement with consumer groups to promote consumer awareness of the MMR and how it affects them; and
- taking appropriate action in response to any risks we see emerging in the lead-up to implementing the MMR.

Retail Investment advice

The way we supervise firms in the retail investment market should help reduce the risks associated with adviser firms failing to devise, disclose and consistently deliver compliant charging and service advice models. It will also look for individuals who are not suitably qualified, and those that misrepresent advised sales as non-advised sales.

The rule changes around retail investment advice, and in particular the qualifications requirements, could lead to a significant proportion of advisers leaving the market, making investment advice more difficult to access. We are monitoring the number of advisers in the market to understand if this is happening. Our figures show there were 31,132 retail investment advisers operating in the market, as at 31 December 2012. We have also published guidance on simplified advice to help tackle the risk that the cost will deter consumers.

Apart from our assessment of adviser qualifications, we will tackle other risks through thematic work and by communicating with industry throughout 2013/14. For all firms, the rules on retail investment advice represent a significant change to business models; we recognise that this poses a risk to the market and to consumers. We will produce good and poor practice, speeches and workshops as appropriate to guide firms through implementation.

Where we find that firms are not complying with the rules on retail investment advice, we will consider tightening or amending rules to ensure that firms deliver the outcomes we expect. We are also making

changes to the way that platforms are paid. This will require a change in firms' business models and a substantial amount of work. We will provide support through this process.

Managing Client Assets (CASS)

Our supervisory work shows that a number of firms have inadequate records and ineffective segregation of client assets, heightening the risk that any departures from the market could prove disorderly, causing harm to clients, creditors and counterparties and the market as a whole. Increasing firms' compliance and awareness of CASS rules is a key aim for us in 2013/14. We will:

- Increase the supervision of firms holding client money and safe custody of assets through more intrusive visits to firms, thematic projects and desk-based reviews, actions initiated through Client Asset and Money Return (CMAR) /audit information and taking regulatory action where firm failings are identified.
- Embed our risk assessment and prioritisation method, using the information given to us by firms through CMAR audits, and combining this with firm intelligence.

Specific actions that we will be taking include:

- Implementing EMIR (Part 1) and consideration of EMIR (Part 2 – binding technical standards) and the possible implications for CASS.
- Strengthening our oversight of the firms holding client money as insurance intermediaries through the CASS 5 Policy Statement.
- Reviewing and re-drafting of Chapters 6 and 7 in CASS to achieve the wider objectives of the distribution review.

“Where we find that firms do not have adequate systems and controls in place to ensure the safe segregation of client assets, we will consider taking enforcement action.”

- Reviewing the CASS Handbook to re-evaluate issues that have arisen over recent years (e.g. deposit exemption, term deposits).
- Working to engage firms through more defined engagement and wider participation with CF10a individuals to address issues.

Where we find that firms do not have adequate systems and controls in place to ensure the safe segregation of client assets, we will consider taking enforcement action. The FSA took enforcement action against a number of firms for failures relating to client asset obligations. We will take tough action and impose fines on those firms that still do not have adequate arrangements in place

Complaints data

A firm's complaints handling process, including the right of referral to the Financial Ombudsman Service (FOS), is a significant 'line of defence' for consumers suffering harm from poor advice and/or inappropriate products and services.

Information on complaints can also provide an early warning of emerging conduct risks in a firm. We will focus on the effectiveness of complaints handling in major banks through our supervision and we will widen this to include firms from other sectors. The supervisory approach will consider key stages of a complaints lifecycle which, if ineffective, may act as a barrier to fair treatment of the complainant. We will also consider the effectiveness of the firm in identifying emerging conduct risks through their complaints data and the action they take as a result.

Domestic policy initiatives

Listing rules

To help protect consumers and deliver market integrity, we will continue to ensure the listing rules

reflect and encourage high standards of market practice and disclosure. Following the consultation in October 2012 on enhancing the effectiveness of the listing regime, we will finalise our proposals for corporate governance within the listing regime, quality of markets and listed funds.

The European Commission are due to publish their proposals on EU standards for corporate governance for listed issuers in 2013. We will exercise our influence to ensure these appropriately cater for the UK market and reflect the standards we promote

Wealth management

The FSA looked at the standards of suitability and record-keeping in the wealth management industry. One consequence of this work is that many wealth management firms are improving their systems to ensure their customers receive – and can be shown to receive – portfolios that match their risk appetite and meet their investment objectives. Often, firms are updating the information they hold on their entire client base to embed these improvements and, as these efforts continue into 2013/14, we will continue to work with firms to check that the outcomes are in line with our requirements.

More generally, wealth management will remain a major focus of ours over the coming year and firms can expect to see more activity in this business area, both thematically and as part of their regular supervision arrangements.

International policy initiatives

Insurance Mediation Directive (IMD2)

The EC reviewed IMD2 with a number of key aims:

- extending the regime to include more insurance mediation activity, bringing insurance undertakings within scope;

- addressing what it sees as the inconsistent application of IMD2 across Europe; and
- raising levels of consumer protection.

Negotiations will continue well into 2013. We are working with the Treasury to influence the development of IMD2 so that we can maintain the consumer protection measures that apply to UK insurance intermediaries.

Mortgage Credit Directive

The European Commission published a proposal in March 2011 that tackles a number of conduct issues, such as responsible lending, advertising and disclosure, as well as creating a passporting regime for mortgage credit intermediaries. We will continue to help the Treasury negotiate on the proposal, helping to formulate and press the UK position. While the timetable for the proposal has slipped, it may be agreed in 2013, and we would then begin preparations to transpose the Directive (Member States are likely to have two years to do this).

Box 2: Working with the ESAs on consumer protection

We will actively participate in the work of the three European Supervisory Authorities (ESAs) – the European Securities and Markets Authority (ESMA), the EBA (European Banking Authority) and EIOPA (European Insurance and Occupational Pensions Authority) – on conduct and consumer protection issues. This includes through our membership of the ESAs' standing committees on consumer protection and financial innovation, and our involvement in various other ESMA groups with an investor protection remit. We will also continue to participate in the cross-sectoral consumer protection committees established under the Joint Committee of the three ESAs.

2.3 – Enhancing market integrity

We will address the drivers of market integrity in a number of ways. This will include our continued focus on wholesale conduct, ensuring that participants act with integrity at the start of the investment chain. Details of our wholesale conduct supervision approach are in Section 2.5.

We have also refreshed our approach to the supervision of trading platforms, recognising the increased role they play in market integrity. Our work on LIBOR addresses the weaknesses in governance, systems and controls in the overall architecture of the regime and participants. We will continue to prioritise tackling market abuse to ensure that our markets are clean. Further details are in Chapter 3.

Domestic supervision initiatives

Using new powers set out in the Financial Services Act and through redeveloping our processes for authorising and supervising markets, we will strengthen the way we supervise markets for Recognised Investment Exchanges (RIEs), sponsors and Primary Information Providers (PIPs) so that they support our FCA objectives.

Supervising Recognised Investment Exchanges (RIEs)

Following the transfer of responsibility for the supervision of clearing and settlement infrastructure to the Bank of England, we will refocus our supervision of market infrastructure to be targeted on the specific risks to market integrity and consumer protection posed by RIEs. As well as refining our supervisory framework for RIEs, we will also incorporate new powers for the FCA regarding holding companies in a group context, information gathering and our supervisory toolkit.

Primary Information Providers (PIPs)

Irregular information is a key cause of conduct risk. In markets, PIPs have a key role in ensuring that regulated information is communicated in a timely

manner. This is important to ensure a level playing field in regulated markets and to enable consumers to make informed decisions.

PIPs will be brought within our regulation through the new statutory regime. In 2013/14 we will implement processes to exercise our new powers for PIPs. This will include new resource to supervise the enhanced regime and reflect its importance in supporting the listing regime.

Multilateral Trading Facilities (MTFs)

Since the implementation of MiFID, a significant proportion of secondary trading of shares has moved to MTFs. We will implement a new framework for supervising MTFs, which will ensure a consistent and proportionate approach to supervising these operators, and that participants in MTFs are protected in a consistent manner to those participating in regulated markets. We will supervise MTF operators to an equivalent standard to the regulated markets in which they compete. We will ensure that our supervisory approach is proportionate to the nature and scale of an MTF's activities. Where an MTF has a significant market impact, or affects our statutory objectives, we will supervise it more closely.

Sponsors

Sponsors are key for the capital raising of listed companies and the integrity of the UK financial system. The FCA has extended powers to impose financial penalties and suspend sponsors. In 2013/14 we will increase the level of resource dedicated to sponsor supervision, in line with the number of firms supervised, to reflect the importance of the sponsor role they perform. We will also exercise these powers in a broader domestic and international context where there is a concerted effort to improve sponsor standards, to offer better protection for consumers of their services. Following publication of CP02/12 we will continue with our focus on sponsor standards and tightening the requirements to which they are subject.

International policy initiatives

Though there is a significant domestic aspect to our work on market integrity, the interconnectedness of financial markets means that much of our market integrity work also has an international focus or is driven by international initiatives.

Markets in Financial Instruments Directive (MiFID) and Markets in Financial Instruments Regulation (MiFIR)

MiFID and MiFIR cover the buying, selling and trading of financial instruments, including shares, funds, bonds and derivatives. The rules are being revised to reflect how financial markets have changed in recent years due to new trading venues, products and technologies, and to respond to the financial crisis by implementing G20 commitments regarding the trading of standardised Over-The-Counter (OTC) derivatives.

The proposals aim to make financial markets more efficient, resilient and transparent, and to strengthen the amount of protection for investors. The revisions to MiFID will have implications across client assets, wholesale conduct, secondary trading and transaction reporting. They will, among other things:

- introduce information requirements for dealings with eligible counterparties;
- create a framework for pre/post-trade transparency for the trading of non-equity instruments;
- introduce a new category of trading venues (Organised Trading Facilities);
- require position limits be set for the trading of commodity derivatives;
- expand and harmonise the scope of transaction reporting; and

- introduce a new authorisation regime for Approved Reporting Mechanisms (ARMs).

Industry will be required to make major systems changes. During 2013, we will continue to work with other regulators in the European Securities and Markets Authority (ESMA) in preparing detailed, technical standards. We will consult on implementing the new Directive once the standards are finalised. An implementation date has yet to be finalised.

MiFID aims to improve investor protection in a number of ways, most notably by introducing more specific requirements to tackle both inducements and remuneration practices that can cause bias, as well as requirements on product governance and intervention. As MiFID underpins many of the conduct of business standards applying to the investment market, it will be important to ensure that it delivers appropriate and proportionate levels of investor protection.

Alternative Investment Funds Managers Directive (AIFMD)

The AIFMD aims to create a harmonised EU framework for monitoring and supervising the risks that alternative investment fund managers could pose to financial stability and to investors. It applies to investment companies and a wide range of firms that manage funds, including hedge funds, private equity funds and retail investment funds.

Member States are required to implement AIFMD by July 2013. We intend to publish a Policy Statement in 2013 to implement the rules required by the Directive and to put in place appropriate rules where we have national discretion. We will also be working within ESMA to finalise Level 3 guidelines on reporting templates and supervisory cooperation arrangements with non-EEA states.

UCITS (Directive on Undertakings for Collective Investment in Transferable Securities)

UCITS V focuses on rules covering depositaries, remuneration and sanctions, aiming to align UCITS with the AIFMD. Discussions are on-going in the European Parliament and in the Council. Along with the Treasury we are actively participating in the negotiations taking place. We expect the Level 1 text to be agreed in Q3/4 2013 and will consult on any necessary changes to our rules shortly thereafter.

UCITS VI (as consulted on in July 2012) covers eligible assets, use of derivatives, EPM, OTC derivatives, liquidity management, depositary passport, money market funds and long term investments. Additionally, stakeholders' comments were sought on whether or not the rules concerning the UCITS management company passport, master-feeder structures, fund mergers and notification procedures might require amendments. We submitted our joint response with the Treasury in late-2012 and we will continue to feed into the development and publication of Level 1.

We will consider the implications and any changes necessary following the publication of ESMA guidelines on ETFs and other UCITS issues, which were officially published on 17 December 2012.

Financial Market Infrastructures (FMIs)

We expect legislation in this area to be proposed by the Commission in 2013. FMIs play a critical role in the global financial system and the disorderly failure of an FMI or the closure of a critical service provided by an FMI could lead to serious disruptions to the financial markets. It is, therefore, important for FMIs and authorities to have the necessary tools and powers in place to help implement FMI recovery and resolution. EU work will run in parallel to UK developments in 2013.

“In all of our work on commodities market regulation, we will factor in its impact on market efficiency and liquidity.”

Commodities market regulation

In all of our work on commodities market regulation, we will factor in its impact on market efficiency and liquidity. We will contribute to the following international work on commodities markets in 2013/14:

- **Chairmanship of the ESMA Commodities Task Force**, negotiating and implementing EU directives and regulations wholly or partly affecting commodity markets. Over the next year, the focus will be on the Level 2 measures for MiFID, MiFIR and Market Abuse Regulation (MAR) together with putting in place the structure for cooperating with the Agency for the Cooperation of Energy Regulators (ACER) under the Regulation on Wholesale Energy Market Integrity and Transparency (REMIT).
- **Co-Chairmanship of the IOSCO Standing Committee on Commodities**, influencing the direction of global regulatory initiatives affecting commodity markets. This group will particularly focus on the implementation of the Principles for Oil Price Reporting Agencies published by IOSCO in October 2012 and input on the commodities-related aspects of wider work on benchmarks.

Other key international proposals

Other key proposals on which we will continue to support the Treasury in negotiations include:

- **The Market Abuse Regulation and Criminal Sanctions Market Abuse Directive**, which will improve the scope and operation of the market abuse framework without imposing disproportionate burdens on market participants.
- **The Central Securities Depositories Regulations (CSDR)**, which aims to increase the level of safety of securities settlement and improve the conditions of cross-border provision of services. We will support the Treasury in negotiations on CSDR, to improve

safety of CSD operations and operation of pan-EU settlement services. We expect CSDR to be implemented in 2014.

- The review of the **Transparency Directive (TD)**, which seeks to enhance the transparency of certain types of information regarding issuers with shares admitted to trading on regulated markets. This includes information about the major shareholders of the issuer, along with obligations that ensure the maintenance of a timely and complete information flow from the issuer to the market. We expect the review of the TD to be finalised in 2013, with implementation in the UK in 2014.
- **Securities Law legislation proposals**, which we expect to be forthcoming in 2013 and aim to provide legal certainty of securities holdings and dispositions, ensuring investor confidence and fair and efficient markets.
- Anticipated proposals from the Commission regarding a **Close out netting Directive**. Here we will support EU negotiations to ensure that cross-netting of exposures in default happens on a reliable legal basis.
- **The European Market Infrastructure Regulation (EMIR)**, which came into force on 16 August 2012. We will continue to play a leading role in ESMA on finalising the technical standards under EMIR, which we expect to come into force throughout 2013. The FCA will assume a range of new responsibilities under EMIR. Our work in 2013/14 will focus on preparations on implementing the reporting, risk management and clearing and collateral requirements of EMIR. We will also help firms understand new obligations.
- Credit rating agencies were the subject of much scrutiny in the aftermath of the financial crisis, so it is an important focus for regulation internationally.

The latest and third piece of **EU legislation on Credit Rating Agencies** (CRAs) was finalised in late 2012 and enhances the current regulatory

framework in this area. We will work within ESMA on implementing the new regulation in 2013.

Box 3: Working with the ESAs on market integrity

In most cases, legislative initiatives will be supported by technical standards in the European Supervisory Authorities (ESAs), notably ESMA from a markets perspective.

We will continue to play a leading role in ESMA on drafting technical standards on legislation that is still under negotiation (such as CSDR, MAR and MiFID). We will also play a key role on finalised legislation, which is being implemented to enable a smooth and efficient implementation in the UK. Recognising the significant quantity of legislative initiative in the market integrity space, we will be strengthening our focus on policy implementation to help ensure that those market participants affected are aware of their obligations and the FCA is ready to implement legislation in an orderly and timely fashion.

Box 4: Outcomes of the Wheatley Review

Benchmarks are used across a wide variety of financial markets as a reference in pricing contracts, calculating payments in contracts or measuring the performance of a financial instrument. In light of concerns regarding the integrity of the LIBOR rate, highlighted by investigations and enforcement action, a review of the LIBOR was undertaken by FCA CEO-Designate Martin Wheatley at the request of the Chancellor of the Exchequer.

The Wheatley Review in September 2012 outlined a plan to comprehensively reform the setting and governance of LIBOR. A key recommendation was bringing LIBOR-related activity within the regulatory perimeter. As a result, the Government has amended the Financial Services Act and secondary legislation to create two new regulated activities: 'providing information in relation to a regulated benchmark' and 'administering a regulated benchmark'. In the first instance, the only regulated benchmark will be LIBOR.

It is our responsibility to create and supervise a regulatory regime for these activities. We published a Consultation Paper with our proposals on 5 December 2012.

We will introduce two new significant influence controlled functions under our Approved Persons regime that will create clear and unambiguous points of accountability within the LIBOR administrator and submitter functions. Our Authorisations division will lead on assessing the administrator firm application and applications from authorised firms for the new control functions, which are expected between April and September 2013.

“Our enforcement investigations into LIBOR-related misconduct will continue.”

The Wheatley Review also recommended the creation of a new criminal offence related to manipulation (or attempted manipulation) of specified benchmarks. To achieve this, the Government has proposed a new offence under the Financial Services Act, of having misleading practices or making misleading statements regarding specified benchmarks. The creation of this criminal offence will promote market integrity by ensuring a credible deterrence to those who seek to abuse the system.

Recognising that important benchmarks affect markets and firms at the global level, we are also co-chairing a task force in IOSCO, which will bring forward principles in 2013 designed at promoting a coordinated and consistent approach by regulatory authorities to benchmark-related issues.

Our enforcement investigations into LIBOR-related misconduct will continue.

2.4 – Building competitive markets

Our ability to use our new duty and powers granted under the Financial Services Act 2012 to promote effective competition will be a significant change, improving our ability to make markets work well for consumers. Understanding how best to protect consumers will include assessing how competition weaknesses arise from both firm and consumer behaviour, which gives us a wide range of options to choose from when designing solutions.

We will address competition through our supervision and policy work, and by making sure we have the tools and information we need and work with stakeholders to deliver this. A key part of this is forming a new Competition department. We have recruited a director for the Policy, Risk and Research division with competition experience, to lead the development of the new department. We are also recruiting a new director to run this department. This director will be supported by colleagues with specialist experience across a range of disciplines, including economics, law, finance and competition investigations.

We will be able to use our regulatory powers to promote competition. This includes our general rule-making powers, for example requiring firms to

submit information to price comparison websites, and firm-specific orders.

We will use our resources effectively and will target our work strategically on the areas where we believe we can address significant consumer harm. The financial services industry in the UK accounts for approximately £150 billion of GDP, so the scale of potential benefit to UK consumers through our new approach could be considerable.

In 2013/14 we will liaise very closely with the Office of Fair Trading (OFT) at both a working and strategic level, including a revised Memorandum of Understanding and regular contact between chairmen. We will share work plans and coordinate action, so that the organisation with the most appropriate resources, expertise and potential remedy powers leads on the issues identified and we avoid duplication.

In the next six months, considerable effort will be dedicated to establishing our Competition department and embedding competition analysis across the organisation. The supervisory and policy initiatives to deliver this are detailed in this section. We have already begun to gather information for the first market study into add-on services in the general insurance market. We have also set out in this chapter how we will engage with international initiatives on competition.

Domestic supervision initiatives

When we supervise firms and individuals, there will be a greater focus on business model and strategy analysis. This will include considering a firm's competitive position in various markets when assessing the conduct risks that may arise from their strategies. If competition appears to be ineffective in a market, the evidence of this will be given to the Competition department, which will assess what action needs to be taken. Our key supervision initiatives are as follows.

Identifying risk

Our supervision function will play a key role, together with our Competition department, starting from when we gather intelligence and identify risks, through to when we decide how to act to tackle the problems we find.

We will use information from a variety of sources, including from firms, consumer groups and competition regulators. When analysing business models and strategy, and assessing the potential conduct risks that may arise from these strategies, we will take account of a firm's competitive position in various markets.

Early intervention

To stop certain types of competition problems from becoming widespread in markets we will, where appropriate, apply our new powers, such as temporary product intervention rules, at early stages of product or market development.

If we become aware of competition problems that potentially infringe the Competition Act 1998, or where competition problems also involve markets outside our perimeter, we will refer these to the OFT.

Barriers to entry

In line with our competition duty, we will ensure that our regulation, and the processes of delivering it, do not restrict competition by presenting excessive barriers to entry and exit.

We are aware that the authorisation process for new banks can be long and costly, and that our position at the 'gateway' to the sector makes it important that our requirements are not unnecessarily burdensome. However, it is essential that new entrants meet minimum standards that prevent undue risk to the financial system or to consumers. We need to achieve this while making entry as easy as possible, provided these minimum standards are met.

We have reviewed the authorisation process to bring it more in line with the business realities that new banks face. We have restructured the overall process to make it clearer, with firms receiving focused feedback throughout, including before they apply, to help them submit a better application.

As well as addressing the overall approach, we have sought to structure the authorisation process to be in line with the specific business issues faced by new applicant banks. We expect firms will need to submit less material at application and, with the greater feedback provided, this should be of a better quality. Also, we will apply a more proportionate approach to assessment, based on the circumstances of individual firms. Overall, this should reduce time and cost and provide earlier certainty for the applicants. We believe these changes will make a significant difference to ease of entry into the UK banking system. Having made these changes for banks, we have started a similar review of our wider regulatory approval processes for all types of firms.

Furthermore, in line with the response by the Treasury to the proposals of the Independent Commission on Banking, the FSA has reviewed the prudential and conduct requirements for banks to ensure that they are proportionate and do not pose unnecessary barriers to entry or expansion. On the conduct side, our requirements set out minimum standards for effective competition in the interests of consumers. In addition, we have not seen any evidence that the requirements

are causing particular difficulties for prospective banks. We are not, therefore, planning to make any changes to the conduct requirements in the areas in which we are able to do so (many of the requirements come from the maximum harmonising Payment Services Directive).

Domestic policy initiatives

Market studies

These help strengthen our understanding of why markets fail – with a view to identifying the solutions that would address the root causes of poor competition. Key studies for 2013/14 are the general insurance add-on study and the asset management study.

We are considering further market study work for 2013/14 in both retail and wholesale markets. We recognise that, while competition problems might differ between these areas, we should treat retail and wholesale markets as being equally important to our competition work.

General insurance add-on market study

We have started work on a market study on general insurance add-ons products. Preliminary research carried out by the FSA suggests that consumers might not be sold a product that meets their needs, at a price that is competitive, when purchasing certain types of insurance, such as gadget insurance, home emergency cover, personal accident/accident cash plans, or guaranteed asset protection. This is related to the risk of problems with access to suitable products that address consumers' needs.

Asset management study

At the FSA Asset Management Conference in September 2012, we highlighted that there are some issues in the asset management market around charging, competition and consumer behaviour. We will continue to analyse and progress the debate on these issues during next year.

International policy initiatives

Commission work on the transparency of fee structures and charges related to bank accounts

In March 2012, the Commission consulted on measures to improve the transparency and comparability of bank account fees, including standardised lists of fees and glossaries of terms. The aim is to help consumers compare accounts and shop around more easily. We have been liaising with the Treasury regarding the UK's views on the proposals. A legislative proposal is expected in 2013, and we are keen that any finalised legislation can be applied flexibly across Member States. This is important because the UK 'free if in credit' banking model is unique in Europe. We also want to ensure that any new disclosure material is genuinely useful to consumers.

Commission work on current account switching

In March 2012, the Commission consulted on possible measures to improve the bank account switching process to drive improvements in competition. Currently, there are self-regulatory standards, developed by the European Banking Industry, known as the Common Principles for Bank Account Switching. However, the Commission is concerned that not all banks are following the Principles, and so it has now consulted on making them compulsory, with the possibility of further initiatives such as a cross-border switching service.

Liaising with the Treasury, we are keen that any legislative proposal is high-level enough to encompass existing and planned Member State initiatives, and that it will not result in disproportionate costs for firms or consumers. In the UK, following a recommendation by the Independent Commission on Banking, the industry body, the Payments Council, is developing a new domestic bank account switching service, with a payment redirection feature, which is due to launch in September 2013.

“We will examine the key conduct risks in a firm and identify the causes of those risks.”

Box 5: Using our resources to deliver our competition objective

We are undertaking a programme of training across the organisation to embed competition thinking, including the roll-out of a new, holistic approach to analysing financial markets. This ‘integrated analysis’ toolkit has been developed to ensure we think about problems wholly and consider how best to pursue all of our operational objectives.

and focuses on highlighting the areas of greatest potential risk. We will examine key conduct risks in a firm and identify the causes of those risks. The FSF will cover all types of firms, considering potential harm to consumers and the impact on market integrity.

The FSF will be carried out by the Supervision division and will include business model and strategy analysis to identify the areas of potential conduct risk, including focusing on product design, governance, sales effectiveness and post-sales handling in a firm to ensure that firms’ practices are in line with good consumer outcomes and practices for managing conflicts of interest. This will help tackle the key causes of conduct risk, where firm structures, processes and management cause harm to consumers.

2.5 – Building a new regulator

How will we supervise to ensure consumer protection?

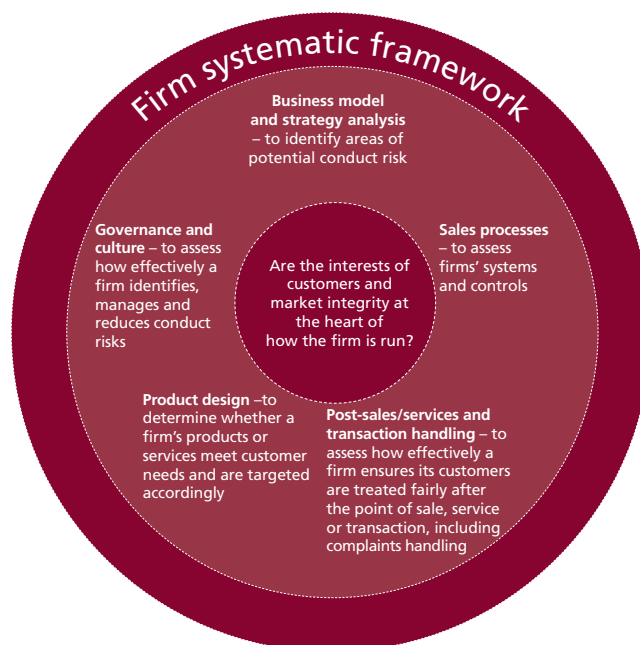
In delivering consumer protection, we are moving from a reactive approach to a more proactive one, where we will seek to address issues before they adversely affect the consumer. This will give consumers greater confidence, transparency and trust in products and providers. It will also mean that we are using our resources more effectively. Our Complex Event-Driven Team will aim to resolve issues quickly and more decisively, and free up supervisory resources, which can then be spent in more pre-emptive work.

This proactive approach will also reduce costs to the consumer when things go wrong, increase product safety, and raise standards and awareness among providers. Our approach will have greater focus on the business model, culture and product supervision, looking through the eyes of the consumer to ensure that they are treated fairly.

Supervisory framework

Firm Systematic Framework (FSF)

We have designed the FSF to allow supervision to focus on the key conduct risks in firms. It is forward-looking



Initially the FSF will be rolled out to the largest retail deposit takers and then extended to all C1, C2 and C3 firms, across all sectors. The intensity of these assessments will vary according to the potential impact of the firm in the context of our statutory objectives.

In 2013 the highest impact wholesale firms will go through the first module of FSF.

The list of firms in each category is:

- C1:** Banking and insurance groups with largest retail customer footprint
- C2:** Retail firms across all sectors with large retail customer footprint and wholesale firms with significant market presence
- C3:** Mid-sized firms across all retail and wholesale sectors
- C4:** Retail and wholesale firms with a smaller footprint

Wholesale conduct supervision

Our focus on achieving a better deal for consumers, underpinned by soundly functioning markets, gives us the opportunity to adjust our approach to wholesale conduct supervision. Wholesale conduct describes how market participants interact with each other and conduct their business in wholesale markets. It captures a wide range of activities and relationships in the securities, business and insurance markets.

Poor wholesale conduct poses a risk to the integrity of markets and the protection of consumers (both retail and wholesale). It can undermine the soundness, stability and resilience of financial markets and the transparency of the price formation process. It can also feed through to retail markets and ultimately affect individuals who rely on products and services to meet their needs. Wholesale

conduct risks are driven by many of the same factors as risk in the retail market. We will consider these drivers of risk in our approach to both the wholesale and retail sectors.

We will take a more assertive and interventionist approach to risks caused by wholesale activities. We will increasingly focus on the interconnections and relationships between participants in wholesale activities and be more willing to intervene where we believe poor conduct could have a negative impact on market integrity or the protection of consumers.

Our approach will recognise that:

- consumers, including wholesale participants (such as corporate clients and buy-side firms), are entitled to receive a fair deal;
- many firms engage in both retail and wholesale activities and risks caused by poor conduct can be transmitted between retail and wholesale markets; and
- firms must be mindful of their market footprint and how it may affect other participants.

We will follow the same supervisory approach for firms mainly involved in wholesale activities as for firms mainly involved in retail, made up of the FSF issues, product and event-driven work.

Issues and product work

We will undertake various thematic projects in 2013, touching on the wider wholesale and retail agenda. They will focus on market sectors, or products within a sector, that may cause poor outcomes for wholesale or retail customers or where practices may harm market integrity.

We will work together with industry practitioners to increase our understanding of what causes poor behaviour and to find ways to improve conduct

standards and the integrity of the financial industry. Based on the strong belief that a cleaner, healthier industry will be beneficial to firms, individual consumers and society as a whole, we expect firms to be proactive in improving their conduct by monitoring and assessing their own practices and supporting industry integrity.

Event-driven work

We will respond faster and more decisively to problems that are emerging or have happened regarding wholesale and retail conduct risks. We will

have a consistent and efficient process to ensure that 'event-driven' cases – for example, a whistleblower alleging misconduct – are dealt with quickly and appropriately.

Thematic supervision

In conducting both firm-specific and industry-wide reviews, in 2013/14 we will use thematic supervision to focus on discovering and addressing the root causes of poor conduct, including addressing incentive structures and corporate culture.

“...we expect to take responsibility for consumer credit in April 2014.”

Box 6: OFT – Consumer credit and competition

Consumer credit

The UK consumer credit market is one of the largest in Europe and is rapidly changing. It includes a diverse range of products, from mainstream credit, such as credit cards and personal loans, to high-cost forms of credit, such as payday lending.

In August 2012, total outstanding debt was £156 billion, the largest proportion of which was personal loans. The National Audit Office recently estimated that the unscrupulous behaviour by firms in this market costs consumers at least £450 million in 2010/11, with the most vulnerable consumers potentially being at highest risk.

The Government proposes to transfer responsibility for consumer credit regulation from the Office of Fair Trading (OFT) to us, and will make its final decision in 2013. Consultation on consumer credit will be ongoing throughout 2013/14.

Our first consultation, in Q1 2013, gave an outline of the proposed regime, including our high-level approach to authorisation, conduct standards, supervision, reporting and other areas. It also included consultation on applying the high-level rules, such as the Principles for Businesses, to consumer credit activities. We will consult further in autumn/winter 2013 on the detailed conduct rules and guidance, and other remaining rules.

Throughout the consultation, we will work closely with consumer bodies, the industry and Government to develop proposals for effective regulation that help the market work well and seek to ensure the fair treatment of consumers in a competitive and vibrant market.

If the transfer goes ahead, we expect to take responsibility for consumer credit in April 2014. This will be a challenging task, due to the large number of firms undertaking consumer credit activities, and we estimate that over half are currently not regulated by the FSA. Preparation for any transfer will include arrangements for the transfer of relevant OFT staff, systems design to support the movement of firms to our regime, communicating and engaging with firms and appropriate trade bodies, and consulting on and finalising our approach and rules.

The Government is also proposing to transfer the responsibility for regulating second charge mortgages to the FCA in April 2014. The Mortgage Credit Directive, currently being negotiated, is expected to have an impact on the regulatory treatment of these loans. The Government is proposing that these loans be treated in the same manner as other consumer credit lending and will consult on the longer-term regime for second charge mortgage once there is greater clarity on the requirements of the Directive. We will include second charge lending in preparatory work and consultations on the transfer of consumer credit. We will also undertake preparatory work and consult on the longer-term regime as necessary once the Directive has been agreed.

Competition

In pursuing our competition objective and duty, we will work closely with the Office of Fair Trading (OFT) and the future Competition and Markets Authority. We will have a MoU with the OFT that sets out how we will develop our respective roles, underpinned by a complementary, consistent approach.

3. Taking action against firms that do not meet our standards



Enforcement will focus on reinforcing proper standards of market conduct and ensuring firms put consumers at the heart of their businesses. We will pursue a strategy of credible deterrence, taking tough and meaningful action against the firms and individuals who break our rules. We will continue to use the full range of our criminal, civil, and regulatory powers to support our priority of securing better results for consumers and reinforcing our commitment to ensuring markets function well.

To meet these aims, our key enforcement priorities for 2013/14 will include:

- reinforcing our expectations of wholesale markets by taking decisive action where firms fail to manage risks effectively or observe proper standards of market conduct;
- removing from the industry the firms or individuals who do not meet our standards;
- continuing to pursue aggressively the firms or individuals who abuse UK markets by using our criminal and civil powers;
- taking tough action where firms fail to treat customers fairly, penalising those who are responsible and ensuring that effective redress is delivered quickly; and
- continuing to pursue major investigations into LIBOR, working with other agencies here and overseas.

Box 7: Effective Regulation – working together

In order to secure our priorities and meet our objectives, plus ensure that our resources are used in the most effective way, the Enforcement division will work more closely with other areas of the FCA to identify problems earlier. It will aim to be more pro-active, more direct and prepared to intervene earlier, which will mean working closer with our Supervision division in particular. There will be a more joined-up approach to thematic issues, and more focus on Significant Influence Functions across the Supervision and Enforcement lifecycle. The Markets and Enforcement divisions are closely linked and will work together to ensure that, once market abuse has been detected, it can move quickly into an Enforcement investigation.

We will continue to work closely with other law enforcement agencies in the UK and abroad. The complexity of our work means that there is often overlap with other agencies, and we will maintain a close relationship with the police, the Serious Fraud Office, the development of the new National Crime Agency, and other agencies domestically and internationally to ensure that there is an effective and coordinated approach to combating financial crime.

3.1 – Market abuse

Continuing to tackle market abuse

Irregularities in information in markets can lead to a misuse of information that then misleads or distorts the market – for example, through insider dealing. We will continue to work to reduce the risk posed by irregular information in markets, which can lead to market abuse.

Using our diverse notification methods to pursue market misconduct, we will continue to develop more sophisticated practices for investigating market abuse, regardless of the form of abuse. We will develop our credible deterrence agenda through better working practices between our Market Monitoring, Intelligence and Enforcement areas.

Regarding insider dealing, we will build on expertise and technical capabilities developed over a number of years, and we will use these to conduct large and complex investigations and prosecutions. For those who are found guilty, we will confiscate the proceeds of their crimes. We will use our civil powers to impose tough penalties against both firms and individuals who commit market abuse. Taking action against individuals is a key part of our credible deterrence strategy and we will impose bans and fines on those we find have committed market abuse. Where appropriate, we will seek High Court injunctions to prevent ongoing abusive conduct.

We will increase standards of market conduct and encourage better behaviour by demonstrating that we can and will identify, expose, and punish those who engage in market abuse or market manipulation.

We will also take steps to develop alternative non-enforcement options to disrupt market abusive behaviour.

We will progress our educational agenda through thematic projects, while continuing to provide advice on an ad-hoc basis. We will continue to engage and cooperate with our overseas counterparts, both

regulators and law enforcement agencies, to ensure that national borders do not prevent us from effectively pursuing instances of market abuse.

3.2 – Transaction reporting and market surveillance

Transaction reporting

During 2013/14 we will build on thematic work undertaken on Suspicious Transaction Reports and Transaction Reporting. Both regimes serve as vital tools in identifying market misconduct, and we will continue supervisory work in this area to ensure that firms are aware of, and comply with, their obligations. We will educate and assess firms through an ongoing programme of visits and will take action where necessary to ensure that firms and individuals comply with their reporting obligations. Ensuring good transaction reporting will enable us to identify risks more quickly and respond in an appropriate manner, to minimise any potential harm to consumers.

Improving our systems

We have further automated and enhanced our interrogation of the information we collect within the ZEN database. ZEN is the system that collects and holds the transaction reports that reflect the daily financial instrument transactions undertaken by firms and reported to us (as required and defined by MiFID).

We have upgraded our technology to improve our surveillance and detection of market abuse to reinforce our credible deterrence strategy. This upgrade will help us to more effectively process the notifications of suspicious trading that we receive from industry, and improve our ability to monitor failure to submit suspicious notifications. This will help us to protect and enhance the integrity of the UK financial system by improving our ability to monitor markets, and identify and respond to risks.

3.3 – Financial crime

How will we tackle financial crime?

We will have the following priorities in the area of financial crime for 2013/14:

- **Effectiveness of systems and controls within the regulated community:** we will continue to use thematic reviews to identifying upcoming issues. We will publish the findings from our thematic reviews and will advise on what reviews we will carry out in 2013/14.
- **Embedding risk-based proportionate supervision:** we will embed our intensive intrusive Systematic Anti-Money Laundering Programme across the high-impact firms to investigate their anti-money laundering, terrorist financing and sanctions systems and controls. In the second half of 2013 we will add anti-bribery and corruption to the programme.
- **Credible deterrence:** we will work with our colleagues in Enforcement to ensure we keep criminals out of the markets and send the appropriate messages to the industry.
- **Working with international and domestic partners:** we will continue to work with our international and domestic partners. 2013/14 will be an important year for all involved in financial crime with the development of the National Crime Agency we will work with our domestic partners to ensure a smooth start. The Financial Action Task Force (FATF) will begin its fourth-round mutual evaluations and the Commission will pass the Fourth Money Laundering Regulations, which we will work closely with and support the Treasury in transposing into UK law.

Box 8: Systematic Anti-Money Laundering Programme (SAMLPL)

The SAMLPL will work with many other supervisory tools to ensure that firms meet their regulatory obligations and standards in industry improve. This programme will look into the financial crime systems and controls of 14 major retail and investment banks every four years and it will focus on their anti-money laundering, countering terrorist finance (AML/CTF) and financial sanctions risks.

We will also include anti-bribery and corruption (ABC) in the programme. Our reviews will focus largely on UK operations, but will include visits to overseas operations, where the risks justify it or important AML functions are off-shored. We highlighted the development and pilot of this programme, formerly referred to as the 'Core Financial Crime Programme', in our Financial Crime newsletter, Issue 15.

The SAMLPL will focus on the inherent risks in each bank's business model. Once we have assessed each bank, we expect there to be a four-year rolling cycle for the programme, where each institution will have two business units, plus any associated central functions, examined at each cycle. As part of our work to increase transparency, we are considering the extent to which the results of our SAMLPL assessments may be published.

“During 2013/14 we will oversee the review and redress process to ensure that fair and reasonable outcomes are being reached...”

3.4 – Redress

How will we help secure redress for customers?

We will be proactive and forward-looking to protect consumers from risks before they happen. However, when things do go wrong, we will work to secure appropriate redress for consumers.

Payment Protection Insurance (PPI) redress

In 2012/13 firms paid over £5billion of redress to customers who had been mis-sold PPI. We will continue the FSA’s work in ensuring the consumers who have been mis-sold PPI receive appropriate redress in a timely manner.

We will continue testing firms’ complaints handling and root cause analysis. We also intend to continue our work with several major firms to complete the delivery of a past business review of single premium PPI sold face-to-face with unsecured personal loans. This analysis will help us identify where failures lay in the handling of PPI sales and will help inform our forward-looking approach to risk identification by highlighting potential problem areas. We will continue to provide information about consumer outcomes.

Arch Cru redress

In January 2013, the rules setting out the Consumer Redress Scheme for investors in Arch Cru investment funds came into force. The scheme becomes operational on 1 April 2013. It is expected to deliver £20 million to £40 million in redress to consumers and in 2013/14 we will publish information about consumer outcomes.

Interest rate swap (IRS) redress

In 2012, it was announced that the FSA had reached an agreement with a number of banks to review their sales of interest rate hedging products (IRHPs) to small businesses. Following a pilot in late-2012, the FSA announced that Barclays, HSBC, Lloyds and RBS will start the full review of their sales of IRHPs to small businesses, with the remaining banks to follow shortly after.

During 2013/14 we will oversee the review and redress process to ensure that fair and reasonable outcomes are being reached and that, where due, appropriate redress is paid to small businesses. We will continue to work with the independent reviewers so that small businesses can see the independence and thoroughness underpinning the exercise. We will also provide information about outcomes for small businesses.

4. Protecting the perimeter



Ensuring a high quality of entrants into the industry helps protect consumers and markets from harmful behaviour. Our intention is to ensure that new entrants do not pose an unacceptable degree of risk to consumers, there is a balance to be reached so that there are not excessive regulatory barriers to entry that would inappropriately stifle competition.

The way we achieve this is through our Authorisations division. It provides a robust 'gateway' for the regulation of entities and individuals to achieve good outcomes for consumers and the wider financial services market. This sits alongside work to deliver credible enforcement to protect consumers against risks posed by unauthorised businesses.

This year we will focus on higher-risk, complex cases, enhancing our systems and processes, and preparing for changes to the regulatory regime where we will take on the regulation of new markets.

4.1 – How will we challenge businesses and individuals?

Providing a robust gateway

In 2013/14 we expect to make around 40,000 regulatory decisions across a range of applications for authorisation, variation of permissions, cancellation, approved persons, change in control, waivers, passporting and the registration of mutual societies. These decisions will be taken in line with the risk they pose to our statutory objectives and with a consistent focus on conduct. Firms and individuals will be expected to demonstrate that they have considered the impact of their actions on consumers throughout their applications and throughout their regulatory lifecycle.

Our threshold conditions give us an important new requirement to analyse a firm's business model at

authorisation and, on an ongoing basis, supporting our objectives and prudential scrutiny of business models for firms regulated by either only the FCA or PRA. This new condition will enable us to assess a firm's entire business model, including unregulated business, so that we can ensure the overall business is suitable. If a firm cannot demonstrate that its business model will not put consumers at risk, then we will recommend refusing its application, as the threshold conditions will not have been satisfied. This requirement will help mitigate against the risk posed by strategies that are not aligned with delivering fair consumer outcomes.

Applications for authorisations are the first opportunity in the regulatory 'life-cycle' where we will be using early intervention to protect consumers and will be prepared to make robust decisions to address risks before they have the opportunity to happen. We will look at firms' business models, and the nature of the products proposed, in the context of competition to ensure there are no fundamentally uncompetitive aspects, e.g. regarding the ease of switching bank accounts. In line with the Treasury White Paper response to the proposals made by the Independent Commission on Banking, we are also reviewing the conduct requirements for banks to ensure that they are proportionate and do not pose unnecessary barriers to entry or expansion.

Approved persons

Given the key risk posed by firms that have a culture or strategy that is not aligned with fair customer outcomes or market integrity, it is important that individuals performing significant influence functions and/or customer functions promote the right culture in firms. Individuals should ensure that the values of the company promote these and are embedded at all levels. We seek to ensure that this is the case through our approved persons regime by:

- pre-approving all SIF and customer functions;

“We will continue with consumer guidance initiatives to raise awareness of scams, to help the public understand the risks unauthorised businesses pose and how to protect their money”

- assessing fitness and properness with reference to previous regulatory history; and
- for the most senior functions within our higher-risk firms, taking a more in-depth assessment to assess the robustness of the firm’s approach to appointment, and also interviewing some SIFs before approval.

The approved persons regime will continue to be a key focus for us for 2013/14. We will embed changes arising from the split to the PRA and FCA, as well as looking to improve our approach to approved persons throughout their regulatory lifecycle, not just at the point of application.

We will work with firms to ensure that the accountabilities of approved persons are clearly defined by firms and understood by us, as clear accountability is a key reinforcer of the behaviours we expect from individuals and firms. In particular, we are looking to see whether our knowledge of SIF accountability within firms improves so we can ensure senior management accountability for issues. This should provide greater clarity over who is accountable for problems that arise, including conduct issues, and firms should expect to see increased enforcement action against approved persons who breach our rules as a result. When approving an individual to a firm’s board, we will consider the appropriateness of an individual’s appointment within the context of the board’s overall composition.

We will consider what, if any, further changes to the approved persons regime are needed, taking into account the Wheatley Review and the Parliamentary Commission on Banking Standards.

Unauthorised businesses

Protecting consumers from scams and swindles will continue to be a priority for us in 2013/14. We will continue to take action against firms that operate unlawful schemes, such as boiler room frauds, land banking scams, rogue carbon trading firms and Ponzi schemes.

This action will include publishing alerts about unauthorised firms to warn the public about investment scams, closing down unauthorised business schemes, and freezing assets to distribute money back to victims. We will continue with consumer guidance initiatives to raise awareness of scams, to help the public understand the risks unauthorised businesses pose and how to protect their money.

Pensions

We address pension risks within our overall strategy as to what we see as risks to consumers and how we plan to address them. This includes supervision of life insurance pension providers, asset managers and financial advisers dealing with pensions business as well as co-ordinating work with the Department for Work and Pensions (DWP) and the Pensions Regulator (TPR) where our responsibilities overlap.

From October 2012, qualifying employees have to be automatically enrolled into their employer’s pension scheme – this is being rolled out gradually to all employers over the next six years. This is a Department of Work and Pensions-led initiative and the Pensions Regulator is responsible for ensuring employers comply with the legislation.

Some of the pensions used for automatic enrolment are provided by insurance companies and asset managers regulated by us. We will continue to work with the DWP and TPR about the progress of automatic enrolment, remaining open to revisiting our regulations if necessary. We will also work with other organisations linked with pensions to secure appropriate outcomes for consumers when dealing with pension products and advice.

Box 9: Reviewing key authorisations processes

We are undertaking a step-by-step review of key authorisations processes so they are efficient, risk-based and proportionate, and we are using our resources in the most effective way. We will be applying lean process techniques to streamline our processes and strip out activities that do not add value or represent inefficiencies in our decision-making.

A key outcome of this work is to encourage effective processes and enable our staff to spend more time analysing more complex, higher-risk cases. This will ensure that our processes support and facilitate our decision-making and are directly linked to our risk appetite. Enhancing our processes will also enable us to focus more on the quality and timeliness of our decision-making and have clear measures of what 'good' looks like when determining applications. Improving the efficiency and effectiveness of our resources will also help enable us to adapt to and absorb changes to the perimeter – for example, taking on responsibility for consumer credit regulation and second charge lending on 1 April 2014.

We will also be harnessing the wealth of information we can collect at the gateway about firms, individuals, markets and sectors – for example, mergers and acquisitions trends we can identify from our 'change in control' work. We are developing processes for sharing this information more effectively, which will produce increased efficiencies throughout the organisation.

Improving ONA

ONA is the system that enables firms to submit online applications and notifications to the Authorisations division. It also provides the main case-management tool within the division.

There have been a number of problems with the performance of the system since it was introduced in 2010, which has limited our ability to introduce some of our desired regulatory changes. Investing in ONA has been identified as a high priority within the IS development programme. We intend to upgrade the technology to a more resilient and flexible platform, which will provide firms with a more reliable service. It will also help us to protect the perimeter in a more efficient way and puts us in a better position to be able to implement new regulations. This in turn will strengthen our ability to meet objectives.

4.2 – Authorising dual-regulated firms

Becoming the FCA and PRA enables us to change our approach for authorisation processes for dual-regulated firms. We will be working closely with the PRA to ensure these processes are as smooth and efficient as possible. Any risks will be managed effectively by dealing with

all authorisations processes relating to dual-regulated firms in a single department.

Significant Influence Functions

The PRA will receive and consider applications relating to the most senior functions – such as chief executive or senior directors – for dual-regulated firms. We will either give or refuse our consent to those applications. We will ensure that conduct-related skills and experience are taken into account when assessing senior function applications.

Passporting

For authorised firms within the European Economic Area (EEA) wishing to passport into the UK, we will manage all passporting notifications except for banking and insurance, which will be managed by the PRA. For authorised firms wanting to passport out of the UK into the EEA, we will be responsible for issuing relevant notices for the authorised firms that are not PRA regulated. When firms wish to establish themselves in the UK, we will assess them based on conduct risks, EU directives and adherence to local rules. We will analyse the types of business that we think hold more risk for consumers and UK markets and act accordingly.

5. Delivering our operational platform



We are committed to ensuring that we have an efficient and stable operational platform in place to help us to deliver our statutory objectives and do business with our stakeholders. At the same time, our plans are designed so that our operational platform delivers year-on-year improvements in value for money, ensuring that we are using our resources more effectively.

This section outlines our commitment to:

- invest in our information systems (IS) infrastructure to reduce our operational risk;
- use improved systems to deliver our approach to regulation;
- work in close collaboration with the PRA to improve efficiency and ensure that costs are not unnecessarily duplicated;
- employ the right people with the right skills required to achieve our statutory objectives; and
- make changes to our HR department so it can fully support the change we will deliver in 2013/14.

5.1 – Our information systems (IS)

Investment in our IS

A significant investment in our IS capability began last year with our Information Systems Investment Programme (ISIP). ISIP will ensure that our IS are modernised, fit for purpose and able to support our key regulatory systems. Without this investment, there is an increasing risk that we will not be able to recover systems that fail, which could result in us being unable to support interaction with our stakeholders and be unable to meet our statutory

objectives. As such, we have committed £14m of our 2013/14 revenue budget towards the ongoing delivery of ISIP.

The key deliverables of ISIP for 2013/14 include:

- Beginning to replace the 220 databases that hold information for 25 key systems. This is a two-year initiative that will require significant investment to ensure our systems are fit for purpose.
- Replacing our secure file transfer system to allow us to submit data to exchanges, regulated firms, Reuters and ESMA with greater security and support our relationships with stakeholders.
- Implementing a new telephone system for our contact centre, which will provide a greater level of stability and better information for us to manage our services. The improved capability will support our risk-based supervision model and enable us to increase our efficiency by investing in technology solutions. The improved system will also help us to manage call centre capacity and offer us the ability to increase capacity in the future if required.

5.2 – Our estate and shared services

The FCA's estate

We have retained the FSA premises in Canary Wharf and Edinburgh. A large proportion of these costs are fixed to current contracts, so remain largely inflexible in the short term. As part of our value-for-money drive we have reduced our budgeted accommodation costs by rationalising our space following the creation of the FCA. In 2013/14 we will commence work on our longer-term property strategy in anticipation of our Canary Wharf lease expiring in 2018.

“We will be a forward-looking organisation with high levels of accountability”

Shared services with the PRA

In delivering our operational platform, we will continue to provide a range of services to support the PRA. This is aimed to promote efficiency within the regulatory family and minimise direct and indirect costs on the industry. These services include sharing information systems with the PRA to promote a single data repository and return, collecting PRA fees and a single complaints scheme. Provision of these shared services is yet another way we can deliver a joined-up approach with the PRA and ensures that costs are not unnecessarily duplicated across the FCA and PRA.

IS services form a core part of our Provision of Services Agreement with the PRA. We will provide systems support for four FCA systems that the PRA will also use, including our internal firm database, TARDIS, our regulatory reporting system, GABRIEL, the FSA Register, and our Business Intelligence System. During 2013/14 we will put into practice the planning that we have done leading up to the formation of the FCA.

5.3 – Our people

We will be a forward-looking organisation with high levels of accountability. We will be known for our ability to make effective judgements at pace in an increasingly complex external environment. In order for the organisation to deliver its objectives we will need to attract and retain high calibre staff who are motivated to make a difference to consumers.

One of the ways we will retain staff is by providing the right development and training. In 2013/14 we will develop a comprehensive people plan to identify the

training needs across the FCA and understand where gaps may exist. This will enable us to structure and deliver training that equips our staff with the skills and capabilities to achieve our objectives. This has already begun and we now deliver specific training modules for our supervisors on effective oversight of product development and understanding consumer behaviour. We will expand our training programme in 2013/14 to include:

- **FCA consumer highlights:** A module for authorisations staff that provides an overview of issues and aspects of consumer behaviour and purchasing decisions which will help our people to understand the implications of a firm’s business model.
- **Firm classification training:** Training for our staff on changes to the new supervisory approach and firm classification.

We will also improve our performance management methods to help ensure that the best people progress and are properly recognised. Again, this will help us to ensure that we can attract and retain the best staff to help deliver the FCA objectives.

A strategic Human Resources (HR) department

Our HR department is key to supporting the organisation through the ambitious change we will begin to deliver in 2013/14. As such, we are reviewing it to ensure that its structure, capability, systems and services support the delivery of the FCA vision and objectives.

Improvements are underway that will help us to move to a greater level of self-service, reduce administrative burdens on line managers, streamline processes, deliver greater value for money and help us focus on the strategic needs of the organisation and industry.

Box 10: Corporate responsibility

To provide the best service to the public and to the financial sector, we also need to support staff to understand, be representative of and have close links with the marketplace and the wider community. Our corporate responsibility strategy will enable us – through staff developing skills and understanding while giving something back to the community through a range of volunteering opportunities – to build and sustain these links. Our corporate responsibility strategy for 2013/14 is explained in more detail in Appendix 7.

6. Budget for 2013/14



This section sets out the first budget prepared for the FCA, and reflects the cost of the resources we require to deliver our vision and objectives.

The key elements of this budget are:

- headcount: staff costs are the largest component of our cost base;
- Ongoing Regulatory Activity (ORA): the total cost of our core operating activities;
- capital expenditure: focused on the development of our IS capability to deliver new regulatory and operational requirements; and
- our Annual Funding Requirement (AFR): the total amount we levy the industry to fund planned expenditure.

Our budget, and the way we have allocated resources to divisions is aligned with our strategic focus on the new FCA approach to regulation, including the creation of the Policy, Risk & Research (PRR) Division, and underpinned by continued investment in our technology platform.

Headcount

Table 6.1 sets out our planned headcount by division for 2013/14. Just under a quarter of our headcount will be focused on Supervision and Supervisory Oversight and 10% in the new PRR Division. Overall 70% of our headcount will be allocated to front-line divisions.

Table 6.1 Headcount

Headcount by Division as at 31 March 2014	FTE	%
Supervision⁽ⁱ⁾	675	24%
Enforcement & Financial Crime	480	17%
Authorisations	286	10%
Markets	285	10%
Policy, Risk and Research	271	9%
Front Line Supervisory Divisions	1,997	70%
Communications and International	80	3%
Operations⁽ⁱⁱ⁾	478	17%
Other⁽ⁱⁱⁱ⁾	293	10%
Total Headcount	2,848	100%

(i) Includes Supervisory Oversight

(ii) Operations Division includes Finance & Operations, HR and IS functions

(iii) Includes Chairman's and CEO offices, legal, secretariat, internal audit and other central support functions.

Ongoing Regulatory Activity (ORA)

We plan to spend £445.7m in 2013/14; the main components of which are as follows.

Table 6.2 ORA expenditure

ORA Expenditure by cost type	2013-14 £m	2013-14 %
Staff costs	261.3	59%
IT costs	76.4	17%
Depreciation	44.0	10%
Accommodation and Office Services	32.9	7%
Enforcement Case Costs	19.8	4%
Professional fees	18.0	4%
Training, Recruitment, Travel	12.3	3%
Other costs	4.5	1%
Sundry income	(23.5)	(5%)
Total ORA	445.7	100%

Staff costs reflect the costs relating to the 2,848 FTE detailed above and a £19.5m continued annual commitment to reducing the deficit in the final salary pension fund, which was closed to future accruals from 1 April 2010. The annual commitment is based on the last three-yearly scheme specific valuation (SSV) which forms the basis of the present recovery plan. Future contributions depend on the outcome of the next SSV on 31 March 2013. To mitigate the risk of a significant increase in our contributions and to reduce the FSA legacy, we have made a £22m one-off contribution to the fund in 2012/13, in addition to the £19.5m annual commitment.

IT costs include the costs of our outsourced providers and the continued improvements the FSA committed

to last year to deliver the operational platform required to support both the FCA and, initially, the Prudential Regulation Authority (PRA). We continue to work closely with counterparts at the PRA to ensure we achieve the most cost-effective outcomes.

Depreciation mainly relates to our IS systems. Just over 30% relates to our three most important systems which enable data collection, online authorisations and market transaction monitoring.

Accommodation and office services reflect the costs of the FCA's premises in Canary Wharf and Edinburgh. We have retained sufficient floor space following regulatory reform to be able to accommodate the extra people we need to regulate consumer credit from 1 April 2014.

Enforcement case costs are based on our current case-load and are expected to peak in 2013/14, driven mainly by the cost of our LIBOR investigations.

Professional fees include the costs of specialist advice and external support, as well as our contact centre.

Sundry Income mainly reflects application and authorisation fees received. It also includes £8.0m cost recoveries from the PRA for the cost of certain IT systems expected to be shared with the FCA for the next two to three years.

Capital expenditure

Our capital expenditure budget reflects planned improvements to our existing IT systems and the building of new capabilities to support the FCA in meeting its broad range of responsibilities.

Table 6.3 Capital expenditure

Capital Expenditure	2013-14 £m	2013-14 %
IT Systems Development	27.7	62%
IT infrastructure	15.0	33%
Property, Plant & Equipment	2.3	5%
Total Capital	45.0	100%

Included in the IT systems development capital budget is £6m for a new customer relationship management system and £4m to further develop our HR self-service capability as we continue to streamline back-office processes.

We have committed £9m of our £15m IT infrastructure budget towards the ongoing delivery of the Information Systems Investment Programme (ISIP).

Annual Funding Requirement (AFR)

The total amount required to fund our budgeted costs for 2013/14, as set out in table 6.4, is £432.1m. This includes the recovery of our ORA budget in addition to the final £2.6m funding required to complete the regulatory reform programme and the recovery of £3.3m of scope change costs relating to the Retail Distribution Review. Offsetting these is an estimated £19.5m reduction as a result of underspends in 2012/13, principally reflecting the unused CEO contingency of £15m.

Table 6.4 Annual Funding Requirement (AFR)

Annual Funding Requirement (AFR)	2013-14 £m
ORA Budget	445.7
Funding for regulatory reform implementation	2.6
Recovery of scope for change activities	3.3
Less: Underspend ⁽ⁱ⁾	(19.5)
TOTAL AFR	432.1
Financial penalties ⁽ⁱⁱ⁾	(40.6)
Fees payable	391.5

(i) 2012/13 FSA under spend (estimate)

(ii) 2012/13 financial penalties retained by the FSA (estimate)

Scope change and consumer credit

We are resourcing our preparations for consumer credit out of the 2,848 FTE noted above. However the £12.6m estimated cost of these preparations is being ring fenced and not included as part of our 2013/14 ORA or AFR. Once the consumer credit regime is operational we intend to recover these costs from authorised consumer credit firms over a number of years in line with our scope change policy.

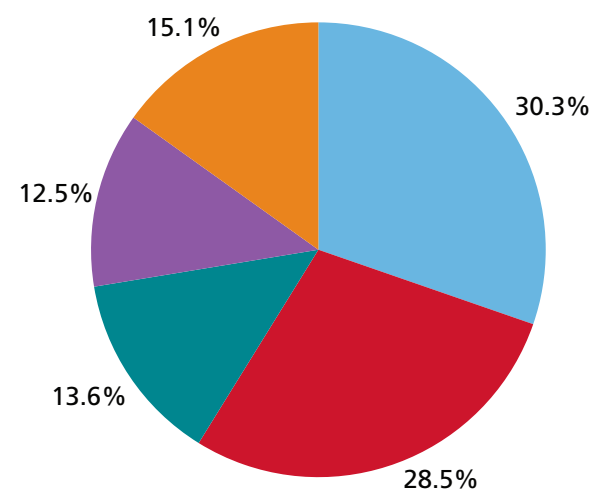
Applying financial penalties

Under the new Financial Services Bill the FCA must pay the Exchequer all financial penalties received, apart from certain enforcement costs incurred in generating these penalties in the same year. We will use these retained penalties to reduce our fees, apart from the fees levied on the penalty payer itself.

Impact on our fee payers

Each year we consult on how we allocate our Annual Funding Requirement (AFR) between fee blocks and our fee rates for the forthcoming financial year. The chart below reflects how we will be funded by industry sector as we propose in *The FCA regulated fees and levies – Rates proposals 2013/14*, March 2013.

AFR allocation by industry sectors



- Investment (inc CASS), mortgage & general insurance intermediaries
- Accepting deposits, mortgage providers & principal position taking
- Insurance providers
- Fund managers & operators of schemes
- Other

Appendices

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1. Regulatory architecture, key stakeholders and international regulation
2. Our accountability and transparency
3. Table of regulatory reform by market(s) affected
4. Principal European legislation
5. FCA independent panels – strategy for 2013/14
6. The Organisation chart
7. Corporate responsibility
8. Reference table of strategic priorities
9. 2013/14 Milestones

Appendix 1

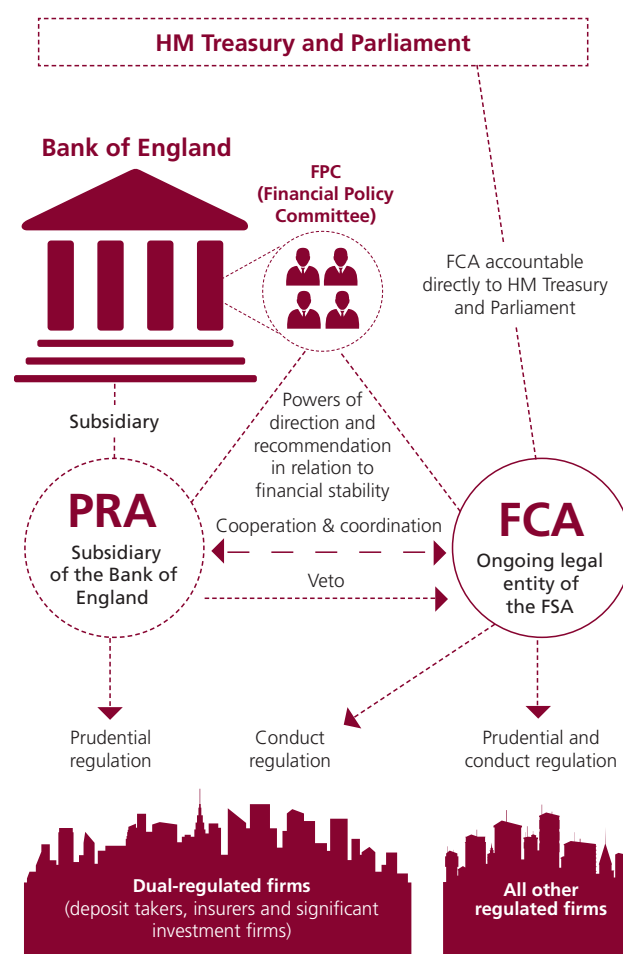
Regulatory architecture, key stakeholders and international regulation

Working with our regulatory family

The Financial Services Act 2012 set out the new regulatory system for the UK. It created two new bodies – the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), which replace the Financial Services Authority (FSA). The FCA is responsible for ensuring that relevant markets function well and for the conduct supervision of financial services firms. It also prudentially supervises those firms not in scope of the PRA.

The other main bodies involved in financial regulation are:

- **The Bank of England (BoE)** – responsible for protecting and enhancing the UK's financial stability. It has primary operational responsibility for financial crisis management, oversight of payments and settlement systems and clearing houses.
- **The PRA** – sits within the BoE and is responsible for promoting the safety and soundness of deposit-taking firms, insurers and systemically important investment firms.
- **The Financial Policy Committee (FPC)** – sits within the BoE, will be responsible for aiding the BoE's objective of protecting and enhancing the stability of the UK financial system. It will focus on identifying, monitoring and managing risk to the system.
- **Her Majesty's Treasury (the Treasury)** – has overall responsibility for the UK's financial system, the institutional structure of financial regulation, and the legislation that governs it – both domestically and internationally.



We are also part of a wider family of regulatory bodies that protect financial consumers:

- The Financial Ombudsman Service (FOS) provides an independent, free-of-charge service to consumers that helps them to handle their complaints against firms.
- The Financial Services Compensation Scheme (FSCS) may pay compensation to consumers when a firm is unable, or likely to be unable, to pay claims against it, usually because it has failed or ceased to trade.

- The Money Advice Service (MAS) provides free, unbiased advice to help consumers make the most of their money.

While these are independent organisations, we will fulfil our statutory duties of oversight and we will maintain open and flexible links with each organisation, as they can provide us with a very useful insight into the issues affecting consumers and how firms are behaving – such as the types of problems that consumers contact the FOS about. We will then be able to use this information to decide whether to intervene and to inform our policies and other activities.

Working with external bodies and stakeholders

Independent Commission on Banking (ICB)

The ICB made recommendations in September 2011 on reforms to the UK banking sector intended to promote financial stability and competition. These include imposing a ‘ring-fence’ on banks that provide deposit-taking services, additional loss absorbency requirements for the banking sector generally, and specific measures intended to improve competition in the retail banking market. Any resultant action will most likely be aimed primarily at the PRA.

However, we will need to consider the implications of any legislation – whether for the conduct of ring-fenced banking entities, the prudential treatment of solely FCA-regulated firms that are part of groups with a ring-fenced bank, or competition in the retail banking market – in light of our own objectives.

Parliamentary Commission on Banking Standards

The Parliamentary Commission on Banking Standards published its final report in March. We will respond to the recommendations relevant to us and provide appropriate input to the Treasury.

Box 11: Working with firms, consumers and consumer groups

We will consider regulation from a consumer’s point of view. We will work with consumer groups so we can better understand issues and emerging problems – especially those related to everyday products that most people use, like bank accounts or general insurance. We will also make it as easy as possible for consumer groups to work with us so we can mutually benefit from their information, knowledge and experience to improve how we regulate.

We will enhance the capabilities and knowledge of our contact centre advisers to enable them to confidently resolve a broader and more complex range of enquiries, allowing more firms and consumers to benefit from quick, easy and helpful access to the FCA. This will be supplemented by an investment in the contact centre infrastructure, so that advisers have all relevant resources and information at their fingertips.

We will also develop processes for gathering and communicating the valuable insights we gain through our Consumer Helpline about the issues consumers are facing and the impact of firms’ actions on consumers – for example, identifying a new type of scam or a problematic feature of a particular type of product. In addition to continuing to provide useful information and guidance to consumers, we will develop processes for reporting and escalating these issues throughout the organisation as appropriate to ensure a timely resolution of any conduct issues.

We also recognise the importance of our relationship with firms and we will work to ensure that our approach is effective and that firms experience us as an open and fair regulator.

Working with international bodies

Our membership of the global regulatory community

We will be an active member of the International Organisation for Securities Commissions (IOSCO), the European Security and Markets Authority (ESMA) and the Financial Stability Board (FSB). We will also engage with other European and global standards-setters where their work is relevant to our objectives including:

- the European Banking Authority (EBA);
- European Insurance and Occupational Pensions Authority (EIOPA);
- the International Association of Insurance Supervisors (IAIS);
- the Financial Action Task Force (FATF); and
- the Basel Committee for Banking Supervision (BCBS).

We will establish the FCA as a credible contributor by engaging early in debates, taking leading roles in negotiating and drafting standards, and proactively recommending areas where EU or international-level rules would be most appropriate.

In addition to engagement in committees, we will build and maintain relationships with key stakeholders around the globe. Where possible, we will use these relationships to share information, ideas and best practice to find the best solutions. We will cooperate on supervisory and enforcement matters and the development of international standards. We will continue to support a strong secondment programme to EU and global institutions, enabling our staff to develop critical skills in EU and global engagement.

How will we interact with international bodies?

We will coordinate our EU and global engagement with the PRA, the BoE, the Treasury and other relevant stakeholders. We have established a Memorandum of Understanding (MoU) between the FCA, PRA, BoE and the Treasury on participating in the key EU and international organisations which sets out the framework for this coordination. The International Coordination Committee (ICC), involving officials from the UK authorities and chaired by the Treasury, will also support this.

In addition to these formal requirements, we will continue to build on the work of the FSA to ensure that we have the necessary working-level processes in place for bodies and committees at a European and global level. These processes will continue to evolve and we intend to incorporate sufficient flexibility to ensure that they remain fit for purpose. Each part of the UK regulatory structure has a different but critical role to play. We will review the operation of these processes to ensure they remain fit for purpose and deliver real results.

How will we make the international regulatory structure work for consumers?

A large portion of our policy is set at EU or international level and EU and international negotiations will make a large contribution to delivering markets that work well for consumers. Specific policy initiatives, which will be debated throughout 2013/14, are set out in greater detail in other parts of this Business Plan, but in our engagement we will:

- seek legislation and standards that appropriately reflect the unique features of UK markets;
- ensure that conduct and consumer protection issues are considered in debates;
- take negotiating positions that are based on a

comprehensive understanding of what is in the consumer's interest; and

- seek to ensure that there is no dilution of consumer protection at domestic level as a result of EU and international actions.

The European Supervisory Authorities (ESAs) play a crucial role in regulating and supervising financial services in Europe. In addition to the role that ESMA undertakes in markets and securities, all three ESAs (including the EBA and EIOPA) have a consumer protection mandate that the FCA will continue to support. The operation and structure of the ESAs

will be reviewed before 1 January 2014 and the FCA, along with the Treasury and the PRA, will contribute to this review with an aim of ensuring the ESAs are effective and take into account the interests of all Member States.

We will also continue to play a leading role in ESMA through Martin Wheatley's membership of the Management Board and our chairmanship of the ESMA Standing Committees on Secondary Markets and Commodities, as well as strong contributions across the range of ESMA work. Please see Appendix 3 for a table detailing the regulatory reform timeline and market(s) affected.

Box 12: Our legal support

The General Counsel's Division will provide legal advice to the FCA on all its regulatory functions except enforcement, which maintains its own legal expertise. It will have wide-ranging responsibilities, including:

- advising the FCA on the exercise of its functions and powers;
- providing legal advice and support to the FCA on its responsibilities as the supervisor of regulated firms;
- providing legal support on the development of FCA policy, including drafting rules and guidance (which includes rules to implement EU directives);
- identifying and managing legal risk;
- advising on EU and international legal issues across the FCA, including EU legislation at the formative stages; and
- advising on corporate and constitutional matters.

Good quality legal advice will help ensure that the FCA works in an appropriate, proportionate way.

Appendix 2

Our accountability and transparency

We are committed to being an open and transparent regulator. We recognise that the firms we regulate have a huge impact on people's daily lives and on the economy, so it is our duty, as a public body, to do what we do in a way that is as accountable as possible.

This appendix will set out how we will operate, both in general and through specific initiatives in 2013/14, in a way that helps us to be held accountable.

How will we be accountable through independent Panels?

We receive advice and guidance on our policies from four independent Panels – the FCA Financial Services Consumer Panel (FSCP), FCA Practitioner Panel (FCA PP), the FCA Smaller Business Practitioner Panel (FCA SBPP) and the FCA Markets Practitioner Panel (FCA MPP).

The Panels each develop their own strategic plans to enable them to set their own agendas, as well as responding to the work of the FCA. These plans are reviewed annually in the summer to ensure they are updated and reflect changing events. The work of the Panels helps keep the FCA accountable to the industries and markets we regulate and the consumers we aim to protect. Further details of the work of our Panels can be found in Appendix 5.

Lessons learned – building on our experiences

We are committed to being a transparent and learning organisation. We will promote a culture of learning by doing more regular internal reviews into significant events so we can learn from them. These internal reviews will help keep us accountable by providing a critical view of our actions and will provide us with lessons we can learn. These lessons learned will help inform and improve our approach in the future. We will consider publishing the results of these reviews to improve our transparency as a regulator.

We also have a statutory duty that requires us to carry out investigations into events and circumstances

surrounding possible regulatory failures and report to the Treasury. This will be where it appears to us that two of the following conditions have been met: Events have occurred in relation to a regulated person or a collective investment scheme that has harmed our objectives by:

- Indicating a significant failure to secure an appropriate degree of protection for consumers;
- having, or potentially having, a significant adverse effect on the integrity of the UK financial system; and
- having an adverse effect on effective competition in the interests of consumers.
- Events have occurred that might not have occurred, or the failure or adverse effect might have been reduced, if it had not been for a serious failure in the regulatory system or the operation of that system.

The Treasury may also require us to carry out an investigation and report to them where they consider that the conditions have been met, or if they think that an investigation is in the public interest. The Treasury must publish reports in full, subject to prescribed exceptions.

Regarding statutory reports required by the Treasury, we will publish a statement of our policy setting out:

- what we will take into account when deciding whether the conditions have been met that require us to carry out investigations and report to the Treasury; and
- how investigations will be carried out.

Post-implementation reviews

In the Journey to the FCA we stated that we will follow up new policy with rigorous post-implementation reviews to evaluate the success of our policy interventions,

their impact and the residual risk. For example, when we published the Mortgage Market Review Policy Statement in October 2012, we stated that we intend to conduct a formal review of the impact of our proposals not more than five years after implementation. That process will start this year through our work with firms to identify and collect the necessary information for the post-implementation review.

Complaints scheme

The Financial Services Act 2012 requires the FCA, the PRA and the BoE to establish, as part of their accountability mechanisms, arrangements for investigating complaints against them. These include appointing an independent investigator (a Complaints Commissioner). As stipulated by the Act, we have consulted on our new proposals for the Complaints Scheme and our Policy Statement was published on 25 March 2013.

Box 12: Financial Services Compensation Scheme (FSCS) funding model

The FSCS is an industry-funded scheme that provides compensation to customers of firms who cannot meet the claims against them. It is funded by levies on firms regulated by us. A well-funded, sustainable compensation scheme is vital for consumer confidence.

Changes to the FSCS funding model take effect from 1 April 2013 and are designed to establish a credible funding approach for the FSCS: one that balances the need for adequate funds with affordability for those contributing.

Transparency Discussion Paper

We are committed to be a transparent regulator and to carry out our activities in a way that is as open and accountable as possible. As a result of changes made to the Financial Services and Markets Act 2000 (FSMA) by the Financial Services Act 2012, we will be required to have regard to two new regulatory principles relating to transparency:

- The desirability of publishing information about regulated firms/individual or requiring such persons to publish information.
- The FCA should exercise its functions as transparently as possible.

In light of these new principles, we are reviewing the extent of our constraints and when and how we balance transparency with effective regulation. Our approach is informed by the principle that the focus should be towards transparency unless there are compelling regulatory, legal or other reasons to the contrary. We have to strike the right balance between disclosing information where we are legally able to do so and where the public has a legitimate interest in knowing about a particular matter, and refraining from disclosing information where it would be unfair to a particular firm or individual or where it could harm the public interest.

In March 2013 we published a Discussion Paper setting out our ideas on information we could release about our organisation and about firms, individuals and market information that we could require firms to release. There will be a discussion period and stakeholders are invited to contribute further ideas and challenge ours.

Appendix 3

Table of Regulatory reform by market(s) affected

Note:

- * All dates are expectations only and therefore subject to change.
Life insurance is covered in "Retail investment, fund management & related services".
- ** Solvency II dates are subject to current Omnibus II negotiations and potential quick fix directive

			Retail deposits	Secured retail lending	Unsecured retail lending	General insurance	Retail investment, fund management & related services	Wholesale investment, fund management	Wholesale insurance & related services	Markets (primary & secondary)
2013	Q2	UK: Implementation of new FSCS funding model (Apr)								
		UK: Implementation of new LIBOR regime (Apr)								
		UK: Implementation of referral fee ban in personal injury cases (Apr)								
		UK: Implementation of changes stemming from Consumer Insurance Act (Apr)								
		EU: Solvency II transposition deadline (Jun)**								
		EU: Legislative proposals on basic bank accounts, current account switching and transparency of fees and charges								
	Q3	EU: Legislative proposals for IORP Directive								
		EU: Legislative proposals for a European framework for MMFs								
		EU: Legislative proposal to review PSD								
		EU: Implementation of AIFMD across member states (Jul)								
		UK: FCA to publish two reviews into money laundering								
		Global: FSB proposed publication of final recommendations on shadow banking sector (Sep)								
	Q4	EU: Possible legislative proposals on long-term investments								
		UK: PRA implementation of new capital and liquidity requirements for credit unions (Sep)								
		EU: Possible agreement of Directive on mortgage credit								
		UK: Implementation of National Crime Agency (including economic crime unit) (Dec)								
2014	Q1	EU: Proposed implementation date for Solvency II regime (Jan)**								
		EU: Possible implementation of minimum capital requirements under CRD IV								
		EU: Possible agreement on IMD2								
		Global: FATCA withholding begins for certain payments (Jan)								
	Q2	EU: Proposed implementation date for FTT (Jan)								
		UK: Possible implementation of new Platforms rules								
		UK: MMR implementation (Apr)								
2015	Q3	UK: Transfer of consumer credit and peer-to-peer-lending regulation from the OFT to the FCA (Apr)								
		Global: Proposed implementation of US Volcker Rule (Jul)								
	Q4	Global: Revised implementation date for IFRS 9 (Jan)								
		UK: Banking Reform Bill to receive Royal Assent (before end of current Parliament)								
		EU: Possible implementation of Directive on mortgage credit								
		EU: Possible entry into force of PRIIPs regulation								
2016	2018	EU: Possible implementation of revised MiFID/MiFIR								
		EU: Possible implementation of IMD2								
2018		EU: Possible implementation of NSFR (part of CRD IV) (Jan)								
		UK: Full implementation of pensions auto-enrolment								

Appendix 4

Principal European Legislation

The principal European legislation that the FCA will be working to influence during 2013/14 is:

EU Legislation	Action	Detail	Statutory Objective
Review of the European System for Financial Supervision	Commission Review	Review to conclude close 2013. New Regulations to follow in 2014	EMI, DCP, BCM
European Market Infrastructure Regulation	Development of Technical Standards to progress the full implementation	Technical standards will enter into force during 2013 & 2014	EMI
Markets in Financial Instruments Directive and Markets in Financial Instruments Regulation	Negotiation of revised legislation	Ongoing	EMI
Alternative Investment Fund Managers Directive	Implementation of changes already agreed	Implementation deadline July 2013	EMI
Undertakings for Collective Investment in Transferable Securities V	Negotiation of revised legislation	Ongoing	EMI
Undertakings for Collective Investment in Transferable Securities VI	Awaiting legislative proposal	Publication of proposed legislation expected Q4 2013	EMI
Recovery and Resolution framework for financial institutions other than banks	Awaiting legislative proposal.	Legislative proposal expected in 2013	EMI
Market Abuse Regulation & Directive on criminal sanctions for insider dealing and market manipulation	Negotiation of revised legislation	Negotiation in trialogue phase	EMI
Central Securities Depositories Regulations	Negotiation of revised legislation	Ongoing	EMI
Transparency Directive	Negotiation of revised legislation	Negotiation in trialogue phase	EMI

EU Legislation	Action	Detail	Statutory Objective
Securities Law legislation	Awaiting legislative proposal	Publication of proposed legislation expected in 2013	EMI
Credit Rating Agency Regulation III	Implementation of changes already agreed	ESMA developing technical standards	EMI
Capital Requirements Directive IV	Negotiation on revisions to the CRD in line with Basel agreement	Ongoing, expect agreement Q2 2013. Transitional periods and phasing in of various parts of the new requirements will run through to 1 January 2019	EMI
Anti-Money Laundering Directive IV	Negotiation of revised legislation	Negotiation on-going in 2013 – 2014	DCP
Corporate governance for listed insurers	Commission Review	Publication of legislative initiatives expected in 2013	DCP
Payment Services Directive	Negotiation of revised legislation	Review to be completed in 2013. Publication of legislative proposals in Q2 2013	DCP
Electronic Money Directive	Negotiation of revised legislation	Review expected in 2014	DCP
Package Retail Investment Products	Negotiation of new legislation and implementing measures	Level 1 on-going. Development of technical standards	DCP
Insurance Mediation Directive	Negotiation of revised legislation	Ongoing expected to be agreed in Q4 2013	DCP
Mortgage Credit Directive	Negotiation of new legislation	Legislative proposals expected to be agreed in 2013	DCP
Legislative proposals on basic bank accounts; account switching and transparency of fees and charges	Negotiation of new legislation	Legislation proposals expected in Q2 2013	BCM

Key for statutory objectives:

DCP - Delivering consumer protection

EMI - Enhancing market integrity

BCM - Building competitive markets

Appendix 5

FCA independent panels – strategy for 2013/14

From April 2013 we will receive advice and guidance on our policies from four independent Panels – the Financial Services Consumer Panel (FSCP), the FCA Practitioner Panel (PP), the FCA Smaller Business Practitioner Panel (SBPP) and the newly created FCA Markets Practitioner Panel (MPP).

The Panels each develop their own strategic plans to enable them to set their own agendas, as well as responding to the priorities of the FCA. These plans are reviewed annually, in the summer, to ensure they are updated and reflect changing events. This section highlights the key points as at the beginning of 2013.

FCA Financial Services Consumer Panel (FSCP)

The FSCP represents the interests of consumers by advising, commenting and making recommendations on existing and developing FCA policy and practices as appropriate. It speaks on behalf of consumers by reviewing, monitoring and reporting to the FCA on the effectiveness of FCA's policies and practices in pursuing its duties.

With the backdrop of a new regulatory structure, the Panel's primary role will be to influence how the consumer interest is upheld, and is fundamental, in financial services regulation.

The FSCP currently has five key priorities for 2013/14:

- the future effectiveness of the FCA as a conduct regulator;
- the transfer of consumer credit regulation to the FCA;
- sales practices in general insurance;
- decumulation in later life; and

- effective consumer representation at EU level.

The Panel will be working closely with the FCA as the latter develops its future priorities, particularly with regard to the new powers and responsibilities it will adopt in the coming years. The Panel will be concentrating much of its work on the effectiveness of the FCA as a conduct regulator and the transition to the new regime for the regulation of consumer credit.

FCA Practitioner Panel (PP)

The PP aims to provide early and effective practitioner input into the FCA's policy development. Its priorities in 2013/14 will continue to focus on the areas of regulatory change that have the greatest impact on financial services firms and consumers, seeking to improve outcomes for all.

The development of its strategic priorities enables the Panel to pursue its own agenda as well as following the consultation agenda of the FCA. The Panel has developed a more effective and efficient way of operating by adopting a "thematic" approach and by becoming more attuned to the EU and International regulatory policy making agenda. As such, the Panel is working to the following themes for 2013:

- potential unintended consequences of regulatory action;
- balance between consumer protection and consumer responsibility;
- potential inconsistencies between EU/international and UK regulatory approaches; and
- appropriate regulatory approaches for wholesale and retail markets or firms.

For 2013/14, the Panel's work has been driven by the significant changes to the regulatory structure that are due to take effect during the year and their impact for the UK financial services industry.

Going forward, the Panel will work closely with the FCA in developing its key priority areas. It will continue to monitor its key themes throughout 2013/14 and establish its new areas of focus as the FCA embeds its own strategic plans.

- cost effectiveness of regulation;
- FCA engagement with smaller firms; and
- balance of responsibilities between firms and consumers.

The SBPP will also continue to consider the changing regulatory agenda and how it continues to impact on smaller firms within the industry. Similar to the PP and FSCP, the Panel will review its specific areas of focus, in line with the FCA's business plans.

FCA Smaller Business Practitioner Panel (SBPP)

The SBPP's overall objective continues to be to work to ensure the regulatory environment enables smaller firms to be commercially viable and to flourish, so contributing to the wider economy and providing a broader choice and access for consumers.

The SBPP will for the first time have statutory status under the Financial Services Act 2012. The purpose of the SBPP is to represent the interests of the smaller financial services businesses through the provision of practitioner input into our policy development.

For the smaller firms within the industry, the impact of changes within the supervisory approach for the FCA and the continued need for all firms to comply with regulatory policy changes, bringing additional, sometimes disproportionate, burdens. The work of the SBPP during 2013/14 focusses on this changing environment. The Panel has linked its key priorities for 2013/14 to those areas that the Panel considers important for the smaller firms within the industry. The priorities for 2013/14 are as follows:

- design and development of the FCA;

FCA Markets Practitioner Panel (MPP)

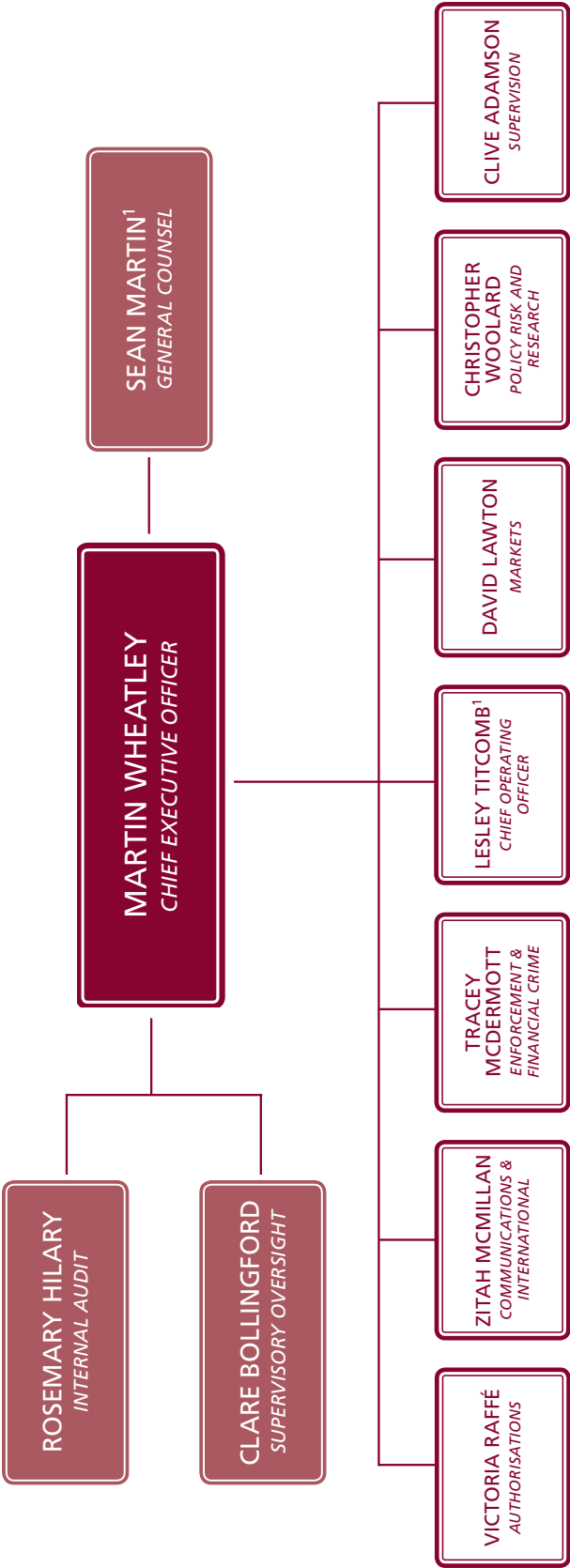
Joining the other two practitioner Panels under the Financial Services Act 2012, the MPP will be modelled on the role and operation of the existing practitioner panels.

The statutory role of the MPP will be to represent the interests of practitioners who are likely to be affected by the exercise of the FCA's functions relating to markets, including its duties as the listing authority, in relation to short selling powers and the regulation of recognised investment exchanges.

The MPP will aim to engage with and provide active input into all operations of the FCA's Markets Division. It will seek to ensure that wholesale markets and market practitioners are subject to appropriate regulation within the FCA approach. Further, the MPP hope to encourage the consistent and coherent regulation of FCA regulated market infrastructure providers in support of the FCA's objectives in ensuring markets function well. The Panel is also likely to take an interest in the wider infrastructure mechanisms which support UK financial markets.

Appendix 6

The Organisation chart



¹ Acting

Appendix 7

Corporate responsibility

We play a key role in protecting and enhancing the integrity and stability of the UK financial system. Corporate citizenship is a vital part of this and we will lead by example to influence positive change, not only within the FCA but also among our peers.

To provide the best service to the public and the financial sector, we need to support our staff to understand, represent and have close links with both the marketplace and the wider community. In this way we can be in the strongest position to fulfil our obligations and role, as well as to play our part in sustaining the environment and being a positive contributor to community improvement.

Diversity and corporate citizenship in the FCA

In 2013/14, we will continue to recruit, develop and retain the most talented, engaged and diverse workforce that we can. We will work with supervisors to enable them to engage with firms on this issue and equip our line managers to ensure all staff feel valued and respected and there is a culture of inclusivity. We will measure progress by the nine 'protected characteristics' in equality law:

- age;
- disability;
- gender reassignment;
- marriage and civil partnerships;
- pregnancy and maternity;
- race;
- religion or belief;

- sex; and
- sexual orientation.

And for each of the protected characteristics we will measure these against metrics including:

- staff profile;
- employment applications and success rates;
- internal promotions;
- training;
- appraisals (including performance ratings); and
- leavers (voluntary and involuntary).

We will provide an update on progress against our metrics in our Annual Diversity Report. We are also revisiting our community volunteering programme to ensure we are giving our staff the best opportunity to engage meaningfully in the community, and to gain skills and understanding that will benefit our role as a regulator.

What does diversity mean in practice to the FCA?

- We demonstrate due regard for promoting equality; therefore we ensure that we take full and due regard of our actions as a regulator to avoid inadvertent discrimination. We conduct Equality Impact Assessments (EIA) as part of our policy and guidance work in which we identify the potential impact of the proposed policy/guidance on each of the protected characteristic groups and mitigate against any negative impacts. Positive impacts are also outlined and shared. This procedure ensures that we foster a culture of inclusion in the FCA, and that the interests of these groups are not compromised as a result of our actions.

- We have a committed Corporate Responsibility (CR) Team who are the first point of contact for environmental, community affairs, and diversity issues at the FCA. The team works with HR and other departments to make progress in these areas and to ensure that the FCA has a positive impact on the community. In particular reference to diversity, there are two diversity-based roles in CR. One involves the oversight of 'internal' diversity in terms of advancing the welfare of our own diverse staff and the other looks at diversity within the regulatory sphere, by overseeing EIAs and ensuring that the FCA is working in compliance with the Equality Act.
- We look to promote and encourage diversity and inclusion across the sector. However, we do work within a limited capacity as we have no legislative powers to compel firms to advance their diversity agenda (beyond the basic obligations imposed upon them as employers under the Equality Act; violations of these are not reported to us but to the EHRC).
- We conduct an Annual Industry Diversity Survey to gain intelligence on the workforce demographic of the sector, and an Annual Internal Diversity Survey to gain an understanding of our own workforce and their needs.
- We have an Executive Diversity Committee (EDC) which meets on a monthly basis to discuss emerging issues in the diversity agenda. EDC acts as a high-level guide for the organisation, reflecting the importance that we attach to the corporate responsibility agenda.
- We are working with our supply chain to ensure that the high corporate responsibility expectations we have of ourselves are reflected in how we do business with others.

Diversity in financial services

We will measure progress on diversity within financial services. We will do this by building on last year's initial work of gathering the diversity statistics of firms in the financial sector. This will enable us to understand sector trends and work with firms to:

- support and encourage firms to have robust and challenging strategies in place to ensure that they are drawing on the broadest pool of talent, helping them to maintain a competitive edge in terms of human capital;
- understand and discuss with firms the barriers to people gaining employment in the sector or developing their full potential; and
- support firms in understanding the implications of boardroom composition on governance and risk.

Box 13: Employee volunteering at the FCA: Community Affairs

Employees can volunteer with the aim of making a positive contribution within the community, developing business skills and improving our understanding of a diverse range of consumer experiences when using financial services. Staff are allocated time to participate in individual volunteering activities and also to complete a team-based activity. Reflecting the working hours of charities and the need for staff to manage a work/life balance, we have also recently introduced a Personal Volunteering Scheme through which employees can volunteer with a local charity of their choice.

In 2012 we launched a Charity Committee, which will bring together the fundraising work that the staff at the FCA do.

Environment

The FCA is committed to a sustainable future by limiting and reducing its environmental impact. It does this in a number of ways, principally energy reduction, waste management and recycling. In the

coming year the FCA will seek to further reduce its energy consumption by replacing plants and systems at the end of their life cycle for energy efficient alternatives. It also encourages staff to increase the amount of waste they recycle and reduce the waste generated across all its offices. As part of this in 2013 we are imbedding a recycling system onto all floors of the FCA. The environmental programme monitors our progress throughout the year and reports this to senior management. In addition, the FCA participates in the government energy efficiency carbon reduction commitment scheme.

Appendix 8

Reference table of strategic priorities

FCA statutory objectives		
Delivering consumer protection	Enhancing market integrity	Building competitive markets
Mortgage Market Review (MMR) Retail investment advice Management of Client Assets (CASS) Complaints data Listing rules Wealth Management Insurance Mediation Directive (IMD2) Mortgage Credit Directive	Supervision of Recognised Investment Exchanges Primary Information Providers (PIPs) Multilateral Trading Facilities (MTFs) Sponsors Markets in Financial Instruments Directive (MiFID) and Markets in Financial Instruments Regulation (MiFIR) Alternative Investment Funds Managers Directive (AIFMD) UCITS (Directive on Undertakings for Collective Investment in Transferable Securities) V Financial Market Infrastructures (FMIs) Commodities market regulation Market Abuse Regulation and Criminal Sanctions Market Abuse Directive The Central Securities Depositories Regulations (CSDR) Transparency Directive (TD) Securities Law legislation Close out netting Directive The European Market Infrastructure Regulation (EMIR) EU legislation on Credit Rating Agencies Outcomes of the Wheatley Review	Identifying risk Early intervention Barriers to entry Market studies European Commission work on transparency of fees and charges related to bank accounts European Commission work on current account switching

Key forward-looking risks

Firms do not design products or services that respond to real consumer needs or are in consumers' long-term interests	Distribution channels do not promote transparency for consumers on financial products and services	Over-reliance on, and inadequate oversight of, payment and product technologies	Shift towards more innovative, complex or risky funding strategies or structures that lack adequate oversight, posing risks to market integrity and consumer protection	Poor understanding of risk and return, combined with the search for yield or income, leads consumers to take on more risk than is appropriate.
• Product governance • Product intervention • Product Design and Oversight: Fund fee structure • Mortgage arrears and forbearance management • Competition approach	• Financial incentives • Financial Promotions • Conflicts of interest • Custody banks • Transition management • Product design and oversight – fund fee structure • Retail investment advice • Wholesale conduct strategy • LIBOR/Wheatley Review • Packaged Retail Investment Products (PRIPs)	• Price comparison firms • New Payments Methods/ Mobile Banking and Payments • Technological resilience/ banking • Market infrastructure • The Payment Service Directive (PSD)	• CRDIV	• Extensive scoping work • Interest-only mortgages

Crystallized risks

LIBOR	Interest Rate Swaps	PPI
• Outcomes of the Wheatley Review	• Redress work	• Redress work

Appendix 9

2013/14 Milestones

Delivering consumer protection¹

	Q2 2013 April–June	Q3 2013 July–September	Q4 2013 October–December	Q1 2014 January–March
Retail investment advice	Guidance for firms during implementation as appropriate		Guidance for firms during implementation as appropriate	Guidance for firms during implementation as appropriate
Interest only mortgages	Publication of results of initial review			
Mortgage Arrears and Forbearance Management	Engage with selected lenders	Firm assessment visits	Report thematic findings	
Financial incentives	Initial review starts			Completion of review
Mortgage Market Review (MMR)	Online Surveys			
Data requirements Consultation Paper	Readiness tracking results published	Workshops	Readiness tracking results published	
Perimeter Guidance Consultation Paper (PERG)				
Consumer credit	On-going consultation	Policy Statement and further Consultation Paper		
Authorisations – interim permissions applications open	On-going consultation	Policy Statement		
PPI Redress	Results of review of complaint handling			

¹ We will also be undertaking reviews in the area of: Custody banks, Asset management fund fee structures, Conflicts of interest and Transition management. We are confirming the dates related to these reviews but the work will fall within the year 2013/14.

Enhancing market integrity

	Q2 2013 April–June	Q3 2013 July–September	Q4 2013 October–December	Q1 2014 January–March
AIFMD	Policy Statement			
LIBOR	New rules related to Controlled Functions come into effect			

Building competitive markets

	Q2 2013 April–June	Q3 2013 July–September	Q4 2013 October–December	Q1 2014 January–March
General Insurance Add-on Study		Assessment complete		

Financial Conduct Authority

