Annual Report and Accounts 2016/17
(for the year ended 31 March 2017)

HC 149

Financial Conduct Authority
Annual Report and Accounts 2016/17 (for the year ended 31 March 2017)

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Chairman's foreword
John Griffith-Jones

Welcome to our 2016/17 Annual Report.

At the same time as providing a record of what the FCA has achieved during the last year, this report illustrates clearly what a wide remit we fulfil to deliver our overarching strategic objective of ensuring that financial markets work well. Given the scale and importance of the sector in the UK, it is a role we must perform well.

The FCA is now four years old; it has come a long way in that time. This year has seen Andrew Bailey take over as Chief Executive. He has driven the development of our Mission, supported by our published sector views and an extensive programme of work. Looking back over the period since we started, much has changed – and much has stayed the same.

In terms of what has changed, the single most important achievement has been to embed the importance of good conduct at the core of the UK's financial sector. Helped this year by the arrival of the Senior Managers and Certification Regime in banking and insurance, with the imminent extension to all other regulated firms, the industry has largely realised that our agenda needs to be a core part of its own. Regulatory arbitrage, at least in the conduct arena, is a game no longer worth playing. Some of this is down to the way the FCA has set out its stall. However, to give credit where it is due, much of this is the result of firms' efforts to improve their business models and culture to meet our expectations. There remains more for everyone to do, and I fear there will always be a small minority of people who seek to abuse the system. Yet, going forward, the main challenge will be to make sure that the focus of firms remains firmly on the conduct ball, that complacency does not creep in or that the pendulum of regulation is not allowed to swing back.

In terms of what has stayed the same, I refer predominantly to the risks that are inherent in the financial sector. Among them are over-indebtedness, the ability to exploit more vulnerable consumers, the pace of technological change and its threats as well as its undoubted benefits, a lack of competition in certain sectors and meeting our long-term savings and pensions needs. These and other key risks will be with us for the foreseeable future, as will the need for effective regulation to mitigate them.

We have continued to work on the basis that the best form of regulation is preventative - I call it constructive deterrence. But this will never be enough in all circumstances and so, where necessary, we will take action where consumers have suffered harm. In this report we have set out how we have sought to tackle the major risks we identified in the 2016/17 Business Plan. Highlights include our market study on the asset management industry, our work on PPI leading up to our proposals for a time-limit on claims, the design of rules to implement the Market Abuse Regulation and MiFID II, and a continued emphasis on encouraging technological innovation.

Measuring our regulatory effectiveness is not straightforward. While we set out our inputs and outputs, the all-important outcome of harm prevented or improvements achieved through deterrence cannot be readily quantified on an annual basis. With longer-term hindsight, patterns and trends will be more obvious. In the meanwhile, surveys among stakeholders, including firms and consumers, provide current soft evidence and it is encouraging to see that confidence in the FCA as a regulator continues to improve. We will continue to work with thought leaders in this field to develop more objective measures.

Next year promises to be busy. We have already published our Business Plan. We are also committed to further developing our own transparency and accountability through our forthcoming publications which will explain our 'approach to' our main functions. We have a big task ahead of us to prepare amendments to our rules to give effect to Brexit and we stand ready to provide whatever additional help may be required by Government more broadly. Further ahead we may need to boost our capability to design our own policies independently from the EU.

None of our achievements would be possible without the skills and commitment of the people who work for us. There is a very strong public service ethos in our workforce and a growing level of expertise as we refine the way we operate. Our work is a big team effort, but I would like to place on record my special thanks to Tracey McDermott, who acted as Chief Executive for the early part of this financial year, and to Andrew Bailey, who took up the reins in July, as well as to the wider leadership team.

John Griffith-Jones

> **"Regulatory arbitrage, at least in the conduct arena, is a game no longer worth playing."**

Chief Executive's statement

Andrew Bailey

This Annual Report marks the end of my first year as FCA Chief Executive. It has been a fascinating year. Working at the FCA, you cannot help but be impressed by the breadth of issues that the organisation deals with. I joined the FCA on 1 July, just a few days after the referendum vote for the UK to leave the European Union. It was a very interesting start to my time at the FCA and set the scene for the range of different issues involved in UK conduct regulation.

The UK's vote to leave the EU and the uncertainty about the consequences for financial services has shown the need for a conduct regulator with clear priorities, which is able to respond flexibly to the impact of external events. Our work on the suspension of property funds due to unprecedented demand for redemptions in the immediate aftermath of the vote is an example of how the FCA continues to ensure markets work fairly in the face of future shocks.

The publication of the FCA's Mission in April 2017, following a wide-ranging consultation, was a crucial moment for the organisation. The FCA operates on a very wide landscape - one measure is that we regulate 56,000 firms ranging from asset managers and banks to financial advisers and consumer credit providers. Inevitably this means that we have to make choices about where we focus our resources. We also have more tools than many other conduct regulators and we should explain how and when we would use them. The Mission aims to explain how we make those choices and use our tools to ensure that we are serving the public interest.

My focus for the first year has been meeting as many of our stakeholders as possible, to understand their views on the FCA and the work that we do. As part of this, I have visited firms and consumer groups across the country, as well as attending meetings here in London. A particular highlight has been visiting the call centres of a number of charities and hearing first hand from frontline personal debt advisers about the issues that they deal with on a daily basis. I would like to thank everyone who has taken the time to meet and share their thoughts and experiences with me.

Our focus on vulnerable consumers can be seen in many areas of our work. In November 2016 we launched our review of high-cost credit, which includes overdrafts, rent-to-own, guarantor loans, catalogue credit and log book loans. This follows on from the introduction of the cap on payday loans in 2015. We felt that it was important to review the whole landscape rather than picking products one at a time. This allows us to better understand the wider consequences of any potential action we might take on consumers and, more specifically, on the supply of credit. We do not want to push consumers who need credit into the hands of illegal moneylenders.

A large part of our work is day-to-day supervision of regulated firms and enforcing against them when we find wrongdoing. We used our powers requiring a listed company to pay compensation for market abuse for the first time; announcing in March that Tesco plc will pay around £85m in investor redress for giving a false impression about its expected half-year profits. We also fined Deutsche Bank £163m for failing to maintain an adequate anti-money laundering control framework. This was the largest financial penalty for anti-money laundering controls failings ever imposed by the FCA, or its predecessor.

We also published the interim report of our Asset Management Market Study in November 2016. This piece of work is being undertaken using our competition powers. Asset managers are responsible for the savings of millions of people in the UK, making decisions which affect their financial wellbeing both now and in the future. In a world of persistently low interest rates, we must do everything possible to enable people to accumulate and earn a return on their savings which can meet their lifetime needs. To achieve this, we need to ensure that competition in asset management works effectively to minimise the cost of investment. We have proposed a number of remedies aimed at bringing greater transparency so that investors can be clear about what they are paying and the impact charges have on their returns.

As part of my role as Chief Executive, I sit on the ESMA Board of Supervisors and am a permanent IOSCO Board member. Global regulatory co-operation is crucial to achieving financial stability and ensuring good conduct across financial services. Our relationship with other regulators in Europe and internationally allows us to share information, intelligence and best practice and these relationships support consistent and effective supervision. It is important that we continue to be able to share information and data with our EU counterparts after the UK leaves the EU. We are strongly committed to engagement with our counterparts around the world.

This year marks the FCA's last at Canary Wharf, as we prepare for the next stage of our work with a new office in Stratford. Our move to Stratford will give us a quality building, excellent facilities, the right infrastructure to meet our future needs and provides value for money. We will start moving in May 2018.

This year also marks the last year when we will have the benefit of John Griffith-Jones' experience. During the last four years, John has steered the FCA from the beginning and has helped to ensure that we are well-positioned for the future. I would like to thank him personally for his stewardship.

I would like to thank all my FCA colleagues for their hard work and enthusiasm and the FCA Board for their continued engagement and challenge. I am looking forward to what my second year will bring.

Andrew Bailey

Andrew Bailey

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The UK's vote to leave the EU and the uncertainty about the consequences for financial services has shown the need for a conduct regulator with clear priorities.

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Chapter 1
Overview of the year

Financial markets are essential to every person and business in the UK and make a significant contribution to our national economy. Our aim is to ensure the UK financial system works well. By doing this, we provide benefit to the economy and the public as a whole.

We regulate over 56,000 financial services firms, over 140,000 approved persons working in the industry and the UK's financial markets. Financial services contribute around 12% of the UK's total economic output, directly affecting the strength of our economy and attracting international investment. We have an over-riding strategic objective to ensure that the markets we regulate function well. To do this, we also have three operational objectives. These are to secure an appropriate degree of protection for consumers, to protect and enhance the integrity of the UK's financial system and to promote competition in the interests of consumers.

How we regulate

Our regulation improves the way financial markets work and how firms conduct their business. By doing this, we provide benefit to individuals, businesses, the economy, and therefore the public as a whole.

Our objectives are set out in the Financial Services and Markets Act 2000 (FSMA). We use a proportionate approach to regulation, and prioritise the areas and firms which pose a higher risk to our objectives and the areas where we can best serve the public interest represented by our objectives.

We look at specific markets and at issues which cut across sectors. We examine information from a variety of sources. We use this constantly evolving information to create our Sector Views. These describe our view of how each sector is performing. This approach gives us both a deeper and an earlier understanding of emerging risks and helps us ensure that lessons learned in one sector can be applied across others. We use the information in our Sector Views to help decide our Business Plan priorities.

Our regulatory role involves identifying and tackling instances of poor conduct and market abuse. We set the principles, rules and standards that firms must meet to ensure they operate fairly and effectively to benefit markets and consumers. We work with a wide range of stakeholder groups to encourage best practice, support innovation and encourage competition that meet consumers' needs.

Our Business Plan 2016/17 explained our work programme and priorities for the financial year. These were:

61%

of people in the UK have at least one consumer credit product, with

26%

of them having an outstanding debt on that product.

- pensions
- financial crime and anti-money laundering
- wholesale financial markets
- advice
- innovation and technology
- firms' culture and governance
- treatment of existing customers

Against each of these priority themes, the Business Plan provided indicative measures of success. As well as reporting work undertaken against our operational objectives, this Annual Report gives details of how well we have performed against these measures.

This overview highlights some of our work to achieve our objectives in the last year.

Securing protection for consumers

We set the rules and standards for firms, to ensure they can provide fair outcomes for consumers. While it is firms' responsibility to treat customers fairly, we can intervene if firms fail to do so, including taking action to raise industry practice and ensuring consumers receive redress.

A better deal on insurance

Many customers automatically renew their general insurance policies without checking how much their premiums have gone up or shopping around for the best value. So in 2016 we issued new rules which general insurers must meet at renewal, including giving customers details of their previous year's premium and encouraging them to shop around.

We have also published final guidance for life insurance firms to help ensure they treat their 'closed-book' customers fairly, including keeping them well informed about their policy, including products and charges.

High-cost credit and overdrafts

Since taking over the regulation of consumer credit in April 2014, we have focused on the products that present the biggest risk to consumer protection. We published a call for input to get evidence for our work on high-cost credit, including a review of the payday loan price cap we introduced in 2015. As well as a review of the price cap, the call for input sought evidence on how high-cost credit products are used, by whom and whether consumers get appropriate protection. We included overdrafts, to consider the consumer protection issues arising from poor price transparency, and the nature and level of charges. We plan to report on the findings of our call for input during summer 2017.

We also looked at the impact for consumers when debt management firms close.

Customers in arrears

61% of people in the UK have at least one consumer credit product, with 26% of them having an outstanding debt on that product. We estimate that two million credit cardholders have persistent levels of debt and a further two million cardholders were in arrears or defaulted on payments.

We published the results of our review into how firms treat customers who are in early arrears for unsecured lending products, such as credit cards and personal loans. We found that some firms failed to identify and help these customers, and gave each firm in the review specific feedback about what they should be doing.

Separately, we found that some mortgage firms had incorrectly included customers' payment shortfall balances when calculating their monthly payments. We told mortgage firms to stop this practice. We clarified our rules to improve understanding among mortgage firms and we set up an industry working group to develop a remedy framework that firms can use with affected customers.

Capping pension exit charges

In 2016, the Treasury announced that it would place a new duty on the FCA to cap early exit charges for the over 55s who wanted early access to their pension policies under the new pension freedoms. Our new rules mean that exit charges are capped at 1% for personal pensions started before 31 March 2017, and firms cannot charge any exit fees for personal pensions started after this date.

Ensuring redress when things go wrong

Firms have now paid more than £26.9bn in redress to consumers affected by the mis-selling of payment protection insurance (PPI). We have brought in a deadline for PPI complaints of 29 August 2019. To encourage consumers to decide whether to act, we will run an extensive consumer communications campaign to tell them about the deadline, how to check whether they had PPI and how to complain. We have worked with firms handling PPI complaints to simplify the process for consumers.

We have also made rules and guidance relating to how firms should handle PPI complaints in light of the 2014 Supreme Court judgment in *Plevin v Paragon Personal Finance Limited*. Our rules and guidance will reduce the uncertainty following the judgment, enabling firms to take a fair and consistent approach and ensure the best outcomes for consumers at the earliest stage in the complaint process.

An application for judicial review of our decision to implement a PPI deadline and our rules and guidance on handling PPI complaints in light of the Supreme Court judgment in *Plevin* has been made. We will be defending that application.

Unfair treatment of business customers

We commissioned a 'skilled person' to review alleged inappropriate treatment of small business customers referred to the Royal Bank of Scotland's Global Restructuring Group (RBS GRG) between 2008 and 2013. The skilled person completed its report on this review in September 2016, and in November 2016 we announced the report's summary findings. We have also committed to publishing a fuller account of the review findings as soon as possible. RBS has now set up a complaints review process and agreed to provide automatic refunds for complex fees to some of these small business customers. We welcome the involvement of an independent third party to provide oversight of the complaints review process. This independent third party will give us reports on a regular basis.

Contracts for Difference

Retail Contracts for Difference (CFDs) are complex financial instruments offered to retail customers through online trading platforms. Our work has shown that CFDs are high-risk products and that the vast majority of clients lose money on them. We published a consultation paper explaining our concerns and proposing measures to address them.

Protecting consumers by strengthening the UK's financial system

Following the financial crisis in 2007, ring-fencing was one of several reforms the Government introduced to strengthen the financial system. As part of ring-fencing, certain UK banks must ring-fence their essential retail services from the rest of their banking group.

The lead regulator for ring-fencing is the Prudential Regulation Authority. Our role is to monitor and manage negative impacts on consumers, market integrity and competition.

Last year we worked closely with firms to improve and finalise their ring-fencing plans, which must be implemented by 1 January 2019.

Protecting and enhancing the integrity of the UK financial system

Our aim is to ensure that the UK has a healthy and transparent financial system.

Ongoing supervision of firms

We aim to deal rapidly with events in the market that could threaten market integrity or cause harm to consumers. This work applies to both our market integrity and consumer protection objectives. We identify these 'risk events' in a number of ways, including our thematic work, regulatory returns and our regulatory assessments. Over 2016/17, we received 24,916 event-driven cases for 'flexible' firms across all sectors. Of the 24,916 events received in 2016/17, we are still assessing 2,049. We took supervisory action on 36% of these events, as they had the potential to cause most harm to our objectives.

Equal access to IPO information

The UK Initial Public Offering (IPO) process plays a vital role in helping companies raise finance. Between 2011 and 2015, 460 companies floated on the London Stock Exchange, raising around £53bn. It is important that potential investors have fair access to timely information in the run-up to the IPO. We published a consultation paper in March 2017 which proposes a package of policy measures to improve the range and quality of information available to investors during the IPO process. We will implement changes in 2017.

The impact of volatility on illiquid assets

We undertook work into property funds which suspended trading because of the high level of demand for redemptions following the UK's vote to leave the EU. We looked at whether firms had treated their customers fairly and communicated effectively, both when trading was suspended and resumed. We published a discussion paper to gather more evidence into the problems associated with open-ended funds which hold illiquid assets and whether further regulatory intervention could resolve them. We aim to publish a response to the feedback we receive later this year.

Countdown to the Markets in Financial Instruments Directive (MiFID II)

MiFID II is the Directive that regulates firms that provide services linked to financial instruments like shares, bonds and derivatives. It comes into force on 3 January 2018 and will create new investment services and expand the definition of what is considered a financial instrument. Last year we published four consultation papers on different aspects of MiFID II, as well as a new guide for affected firms. We also ran a number of industry workshops to help these firms. We opened the authorisation process in January 2017 to allow sufficient time for applications and to minimise potential market disruption from the large number of firms we expect to apply for new authorisations.

Promoting competition for consumers

Healthy competition helps empower consumers as well as inform them. This encourages firms to try and win custom through improved service, quality, price and innovation. Our aim is for successful, competitive, innovative firms to thrive and for uncompetitive firms either to change or to exit the market.

Asset management

Over three-quarters of UK households with workplace or personal pensions use asset management services and the UK asset management industry manages nearly £7tn assets. To understand if competition was working well in the asset management sector, we undertook a market study and published our interim findings. They showed weak competition in a number of areas, sustained high profits and often unclear performance reporting. We have proposed a package of measures to improve competition in this market and will publish our final feedback later this year. We also consulted on whether to make a reference to the Competition and Markets Authority on the investment consultancy market.

Credit cards

We published the results of our market study into how well competition was working for consumers in the credit card market. Our findings showed that competition was working fairly well for most of the 30 million consumers who hold a credit card. Consumers are generally shopping around and switching for the best deals. However, competition tends to focus on features like introductory offers, and there is less competition on longer-term interest rates, fees and charges.

We have significant concerns about the scale, extent and nature of problem credit card debt and firms' limited incentives to reduce this. We proposed a range of remedies for consumers, including further action for firms to ensure they intervene earlier, before consumers get into problem debt.

Greater clarity about insurance add-ons

Insurance add-ons are products sold alongside primary insurance products. But consumers often don't realise they have bought add-ons or that they are buying add-on products which are poor value for money or aren't right for their needs.

Following our market study into this issue, we are running a pilot looking at publishing insurance value measures, including claims frequencies, claims acceptance rates and average claims pay-outs, for four general insurance products. We published these data to give consumer groups comparable measures to improve market transparency and encourage firms to improve the value of their products.

Innovation

We have continued, through our Innovation Hub, to positively foster innovation that focuses on offering better outcomes for consumers.

The resources to deliver our objectives

Our staff

Our staff are integral to achieving our objectives. We have a wide remit and it is vital that we attract, develop and retain the right people to deliver our objectives.

In 2016/17 we started our first apprenticeship programme. We currently have 104 employees on our graduate programme. We continued to develop our curriculum and internal Academy programme, and 56% of all employees have attended at least one training event this year.

Our infrastructure

We continually develop and improve our information systems to keep pace with our regulatory and operational requirements. This year we invested £58.5 million to deliver change projects to implement EU and UK legislative changes, improve our operational capabilities and maintain our information systems.

In 2018 we will move from our existing London offices to the Queen Elizabeth Olympic Park in Stratford. Our new building will be more efficient and provide the resilient infrastructure we need to continue to help users of financial services.

Our Mission

Throughout 2016/17 we drafted and consulted extensively on our Mission. It provides the framework for the strategic decisions we take, the reasoning behind our work and the way we choose the tools to do it. It gives firms and consumers greater clarity about how and why we prioritise, protect and intervene in financial markets. We published the final version of our Mission in April 2017.

Over 180 consumer groups, firms, trade associations, academics and individuals responded to the consultation. The breadth and depth of their comments proved invaluable in helping inform our Mission. It underlines that our role is to serve the public interest through the objectives Parliament has given us. Our stakeholders told us they want us to be more transparent about how we make our regulatory judgements, and the approach explained in our Mission ensures we will better deliver this.

Our Mission explains how we will seek to use qualitative and quantitative measures to understand and evaluate the impact of our work. Over the next year, we will publish further documents to explain how we carry out our main activities – authorising and supervising firms, taking enforcement action, encouraging competition and influencing market design – and how the Mission affects this work.

Brexit

The UK's decision to leave the EU will have important implications for the financial services sector, the regulatory framework and hence our work. We are providing impartial technical advice to the Government to support the EU withdrawal negotiations and related legislative change, particularly where they could affect our ability to continue to meet our operational objectives. We are working with firms to understand their plans to continue to service their cross-border operations.

We have begun work with the Treasury to provide technical input to work involving the Great Repeal Bill. This is a significant task that involves a line-by-line analysis of each piece of EU legislation for which we are the lead regulator. Our fundamental objective in this work is to give all interested parties certainty, so that there is a clear and functioning regulatory regime on the day that the UK ceases to be a member of the EU. We will continue to advance our statutory objectives and thus maintain high conduct standards and robust, proportionate and sustainable regulation.

We gain significant benefit from our co-operation with other regulators in Europe and internationally. This allows us to share information, intelligence and best practice, and these relationships support consistent and effective supervision. It is important that we continue to be able to share regulatory information with our EU counterparts after Brexit.

> **"The UK's decision to leave the EU will have important implications for the financial services sector."**

Chapter 2
Measuring our performance

We want to be an accountable and transparent regulator. Legislation requires us to assess how we have advanced our objectives every year. We have measured our performance over the last year using an outcome-based performance framework.

Taking into account both the information which the indicators (figure 2.1) give us and looking at the range of activities which are set out in this report, our judgement is that we have acted compatibly with our strategic objective and advanced our operational objectives over the course of the year.

Our Mission explains how we will improve our approach to measuring our impact. It sets out the 3-tier framework we will use to measure how we are doing. This includes measuring our operational efficiency against our value for money framework, the impact of our interventions and outcomes

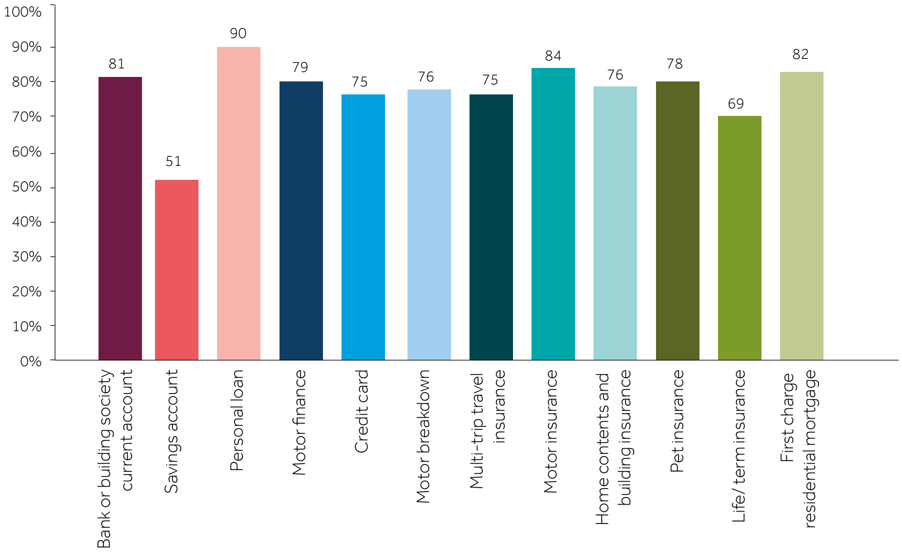
Figure 2.1: Outcome-based performance framework

Ensuring that financial services markets function well

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

This performance framework applies to both retail and wholesale markets. 'Consumer' here means not only retail consumers but also wholesale market participants.

Figure 2.2: Overall, how satisfied are you with your product provider?



Source: Financial Lives Survey 2017

on markets as a whole to identify common root causes. We will develop the means by which we measure against this framework during 2017/18.

Performance measures under our statutory objectives

Consumer protection

We undertake research and monitor the market to understand what consumers think about the products and services they use and how satisfied they are with them. The selection of metrics below gives an indication of changes in consumer outcomes.

We mention our Financial Lives Survey 2017 throughout this Annual Report. It ran from December 2016 to April 2017 and around 13,000 consumers participated. We ensured that we surveyed a full range of consumers and the results represent the UK population. This survey gives us useful insight into how UK adults aged 18 and over experience the financial services sector.

Satisfaction with providers of different products amongst UK adults is mostly moderate or high (figure 2.2), with satisfaction scores of 7-10 (out of 10) recorded by 69% to 90% of consumers. Savings accounts present an exception: only half (51%) of consumers with a savings account are moderately to completely satisfied with their provider, a finding that may reflect the current low levels of interest rates available on these products.

Complaints

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

> **"Only half of consumers with a savings account are moderately to completely satisfied with their provider."**

Figure 2.3a: Complaints received by regulated firms

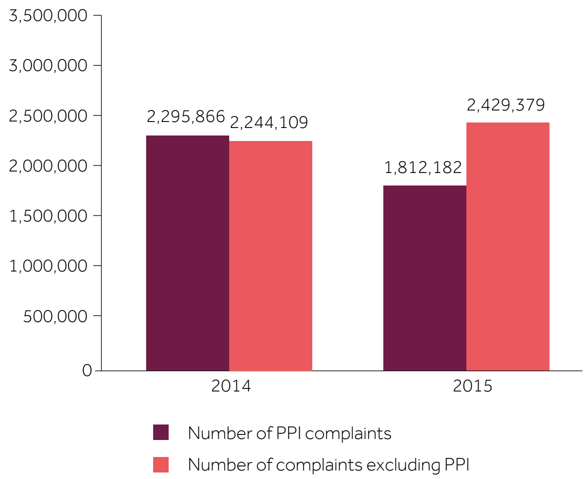


Figure 2.3b: Complaints received by regulated firms

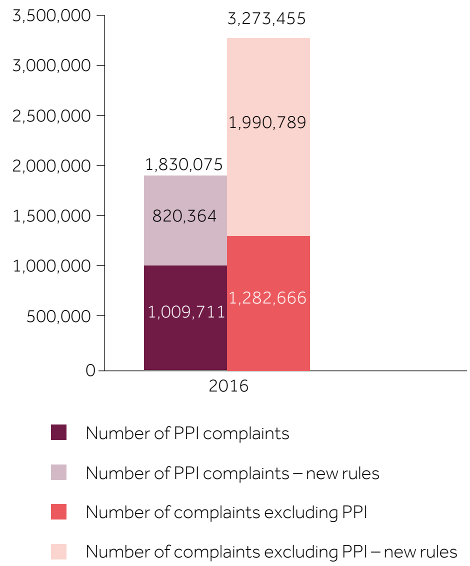


Figure 2.3a shows the total number of complaints received by firms in 2014 and 2015. Figure 2.3b shows the number of complaints for 2016. Rule changes to our complaints data that came into effect during 2016 mean that the data from 2016 are not directly comparable with 2014 and 2015.

We made changes to our complaints rules to enhance our analysis of complaints and to improve how firms handle complaints. Those changes mean that all complaints made to firms must be reported to us, rather than only those still unresolved by the end of the next business day. The new rules came into force on 30 June 2016 but not all firms used the new reporting return from that date due to their own financial year end date and different reporting periods. For 2017 all firms will have to report under the new rules.

The new reporting rules have resulted in an overall increase in the number of complaints. However, data from six of the largest banks show us that if they had reported under the old rules their complaints would have decreased by approximately 14% within 2016, indicating that the increase was principally due to the requirement to report all complaints.

While the total number of complaints reported to the FCA has increased significantly, due to these rule changes, the total number of reported PPI complaints changed little when comparing 2016 with 2015.

From all FCA complaints data from firms, generally 2016 saw an improvement in the time taken for firms to close their complaints, compared to 2015. More complaints were closed by firms in eight weeks or less. However, because of the reporting changes, more complaints will now be reported to the FCA by firms as being closed within eight weeks in the second half of 2016. The overall trend is encouraging. However, handling complaints promptly may be affected by different factors, such as the emergence of more complex issues.

In 2016, 59% of all complaints to firms were upheld (where the firm agreed with the complainant). This is up from 54% in 2015, and is the same percentage as in 2014. This percentage does not change materially when PPI is excluded.

The total amount of redress paid by firms to consumers in response to complaints has decreased from £5.2bn in 2014 and £4.1bn in 2015 to £3.9bn in 2016. This was mainly driven by a decrease in redress paid for general insurance and protection products, including PPI. We estimate over 90% of redress paid in the general insurance and protection sector is for PPI. When redress for general insurance and protection is excluded, total redress decreased from £699m in 2015 to £564m in 2016. This is closer to the £551m paid in 2014.

Figure 2.4: How satisfied were you with how your complaint was handled by your provider?

Sector	Score 7-10 (out of 10)
Retail banking	45%
Consumer credit	40%
Retail investments	41%
General insurance and protection	33%
Mortgage *	27%

Financial Lives Survey 2017;
*sample size lower than 100

Figure 2.4 shows that firms still have more work to do to improve how well they handle complaints. All sectors showed that less than half of customers (45% being the maximum) gave a rating that they were moderately to completely satisfied with a provider's handling of a complaint.

We will continue to monitor the effect that our complaints-handling rule changes have on satisfaction scores over 2017/18.

The Financial Ombudsman Service

The Financial Ombudsman Service received 1,394,379 enquiries over 2016/17, (compared to 1,631,955 in 2015/16 and 1,786,973 in 2014/15). Not all enquiries result in new cases being initiated. In 2016/17, 321,283 new cases were set up for investigation compared to 340,899 new cases in 2015/16 (figure 2.5).

Over 2016/17 the Financial Ombudsman Service resolved 336,381 cases, with an overall uphold rate of a complaint of 43% (compared to 438,802 and 51% respectively for 2015/16).

While complaint numbers have decreased, we recognise that complaints data are just one indicator of how financial markets are working. Other factors can positively or negatively affect complaint numbers, such as growing consumer awareness of their rights.

Figure 2.5: Complaints received by the Financial Ombudsman Service

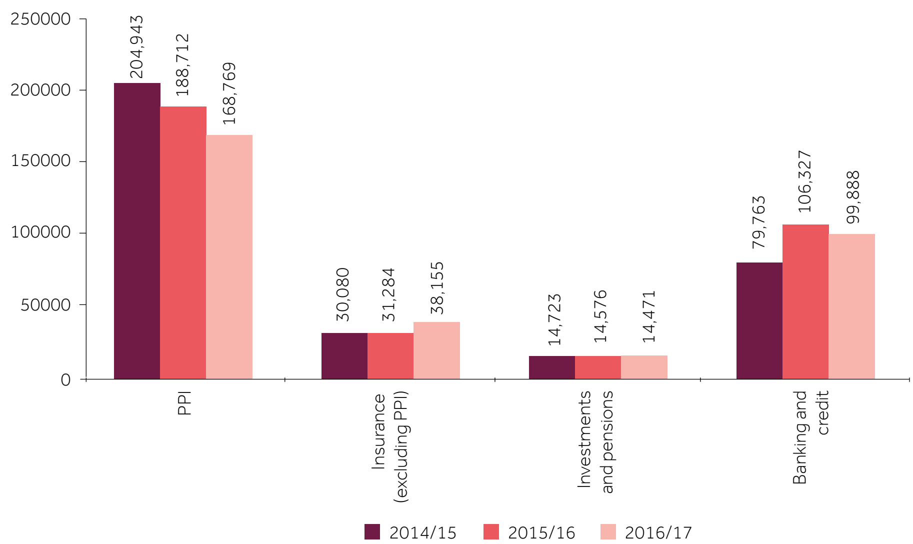
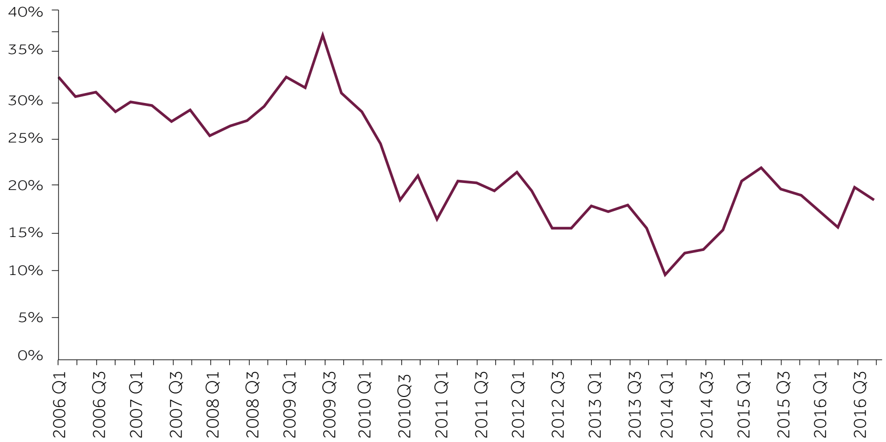
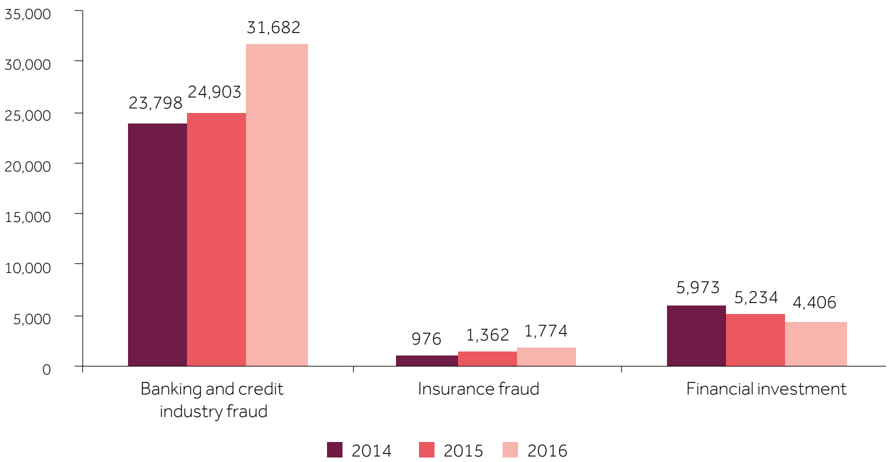


Figure 2.6: Market Cleanliness Statistic



Source: FCA market monitoring data

Figure 2.7: Fraud reported to Action Fraud



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

Protecting and enhancing the integrity of the UK financial system

We aim to support a healthy and successful financial system, where financial markets are fair, efficient and transparent, firms can thrive and consumers have trust in open and transparent markets. We have many ways that we monitor integrity and the market cleanliness statistic in figure 2.6 is just one example of the tools we use.

We analyse the scale of a share's price movements in the two days ahead of a relevant regulatory takeover announcement, and identify movements that are abnormal. However, the degree of these abnormal pre-announcement price movements (APPMs) does not necessarily show the level of insider trading. Many other factors could cause an abnormal price movement before a takeover announcement. For example, factors such as financial analysts or the media correctly assessing which companies are likely takeover targets or significant, but normal, trades that just happen to fall before an announcement. It is not possible to determine which of these factors is behind each abnormal price movement and so if any insider trading has happened.

For the four years before 2009, the market cleanliness statistic for takeover announcements remained close to 30%. However, from 2010 onwards, we saw a sizeable decline in the measure to 15.2% in 2014.

In 2016, the measure was 19%, the same as in 2015. We will continue to monitor the results and gather market intelligence to enable us to draw robust conclusions about the underlying trend in insider trading activity.

Figure 2.7 shows the number of reports of fraud from individuals and businesses (coming either directly or through a police force) made to Action Fraud (the UK's national reporting centre for fraud and cyber crime) on the phone or online. The results for 2016 show that reported fraud has continued to rise for banking and credit, and insurance fraud. However, we are pleased to see a strong reduction in reported fraud in financial investments, which may indicate that efforts in this area by the FCA and a range of partner agencies, including our ScamSmart campaign, have helped to educate consumers and deter fraudsters to reduce the level of fraud occurring.

Figure 2.8: Firm perspective on how effective the FCA is in regulating the financial services industry (%)

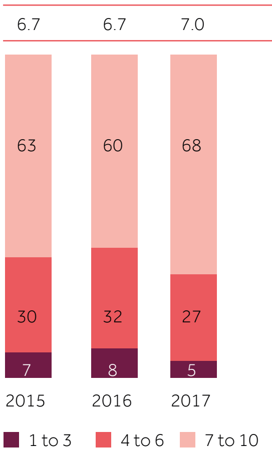
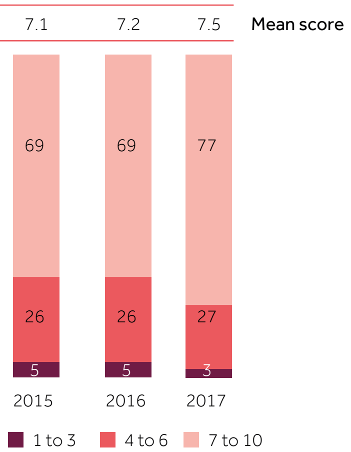
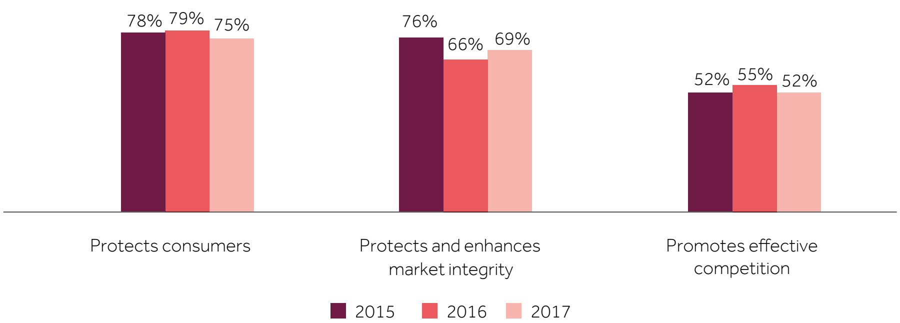


Figure 2.9: Firm satisfaction with relationship with the FCA (%)



Note: Figures for 2015 and 2016 are from the FCA Practitioner Panel Survey 2016 report. The 2017 results are from the FCA and Practitioner Panel 2017 Industry Survey.

Figure 2.10: Agreement that the FCA is achieving each of the tested objectives



Source: FCA Stakeholder Engagement Research 2017 (BritainThinks)

Firm ratings on 'FCA as effective regulator'

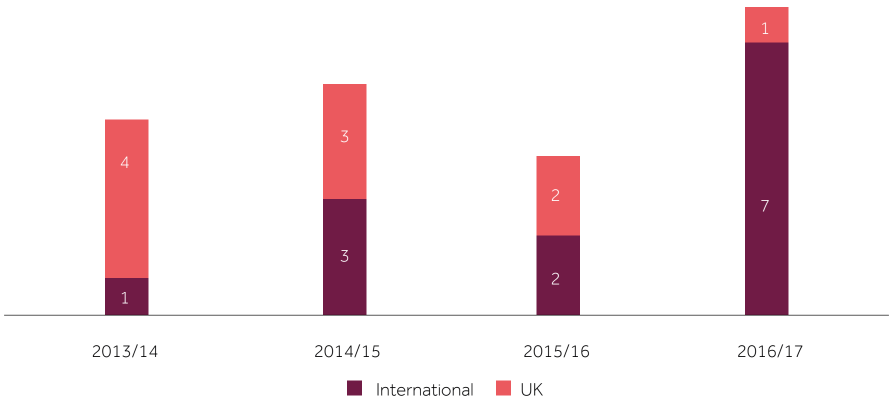
In 2017, we undertook a survey jointly with the FCA's Practitioner Panel, asking firms to provide their views on the FCA, including 'effectiveness of the regulator' and 'satisfaction with the regulatory relationship'.

In the most recent survey the mean overall score rating the effectiveness of the FCA (figure 2.8) increased from 6.7 to 7.0 (ratings out of 10). The mean overall score rating satisfaction with the relationship with the FCA (figure 2.9) continues to show an improvement and has risen from 7.1 in 2015 to 7.2 in 2016 to 7.5 in 2017 (ratings out of 10).

Stakeholders' view of our performance

We conduct independent annual stakeholder research, through BritainThinks, which asks a wide range of our stakeholders – including trade bodies, consumer organisations, parliamentarians and the media – about their perceptions of the FCA. That research shows that the majority of stakeholders agree that the FCA is achieving its statutory objectives. This remains consistent with relatively little change from last year (figure 2.10).

Figure 2.11: New bank authorisations and variation of permission



The BritainThinks survey also shows that almost three-quarters of stakeholders agree that the FCA 'is clearly establishing its authority over the UK's financial services industry' (72%) – an increase of 6 percentage points since the last wave of stakeholder research. Stakeholder perception of the FCA has returned to levels seen in previous years, after a drop in 2016.

A majority of external stakeholders feel that they hear the 'right amount' from the FCA (67%). This is a 6 percentage point increase from the 2016 wave of research.

Promoting effective competition in the interests of consumers

In well-functioning markets, consumers have a range of choice, with firms competing on service, quality, price and innovation.

It is not possible to directly determine whether competition is working well in a particular market. Market data that indicate the likely level of competition must be gathered and considered as a whole. These indicators can include firms' ability to enter that market, whether and which firms exit it and the degree of power firms in that market hold. This is why we use our competition tools, particularly market studies, to take a detailed look at how competition is working in a sector. We give further information on how we are meeting our competition objective in chapter 5.

An example of this approach comes from significant changes we made to the authorisation process in 2013 to remove barriers to entry in the banking market. Between then and the end of March 2017, we worked with the Prudential Regulation Authority (PRA) to support them in the process of authorising 23 banks, promoting greater market entry with the intention of raising levels of competition in the market.

For competition to work well, markets should be open to entry and innovation. Figure 2.11 shows the number of banking licences (either via the authorisation of a new firm or an existing regulated firm varying its permissions). However, competition can still work better. Following from our response to the CMA Retail Banking Market Investigation we are taking forward a number of actions (see 'Treatment of existing customers' in chapter 3 for further details).

Service standards

We monitor and report on other performance areas, including whether we are meeting our service standards.

We track and report on our performance against our service standards for our regulatory functions, and publish them on our website every six months.

Our service standards include voluntary commitments and our statutory obligations under FSMA and other legislation. The standards apply to a range of our services, including how we deal with telephone enquiries, correspondence and applications.

We have 65 service standards, up from 54 when the FCA was first established. Of these 65, during 2016/17 we met the standards for 44 of the applicable 63 standards (67%).

More information about our service standards is available on our website.

Chapter 3
Protecting consumers

One of our operational objectives is to ensure an appropriate degree of protection for consumers. We encourage all firms to continually focus on achieving fair outcomes for consumers.

Our aim is to ensure that firms' policies always consider consumers, that firms have competent, trained staff who treat consumers fairly and that consumers get appropriate redress if things go wrong. We supervise firms to make sure they are meeting their regulatory requirements and take action to enforce our rules. We also protect consumers by tackling criminal activity and driving up public awareness about scams.

In our Business Plan 2016/17, we included three priority themes that principally fell within this objective – pensions, advice and the treatment of existing customers.

Taking action

Fair treatment of mortgage customers in payment shortfall

We looked at how mortgage firms calculate contractual monthly instalments (CMIs) for customers with payment shortfalls, to see whether they meet our rules and how customers have been affected. We found that some firms automatically included customers' payment shortfall balances and/or arrears balances within their CMI calculations without considering customers' circumstances and agreeing it with them. We found that approximately 750,000 customers were likely to have been affected.

This practice lacks transparency, can lead to harm and is likely to be a breach of our rules. It can take a customer longer to repay their payment shortfall, may lead to inappropriate fees being charged and the customer unknowingly overpaying towards their outstanding mortgage balance.

To resolve the situation proportionately, practically, fairly and swiftly, we developed a remediation framework with input from an industry working group. We consulted on the framework, which provides one method that firms can use when providing remedy to, and communicating with, their affected customers. We expect firms to determine their own approach and deliver fair outcomes to all affected customers.

Principals and their appointed representatives in the general insurance sector

UK general insurers use a variety of different distributors to sell products to customers, including over 20,000 'appointed representatives' (ARs).

Firms have now paid more than

£26.9bn

in redress to affected PPI consumers

ARs are firms or persons who conduct regulated activities and act as an agent for a firm we directly authorise. For example, they may sell insurance and warranties for their own products, such as white goods and holidays, to millions of consumers each year.

There are relatively few rules governing ARs; the principal firm that appointed them is responsible for their oversight and control. We have found widespread problems in the way ARs operate. We carried out a thematic review of principals and their ARs and published the findings in July 2016.

Our review found that many principals were not supervising their ARs effectively. As a result, many ARs had poor sales processes and practices, leading to consumer harm and mis-selling. We took early action where our rules had been breached. This included preventing some firms from taking on new ARs, stopping sales activity and getting the principals to conduct past business reviews to identify affected customers. We have informed all relevant principal firms of our expectations and are working with them to address the specific issues we have identified. We are also working with firms who were not included in our review to ensure they understand and comply with their responsibilities.

Implementing the Lifetime ISA

The introduction of the Lifetime ISA (LISA) was announced in the March 2016 Budget, and it was available to investors from 6 April 2017. Its aim is to help adults under 40 to save for a deposit for a first home or for retirement. Our rules regulating the promotion and distribution of the LISA came into force on 6 April 2017. We expect these rules to help investors make informed decisions and put them in a position to drive effective competition in the market for this new product.

Delivering redress

Payment protection insurance (PPI)

Firms' mis-selling of PPI has been the biggest issue of financial mis-selling in recent years and has damaged public trust in financial institutions. Firms have now paid more than £26.9bn in redress to affected consumers. However, our research found that the perceived open-ended timescale for making complaints does not incentivise consumers to consider whether they want to act.

Following consultation, in March 2017 we announced a deadline of 29 August 2019 for PPI complaints, together with an FCA-led consumer communications campaign to encourage consumers to decide whether to act. We have also made rules and guidance on how firms should handle PPI complaints in light of the Supreme Court's judgment in *Plevin v Paragon Personal Finance Limited*. In that case, the court ruled that the firm's failure to inform the customer about the large commission payable from their PPI premium made the relationship unfair under s140A of the Consumer Credit Act. Our package should bring the PPI issue to an orderly conclusion and bring finality and certainty for consumers and firms.

An application for judicial review of our decision to implement a PPI deadline and our rules and guidance on handling PPI complaints in light of the Supreme Court judgment in *Plevin* has been made. We will be defending that application.

Facilitating fair redress

It is first and foremost a firm's responsibility to treat customers fairly and provide appropriate redress when things go wrong. When this happens, we can work with firms to help them set up voluntary redress schemes.

In November 2016, a debt purchase and collection firm, Motormile Finance UK Limited, entered into an agreement with us to provide redress to over half a million customers for due diligence failings which led to unfair customer contracts. It also agreed to write off £414m of debt that it was unable to show was correct and properly due. We were first alerted to this case by a high number of customer complaints to our Contact Centre. In this case, as in many others, our subsequent review resulted in the firm changing its processes, systems and controls to address the problems we identified.

Similarly, in January 2017, HSBC voluntarily agreed to set up a redress scheme for customers who had paid unreasonable debt collection fees charged by HFC Bank Ltd and John Lewis Financial Services Ltd, both of which are now part of HSBC Bank Ltd. Our review into the initial allegations of unreasonable charges identified that around 6,700 customers were potentially entitled to redress.

Unfair treatment of business customers

In 2014, we appointed a 'skilled person' to review Royal Bank of Scotland's (RBS's) treatment of SME customers transferred to its Global Restructuring Group (GRG) between 2008 and 2013. The skilled person's report considered the treatment of small business customers in financial difficulty and addressed the allegations of poor practice in the way such firms were treated by RBS GRG, as set out in the report by Dr Lawrence Tomlinson and referenced in Sir Andrew Large's report.

In November, we announced the summary findings of the skilled person's report. The commercial lending activities carried out by GRG and addressed by RBS's proposals are largely unregulated; therefore, our powers are limited in this area. We have carefully considered the skilled person's report and other additional material, and conducted further work.

RBS has put into place a complaints review process which should provide certain SME customers with a route to make a formal complaint, should they wish to do so. Additionally, RBS has agreed to provide automatic refunds for complex fees to some SME customers. In particular, we noted and welcomed the involvement of an independent third party to provide oversight of the complaints review process.

Enforcement

We will take the necessary action to enforce consumer protection, including in relation to unauthorised investment businesses such as collective investment schemes, investment and insurance frauds, deposit taking and boiler rooms.

We have a dedicated team who review all reports of unauthorised activity against a set of measures to identify the most serious matters that pose the greatest risk to consumers. Where we decide action is appropriate, we use a variety of methods and investigative tools to stop the activity and prevent further consumer harm. These tools range from publishing warnings about unauthorised firms and individuals, disrupting firms in a range of ways, taking down websites and pursuing criminal or civil action against companies and individuals. We issued a total of 285 consumer alerts in 2016/17 and published two actions (one criminal and one civil) related to large-scale investigations into unauthorised activity.

Raising awareness

Helping firms prepare for the impact of an interest rate rise on financially vulnerable customers

We published the results of our thematic review of mortgage lenders' strategies to mitigate the impact of an interest rate rise on financially vulnerable customers.

We found that most firms had considered what characteristics may make a customer more vulnerable to a rise in interest rates and analysed the number of customers who might be affected.

However, firms were at different stages in developing strategies to treat customers fairly when interest rates rise, with few firms able to implement strategies if this happened in the near future.

We started this review in early 2016, at a time when an interest rate rise was generally expected. Since then, interest rates have been cut and we recognise that this may not seem a high priority. However, we decided to share the results of our review to assist firms and customers to prepare for when interest rates do rise.

General insurance renewals

The FCA, consumer groups and some industry representatives had long-standing concerns about the lack of competition and low levels of customer switching in general insurance.

In 2014, we ran a large-scale randomised trial with over 300,000 home and motor insurance customers to find out which prompts led them to make more active choices at renewal. We subsequently introduced new rules and guidance for general insurance renewals. Our new rules require general insurance firms to:

- disclose last year's premium at each renewal
- include wording to encourage consumers to check their cover and shop around for the best deal at each renewal
- identify consumers who have renewed with them four consecutive times, and give them an additional standard message encouraging them to shop around

In September 2016, UK consumers owed

£188.7bn

of consumer credit lending

The aim of these requirements, which came into effect on 1 April 2017, is to improve levels of consumer engagement in insurance renewals, as well as the way that firms treat existing consumers at renewal. These new rules will make price increases at renewal more transparent and we expect this to prompt more consumers to shop around to get a better deal.

Improving how firms deal with customers in early arrears

In September 2016, UK consumers owed £188.7 billion of consumer credit lending. 61% of people in the UK have at least one consumer credit product, and 26% of them have an outstanding debt on it.

We published the results of our thematic review into how firms treat customers in early arrears for unsecured lending, which includes credit cards, personal loans and point-of-sale finance.

We found that not all customers who pay late have repayment difficulties. However, most firms missed early opportunities to identify those who were showing signs of financial difficulty and offer appropriate help.

The repayment options firms offered to customers varied quite significantly. A firm's culture clearly influenced their approach to, and treatment of, customers in arrears difficulties.

We have given each firm specific feedback about the good and poor practices we found. We may take further regulatory action, depending on the seriousness of the issues and the firms' responses to our findings.

We expect all firms involved in collecting consumer credit debts to consider their approach to arrears in light of our findings.

High-cost credit and overdrafts

Since taking over the regulation of consumer credit in April 2014, we have focused on the products we believe pose the biggest risk to consumer protection. In November 2016, we published a call for input to get evidence and views for our work on high-cost credit, including a review of the payday loan price cap which was introduced in January 2015.

The call for input covered:

- high-cost credit products, including home-collected credit, some rent-to-own, catalogue credit, pawn-broking, guarantor and logbook loans
- overdrafts
- the high-cost short-term credit (payday loan) price cap
- repeat and multiple high-cost short-term credit borrowing

We plan to report on the findings of our call for input in the summer of 2017.

In line with our approach to high-cost credit, we also look at the impact for consumers when debt management firms wind-up. We actively contact those affected and point them to free sources of debt advice.

Packaged bank accounts

Following the new rules we introduced on packaged bank accounts (PBA) in 2013, we undertook a thematic review to see how well they were working and we published our findings in October 2016. While our findings suggest the rules have raised standards, they also show firms have more to do to ensure they consistently check customers' eligibility for the insurances in a PBA. We also found firms needed to improve how they handled complaints about PBAs. We have given specific feedback to all the firms in our review, which includes the actions we expect them to take to address the weaknesses we identified.

Following the publication of the report, we have reviewed a further sample of more recent PBA complaints to test the extent to which firms have raised standards since our first review. Individual feedback will be provided to each of the firms in the sample.

Protecting consumers by strengthening the UK's financial system

Ring-fencing was one of several important reforms the Government brought in to strengthen the financial system following the financial crisis that began in 2007.

Ring-fencing rules require UK banks with a three-year average of more than £25 billion 'core deposits' to 'ring-fence' or legally separate their essential retail banking services from the rest of their banking group. Essential services are the core services retail banks offer: accepting deposits, facilities for withdrawing money or making payments from an account and overdraft facilities.

Working with the lead regulator for ring-fencing, the Prudential Regulation Authority (PRA), our role is to monitor and manage potentially negative impacts on consumers, market integrity and competition. During 2016/17, we worked with firms to refine and finalise their plans for ring-fencing, as they must be implemented by 1 January 2019.

Contracts for Difference

Retail Contracts for Difference (CFDs) are complex, leveraged derivative financial instruments that investment firms generally offer to retail clients through online trading platforms.

In the past six years, our supervisory work and thematic reviews of CFD firms have found increasing instances of poor conduct and risks of consumer detriment across the sector. Our analysis of a representative sample of CFD client accounts found that these products were increasingly being sold to retail clients and that 82% of clients lost money on these products. As a result, in 2016 we published a consultation paper proposing a package of policy measures to address these risks.

In parallel, we have continued our supervisory approach looking at the risks to consumers presented by these products. Our focus has included both the risk to retail customers trading CFDs on a non-advised basis, where firms may not have improved the appropriateness tests they are required to apply before taking on new clients, and the risks arising where CFDs are traded via an intermediary on an advisory or discretionary basis on a customer's behalf. Other national regulators have also been looking at these products.

"

Ring-fencing rules require UK banks with a three-year average of more than £25 billion 'core deposits' to 'ring-fence' their essential retail banking services from the rest of their banking group.

"

Our Business Plan commitments – Pensions

Pensions policy and legislation have seen major changes in recent years, and was therefore a priority theme for us in 2016/17. Recent changes to the pensions sector have included the introduction and staging of auto-enrolment into workplace pensions and the introduction of the pension freedoms in April 2015.

Growing numbers of consumers have to make irreversible decisions that will affect their long-term financial wellbeing. While the market is changing, our aims remain consistent. We want consumers to have access to fair products and services which deliver what they promise and to have confidence that firms will treat them fairly and fix problems promptly. We also want to encourage competition across the sector.

The regulation of pension schemes is divided between the FCA and The Pensions Regulator. The FCA is responsible for the conduct of firms that provide contract-based pensions, including stakeholder pensions, individual personal pensions and workplace personal pensions such as group personal pensions. We also regulate advice on pensions when given to individuals.

Changes to pension rules

In January 2016, the Treasury decided that early exit charges on some pension policies were creating a barrier to the over 55s using the new pension freedoms. Parliament gave us the power and a duty to cap early exit charges to reduce this risk. In November 2016 we finalised rules which mean that:

- early exit charges are capped at 1% of the value of members' contract-based personal pensions, including workplace personal pensions begun before 31 March 2017
- early exit charges cannot be increased to 1% if they are currently lower than this
- firms cannot apply any early exit charge to personal pension contracts begun on or after 31 March 2017

In October 2016 the Government announced that it will not continue with plans to allow people to sell their annuity incomes without current tax restrictions. As a result, we withdrew our consultation on rules for a secondary annuity market.

Increasing competition and innovation

This year, we launched our Retirement Outcomes Review to assess the impact of the pension reforms on competition in the retirement income market.

The review looks at consumers' responses to the wider range of products and options now available to them, and what affects the choices they make. Additionally, we are examining how firms have adapted to pension reforms, what business models and products are emerging and the impact on competition in this market. We plan to publish the interim report in summer 2017, setting out our findings and inviting views on potential interventions.

Better value-for-money products and services for consumers

Throughout 2016/17, we have been testing the effectiveness of different variations to firms' 'wake-up packs' via randomised control trials. Pension providers send these packs to customers approaching retirement to encourage them to take action on their pension options.

To help encourage consumers to shop around when buying an annuity, we have consulted on requiring annuity providers to provide consumers with an information prompt. This prompt will show the difference between the provider's annuity quote and the highest quote available on the market. We based this requirement on behavioural testing which showed this prompt encouraged consumers to shop around and, if offered a better deal, switch provider.

In December 2016, the Department for Work and Pensions (DWP) and FCA published a joint review of industry progress in remedying poor value workplace pension schemes. Overall, it found that pension providers had made significant progress in implementing the recommendations of the Independent Project Board (IPB).

As a result, over one million workplace pensions customers either have, or soon will have, their charges reduced to 1% or less. We continue to follow up the small number of providers which, at the time of our assessment, had not yet done enough to meet the IPB recommendations.

The review was broadly supportive of the effectiveness of independent governance committees (IGCs) in implementing the IPB's recommendations. As such, we have decided to defer the full IGC review to allow us to focus on other priorities within our 2017/18 Business Plan.

Information about pensions guidance

Our rules state that firms communicating with retiring customers about their options ('non-advised' customers) should tell them about the availability of the pensions guidance service, Pension Wise. In July 2016 we completed our review into firms' compliance with these rules. We found that most of the 20 pension providers in our sample were, on the whole, meeting the requirements around signposting customers to pensions' guidance.

However, we did identify a number of areas where firms could improve. We have encouraged all firms with relevant non-advised sales processes to look at the action they should take based on our review's findings.

Under section 333O of FSMA we must discharge our general pensions guidance functions with a view to securing an appropriate degree of protection for recipients of pensions guidance from designated guidance providers. As a result, we have made minor changes to the standards for retirement guidance providers to reflect how the Pension Wise service has changed (i.e. to reflect the change in oversight of the service from the Treasury to the DWP) and how consumers wanting to access their pension savings are using it (i.e. changing the wording so that a Pension Wise session can cover more than one appointment and that only 'relevant' information should be included in the record from that session).

Information about annuities for non-advised customers

We carried out a thematic review of non-advised annuities sales practices. Based on our sample, we found no evidence of an industry-wide or systemic failure to give customers enough information about enhanced annuities which resulted in actual loss.

However, there was evidence that a small number of firms may not have given their customers enough information to understand their options, the benefits of buying an enhanced annuity and their right to buy one on the open market. We have asked these firms to undertake a past business review of all relevant non-advised sales from July 2008 to the present time.

Reducing harm to consumers from scams

We undertake a range of co-ordinated activities to deal with pension-related scams. Specialist teams have been set up to monitor, quantify and tackle cases of systemic pension mis-selling and fraud involving firms we regulate, and those unregulated firms that introduce business to them.

We work with firms to ensure they take the necessary steps to protect consumers, and collaborate with other agencies to tackle scams. Over the past year, we have issued alerts to industry warning of the dangers of working with unregulated introducer firms, setting out our expectations for firms advising on pension transfers, and to self invested personal pension (SIPP) operators warning of the risks they face from evolving pension scams.

We have continued our ScamSmart campaign over the past year and give more detail on this campaign in chapter 4 under 'Financial crime and AML'.

Measures of success against 2016/17 Business Plan

The Financial Ombudsman Service experienced an upward trend in the number of complaints it received relating to personal pensions between 2009/10 and 2016/17 (38% increase). Complaints about personal pensions in 2016/17 increased by 20% compared to 2015/16 and totalled 2,377.

We acknowledge that complaints data are an imperfect indicator of how the financial markets are performing, but they help us assess the scale of issues in the industry and identify emerging trends.

Our Financial Lives survey indicates that 41% of UK adults with a defined contribution (DC) pension are moderately to completely satisfied with their pension provider, or with the provider of the pension they took out most recently if they have multiple DC pensions. A similar proportion (43%) of consumers also moderately to completely trust their current provider. Consumers aged 45 and over reported the highest levels of satisfaction and trust.

Our Business Plan commitments – Advice

Changing consumer needs and pension reforms mean consumers have to take more responsibility for their financial future. Their choices are also more complex and varied – making affordable, professional advice and guidance services increasingly important. So our work has concentrated on ensuring that there is a well-functioning market for advice and guidance for consumers, with clear and transparent costs.

Suitable, affordable and accessible advice

The Treasury and FCA launched the Financial Advice Market Review (FAMR) in 2015 to address concerns that the financial advice market in the UK was not working well for consumers.

Our work has focused on encouraging a market that delivers affordable and accessible financial advice and guidance to all consumers at every stage of their lives. We have worked with firms and trade bodies on how we could best support them, improve the advice market and make the regulatory framework clearer. We have:

- published information to help firms understand how to use the existing flexibility in our adviser-charging rules
- amended our rules for adviser-charging in firms where all relevant services are provided in-house
- consulted on guidance to address four of the FAMR recommendations - streamlined advice, fact-find information, the regulated advice 'perimeter' (activities where FCA regulation and powers apply) and the employers' and trustees' factsheet

There is more information on the implementation of the FAMR recommendations in the joint report that we published with the Treasury on 6 April 2017.

Assessing suitability review

Over the past year, we have assessed 1,142 individual pieces of advice from 656 firms against our suitability and disclosure requirements. We issued feedback letters to all firms in the review with our findings from their specific files. We found these firms gave suitable advice in 93% of cases. These are positive results. We believe they are a result of the successful adoption of the Retail Distribution Review by advisers and reinforced by our previous supervisory and enforcement activities.

Support to help firms provide appropriate advice

This year we set up an Advice Unit to provide feedback to firms that are developing automated models to give consumers lower-cost advice. We accepted 18 firms into the Unit and are providing individual regulatory feedback on their business models. We plan to use the experience of individual firms to publish resources to help all firms developing automated models.

We supported the Financial Advice Working Group to provide technical support on implementing the FAMR recommendations. The Working Group includes a selection of consumer and industry experts from the FAMR Expert Advisory Panel, the Financial Services Consumer Panel, the FCA Smaller Business Practitioner Panel and the FCA Practitioner Panel. One of the group's aims is to help employers to help their staff look after their financial health and improve 'rules of thumb' and nudges to increase consumer engagement with their financial choices.

Measures of success against 2016/17 Business Plan

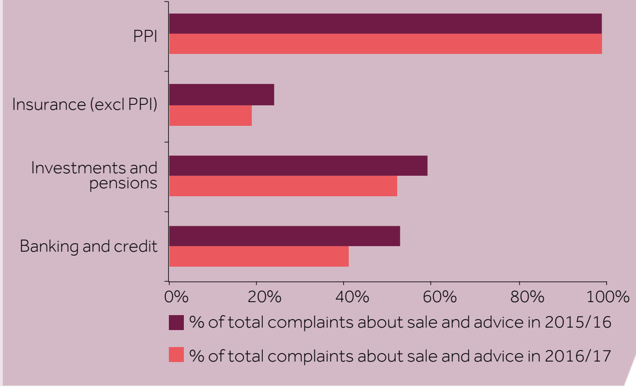
The Financial Lives Survey 2017 surveyed UK adults who had received regulated financial advice in the last 12 months related to investments, pension savings and/or retirement planning. Most (85%) adults who had received advice in the last 12 months reported moderate to complete satisfaction with the adviser (on a score of 7 or more out of 10) of their most recent advice session. We will continue to monitor consumer satisfaction.

The FAMR baseline report, developed with the Treasury, identifies a range of indicators which will be used as a benchmark from which to measure changes in the market for advice and the impact of the FAMR recommendations.

Complaints about advice

The proportion of consumer complaints made to the Financial Ombudsman Service about advice continue to reduce (figure 3.1). While complaints volumes are affected by many factors, we are encouraged that the total proportion of complaints on advice has reduced. We continue to work to improve the quality of advice that consumers are given.

Figure 3.1: Complaints to the Financial Ombudsman Service about sale and advice



Our Business Plan commitments – Treatment of existing customers

Over the past year, our work to deliver better outcomes for existing customers has focused on the information that firms give their customers at renewal and on improving pricing transparency. We also want to ensure that there is greater choice and availability of products, and that barriers to consumers' switching or exiting products are removed.

Making pricing more transparent

Our cash savings market study found that savings accounts opened years ago pay lower interest than those opened more recently. Despite this, a significant number of consumers do not move their money to accounts that might pay more interest – even with the same provider. Following these findings, we have implemented rules that:

- require providers to give clearer and more targeted product information to make it easier for consumers to shop around
- make the switching process quicker by making it easier to switch to another product within the same firm

We have proposed remedies in four main areas and trialled the 'sunlight remedy'. We asked firms to tell us the lowest possible rate that consumers could earn across all of their easy access savings accounts and easy access cash ISAs. We then published this information to raise awareness of firms' strategies towards their longstanding consumers, and to allow a comparison between open and closed accounts.

Encouraging choice, improving availability

The Competition and Markets Authority (CMA) made recommendations to increase competition in retail banking. Following their report, we developed measures to improve the information these firms give about service quality, how consumers can take action and overdraft measures. We published our response to the CMA's final report and have started action in a number of areas:

- **Prompting increased customer engagement**. We are researching which prompts are most likely to increase consumer awareness and understanding of using accounts, both for individual consumers and small and medium-sized enterprises (SMEs).
- **Improved transparency for overdraft users**. We are researching, testing and implementing measures to increase consumers' engagement with their overdraft use and charges. We also published work on overdrafts that went beyond the CMA's recommendations (see 'High-cost credit and overdrafts' earlier in this chapter).
- **Promoting innovation**. Other CMA recommendations included acting as an observer in the steering group tasked with establishing the open application programming interface (API) standard for banking. We will use our role in the group to encourage solutions for a broader set of accounts than just current accounts.
- **Improving service**. We are exploring what information banks should publish to enable consumers to assess differences in the quality of service they provide. We have set up an expert group to advise us on additional information that could help consumers.

We will work closely with the CMA on these measures and recommendations. We are also considering the competition and conduct implications of firms' business models for current accounts and other retail banking products.

We published final guidance that sets out our expectations on what life insurance firms should do to treat their closed-book customers fairly. We want to ensure that firms do not give closed-book customers less attention than new customers, and keep them well informed about products they are invested in, including on performance and charges.

This guidance means that firms should identify what 'treating customers fairly' means for them, the outcomes for their customers they believe are fair and, where they identify poor outcomes, take steps to address them.

Measures of success against 2016/17 Business Plan

Our Financial Lives Survey 2017 gave the following results on customers switching financial product and advisers:

- 85% of UK adults with an account for day-to-day banking have held the same account for over three years. Of these customers, 69% have never switched account because:
  - 60% said they were happy with their existing provider
  - 21% had never considered switching
  - 19% said it was too much hassle to switch
- 32% of UK adults who had switched provider or opened a new account with their existing provider in the last three years did so because of a financial incentive, 21% did so on the recommendation of a friend or colleague and 22% to get a better interest rate
- of those that had switched account (including with their existing provider) or opened an account for the first time, 87% said the process was easy

Chapter 4
Protecting and enhancing the integrity of the UK financial system

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

The focus of our work is on ensuring we have the right rules and policies in place. We identify any necessary need for structural changes and deliver them in a variety of ways. These include improving standards across financial markets, making sure market participants play by the rules and taking action when they do not. These are some of the main areas of work we have undertaken in the past year to enhance market integrity.

Taking action

Protecting all investors in illiquid assets

Following the UK's vote in June 2016 to leave the EU, demand by investors to realise their assets in property funds exceeded many funds' ability to sell them. As a result, a number of property funds had to temporarily suspend trading and we closely supervised the affected funds and life insurers invested in them during this time. Since the financial crash of 2007, there has been international scrutiny of how the actions of investment funds and fund investors could affect the stability of financial systems. The liquidity of funds is an integral part of this and investment in illiquid assets is a growing proportion of the investments held by institutional investors such as pension funds.

We decided it was timely to review our regulatory approach to open-ended funds that invest in illiquid assets like property. We looked at firms across the value chain, including depositaries, authorised corporate directors, platforms, wealth managers and independent financial advisers. We wanted to find out if firms had treated all their customers fairly, understand the impact on market integrity when firms decided to suspend funds or apply fair value price adjustments and examine the quality of communications made by firms during this period.

In February 2017, we published a discussion paper to find out more about the problems in open-ended funds investing in illiquid assets, ask if the current rules address them and if further intervention from us is needed. We will analyse feedback to this paper and the findings of our supervisory work and publish a response later in 2017.

Ensuring providers act with integrity

An important part of our work is ensuring that only 'fit and proper persons' are allowed to undertake regulated activity. Where we have evidence that individuals do not meet our rules, we remove them from the market – both to ensure market integrity and to protect consumers. We can also take stronger enforcement action, including imposing financial penalties.

For example, since 2013, retail investment advisers have been required to hold a Statement of Professional Standards (SPS) and achieve the relevant professional qualifications. In September 2016, we banned Elizabeth Parry from undertaking any regulated activity and fined her £109,400 for sending us a fake SPS and lying repeatedly to us about being qualified to act as a retail investment adviser.

Taking action against market abuse

We take market abuse extremely seriously and have powers to undertake prosecutions when we find evidence of it.

In January 2017, we brought a successful prosecution against Manjeet Mohal, a former employee of Logica plc, and his neighbour Reshim Birk for insider dealing. The court also made a confiscation order of nearly £163,000 against Mr Birk. While employed at Logica, Mr Mohal gave insider information about a takeover of the company to Mr Birk, who traded on the basis of that information and made over £100,000 in profits.

Tesco

In August 2014, Tesco plc published a trading update which gave a false impression about its expected half-year profits. In September it announced it had overstated the amount. This meant that those who bought Tesco shares and bonds between the dates of those announcements paid a higher price than they should have.

"

We estimate Tesco plc will pay around 10,000 retail and institutional investors approximately £85m under the redress scheme.

"

In March 2017 we announced that Tesco had agreed to pay compensation to investors who had suffered loss from Tesco's announcement. We estimate Tesco plc will pay around 10,000 retail and institutional investors approximately £85m under the redress scheme, plus interest. This is the first time we have used our powers under FSMA to require a listed company to pay compensation for market abuse.

Investigation into insider dealing

Insider dealing can seriously damage the integrity of markets. In 2016, after an eight-year investigation begun by our predecessor the FSA, our evidence secured convictions against two people for insider dealing. This was one of our largest and most complex insider dealing investigations to date.

Two close friends (Mr Dodgson and Mr Hind) agreed to deal secretly, sometimes on the basis of inside information. Mr Dodgson sourced inside information from within the investment banks at which he worked, either through working on transactions himself or through finding out what his colleagues were working on. He passed on this inside information to Mr Hind who then undertook secret dealing for the benefit of Mr Dodgson and himself.

They put in place elaborate strategies to prevent the authorities from uncovering their activities. These included the use of unregistered mobile phones, encoded and encrypted records, safety deposit boxes and transferring benefits using cash and payments in kind.

In many other instances of trading undertaken by Mr Hind during the indictment period, Mr Dodgson or his employer was advising or connected with the company traded or with a company which was party to a relevant corporate transaction.

The offending was highly sophisticated and took place over several years. The investigation, conducted in partnership with the National Crime Agency, was demanding and time-consuming. Investigators, forensic accountants, lawyers, markets experts, intelligence analysts and digital forensic specialists pooled their skills to unravel the conspiracy. They did so through painstaking analysis of trading, financial and communications data, surveillance, documentary evidence from the investment banks and the material seized during searches under warrant.

Mr Dodgson and Mr Hind were sentenced to four and a half and three and a half years imprisonment, respectively.

Raising awareness and increasing transparency

Crowdfunding

Crowdfunding is a way in which individuals and organisations, including business start-ups, raise money online to finance or re-finance their projects and businesses. It is relatively new but has grown significantly in recent years.

As part of our post-implementation review of our crowdfunding rules, we published a call for input on crowdfunding platforms operated by FCA-authorised firms. We wanted to better understand recent developments in the loan-based crowdfunding market which currently pose some risks to our objectives, including regulatory arbitrage and the risk that investors do not fully understand the products offered.

We plan to consult on changes to our rules to ensure the regulatory framework for crowdfunding remains proportionate while providing adequate investor protection and allowing for innovation and growth in the market.

Improving the UK equity initial public offering (IPO) process

We published a consultation paper in March 2017 which proposes a package of policy measures to improve the range and quality of information available to investors during the IPO process. This included a series of rules to ensure that a prospectus or registration document is published and providers of 'unconnected research' have access to the issuer's management before any connected research is released. The measures also included new guidance to clarify our expectations on analysts' interactions with the issuer's management and their corporate finance advisers when an IPO mandate and a bank's syndicate positioning is considered. We will take these discussions forward and make appropriate rule changes during 2017.

Addressing concerns around dark pools

'Dark pools' are systems for transacting shares without 'pre-trade transparency'. Put simply, 'pre-trade transparency' is the requirement to show a firm's intention to execute a transaction, including the price and volume. Dark pools in the UK have some key differences from other national markets, including their approach to best execution obligations. UK dark pools can operate as either trading venues or internal matching systems run by investment firms.

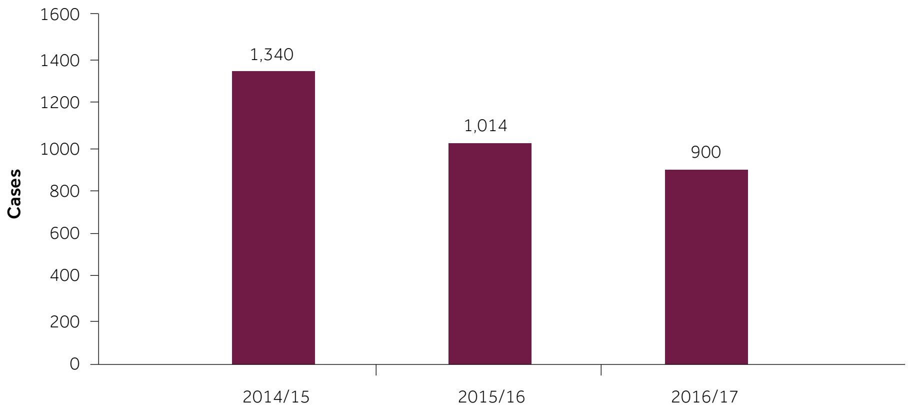
There has been public scrutiny of dark pools, including concerns about price transparency, preferential treatment of some clients and unfair advantages for more technologically advanced dark pool users. We undertook a thematic review of dark pools to look into these issues. Our review found that dark pool clients welcomed the additional liquidity and lower risk of information leaks that dark pools offer. We also found that significant improvements had been made by dark pool operators in the quality and accuracy of their promotional materials and management of conflicts of interests. We did, however, find that some areas could be improved, including more effective monitoring of activity in dark pools with particular focus on operational integrity, best execution and screening for unwanted trading activity, including market abuse.

Supporting resilient market infrastructure

Our supervision seeks to ensure that market infrastructure is resilient to external effects caused by events such as market volatility and sharp increases in trading volumes. Despite periods of significant market volatility during 2016, we saw no loss of trading days to operational incidents in major market infrastructure.

In May 2014, UK financial authorities launched CBEST, a testing framework to help firms, infrastructure providers and regulators understand the types of cyber attack that could undermine the UK's financial stability. The FCA have continued CBEST assessments for trading venues and major trading firms and extended our cyber resilience work to a wider group of firms.

Figure 4.1: Number of whistleblowing cases



In 2016/17 we managed

900

intelligence cases from whistleblowers

Whistleblowing

Under the Public Interest Disclosure Act 1998 (PIDA), we have a statutory framework to protect workers from harm if they blow the whistle on their employer. Our approach goes beyond PIDA by providing the same level of confidentiality and anonymity to anyone who wants to make disclosures to us where we are required to treat their information confidentially. In 2016/17 the split between PIDA/non-PIDA disclosures was 73%/27%.

Throughout 2016/17, we have developed our approach to whistleblowing further. We have:

- successfully implemented a new case management system to improve our handling of whistleblowing cases and to provide us with better analytics
- worked with outside organisations, including support groups and charities who spoke at an internal whistleblowing event in May 2016
- engaged with other bodies which can formally accept whistleblowing disclosures to benchmark our own approach to whistleblowing
- reinforced staff training to recognise when an offer of information from an individual is, in fact, whistleblowing and improved our approach to interviewing whistleblowers

Overall, we have increased resources to offer an improved level of service and continually improve our response to the whistleblowers who contact us.

In 2016/17 we managed 900 intelligence cases from whistleblowers (figure 4.1). We shared information with external bodies, including the National Crime Agency, police forces, HM Revenue & Customs, and other UK and overseas regulators in over 100 cases.

The intelligence we received from whistleblowers has helped us to:

- initiate enforcement investigations
- trigger FSMA section 166 skilled persons reviews of firms
- conduct visits to firms
- prepare firm assessments, including on money laundering

Figure 4.2: Classifications issued by recipients of whistleblowing intelligence in 2016/17

Classification	2016/17	2015/16	2014/15
Intelligence directly contributed to FCA enforcement activity or the protection of consumers through other intervention	7	13	19
Intelligence was of significant value to the FCA and contributed to the discharge of its functions	159	89	235
Intelligence was, or may be, of value to the FCA but is not currently actionable or does not meet current regulatory risk thresholds	259	242	521
Intelligence was of little value and is unlikely to assist the FCA in the discharge of its functions	48	39	100
Not yet assessed	427*	631	465
Total	**900**	**1,014**	**1,340**

*We assess all whistleblowing disclosures to determine if regulatory action is necessary. Disclosures can require follow-up work by multiple stakeholders across the FCA. We expect to see an increase in the number of high value whistleblowing cases as we conclude and make a final assessment on these cases.

Note: the data for 2015/16 and 2014/15 reflects how those figures were reported in previous annual reports. The numbers have now changed significantly, in particular for the number of cases 'not yet assessed' but the table above shows how quickly we assess cases year on year.

- undertake in-depth reviews within firms
- carry out thematic reviews.

We do not have a target for the numbers of whistleblowing cases we should receive. Our aim is to ensure that those who prefer to report to an independent body know about our role and that, if they take the often difficult step of reporting on a previous or current employer, we will treat them and their information sensitively and professionally.

We have seen a decline in the number of whistleblowing cases for the second year in a row. We believe that whistleblowers are more aware of the reporting mechanisms in their firms, and so are reporting internally first.

Figure 4.3: Whistleblowing disclosures in 2016/17 by sector

Sector	Count
Asset Management	24
Building Societies	4
Commercial Insurance	32
Consumer Credit	155
E Money	7
Financial Advisers	119
Friendly Societies	4
Investment Banking	71
Markets	64
Mortgage Intermediary	29
Mutuals & Credit Unions	11
Other/Not stated	164
Payments Services	8
Retail Banking	60
Retail Insurance	100
SIPP	6
Unauthorised Business	42

Our Business Plan commitments – Wholesale financial markets

Our aim is to ensure that wholesale markets are clean, effective and competitive, and that consumers can trust them to be open and transparent.

As wholesale markets continue to evolve with new technology and practices, we must ensure our rules proscribing and prohibiting abusive behaviour remain effective and up to date.

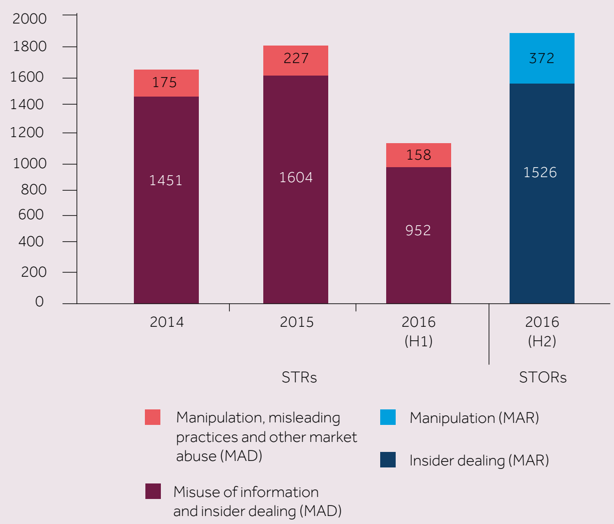
Market abuse

We started applying the new EU Market Abuse Regulation (MAR), which came into effect on 3 July 2016. MAR strengthens the previous UK market abuse framework by extending it to cover a wider set of markets, platforms and behaviours.

It also requires firms and trading venues to report suspicious orders as well as transactions and attempted market abuse. As a result, we have replaced Suspicious Transaction Reports (STRs) with Suspicious Transaction and Order Reports (STORs). Although we previously encouraged firms to report potentially abusive orders, including orders that – had they been transacted – would have led to market abuse, MAR now makes this a requirement.

We worked closely with the industry to prepare for the significant changes of this new regulation to ensure they were ready for the new regime. The response has been positive – we received 1,898 STORs in the last six months of 2016, compared to 1,110 STRs in H1 2016. Within these figures, we saw an increase in the number of reports containing non-equity financial instruments and those reporting instances of market manipulation.

Figure 4.4: Total volume of suspicious transaction reports (STRs) by behaviour type up to 3 July 2016 and total volume of suspicious transaction and order reports (STORs) by behaviour type from 3 July 2016 onwards



While there has been a significant increase in the number of reports received under the new STOR regime, the changes in reporting requirements mandated by MAR should be taken into account. It is not possible to make direct comparisons between the STOR and STR figures.

The STOR form requires submitters to categorise the market abuse behaviour type as either market manipulation or insider dealing. While these categories are broadly similar to those detailed against the STRs above, it is important to present the categories separately to reflect the changes in reporting requirements.

For the purposes of figure 4.4, Manipulation (MAR) still includes misleading practices and other market abuse, as well as manipulation of benchmarks; Insider dealing (MAR) still includes misuse of information (including unlawful disclosure) but only where this resulted in a suspicious order or transaction. Both categories also include any reports received detailing suspicious orders and / or attempted market abuse.

A breakdown of STORs received in each of four principal asset classes – equities, fixed income, commodities and foreign exchange is available on our website.

When we receive a STOR (previously STR), in addition to determining whether to take any action with respect to market abuse, we also assess the quality of the report submitted to us to establish whether a reasonable basis of suspicion exists, and whether this has been clearly articulated within the report.

Where we believe the reasonable suspicion test has not been met, we will generally provide feedback to the submitting firm or trading venue to ensure their understanding and application of the regime is appropriate. In 2016, 2% of STRs and STORs did not meet the reasonable suspicion test. This is a decrease from 2015 when 2.5% of STRs did not meet the test, and in 2014 when 5% of STRs did not meet the test.

Markets in Financial Instruments Directive (MiFID II)

MiFID II regulates firms that provide services to clients linked to 'financial instruments' (shares, bonds, units in collective investment schemes and derivatives), and the venues where they are traded. In 2016/17 we published four consultation papers to implement the

Directive. These consultations have covered issues including rules for the secondary trading of financial instruments, systems and controls requirements for firms providing MiFID investment services, guidance on transaction reporting and conduct of business.

MiFID II comes into force on 3 January 2018 and introduces a number of new investment services and financial instruments. We expect to receive approximately 600 applications, either for a new authorisation or a variation of permission.

To mitigate the risk of market disruption, we opened the Authorisation gateway on 30 January 2017 for early applications. We are communicating with the affected firms to help them understand the changes in the authorisation process and to provide them with the information they need to submit fully completed applications.

FEMR – proactively regulating and monitoring

We have been working with the Bank of England, the Treasury, the CMA and international regulators to implement the recommendations from the Fair and Effective Markets Review (FEMR) to look at the way wholesale Fixed Income, Currencies and Commodities (FICC) markets operate.

We have continued to implement FEMR's recommendations over 2016/17, including authorising the proposed seven major FICC benchmarks, working with the new FICC Market Standards Board to identify emerging risks and raise standards in global FICC markets, and incorporating the FEMR findings into our day-to-day supervision of FICC markets and market participants.

Increasing the efficiency and effectiveness of primary markets

We have continued to implement the recommendations from the UK Debt Market Forum in 2016/17. This work has included extending our Wholesale Debt Approach to apply it to a larger population of debt instruments, including ABS and Covered Bonds; expanding the scope of our same-day service for around 90% of supplementary debt disclosure documents and creating our Early Engagement team to ensure that the process for first-time foreign debt issuers to raise capital is clear and comprehensible.

We have undertaken several pieces of work to help ensure UK primary markets continue to be effective, including consultation on a proposed new Prospectus Regulation – this follows European Commission plans to replace the Prospectus Directive with a new regulation from June 2019. The new regulation aims to make the regime simpler, faster and cheaper for issuers and give investors more choice and more accessible information about investment opportunities. This should allow quicker prospectus approval for frequent issuers, reduced disclosure for secondary issuances and create a specific, proportionate regime for SMEs.

We have also published a Listing Review discussion paper and consultation paper where we have sought input on the structure of the UK's primary markets, to ensure they continue to serve the needs of issuers and investors. Considering the broader market landscape, and informed by feedback received, the discussion paper looks both at the structure of the listing regime, as well as whether there are areas which are not properly accommodated by the UK's current primary market framework. The consultation paper sets out more developed technical proposals to enhance certain aspects of the Listing Regime.

Measures of success against 2016/17 Business Plan

We have not seen a material increase or decrease in the perception of FCA regulation placing wholesale firms at a disadvantage compared to their competitors based abroad, based on 2016 and 2017 Practitioner Panel/Joint Practitioner Panel and FCA Survey data.

Further feedback from the 2017 survey revealed that when asked whether 'The work of the FCA enhances the reputation of the UK as a financial centre', 88% of wholesale firms provided positive responses while 10% were neutral and 2% negative. We will continue to monitor this trend.

Our Business Plan commitments – Financial crime and anti-money laundering (AML)

We require all authorised firms to have effective systems and controls, as well as robust governance, to mitigate the risk that they could be used to commit financial crime. However, these systems and the way they are operated must be proportionate to the financial crime risks of the firm, to ensure they do not create unnecessary barriers for customers or exclude them from access to financial services.

This section covers some of the most significant work we have completed in this area this year. We give more detail on this aspect of our work in our Annual anti-money laundering report on our website.

Our AML supervision

We have continued implementing our enhanced AML supervision strategy. This includes our Systemic AML Programme which covers 14 major retail and investment banks operating in the UK, as well as their most important or high-risk overseas operations. We also continued our AML reviews of other firms – mostly smaller banks – that pose a higher financial crime risk. In the longer term, we will extend the scope of the programme from 75 to 150 firms.

We have recently extended our proactive AML supervision by introducing a new programme of visits to randomly selected lower risk firms. This new programme will cover approximately 100 firms a year, across all the sectors we supervise. We also contact firms across sectors to ask them about their understanding of money laundering risk and their approach to AML compliance.

Making AML requirements proportionate and efficient

Banks and many other financial firms are legally required to take steps to detect and prevent money laundering. This is crucial to securing the integrity of the UK's financial system and preventing criminals abusing it. But these measures have a cost, which is ultimately borne by the public. We encourage the industry to explore ways to streamline AML measures to reduce compliance burdens and make them more straightforward for ordinary customers. We have commissioned a review of current sector innovations to improve understanding of how technology can help firms manage the risk of financial crime and money laundering. We will publish the results later in 2017.

Some firms try to ensure they comply with AML requirements by refusing or withdrawing banking services to individuals or organisations they believe are 'suspicious'. This is known as 'de-risking'. However, some customers have complained that they have services withdrawn without knowing the reason and the practice can leave individuals excluded from access to banking services.

In 2016 we completed our de-risking impact assessment of firms, to help ensure that firms adopt a proportionate and effective response to de-risking. We are now working with the banking industry to encourage them to communicate better with their customers when they decide to end or reject banking relationships, and to consider whether their actions affect consumer protection or competition.

We have also contributed to the Government's efforts to ensure the UK implements the requirements of the EU's latest Anti-Money Laundering Directive. This includes updating our guidance to reflect the revised UK Money Laundering Regulations.

We remain a major participant in the Financial Action Task Force (FATF), which will carry out an evaluation of the adequacy of the UK's AML regime later in 2017. Their feedback will help us understand how international assessors and overseas authorities view our AML regime. We also continue to participate in international crime policy forums held by the European Supervisory Authorities and Basel committees.

Supervising professional bodies

The UK has several different professional bodies supervising the legal and accountancy professions, The Government's 2015 National Risk Assessment of Money Laundering and Terrorist Financing found that, among other issues, the number of professional body AML supervisors in some sectors risks an inconsistent approach . In March 2017 the Treasury announced a new Office for Professional Body Anti-Money Laundering Supervision (OPBAS) to work with professional bodies to help, and ensure, compliance with the regulations. OPBAS will sit within the FCA and we are currently preparing for this new role.

Using our intelligence and working with others to prevent financial crime

This year we launched the Financial Crime Annual Data Return to help us identify inherent financial crime risks in firms' business. These data will allow us to focus our supervisory resources more strongly on firms with high-risk business models, to assess whether their control frameworks match their risks.

We are a core member of the Joint Money Laundering Intelligence Taskforce, a public private partnership with law enforcement agencies and the financial sector, to combat money laundering and financial crime and help ensure the cleanliness of UK financial markets. In 2016 we were invited to join the Joint Fraud Taskforce, another public private partnership set up by the Home Secretary to bring Government, law enforcement, regulators and the banking sector together to improve the UK's response to fraud.

In April 2016 there was widespread reporting of a range of allegations, including money laundering, in relation to the dealings of the Panama-based law firm Mossack Fonseca. We have seconded staff to the Joint Financial Analysis Centre (JFAC), a task force launched in April 2016 to analyse information from the Panama Papers data leak. The task force is investigating individuals and companies for criminal or serious civil offences linked to tax fraud and financial wrongdoing. JFAC has identified multiple opportunities for joint working with partner agencies and has contributed to a number of ongoing investigations by identifying hidden criminal assets.

Deutsche Bank fined £163m for AML failures

In January 2017, we fined Deutsche Bank AG over £163m for failures in its AML framework between 2012 and 2015. Deutsche Bank failed to properly oversee new customer relationships and booking global business in the UK, exposing the UK financial system to financial crime risks.

Because of its inadequate AML controls, unidentified customers used Deutsche Bank to transfer around $10bn of unknown origin from Russia to offshore bank accounts. This fine is the largest financial penalty for AML control failings we have imposed so far.

Reducing harm to consumers from scams

Our ScamSmart campaign aims to give at-risk consumers the knowledge and tools to stop them falling victim to investment fraud. The campaign educates consumers about the warning signs of a scam and promotes our Warning List. This tool provides a searchable list of firms to avoid and gives information about the risks of different investment 'opportunities'.

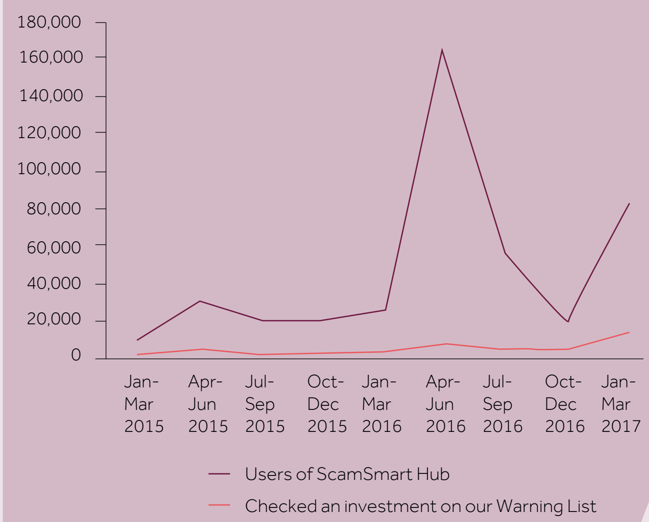
Our work to protect consumers from scams recognises that criminals are opportunists, and that their targets can change over time. Our research shows that over one-fifth of over-55s and one-third of over-75s believe they have been targeted by an investment scam since 2013.

In 2016 we launched a new phase of the campaign, including new advertising, PR and social media activity, and communications through partners. We worked with a range of partners including banks, pension providers, consumer groups, other regulators and crime prevention partners.

Measures of success against 2016/17 Business Plan

Figure 4.5 shows a large increase in visits to the ScamSmart site and use of the Warning List in 2016/17, peaking during our advertising campaigns. In total, 319,594 users visited the ScamSmart site in 2016/17 and 26,091 checked an investment on the Warning List, up from 94,543 and 13,795 respectively in 2015/16. The number of users visiting the ScamSmart hub in 2016/17 increased by 238% and the number of investment checks made on our Warning List increased by 89%.

Figure 4.5: Number of visits to the FCA ScamSmart Hub and the Warning List



Our Business Plan commitments – Firms' culture and governance

Culture and governance in firms and their impact on conduct remain an FCA priority. We have therefore been focusing on the most significant drivers of good or poor conduct culture that can lead to harm. We want to see individuals within firms embrace accountability for good conduct. The implementation of the Senior Managers and Certification Regime (SM&CR) is central to promoting a culture of accountability.

There are challenges in the systematic measurement of culture; however, we believe that culture is manageable. While each firm's culture is their own responsibility, we have taken steps to understand and form an awareness of the cultures of the firms we supervise in order to form judgements as to whether the drivers of each firm's culture have the potential to cause harm. We have used a range of supervisory tools and methods to work with firms on the drivers of their culture that are of interest to us, such as firms' messages on purpose and values, tone from the top, approach to employee incentives and capabilities, and the effectiveness of management and governance.

We have engaged with external stakeholders through speeches, roundtables and industry events to explain our approach to culture and governance, and how this fits with our objectives. We continue to play an active part in the Financial Stability Board's Working Group on Governance Frameworks.

Developing a culture of accountability within firms

Over the past year, we have undertaken an ongoing programme of work to implement and embed the SM&CR for banks, building societies, credit unions and dual regulated firms to improve firms' governance arrangements and to promote a culture of accountability.

By 7 March 2017 all certified individuals should have been assessed by their firms as fit and proper for their roles. Individual conduct rules came into force to apply directly to all staff (except those individuals performing a set of specific ancillary, non-financial services related functions) in firms that currently fall under the regime, not just Senior Managers and Certified Individuals.

We have published new rules and guidance on:

- Regulatory references – a key tool that requires firms to share relevant information on individuals to help other firms assess if potential new recruits are 'fit and proper'.
- The duty of responsibility, to clarify how the FCA and the PRA may take enforcement action against Senior Managers. This applies if they are responsible for managing any activities where their firm contravenes a regulatory requirement, and they do not take reasonable steps to avoid this happening or continuing.
- Applying our Code of Conduct sourcebook (COCON) to standard non-executive directors in banks, building societies, credit unions, dual-regulated investment firms and insurance firms. This will help raise standards of conduct for these individuals, with the aim of reducing the risk of future misconduct.

We have also published a discussion paper on whether the legal function is captured under the SM&CR.

We undertook a supervisory review of the Statements of Responsibilities (SoRs) and responsibilities maps that were provided to us by firms as part of the 7 March 2016 implementation of SM&CR. We published feedback specific to this review in September 2016.

A key focus of our supervisory approach with banks and insurers since implementing the SM&CR has been to work with firms to ensure they have understood and implemented the regime appropriately and are able to deliver on the intended outcomes of improved governance and a culture of accountability.

From 2018, the SM&CR will be extended to apply to all FSMA-authorised firms, and we will consult on this extension during 2017. We will ensure that our proposals are simple, proportionate and clear, and appropriate for such a large and diverse population of firms.

Conduct rule breaches under the SM&CR

Following the implementation of the SM&CR, firms are required to report conduct rule breaches and disciplinary actions to us annually.

As of the first reporting date, 31 October 2016, only Senior Managers and certified staff in banking sector firms were covered by conduct rules. From that population, 32 firms have reported 75 conduct rule breaches and 89 disciplinary actions incurred during the initial period of 7 March 2016 to 31 October 2016.

The conduct rules came into effect for all additional staff (other than those in ancillary roles) in firms on 7 March 2017. Therefore, the October 2017 report will be the first to include a full year's data for Senior

Managers and certified staff, as well as the first set of data for other staff for the period since 7 March 2017. The October 2018 report will be the first to have a full year's data on breaches for all staff who are subject to conduct rules.

Addressing the drivers of behaviour

Over the past year, we have continued to develop and embed our approach to remuneration. We consulted on and made changes to bring our remuneration provisions in line with the European Banking Authority (EBA) Guidelines on sound remuneration policies for firms under the Capital Requirements Directive (CRD IV) and to share our expectations of good practice further.

Inducements and conflicts of interest

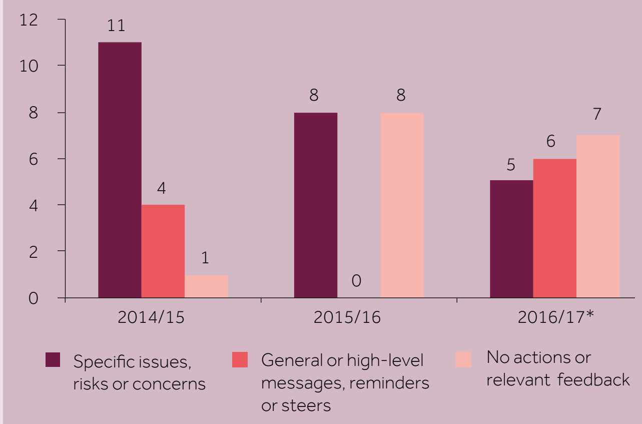
Since the introduction of the Retail Distribution Review (RDR), we have focused strongly on inducements. This is to reduce the risk that advisers or firms are inappropriately incentivised to recommend products to their clients that are not in the client's best interest. In April 2016, we published the key findings from our thematic review into benefits that firms both provided and received for retail investments, and emphasised our expectations about the inducements rules. Our key finding was that hospitality provided or received did not always improve the quality of the service to the client. We provided individual feedback to the firms in the review about improvements they should make.

> **By 7 March 2017 all certified individuals should have been assessed by their firms as fit and proper for their roles.**

Measures of success against 2016/17 Business Plan

Our annual review of the remuneration policies and practices of 'Level 1 firms' (deposit takers and investment firms with total balance sheets over £50bn) found they had undertaken significant work to embed conduct and culture in their remuneration policies and practices this year. There were clear improvements in the sophistication of systems and processes firms use to set awards, which give greater weight to the behaviours and conduct of staff. Firms continued to use tools to adjust awards to reflect material poor performance and misconduct based on actual results. There was a downward trend in the extent of supervisory feedback needed in this area, as set out in figure 4.6.

Figure 4.6: Category of feedback given to each Level 1 firm in the annual review in response to their use of tools after an event



* For 2016/17 there were 18 firms, rather than 16

Chapter 5
Promoting competition

Good, healthy competition can be demonstrated by a range of different measures. When it works well, consumers are empowered as well as informed. In turn, firms strive to win custom on the basis of service, quality, price and innovation. This helps generate better outcomes for consumers. We aim for successful, competitive, innovative firms to thrive and for uncompetitive firms to change or exit.

There are many ways that competition can be weakened. For example, firms may not provide clear information to help consumers make well-informed choices about complex services, or they may exploit customers' lack of understanding or behavioural biases. Additionally, barriers to entry for new firms may mean established firms do not have to work hard to keep customers.

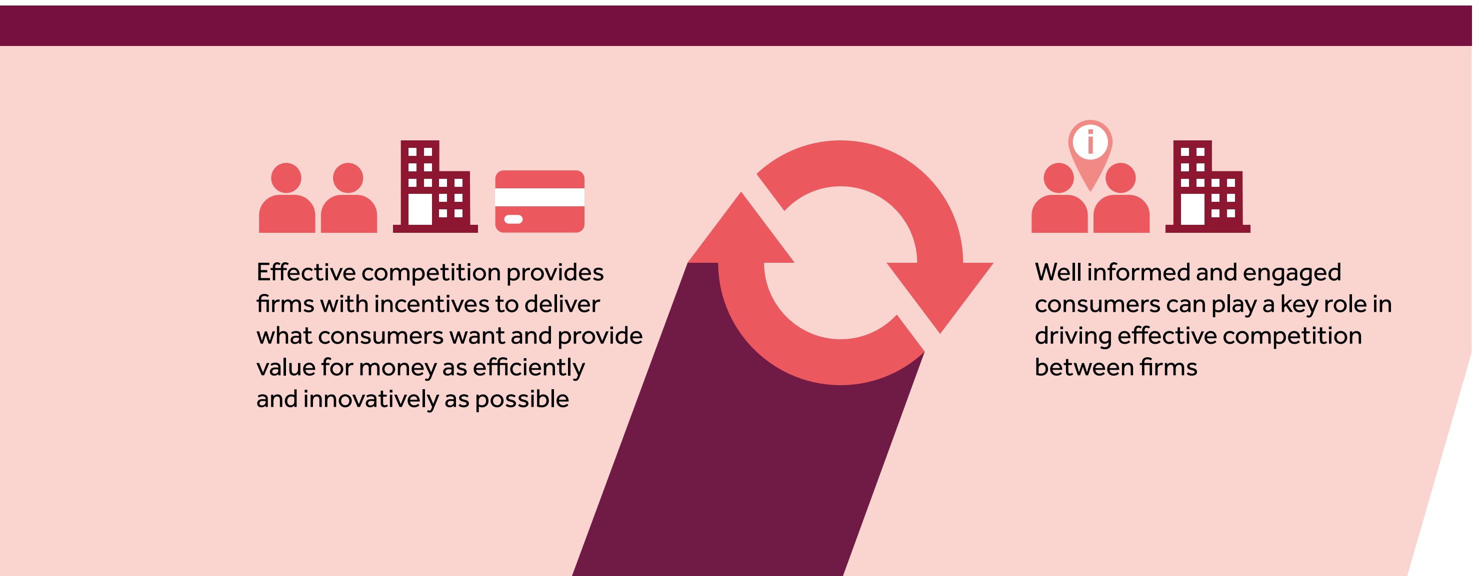
We have an objective to promote effective competition in the interests of consumers in the markets we regulate. We also have a competition duty. FSMA states that we must, so far as is compatible with advancing our consumer protection or market integrity objectives, carry out our general functions in a way that promotes effective competition in consumers' interests. Together, this mandate empowers us to identify and address competition problems and requires us to adopt a more pro-competitive approach to regulation. The mandate also recognises the potential of competition to advance our operational objectives.

We also have powers (our 'concurrent functions') to:

- conduct market studies (under FSMA and the Enterprise Act 2002 (EA02))
- enforce the prohibitions in the Competition Act 1998 (CA98) and Treaty on the Functioning of the EU concurrently with the Competition and Markets Authority (CMA)
- make market investigation references to the CMA with regard to the financial services sector.

We consider that our concurrent functions complement the powers we already hold (including those under FSMA) and give us an additional tool to ensure that the markets in financial services work well in the interests of consumers.

In this report we outline some of the work we have done to further



our competition objective and duty. We give more details in our Annual competition report 2016/17 which we have published on our website.

Market studies

We can conduct market studies under either EA02 or FSMA. We decide which route is most appropriate on a case-by-case basis.

We have opened and continue to conduct a number of market studies using our powers under FSMA. This work is explained in more detail below. We have not opened or closed any market studies under EA02 in the past year and no such market studies are ongoing.

Credit card market study

The final findings of our credit card market study, published in July 2016, showed that:

- consumers shop around, switch and value the flexibility offered by credit cards
- competition is focused on specific product features such as introductory promotional offers and rewards. There is less competitive pressure on interest rates outside promotional offers and on other fees and charges
- higher-risk consumers have a more limited choice of products and providers
- new analysis increased our concern about long-term credit card debt

We have proposed a package of remedies to enable consumers to shop around more effectively, budget more efficiently and repay debt faster. These included:

- clearer standards for comparison websites and promoting quotation searches
- informing customers when promotional periods are ending
- identifying customers in persistent debt or at risk of financial difficulty and taking appropriate steps
- providing alerts on credit limits being reached
- controls on increasing credit limits, including greater control for customers

On 3 April 2017 we issued a consultation paper which proposed new rules to tackle persistent credit card debt and encourage earlier intervention. This included a requirement on firms to take an escalating set of steps designed to encourage customers to repay debt more quickly and avoid getting into persistent debt in the first place. Where customers in persistent debt cannot afford to repay their balance in a reasonable period, firms would be required to take steps to enable them to do so, which could include reducing the interest rate being charged. We also set out the details of an industry voluntary agreement to give customers more control over credit limit increases. This will see the industry offer new and existing customers greater control over increases to their credit card spending limits.

We are currently considering the feedback received from the consultation and, depending on the nature of responses, we expect to publish final rules in a policy statement later in 2017.

Investment and corporate banking market study

Our market study of the investemnt and corporate banking market focused on primary markets and related activities provided in the UK.

We published our final report in October 2016. We found that many clients believe the universal banking model of cross-selling and cross-subsidisation from lending and corporate broking services to primary market services works well for them. This was particularly the case for large corporate clients.

However, we also found that some practices could have a negative impact on competition, particularly for smaller clients. As a result, we developed a targeted set of remedies to address these concerns and ensure competition takes place on merit alone. These remedies included a ban on restrictive contractual clauses, ending league table misrepresentation in banks' pitches to clients, removing incentives for loss-making trades to climb league tables, a supervisory programme for Initial Public Offering (IPO) allocations and revising the IPO process.

Asset management market study

The UK's asset management industry manages nearly £7tn of institutional and individual assets. Over three-quarters of UK households with occupational or personal pensions use asset management services. In 2015 we started a market study to assess how asset managers compete to offer value for money.

In November 2016 we published our interim report. We plan to publish our final report in 2017. Our interim findings suggest that there is weak price competition in a number of areas of the asset management industry. While the price of passively managed funds has fallen, prices for active funds have remained stable. Despite a large number of firms operating in the market, the asset management industry has seen sustained high profits over several years. We also found that investors are not always clear what a fund's objectives are and that fund managers do not always report performance against an appropriate benchmark, making it hard for investors to meaningfully assess this.

In our interim report we proposed a package of remedies to make

"By publishing pilot data, we gave consumer groups, market commentators and other users commonly available indicators of value to help them assess products and compare between firms."

competition work better in this market and protect those least able to engage actively with their asset manager. These include:

- a strengthened duty on asset managers to act in the best interests of their clients
- reforms to hold asset managers to greater account
- introducing an all-in fee to make it easy for investors to see what is being taken from their fund
- measures to help retail investors identify the most appropriate fund.

We also identified widespread concerns in the investment consultancy sector, involving both demand-side and supply-side operations. So we also consulted on whether to make a market investigation reference to the CMA on this market.

We consulted on both the findings and the proposed remedies set out in the interim report and engaged widely with stakeholders to seek views and evidence through roundtables, following publication.

Complementing this work, in April 2016 we undertook a thematic review to assess whether UK-authorised investment funds and segregated mandates are operated in line with investors' expectations from marketing and disclosure material and investment mandates. It is important this material is accurate and clear as investors make decisions about investing in authorised investment funds based on it. Having identified weaknesses in current practice, our report aimed to achieve:

- product descriptions that are clear and correct
- effective governance and oversight throughout the whole of a fund's life, including for funds that are no longer actively marketed
- identifying trends that may indicate inappropriate sales by monitoring the distribution channels that product providers select as part of their responsibilities.

General insurance add-ons: market study remedies

Our market study showed that competition for general insurance add-ons (products sold alongside, or on the back of, 'primary products') is often not effective. Consumers are often unaware they have bought add-ons or that add-ons are poor value and do not meet their needs.

In January 2017 we published data in our general insurance value measures pilot. These include claims frequencies, claims acceptance rates and average claims pay-out by insurers for four general insurance products:

- home insurance (combined buildings and contents)
- home emergency insurance
- personal accident insurance sold as an add-on to motor or home insurance
- key cover sold as an add-on to motor insurance

By publishing pilot data, we gave consumer groups, market commentators and other users commonly available indicators of value to help them assess products and compare between firms. We expect these data will improve transparency in these markets, influence both consumer and firm behaviour and give firms the incentives to improve the value of their products to consumers. We plan to publish the second dataset for the pilot in January 2018.

Mortgages market study

In the market study, which will focus on first charge mortgages, we will consider two broad questions:

- At each stage of the consumer journey, do the available tools (including advice) help mortgage consumers make effective decisions?

- Do commercial arrangements between lenders, brokers and other players lead to conflicts of interest or misaligned incentives to the detriment of consumers?

When referring to 'tools' we mean any sources of help a consumer may use when shopping around or choosing a product, such as information on products provided directly by lenders, price comparison websites or best buy tables and mortgage calculators, as well as advice (whether provided by a lender or a broker).

We will also review whether there are opportunities for better technological solutions to any problems we identify, including where there are any barriers to efficient delivery of information or advice through digital channels. We expect to publish the interim report for this market study, with our analysis and preliminary conclusions, in late summer 2017.

New Bank Start-up Unit

The New Bank Start-up Unit is a joint initiative from the PRA and the FCA to give information and support to newly authorised banks and firms thinking of setting up a new bank in the UK.

The aim is to reduce barriers to entry for prospective banks, to stimulate competition and drive innovation to promote better outcomes for consumers.

Over the past year, eight new banks have been authorised.

The Payment Services Directive II (PSD2)

PSD2 is the EU legislation to regulate firms providing payment services. It aims to promote innovation and competition in payment services by improving the level playing field for payment service providers (PSPs) through lowering costs, increasing payment security and consumer protection, and bringing certain new payment services within regulation. PSD2 must be implemented into UK law by 13 January 2018. We will continue to be the competent authority responsible for authorising and supervising PSPs under PSD2. The Payment Systems Regulator will be responsible for certain aspects which relate to payment systems.

We have been working to promote our strategic and operational objectives in supporting an effective implementation of PSD2. We have engaged with a wide range of external stakeholders, including the Treasury, the European Banking Authority (EBA), trade associations, firms and consumer representatives. We issued a consultation paper in April 2017 to reflect the Payment Services Regulations 2017 issued by the Treasury in February 2017 which implement PSD2. Our consultation includes proposals for guidance in our revised Approach Document, which combines the existing Payment Services and E-Money Approach Documents. Our authorisation teams are preparing to accept authorisation applications from firms from 13 October 2017. Our supervision teams have been working to update processes to enable us to assess new notifications and reporting from firms.

The EBA is responsible for implementing some of the provisions, including developing regulatory technical standards and guidelines. The EBA is consulting separately on these provisions. We have engaged with the EBA to represent the UK's interests in the development of these standards and guidelines.

Our use of competition enforcement tools

In 2016/17, we continued to progress our existing investigation into anti-competitive agreements and concerted practices under the Competition Act 1998. We also opened a new investigation.

We have used other tools to strengthen compliance under the Act. During this reporting period we have issued 23 'on notice' letters to firms. These letters are different to 'private warnings' letters which are issued under FSMA. We send 'on notice' letters where evidence suggests there may be a potential infringement of competition law, but where we decide not to prioritise opening an investigation. As a result of these letters, the firms involved have undertaken a number of initiatives to strengthen competition compliance.

We have also issued six advisory letters. These letters are intended to increase awareness of competition law to ensure the relevant firms improve their compliance. The types of behaviour which led to both types of letter included inappropriate exchanges of competitively sensitive information across a range of financial services sectors.

Our programme of Competition Act-related work includes working closely with external parties, other regulators and competition authorities. This includes an ongoing and varied programme with trade bodies, professionals and firms. For example, we held a competition law workshop in September 2016 for members of the Council of Mortgage Lenders, as part of our follow-on work from the call for input on competition in the mortgage sector. The event aimed to increase awareness of competition law and included information on our role as a concurrent competition regulator as well as the basics of competition law.

Our Business Plan commitments – Innovation and technology

Technology plays a fundamental and increasingly pivotal role in delivering innovative products and services. Our aim is to strike a balance between supporting innovation that benefits consumers and ensuring consumers have adequate protection.

Increasing innovation and competition for consumers

Our Innovation Hub has continued to support new and established businesses – both regulated and non-regulated – to be able to introduce innovative financial products and services to the market where these are in consumers' interests. The Hub enables businesses to understand the regulatory framework and how it applies to them, as well as providing advice on the authorisations process.

Our regulatory sandbox allows businesses to test innovative products, services, business models and delivery methods in a live environment. Tests are conducted on a short-term and small-scale basis, and we work with firms to agree the testing parameters and to build in consumer safeguards.

Through international engagement, our Innovation Hub aims to encourage innovative firms to enter the UK, so promoting innovation and competition in UK financial services. To achieve this, we have signed co-operation agreements with a number of overseas regulators. To date, we have signed agreements with seven regulators in Australia, Singapore, South Korea, China, Hong Kong, Canada and Japan.

Big Data

We have improved our understanding of how retail general insurance (GI) firms are using data and analytics. Big Data is producing a range of benefits for consumers in motor and home insurance which, in turn, encourages more innovation in products and services. Although we did not find that Big Data currently limits effective competition, we noted the risk that it might lead to higher risk customers being excluded from certain products. It also has the potential for firms to make pricing decisions based on reasons other than risk or cost. We will continue to work with the Information Commissioner's Office (ICO) on relevant data protection matters and have also started work to look at pricing practices in the retail GI market.

Simplifying compliance

We have been working with firms to understand how we could use technology to help firms to interact with consumers, what role we can play in the development and adoption of RegTech in financial services and what regulatory barriers there are to innovation or the adoption of RegTech in financial services.

We have run three TechSprint events to bring participants together over two days to work on shared challenges to assess and solve problems in the industry. We will continue to use TechSprints as one of our regulatory tools to explore solutions to other challenges, acting as a catalyst to help unlock the potential benefits of technological innovation and encouraging the financial services industry to adopt these changes.

Improving firms' cyber resilience and infrastructure

Regulated firms continue to face challenges from the pace of technological change and innovation needed to respond to changing customer demands – particularly access to financial services using digital channels such as internet and mobile banking. This places strains upon existing, legacy IT environments which were designed to meet very different needs.

In response, we are strengthening our approach to operational resilience. We are working together with the Bank of England, PRA and the Treasury to improve the resilience of critical infrastructure that underpins the financial system.

We work with firms so that IT failures do not have a negative impact on customers or the integrity of the market. Where significant failures occur, we assess firms' ability to:

- restore services reasonably and quickly
- have a clear understanding of the root cause
- communicate to customers and the market clearly and promptly
- take action to limit the risk of similar events happening in the future
- compensate consumers, if appropriate

The Bank of England, the Treasury, the National Cyber Security Centre and the FCA have worked together to develop a collaborative and coordinated strategy for cyber resilience. This strategy is aligned with the UK national cyber security strategy, and aims to assess whether firms that pose the greatest risk are 'threat aware', able to defend themselves effectively, and can respond proportionately to cyber events. So far, we have evaluated the cyber resilience arrangements in place at 11 high frequency traders and 36 general insurers and intermediaries. We plan to cover firms across the spectrum of financial services in 2017/18. We have also actively contributed to international thinking on cyber resilience, including the G7 Cyber Fundamentals and the CPMI-IOSCO guidance on cyber resilience for Financial Market Infrastructures.

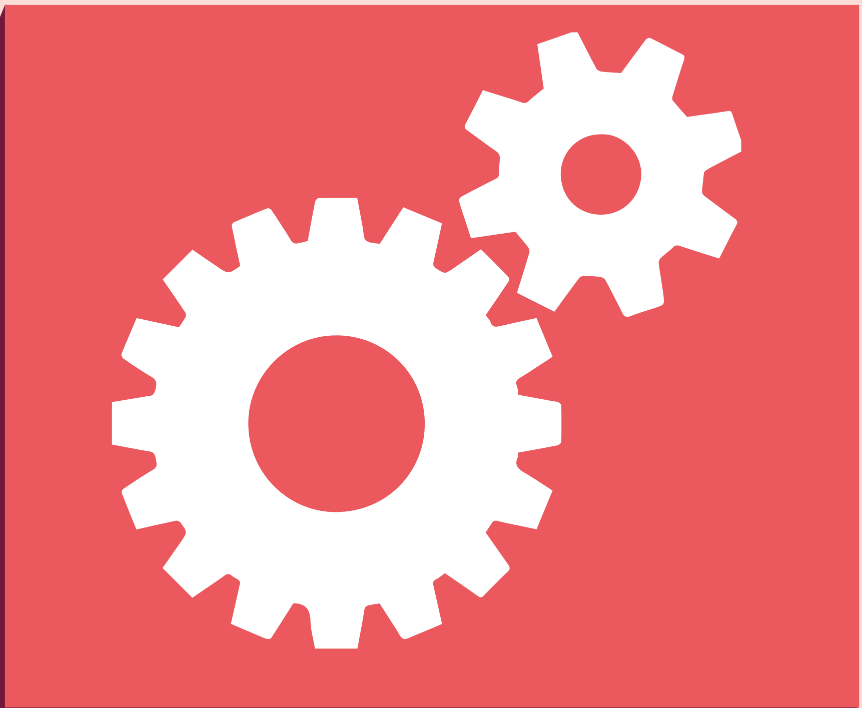
In 2016, we launched our Cyber Coordination Group initiative, bringing together around 150 firms from across the breadth of the financial sector. The Group will share intelligence, raise awareness of threats and effective cyber resilience, discuss and work collectively on how to structure effective recovery efforts and raise the overall resilience of the financial sector. Aligned to this work, we have continued to work with firms to oversee adequate and proportionate responses to cyber incidents.

"Our aim is to strike a balance between supporting innovation that benefits consumers and ensuring consumers have adequate protection."

Measures of success against 2016/17 Business Plan

Over the past year our Innovation Hub has received 371 requests for support from firms seeking to introduce innovative financial products and services to the market (compared to 319 in 2015/16). Over the course of the last year we have increased the overall satisfaction of the firms who have engaged with the Innovation Hub. Prior to 2016/17, 73% of firms rated their overall experience of the Innovation Hub as good or excellent. This has increased to 79% including the year 2016/17.

In the first cohort of the regulatory sandbox, 24 applications (out of 69) were deemed to meet the sandbox eligibility criteria, with 18 firms undertaking testing. In the second cohort 77 firms applied, with 31 meeting the eligibility criteria. Seventeen firms from the Innovation Hub have gone on to successfully become fully authorised firms.



Chapter 6
How we regulate

We are the conduct regulator for the whole of the UK financial services industry and the prudential regulator for 18,000 authorised firms. With such an extensive remit, we need to ensure the tools we use to regulate the market are both proportionate and effective.

Our regulatory principles and functions

Under FSMA, we have various functions, including making rules under FSMA, giving general guidance, supervising and authorising firms.

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

- efficiency and economy
- proportionality
- sustainable growth
- responsibility of consumers
- responsibility of senior management to comply with the regulatory framework
- recognising the differences in businesses carried on by different regulated persons
- openness and disclosure
- transparency

These regulatory principles underpin all our work and are all equally important. As required by FSMA, we include a compatibility statement in our consultation papers. This explains why we believe our proposals are compatible with our duty to have regard to the principles, recognising that not all the principles will always be relevant in each and every case and more than one principle may be involved in any specific context.

Certain pieces of work illustrate this. For example, in our work to implement the Senior Managers and Certification Regime (SM&CR) explained in chapter 4 (under Firms' culture and governance), when performing our rule-making function we gave consideration to the following principles – responsibility of senior management to comply with the regulatory framework, proportionality, openness and disclosure, and transparency.

Our work on value for money (explained later in this chapter), which is relevant to the discharge of all our functions, focuses particularly on the principle of efficiency and economy, as well as proportionality, sustainable growth and transparency.

> "We play an important role as the gatekeeper for firms that want to enter the market."

Our work to ensure firms give prompts on annuity sales (as highlighted in our Pension theme in chapter 3) is another example of how we perform our rule-making function and our function to give guidance. It shows how we try to encourage increased responsibility of consumers to make appropriate decisions about their retirement options.

Our rules for authorising firms, and the standards firms must uphold, vary depending on the nature of the business carried on by different regulated persons. We hold firms that pose a greater systemic risk to markets to more stringent standards, reflecting our proportionate approach to regulation. Our work on innovation and the regulatory sandbox (as discussed in chapter 5) also reflects how we recognise different business models.

Making rules to ensure that markets function well

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

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

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

Authorising firms seeking to enter the market

Firms and individuals offering financial services need to compete effectively, run their businesses in the best interests of consumers and uphold market integrity. We play an important role as the gatekeeper for firms that want to enter the market. We assess firms and, where relevant, individuals to ensure they meet our standards. This includes examining the sustainability of firms' business models and the fitness and propriety of individuals.

In 2016/17 we continued to receive a high volume of applications:

- 3,540 applications for consumer credit firm authorisations
- 1,072 applications for non-consumer credit firm authorisations
- 2,474 variation of permission applications
- 2,011 notifications of change in control
- 326 relevant waiver applications
- 15,757 mutual society registrations, de-registrations and associated cases
- 7,771 passporting cases, consisting of:
  - 423 new passports in or adding inbound passports
  - 899 passports out or adding outbound passports
  - 6,449 notifications to amend or cancel existing passports
- 65,282 approved persons applications

- 8,330 UK payment service agent registrations

We assess each application and determine it as either authorised, refused or withdrawn.

We monitor our performance against more than 20 statutory requirements, as well as a number of voluntary service standards. We aim to meet both statutory and voluntary service standards and underline their importance through regular tracking cases, continuous feedback to staff and prioritising resources. Occasionally, exceptional factors mean that it may not be possible to determine cases for reason outside of our control and we therefore report on the percentage of cases where we met the service timing.

We largely concluded the work to transfer the authorisation of consumer credit firms from the Office of Fair Trading this year, with 99.3% of applications determined. We will conclude the small number of outstanding applications from interim permission consumer credit firms during 2017. These applications are more complex cases which take us longer to determine and include commercial debt management firms and peer-to-peer platforms.

As figure 6.1 shows, the number of non-consumer credit related authorisations has remained relatively constant. Following the end of the application period for consumer credit firms with interim permissions on 31 March 2016, the number of new consumer credit-related applications has fallen significantly, as expected.

A modest proportion of firms withdraw their applications during the determination phase (figure 6.2). This happens for a number of reasons, including where it becomes clear that we are likely to refuse it.

The average processing time (figure 6.3) shows the length of time taken over applications that were determined during the period but it

Figure 6.1: Number of new authorisations applications

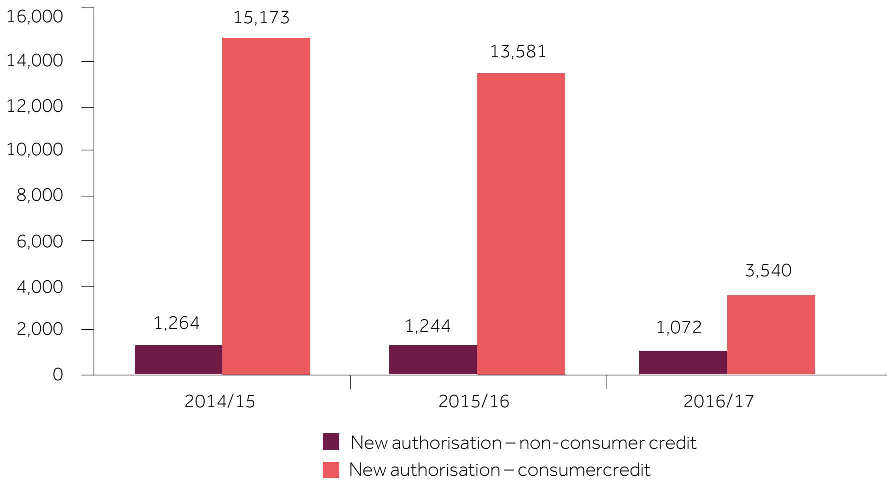
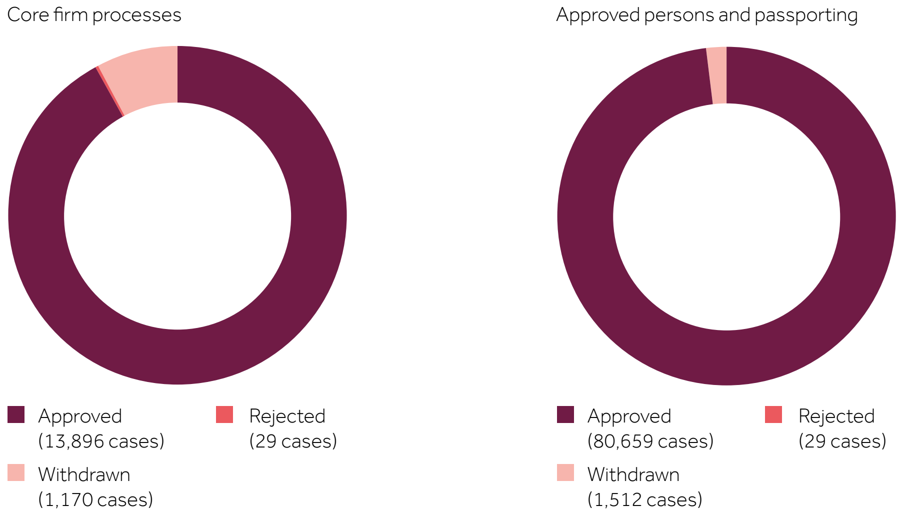


Figure 6.2: Number of authorisations approved, rejected or withdrawn



Note: Core firm processes refers to the application types listed in figure 6.3 plus cancellations and change in control applications

Figure 6.3: Time taken in weeks to process applications

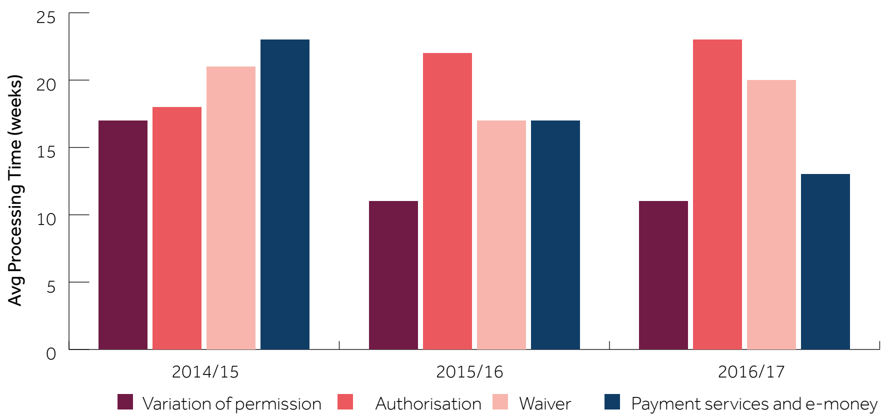
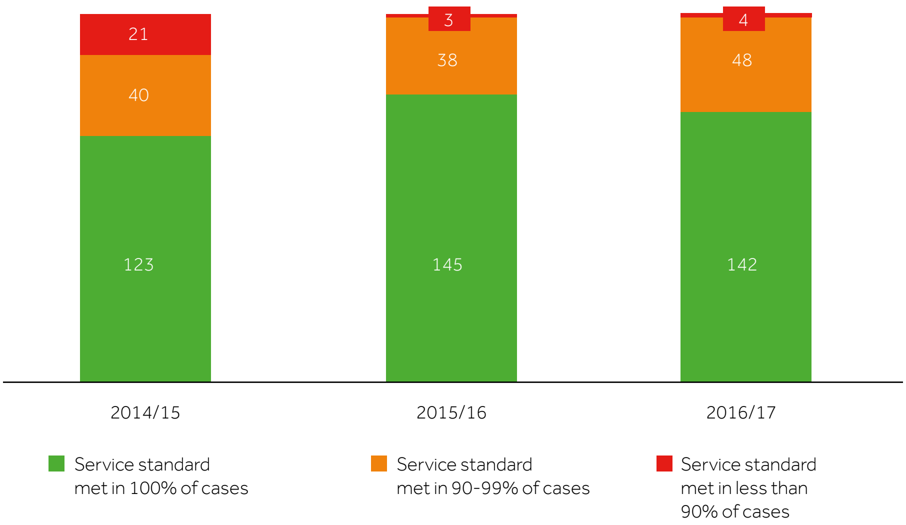


Figure 6.4: Statutory service standard performance and breaches



does not capture cases received and not determined. Measuring average processing times only of cases recognised upon closure can be misleading since it tends to under-report when the age of open cases is growing and exaggerate when the average age of open cases is brought back down. We have made significant progress in clearing our older and more complex new authorisation cases. Average processing times rose slightly from 22 weeks in 2015/16 to 23 weeks in 2016/17.

Figure 6.4 shows the number of times that individual monthly service standards were met or missed over the year. Some service standards are not always applicable each month (for example, if we don't receive any relevant cases in that month), so the total number of standards missed or met can vary from year to year.

For more information on service standards, see chapter 2 of this report.

Although there has been a slight decline in performance when compared to 2015/16, performance still remains much improved over the previous low point at the end of 2014/15.

How we supervise firms

Our supervision of firms is forward looking and strategic, aiming to mitigate conduct risks before they cause significant harm to customers or markets. We assess firms' strategies and business models to identify emerging risks and to ensure our supervisory activity is tailored to the potential harm each firm presents.

Fixed portfolio groups are a small population of firms (out of the total number we regulate). Based on factors such as size, market presence and customer footprint, they could have the biggest impact on consumers or markets and require our highest level of supervisory attention. We allocate these firms a supervisor or supervisory team who proactively supervise them using a continuous assessment approach.

The vast majority of firms are classified as 'flexible portfolio'. For flexible firms, we deal with current or emerging issues, based on our risk appetite, seeking to address the causes of potential or actual harm as efficiently as possible. These firms use our Contact Centre as their first point of contact with us, but we escalate the most serious issues to their portfolio supervision team.

We are moving toward supervising these firms in portfolios of similar firms. Each portfolio of firms will be the responsibility of a specific supervision team. The team will conduct analysis across the portfolio, taking action on high-risk firms and explaining good practice to their portfolio.

Figure 6.5: Number of firms in each sector

Sector	No of firms
Wholesale Financial Markets	1,650
Investment Management	3,000
Retail Investments	5,850
Pensions & Retirement Income	230
Retail Banking	1,300
Retail Lending	30,000
General Insurance & Protection	5,800

Please note this does not include c8,000 EEA Authorised firms who are not currently allocated to a specific sector.

The tools we use to supervise firms

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

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

Pillar I interventions in the market

While we maintain a minimum set of supervisory activities for fixed firms, our approach gives our supervisors greater flexibility to use their judgement when deciding the appropriate level of supervisory activity for individual firms, including high-risk flexible firms.

Figure 6.6: Meetings with Pillar I firms by Sector for Fixed Portfolio Supervision for 2016/17

Sector	Firm meetings
Wholesale Financial Markets	1,724
Investment Management	130
Retail Investments	166
Pensions & Retirement Income	339
Retail Banking	980
Retail Lending	236
General Insurance & Protection	925

We use face-to-face meetings with senior management in firms (figure 6.6) to ensure that we have an appropriate and up-to-date understanding of the firm's business model, operations, key senior individuals and their responsibilities, culture and governance arrangements. It is important that we remain abreast of developments in a firm to help us identify risks promptly, and take swift action to allow us to minimise potential harm.

For some firms (identified by the PRA as being important to the stability of the UK financial system) it is a statutory requirement to hold an annual meeting with their external auditors. The purpose of these meetings is to gain a deeper understanding of issues at the firm, and the themes and trends arising from the external auditor's work. 38 of these meetings were scheduled and carried out during the year.

Group supervision

A single team is accountable for supervising the activities of groups - firms that are active in more than one sector – and for reaching a single overall view of the whole group. In reaching the group view, the group supervision team will draw on the expertise of specialist supervisors from the relevant sector supervision team overseeing the group's activities in that sector.

Pillar II interventions in the market

Pillar II supervision deals with current and emerging issues and risks. The purpose of event-driven Pillar II work is to deal rapidly and efficiently with events that may cause harm to customers or threaten market integrity. We decide our response to each event in accordance with our risk appetite and aim to address the causes of potential or actual harm as efficiently as possible.

We identify risk events in a number of ways. These could be through Pillar I assessments, thematic work, a notification from the firm, Contact Centre enquiries, a whistle-blower or regulatory return. We tackle events with the potential to cause the most harm to our objectives and where there is greater risk to consumers or market integrity. Fixed-firm supervisors assess current risks and apply our risk tolerance in the context of their knowledge and understanding of the firm and its business model. We manage risks which arise in flexible portfolio firms by a combination of a risk event triage team, specialist teams and sector teams working together to consistently apply our risk appetite.

Over 2016/17, we received 24,916 event-driven cases for flexible firms across all sectors. Approximately 10,900 of all these cases were raised following analysis of firms' regulatory returns. Of the 24,916 events received in 2016/17, we are still assessing 2,049. We took supervisory action on 36% of the events received where the event had the potential to cause most harm to our objectives.

Pillar III interventions in the market

Pillar III supervision aims to address our key priorities both for individual products and for specific issues. It is driven by sector risks and allows us to address risks that are common to more than one firm, and potentially across more than one sector.

There are two forms of cross-firm work that can be carried out under Pillar III:

Thematic work: we assess a current or emerging risk about an issue or product across a number of firms in a sector or market. This work can focus on finding out what is happening and suggesting ways of tackling the problem.

We prudentially regulate around

18,000

firms

Market-based (or multi-firm) supervision: this involves short, focused interventions targeting a group of firms. They are sector-based supervisory investigations. In comparison to thematic reviews, these reviews tend to require fewer resources and are less likely to result in rule changes, guidance or a published report.

Market-based (or multi-firm) supervision represents a key part of our revised approach to supervising flexible portfolio firms. For example, in the asset management market we have undertaken a number of projects (including risk-free box profits, dealing commissions and fund governance) looking at how firms operate and used the conclusions from that work to help inform our market study work.

We have run an extensive regional UK programme of events – 'Live & Local' – for investment, general insurance and mortgage firms to help them understand how to comply with our rules. These events included presentations, workshops, roundtables and one-to-one surgeries with our supervisors. We also held a Chairman's lunch in each area that we visited. In total, we spoke to nearly 2,600 firms and just under 3,200 advisers as part of this programme in 2016/17.

Specialist supervision

To ensure that we continue to properly regulate markets and the firms within them we have specialist teams who focus on supervising specific activities and issues. These are Client Assets and Resolution (CARD), Prudential, Technology and Resilience, Conduct Specialists and Financial Crime.

Within CARD, our visit and desk-based review schedule enables continued oversight of firms and increases our regulatory impact across all categories of firms that fall within the client assets regime, including newer categories such as debt-based crowdfunding firms. In 2016 we have also focused attention on firms' outsourced activities to ensure appropriate oversight of delegated functions.

In January 2017, the Treasury published amendments to the special administration regime regulations. At the same time, we published a consultation seeking feedback on a number of aspects of the client assets regime that apply if an investment firm fails. Together, these proposals aim to ensure better outcomes for clients and markets if an investment firm fails.

Managing our prudential regulation responsibilities

While the PRA is the prudential regulator of deposit-takers, insurers and major investment firms, we are responsible for prudentially regulating around 18,000 firms, including asset managers, investment firms, platforms and infrastructure providers. The aim of our prudential approach is to minimise harm to consumers, wholesale market participants and market stability when firms suffer financial stress or fail in a disorderly way. Our view is that failing firms of all sizes should be allowed to fail in an orderly way. We take a reactive approach to smaller firms, as they pose less risk to our objectives and allow for disorderly failure in these cases.

Alongside the implementation of the Markets in Financial Instruments Directive (MiFID II) which is covered under our Wholesale priority theme, our prudential work has focused on:

- continuing to implement the Capital Requirements Directive IV
- changes to our Supervisory Review and Evaluation Process to meet the European Banking Authority's new guidelines
- implementing the Recovery and Resolution Directive and helping firms to improve their wind-down planning in the event of a firm failure

Continuing oversight of markets

As part of our work to ensure that markets work well for all market participants and support sustainable economic growth, our role is to maintain the robust regulatory standards which help underpin the global reputation of the UK's capital markets.

Timely and accurate market disclosures

The UK listing regime relies on disclosure and transparency to allow investors to make fully informed decisions. To achieve our objective of ensuring markets work well, it is critical that market disclosures by listed companies are both timely and accurate. This ensures that investors can rely on them when making decisions to hold, buy or sell an investment.

The UK Listing Authority (UKLA) focuses on the issuers of securities, their disclosures and the sponsors working with issuers in the primary market. In 2016/17, we reviewed 276 equity transaction documents, 351 debt transaction documents and 162 fund transaction documents in addition to approving a further 409 supplementary prospectuses.

Related-party transactions by premium listed companies

The UK listing regime gives investors confidence that premium listed companies meet a range of standards on governance and investor protection. The related party transaction rules protect minority investors in listed companies by ensuring that large shareholders and company directors do not unfairly benefit from their position.

We cover our work on market abuse and transaction reporting in chapter 4 under 'Wholesale'.

How we enforce our rules

Our enforcement work supports our objectives by making it clear there are real and meaningful consequences for firms and individuals who don't follow the rules.

Our approach to using our powers focuses on specific deterrence (deterring the person from offending again) and general deterrence (deterring others from offending). our investigations also help build public confidence that wrongdoing is properly identified and dealt with. Our public sanctions underline the value and legitimacy of the rule, requirement or standard our investigation is upholding. In this way, investigations draw clear lines that the rest of the market can follow, helping everyone comply and ensuring markets work well.

We work closely with other regulators and law enforcement, both domestically and internationally, to identify and act early when enforcement action is necessary. We use a wide range of enforcement powers – criminal, civil and regulatory – to protect consumers and markets and to take action against firms and individuals that do not meet our standards.

We can take action such as:

- withdrawing a firm's authorisation
- prohibiting individuals from operating in financial services or from undertaking specific activities
- suspending firms and individuals from undertaking activities
- censuring firms and individuals through public statements
- issuing fines against firms and individuals who breach our rules or commit market abuse, and against firms that breach competition laws
- applying to the courts for injunctions and restitution orders

> **"There are real and meaningful consequences for firms and individuals who don't follow the rules."**

Figure 6.7: Total value of financial penalties levied

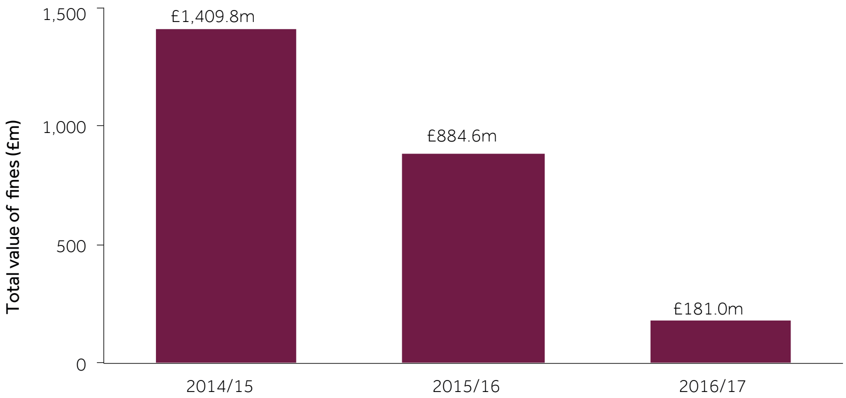


Figure 6.8: Financial penalties imposed

	2014/15	2015/16	2016/17
Number of financial penalties imposed	43	34	15
Total value of financial penalties	£1,409.8m	£884.6m	£181.0m
Number of financial penalties imposed against firms	23	17	6
Total value of financial penalties imposed against firms	£1,403.1m	£880.4m	£180.1m
Number of financial penalties imposed against individuals	20	17	9
Total value of financial penalties imposed against individuals	£6.7m	£4.2m	£0.9m

- bringing criminal prosecutions to tackle crimes such as insider dealing and firms undertaking regulated activities without authorisation

Full details of our enforcement work can be found in the Enforcement annual performance account 2016/17 on our website.

Improving our enforcement following the Green Review

In 2014, the Treasury published a review into the FCA and PRA's decision-making processes in light of the collapse of HBOS. In 2015, the PRA and FCA published their own joint report and a report by Andrew Green QC. In 2016/17 we continued to implement the recommendations from these reports, including:

- publishing a summary of our referral process and framework, revised referral criteria and case selection approach
- amending our Enforcement Referral Document in line with the Green Report recommendations
- updating our Enforcement Guide
- ensuring FCA and PRA investigating teams keep each other and their respective supervisory teams regularly informed, as appropriate, about the investigation's progress
- abolishing stage 2 and 3 penalty discounts and improving the process and transparency for stage 1 settlements
- providing a more flexible response and updates during investigations, improving transparency

In addition to the Green recommendations we have introduced a process for 'partly contested' cases.

We will also publish an annual review of decisions by the Regulatory Decisions Committee, in line with the Review's recommendations.

Outcomes from our enforcement work

We delivered strong public outcomes in 2016/17. We issued 180 final notices (155 against firms and 25 against individuals), secured 209 outcomes using our enforcement powers (198 regulatory/civil and 11 criminal) and imposed 15 financial penalties totalling £181m (figures 6.7 and 6.8).

Figures for 2015/16 and 2014/15 include exceptional fines related to FX and LIBOR misconduct. We remain committed to investigating and holding firms and individuals accountable for misconduct and ensuring wrongdoers pay for the costs of remediation. There has been no change in our approach to misconduct or financial penalties.

However, we do not publish the outcomes of all our cases. This may be because, following investigation, we find no evidence of misconduct or we conclude that, given all of the circumstances of the case, it is not appropriate or proportionate to take disciplinary action. In the last financial year, 62% of the total cases closed were closed with no action being taken.

Managing enquiries

Our Contact Centre is the first point of contact for enquiries from both consumers and flexible portfolio firms.

Over 2016/17 we handled around 313,000 enquiries from consumers and firms. This is a decrease from last year, due to the end of the application periods for consumer credit firms.

We monitor the subject and product type of consumer enquiries. Credit, investment and insurance products are the most common issues.

The top reasons that consumers give for contacting us are:

- The authorisation status or permissions of a firm.
- Their experience of issues and concerns post-sale about the selling practices they have encountered or suitability of the purchased product. The main issues raised concern fees/charges, misleading advice and the products not meeting the consumer's needs.
- They believe the treatment they have received from firms is not fair, including on issues regarding claims handling, arrears/repossession queries, difficulty in contacting firms and unexplained/disproportionate increases in premiums.

Firms are most likely to contact us about reporting via the GABRIEL system, applications via the Connect system, and regulation and Handbook questions.

This year we have taken a more proactive approach to contacting firms and further improved our service by:

- providing more flexible opening hours to help consumers and firms at peak times
- using common themes from enquiries to improve our processes, make communications clearer and to refer cases to internal departments
- increasing training to enable staff to deal with increasingly complex call types
- proactively contacting firms to support them with regulatory requirements and issues
- creating a better service for vulnerable consumers and improving communication, including a translation service and partnerships with consumer organisations

Value for money

We are committed to achieving value for money (VFM) in delivering our statutory objectives, and to embedding VFM into our culture and decision-making.

There are three main elements to our approach:

Economy: Are operational costs economic in relation to relevant comparators?

Efficiency: Are we doing things in the most efficient way to deliver the FCA's strategy or change?

Effectiveness: Are we achieving the right things to deliver our desired outcomes, ie are we delivering public value?

We focus on minimising the cost of the resources we use while considering the effect on the quality of our work; we must be able to justify any increase in costs.

For actions such as proposed rule changes, we are required to estimate compliance costs, along with other costs and benefits, and publish these as part of our consultation. The Small Business, Enterprise and Employment Act 2015, as amended by the Enterprise Act 2016, gives regulators, including the FCA,new reporting requirements to increase our transparency. We have given more details on our obligations under this Act in our separate Enterprise Act Annual Report. We published this on our website in June 2017. The report explains the changes we have made since 8 May 2015 to impose a requirement, set standards or give or amend guidance for business and ensure these are complied with.

We always try to ensure that our regulation is fit for purpose, well-targeted and does not impose unnecessary burdens on firms. To make the most efficient use of our resources we use our Sector Views to help inform our sector strategies and priorities. We are also improving how efficiently we deliver our results through initiatives to improve our authorisation and supervisory work.

We are also examined by the Comptroller & Auditor General who looks at how economically, efficiently and effectively we have used our resources in our work (value for money studies). This helps to inform us of areas where we can improve. This year, for example, we assisted the National Audit Office with its review of Vulnerable Consumers in Regulated Industries.

Chapter 7
Our resources

To deliver our objectives as effectively as possible we:

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

Our people

We aim to attract, develop and retain the best talent, recognising that our people are key to our ability to meet our objectives. We encourage diversity. We want to create a working environment that not only encourages difference, but one where everyone feels valued and respected – where our people can be themselves and deliver positive results.

Recruitment

- Number of employees for 2016/17:
  - Employee levels increased from 3,285 to 3,422 from the start to the end of the year.
  - During the year we made 987 appointments into roles, through a combination of 560 internal moves and 427 external appointments.
- We currently have 104 employees on our graduate programme, 47 of whom began the programme in October 2016. In 2017 we hired 48 graduates and 21 summer interns. We received 3,417 applications from 267 different universities.
- We piloted our first apprenticeship programme in September 2016, hiring ten apprentices. Our programme offers individuals the opportunity to combine practical on the job learning with professional study, achieving a nationally recognised qualification. We intend to increase our apprenticeship programme to fifteen in 2017.
- Employee turnover:
  - External turnover has reduced this year and ended the year at 10.9%

We continue to focus on direct recruitment of candidates to reduce our use of recruitment agencies, this has resulted in an estimated cost saving for the year of just over £590,000, with no reduction in candidate quality.

We have promoted internally where possible, and with great effect, to best use our existing talent. Where

the skill set has not existed internally we have gone to the market to recruit the best available talent.

We provide a comprehensive range of wellbeing benefits and aim to treat employees who are sick with dignity and respect, providing support, counselling, tailored rehabilitation programmes and (if appropriate) workplace adjustments that may help that individual to continue productive employment with us. During 2016/17 an average of 6.5 days per year (2016: 5.3 days) was lost per person due to sickness absence.

Employee survey

Our annual employee survey helps us identify and take action in areas which are important to employee engagement.

The survey for 2016/17 was based on a new approach with an updated set of questions and scoring scale; for this reason, we are not able to provide a proper comparison with data from previous years.

In the 2016/17 employee survey, 67% of staff reported favourably on their level of engagement in working at the FCA – 10% above the Best Places to Work benchmark for a UK large company (500+ staff). In particular, staff take pride in the FCA's accomplishments towards its objectives and a majority feel they make a difference in their work here.

Diversity and Corporate Social Responsibility were the highest scoring categories in 2016/17. Areas identified for development were Talent Management and Reward.

Development

Giving our employees access to the right development opportunities is an essential part of what we offer as an employer. The FCA Academy offers staff high-quality structured learning. In 2016/17 we have:

- Completed the third year of our MSc in Financial Regulation. There are currently 26 (25 from the FCA) students in their second year and 32 in their first year (28 from the FCA).
- Continued to develop the FCA curriculum and internal Academy programme. We delivered a total of 5,319 training days over the year. 56% of all employees have attended at least one training event this year.
- Arranged 67 secondments to the FCA and 91 from the FCA to partner organisations. These include authorised firms, the European Securities and Markets Authority (ESMA), the Treasury, the Bank of England and consumer bodies.

Our targets:

45%

of our Senior Leadership Team (SLT) to identify as female by 2020

8%

of our SLT to identify as BAME by 2020

Diversity and inclusion

We have a strong commitment to diversity and inclusion. To be an effective and efficient regulator, we need to make sure that we recruit, develop and keep the most talented, engaged and diverse workforce. As part of this commitment, in June 2016 we signed the Government's Women in Finance Charter which seeks to increase the representation of women in the financial services sector, particularly at senior levels.

The Charter requires us to set and report on gender targets. Our targets are:

- 45% of our Senior Leadership Team (SLT) to identify as female by 2020, and 50% by 2025. Currently 39% of the SLT identifies as female.

We have also set targets for Black, Asian and Minority Ethnic (BAME) diversity at senior levels, as part of our continued commitment to BAME progression. Our targets are:

- 8% of our SLT to identify as BAME by 2020, and 13% by 2025. Currently, 2% of the SLT identifies as BAME.

Other initiatives we have undertaken in this area include working with our recruitment suppliers to have more diverse shortlists in our recruitment processes and the introduction of our BAME Reverse Mentoring scheme.

We are encouraged that we have remained in the Stonewall Top 100 Workplace Equality Index. We are also a Living Wage employer.

More information on our diversity and inclusion work, including an update on progress against our four equality objectives and workforce data, is available in our Annual diversity report which is published on our website. Our public sector equality duty objectives are also covered on our website under 'corporate responsibility'.

Improving our infrastructure

We need to continually develop and improve our information systems and capabilities to keep pace with our regulatory and operational requirements. This year we invested £58.5 million to deliver change projects to implement legislative changes and to improve our operational capabilities and maintain our information systems.

Key work delivered over the past year includes implementing the SM&CR, MiFID and MAR (as discussed earlier in the report). Other key initiatives include work to implement the Capital Requirements Directive and Regulation (CRD IV), the Mortgage Credit Directive and the Banking Recovery and Resolution Directive.

We have invested in operational improvements to support our internal systems and effective working. Most notably, we have commissioned a virtual datacentre in the public cloud. This cloud-based data centre will enable us to produce better quality data analytics, increase innovation and provide a more flexible, better value-for-money service than traditional physical datacentres.

Moving to Stratford

We are moving our London offices to the Queen Elizabeth Olympic Park in Stratford in 2018. We plan to move from our Canary Wharf offices in stages between May and August 2018.

Our new building is on track to receive an excellent rating against the Building Research Establishment Environmental Assessment Method (BREEAM) standard, reflecting our commitment to good environmental and corporate responsibility practices.

Our work in 2016/17 has focused on:

- the build and fit-out of the new building – both of which are on target
- the building layout and internal design – improving the way the FCA works together
- our workplace strategy – ensuring that our new building, technology and ways of working will help us to attract and retain the best people, and enable them to work as efficiently and effectively as possible
- working with staff to ensure continuity of all our services during the transition

Sustainability

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

Our environmental principles are laid down in our Environmental Policy Statement on our website under 'Sustainability'. We include a detailed sustainability report at Appendix 3, which demonstrates the progress we have made this year.

Community engagement

Our community engagement programme encourages our people to volunteer with their chosen registered charity or community group. We support and encourage volunteering by allocating paid time off for employees to be active in their community. Last year 1,305 people across our Edinburgh and London offices volunteered a total of 14,939 hours. This represents 39% of employees, against our target of 30%.

Charitable donations

The FCA Charity Committee supported Shelter UK and Little Havens Hospice throughout 2016. All donations have come from staff and their fundraising efforts. We raised:

- Shelter UK – £7,881 (excluding gift aid)
- Little Havens Hospice – £8,782 (excluding gift aid)

Through our Payroll Giving scheme, in 2016, our employees donated £157,992 to various charities, an increase of £45,000 from 2015.

Freedom of Information and Data Protection

Freedom of Information Act

The Freedom of Information Act 2000 (FoIA) requires us to respond to requests for information within 20 working days in most circumstances. During 2016/17, we received 787 requests for information, of which we treated 597 as formal requests – an increase of around 16% since

2015/16. We closed 579 formal requests – 80.5% within the statutory deadline (figures 7.2 and 7.3).

This year the key requests were for information about FCA complaints-handling, enforcement investigations, the Alternative Investment Fund Managers Directive (AIFMD), redress of payment protection insurance (PPI), the handling of whistleblowing notifications, professional indemnity insurers' details, contract and procurement information, the Markets in Financial Instruments Directive (MiFID), passporting issues and requests relating to the changes in pension rules. Requests came from a range of sources (figure 7.1).

We disclosed material in approximately 50% of cases where we held the information requested, which remains the same as for 2015/16. We have also added more information to our disclosure log where the information is of wider public interest. This is published in our Publication Scheme Guide to Information, available on our website.

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

Figure 7.1: top FoIA requesters by sector in 2016/17

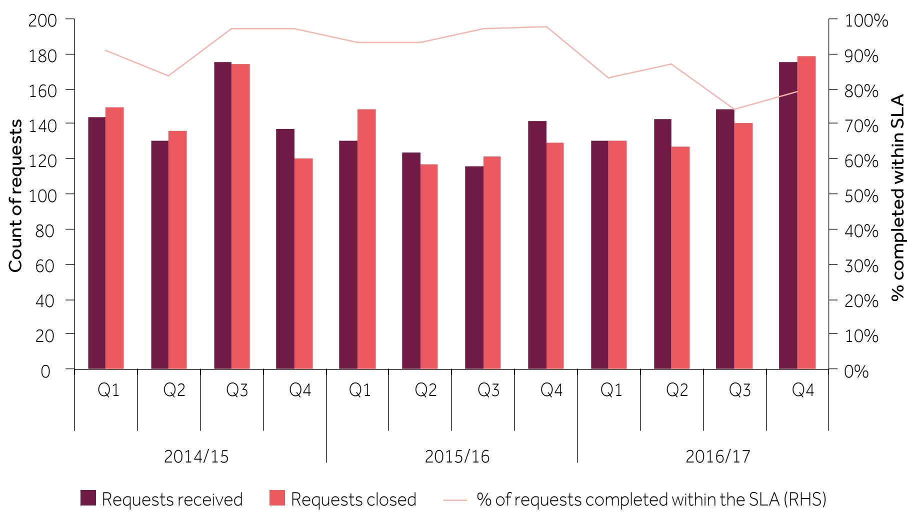
Media	192
Consumers	173
Service providers/ management companies	118
Legal advisers	49

Figure 7.2: FoIA requests closed during 2016/17

Business as usual*	21
Information accessible by other means	15
Information intended for future publication	2
No information held	55
No information provided	82
No response from requester	29
Over cost limit	88
Over cost limit and some information provided	37
Referred to another authority	1
Request satisfied	141
Request withdrawn	8
Some information provided	99
Data Protection Request	1

*BAU requests are those requests which can be treated as routine correspondence and responded to outside the scope of FoIA, for example where explanations rather than recorded information have been requested.

Figure 7.3: Our performance against meeting the statutory requirements under FoIA in 2016/17



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

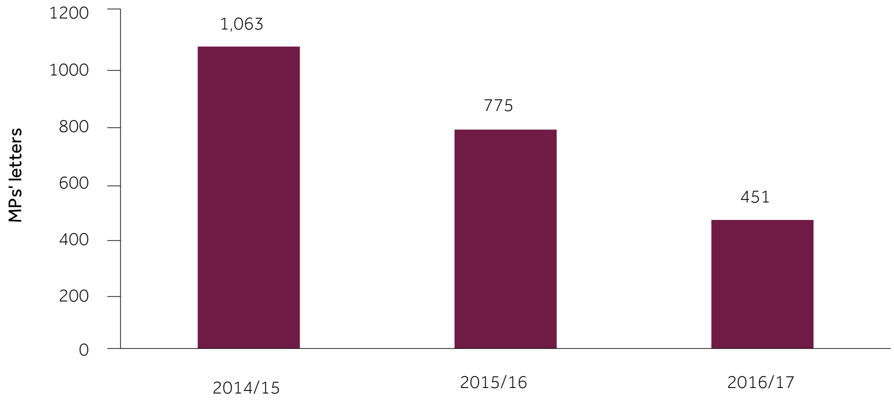
In 2016/17 the ICO decided in our favour in all six investigations undertaken (including one where we provided a limited amount of information during the course of the investigation). The FCA was not a party to any appeals to the First Tier (Information Rights) or Upper Tribunal during 2016/17.

Data Protection Act

We are required to notify the ICO each year of how we process personal data. We submitted our notification in November 2016, which is published on the ICO's website. Under the Data Protection Act (DPA), we must respond within 40 calendar days to 'subject access requests', which are requests made by individuals who want to receive any information we hold about them.

Over 2016/17 we received 147 subject access requests, compared to 71 in 2015/16. We responded to 139 (including several carried

Figure 7.4: Number of MPs' letters received by the FCA



forward from 2015/16) – 78% within the statutory deadline.

Complying with FoIA and the DPA cost us approximately £998,000 in 2016/17 (compared to £863,000 for 2015/16). This included processing requests under both pieces of legislation, time spent by staff in different business areas and the cost of investigations by the Information Commissioner. We estimate that the average cost to process each request is £832 compared to approximately £860 in 2015/16.

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

Complaints

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

The volume of complaints against the FCA has remained relatively static, moving from 590 in 2015/16 to 577 in 2016/17. There is no new discernible trend in the issues involved, aside from complaints about interest rate hedging products. However, we continue to receive a number of complaints from consumer credit firms who have received an administration fee because they have not submitted their GABRIEL returns on time.

Where complainants are dissatisfied with the outcome of their complaint they may refer the matter to the Office of the Complaints Commissioner. During 2016/17 the Complaints Commissioner overturned the FCA's decision on eight cases, two of them in full and six in part. The Commissioner's Final Reports for complaints are available from http://fscc.gov.uk/publications/, as are the Commissioner's Annual Reports.

In addition to business as usual activities, we have a continuous improvement programme in operation designed to improve operational efficiency, governance and control. This consists of a 20-point action plan covering topics ranging from developing a knowledge sharing library to enhancing our existing quality assurance framework. Within this programme is a work stream in relation to Root Cause Analysis (RCA).

RCA is a method of problem solving used for identifying the root causes of faults or problems. A factor is considered a root cause if removal thereof prevents the final undesirable event from recurring.

We will use the findings from our complaint investigations to work with other divisions in the organisation to help improve our performance and public value.

MPs' letters

In 2016/17 we received 451 letters from parliamentarians (figure 7.4).

We aim to respond to 50% of letters within 15 working days and more complex letters within 30 working days. In 2016/17 50.8% of letters were dealt with in 15 working days and 94.8% in 30 working days.

During the course of the year, we have reviewed the way we handle MPs' letters and improved our processes. We have voluntarily amended our SLAs so that, from February 2017, our aim is to respond to 80% of letters in 15 working days and 100% in 20 working days. So far we are meeting these new targets.

Some of the main issues MPs raised with us on behalf of constituents were about investments (in particular investment losses), consumer credit (many relating to the authorisations process) and a variety of mortgage-related issues.

Chapter 8
Working with our partners

We are an integral part of the UK's wider financial regulation framework. An intrinsic part of our work involves joined-up working with a range of different partners, from international regulators and agencies to tackle global regulatory concerns, to close collaboration and liaison with a range of UK bodies, covering areas such as consumer awareness, prudential regulation and forming policy on emerging risks to our objectives.

We work closely with a range of public bodies, each with their own duties and objectives. They include the Prudential Regulation Authority, the Bank of England, the Payment Systems Regulator, the Competition and Markets Authority, the Money Advice Service, The Pensions Regulator, the Financial Ombudsman Service, the Financial Services Compensation Scheme and the Treasury.

The Bank of England, including the PRA, has various Memoranda of Understanding with the FCA and PSR. This includes a Memorandum of Understanding in relation to payment systems in the UK dated March 2015. In June 2016, a review of the first year of co-operation in relation to UK payment systems was published, with the conclusion that co-operation between all parties with the Bank of England was working well.

Payment Systems Regulator (PSR)

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

In our role as one of the competent authorities for some of the business rule provisions in the Interchange Fee Regulation, we worked with the PSR (which also has competency for these rules) to identify how we will cooperate effectively to monitor compliance.

The FCA and PSR expect to be competent authorities for monitoring and enforcing Regulation 105 of the Payment Services Regulations 2017. We have worked closely with the PSR to develop our draft approach to these regulations and continue to work with them in preparation for the coming into effect of those regulations in January 2018.

In 2016, the consumer group Which? submitted a super-complaint to the PSR about authorised push payment scams, arguing that victims of this type of fraud do not have enough protection. The PSR investigated the super-complaint and found that this type of fraud was a growing issue and that more needed to be done to address it. The PSR announced a programme of work aimed at reducing fraudsters' ability to perpetrate scams and, when they do occur, at increasing the chance that victims are able to recover funds. The FCA worked closely with the PSR to develop its response. We will work with firms to tackle concerns at both sending and receiving banks, monitor progress and, if there are unresolved sector-wide issues, initiate further work.

More information about the activity of the PSR over the last year can be found in its own Annual Report.

Prudential Regulation Authority (PRA)

Much of our co-ordination with the PRA happens daily through our joint working, supplemented by regular scheduled meetings at senior level. Our Chief Executive is a member of the Prudential Regulation Committee, and the PRA CEO is a member of the FCA board.

We have a Memorandum of Understanding (MoU) with the PRA which includes arrangements for how we carry out our responsibilities and how we measure our performance through detailed quarterly reporting, and underlines our aim of working in an independent but co-ordinated way. Over 2016/17 co-ordination remained strong and any material failures of co-ordination were remediated at the earliest opportunity. The FCA and PRA continue to recognise that with differing objectives and responsibilities, it may sometimes be appropriate to take divergent approaches.

The PRA has the power of veto where it considers that action we are taking may threaten financial stability or cause the failure of a PRA-authorised person in a way that would adversely affect financial stability. This power has not been exercised this year.

The regulators have co-ordinated effectively on policy issues such as the Senior Managers and Certification Regime, remuneration and ring-fencing of banks. In 2016 the PRA and the FCA jointly issued a consultation paper which made a number of proposals to improve the transparency of regulatory enforcement processes, following recommendations by the Treasury (as discussed in chapter 6).

The regulators work closely together to respond effectively to specific incidents through the Authorities' Response Framework which allows for a co-ordinated response required by the FCA, Bank of England and the Treasury to an event that results in major disruption to the financial sector and/or to the authorities.

Both regulators continue to review the shared FSA IT legacy systems to ensure both organisations

> **"We work closely with the Financial Ombudsman Service to understand the issues that consumers are facing."**

have systems which meet their individual needs while supporting a collaborative approach to sharing information. The strength of this approach enabled the regulators to minimise disruption to normal operations during a brief outage which affected certain shared systems in September 2016.

The regulators made good progress on updating their Memorandum of Understanding to reflect a number of changes, including the FCA's concurrent competition powers, the Senior Managers and Certification Regime, and changes required as a result of the Bank of England and Financial Services Act 2016.

Financial Policy Committee (FPC)

The FPC is the UK's main body for identifying, monitoring and mitigating financial stability risk. Our Chief Executive is a member of the committee and we work closely with the Bank of England on areas of interest to the FPC. In 2016/17, this work focused primarily on household finance, investment funds, FinTech, and cyber risks.

Financial Ombudsman Service and the Financial Services Compensation Scheme (FSCS)

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

We are currently reviewing the funding arrangements for the FSCS and published a consultation paper on this in December 2016. We are keen to ensure that these funding arrangements are sustainable from the perspective of firms that pay levies, and that consumers continue to receive appropriate compensation when things have gone wrong.

We work closely with the Financial Ombudsman Service to understand the issues that consumers are facing. This year, our engagement has included a range of ongoing policy issues, including consumer credit, pension redress and PPI.

The Money Advice Service (MAS)

We work with MAS, an independent organisation responsible for providing free, impartial financial guidance across the UK, and for funding and co-ordinating the provision of free debt advice.

The Government consulted in March 2016 on setting up a two-body delivery model for government-sponsored guidance. This included replacing MAS with a new, streamlined money guidance body and bringing together the Pensions Advisory Service and Pension Wise into a new pension guidance body. However after considering concerns raised by respondents to the consultation about how the two bodies might work effectively together, the Government announced in October 2016 that a single body (the Single Finance Guidance Body) would be better able to respond to the different financial guidance needs of consumers. It consulted on this approach in December 2016.

The government anticipates that the Single Finance Guidance Body will be launched no earlier than autumn 2018. We continue to work with the MAS, the Department for Work and Pensions (DWP) and the Treasury to provide support throughout the transition process to ensure that implementing the new model is carried out effectively.

Competition and Markets Authority (CMA)

The CMA works to promote competition for the benefit of consumers, both within and outside the UK. Its aim is to make markets work well for consumers, businesses and the economy. Since 1 April 2015, we and the CMA have had concurrent competition powers. These powers give the FCA the power to enforce against infringements of competition law, additional powers to conduct market studies into how competition is working in markets and powers to refer markets to the CMA for in-depth investigation. For example, we have consulted on whether it is appropriate for us to refer the asset management consultancy sector to the CMA for investigation.

International partners

Over the past year, our participation in European and global bodies and activities has remained an integral aspect of our work, notwithstanding the outcome of the UK Referendum. Whatever the eventual terms on which the UK leaves the EU, the relationships between, and work we undertake with, regulators and bodies both in the UK and internationally will remain a crucial part of ensuring markets work well in the UK.

Global and European regulatory standards, rules and guidance continue to form a central part of the framework within which we currently operate. Our aim has been to engage with international standard setters and regulators to ensure the regulatory framework is aligned with our objectives and appropriate for the firms and markets operating in the UK.

Our priorities in international regulatory discussions over the past year have included ongoing work on global standards for benchmark regulation, the asset management sector, conduct and governance in firms, data exchange, cyber security and financial innovation.

Our work in inputting to the development and implementation of European legislation has focused on a range of initiatives affecting our work, such as the finalisation of the Markets in Financial Instruments Directive and Regulation, Regulations on Market Abuse, Benchmarks, Prospectuses, and Packaged Retail and Insurance-Based Investment Products (PRIIPs), and the Insurance Distribution Directive, together with continuing input to the EU Capital Markets Union programme.

We have continued to work closely with European regulators on broader policy discussions, developing regulatory standards, sharing our regulatory expertise and identifying new and emerging issues. In June 2016, for example, we hosted a regulatory seminar for over 40 European regulators to discuss models for a risk-based approach to supervision. We also hosted a seminar on asset management and financial stability issues in April with participation from international regulators, industry and academics. We have remained active in all of the European Supervisory Authorities – particularly the European Securities and Markets Authority (ESMA) where our Chief Executive is the UK member of the ESMA Board of Supervisors and our staff participate in nearly all ESMA committees.

We are active members of the International Organisation of Securities Commissions (IOSCO), with our Chief Executive a permanent IOSCO Board member. We are represented in all Policy Committees and taskforces of IOSCO. We chair the Committee on Asset Management and vice-chair the Enforcement and Exchange of Information Committee; we also chair the Benchmarks task force and vice-chair the Market Conduct task force.

We are a member of the Financial Stability Board (FSB). Our Chairman attends the FSB Plenary and the Standing Committee on Supervisory and Regulatory Cooperation. In 2016/17 we contributed to the FSB's work on asset management, conduct and governance, shadow banking, and technological innovation, in particular FinTech.

We continue to closely engage with many other international organisations, including the:

- International Association of Insurance Supervisors
- Financial Action Task Force
- Organisation for Economic Cooperation and Development (OECD) – we currently chair the G20-OECD Task Force on Financial Consumer Protection
- International Financial Consumer Protection Network
- European Banking Authority
- European Insurance and Occupational Pensions Authority
- European Systemic Risk Board

In addition to our ongoing engagement with a range of international policy forums, we continued to work with many other regulators on a bilateral basis. In 2016/17 this included meetings by our senior executives in the US, Hong Kong, Singapore and China among others, and we welcomed a wide range of foreign delegations from both established and emerging markets to the FCA.

Statutory panels

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

These panels play an important role in both advising and challenging us, and bring a depth of experience, support and expertise in identifying risks to the market and consumers. We consider their views when developing our policies and when deciding and implementing other regulatory interventions. Each panel publishes its own annual report (except the Listing Authority Advisory Panel).

The Consumer Panel

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

The Practitioner Panel

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

The Smaller Business Practitioner Panel

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

The Markets Practitioner Panel

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

The Listing Authority Advisory Panel

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

Consumer organisations

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

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

Our consumer organisation network includes:

Age UK
AdviceUK
Alzheimer's Society
Citizens Advice (England and Wales, Scotland, and Northern Ireland)
Christians Against Poverty
The Consumer Council for Northern Ireland
The Financial Services Consumer Panel
Money Advice Scotland
Money Advice Trust
MoneySavingExpert
Scope
Shelter
StepChange
The Money Charity
Toynbee Hall
Which?
Young Scot

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

This year we ran an innovative project to improve our understanding of the current practice and prevalence of unauthorised lending. We would usually survey firms and consumers in a market, but this is not an option where the lenders are deliberately avoiding detection and consumers are hard to reach. Instead, we worked closely with the Local Government Illegal Money Lending Teams in Britain and the relevant bodies in Northern Ireland. We built on their experience to identify known areas of activity and used their contacts to expand our networks and find advisers with knowledge of lenders and the consumers using them.

We used this preliminary work to develop our series of roundtables across the UK in known hotspots of unauthorised lending activity. We hosted eight roundtables around the country with over 70 people from over 50 organisations dealing with consumers familiar with unauthorised lenders. We also identified a wider set of over 150 contacts with potential knowledge in this area through our UK consumer network and referrals from roundtable participants. We designed a questionnaire for them, building on the roundtable findings to consolidate our understanding.

From this, we built a picture of consumers' experience and have used it to strengthen both our understanding of credit markets and of any unintended consequences of our interventions.

We know the resources of many consumer organisations are increasingly stretched. Our partnership team has developed a range of alternative ways for these bodies to provide their expert input to our consultation and discussion papers, market studies and thematic reviews. For example, we run a secondment programme which puts our staff within consumer organisations. This gives these organisations additional resources and ensures our staff bring back a deeper knowledge of consumer issues and behaviours. This year, we have seconded staff to Citizens Advice, Age UK and the Consumer Council for Northern Ireland.

We have completed significant work to understand the needs of consumers in vulnerable circumstances and the needs of consumers struggling to access financial services. Our Mission highlights these as areas where we will continue to work with firms to make sure they treat customers fairly when they take business decisions that affect the financially vulnerable or those trying to access financial services.


MENU
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Chapter 9
Group financial overview

The Financial Conduct Authority's business model

The FCA regulates the financial services industry in the UK, supervising the conduct of over 56,000 firms, including more than 18,000 firms we regulate prudentially that are not covered by the Prudential Regulation Authority.

In accordance with FSMA, the FCA seeks to maintain adequate reserves in order to meet its Ongoing Regulatory Activity. Over the last two years the FCA has retained its surpluses before pensions to improve its net liabilities position from £28.4m to £1.3m (Table 8). The driver for the remaining accumulated deficit is the Final Salary Pension deficit.

Table 1: FCA Surplus for the year

	2017 £m	2016 £m
Over recovery against budget	18.2	17.4
Additional fees collected	5.5	2.1
Add back management to financial accounting pension adjustment	24.9	15.0
Net Scope Change income/(costs)	8.1	(24.2)
FCA surplus for the year before pensions	**56.7**	**10.3**
Net actuarial losses for the year in respect of the final salary pension scheme	(65.3)	(6.5)
FCA (loss)/surplus for the year	**(8.6)**	**3.8**

Fees and other income

Fee income: the FCA does not receive funding from the UK government as it funds the cost of delivering its statutory objectives by raising fees from the firms it regulates. It is given the powers to raise fees under FSMA. Fees are raised to cover the FCA's budgeted Ongoing Regulatory Activity (ORA) which represents the net costs of the FCA's core operating activities after offsetting Other income.

Also included in fee income are application fees, other regulatory income and scope change (set-up cost) recoveries. Under certain circumstances, for example when legislation is introduced by Parliament, there may be changes to the scope of the FCA's regulated activities which can include new responsibilities. Material activities resulting from this scope change are controlled and reported separately from ORA so they are individually identifiable from a cost and fee perspective. These activities are included as part of the cost of ORA only when the scope change activity has been fully embedded into ongoing responsibilities.

Other income: comprises income from publications and training services, recovery of costs incurred by the FCA for engaging skilled persons to carry out a s166 review, interest on bank deposits, sundry income, and income for providing levying and collection services for other regulatory bodies.

Penalties: When the FCA levies penalties (on a firm or an individual) following disciplinary action, the amount the FCA is entitled to retain on behalf of its fee payers is limited to the retained enforcement costs for that financial year as agreed with the Treasury. This amount is returned to fee payers through reduced fees in the following financial year. The extent of the rebate is therefore dependent on the level of penalties issued during the previous financial year. The FCA retained £46.4m in penalties in 2016/17 (2016: £46.3m) relating to enforcement costs, these penalties will be rebated to firms in the 2017/18 fees.

Penalties collected by the FCA over and above the agreed enforcement costs are not retained by the FCA; rather they are passed over to the Exchequer.

The Payment Systems Regulator's (PSR) business model

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

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

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

Analysis of performance during the year

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

Results for the year ended 31 March 2017 (Statement of Comprehensive Income)

Table 2: Results for the year

	2017 £m	2016 £m	Increase/(decrease) £m
Fee income	543.9	517.1	26.8
Other income	22.4	36.5	(14.1)
Total Income	**566.3**	**553.6**	**12.7**
Staff costs	(321.9)	(324.1)	(2.2)
Administrative costs	(187.7)	(219.2)	(31.5)
FCA surplus for the year before pension losses	**56.7**	**10.3**	**46.4**
Net actuarial losses for the year in respect of the defined benefit pension scheme	(65.3)	(6.5)	(58.8)
FCA (loss)/surplus	**(8.6)**	**3.8**	**(12.4)**
PSR (loss)/surplus	(0.6)	17.5	(18.1)
Group (loss)/surplus	**(9.2)**	**21.3**	**(30.5)**

The Group made a loss of £9.2m for the year ended 31 March 2017 (2016: surplus of £21.3m). The movement of £30.5m was driven by:

1. An actuarial loss of £65.3m (2016: loss of £6.5m) principally as a result of the reduced discount rate used to calculate the defined benefit pension liability.

2. A £18.1m variance in the results of the PSR, due to a rebate of £5.0m issued to fee payers in 2017 relating to an operating surplus in 2016. Prior year also included the receipt of £12.3m fees in relation to set-up costs incurred in 2015.

Partly offset by:

3. A £33.6m reduction in costs, primarily in IT and s166 ('skilled person') professional fee expenses.

4. A £12.7m increase in fee income predominantly due to the first year of consumer credit.

Fee income

Group fee income increased year on year by £8.9m as detailed below (Table 3), with the FCA fees increasing by £26.8m, and a reduction in PSR fee income of £17.9m.

Table 3: Fee income

	2017 £m	2016 £m	Increase/(decrease) £m
Ongoing Regulatory Activity budget	502.9	479.0	23.9
Recovery of scope change activities	16.4	2.6	13.8
Consumer credit fees	-	10.4	(10.4)
Annual Funding Requirement	**519.3**	**492.0**	**27.3**
Additional Ongoing Regulatory Activity fees	5.5	2.1	3.4
Additional scope change recoveries	1.5	0.2	1.3
Application fees	9.4	22.5	(13.1)
Special project fees	8.2	0.3	7.9
FCA fee income	**543.9**	**517.1**	**26.8**
PSR fee income	10.2	28.1	(17.9)
Group fee income	**554.1**	**545.2**	**8.9**

Note: Consumer credit fees of £10.4m are now included in the ORA budget as part of ongoing responsibilities.

The FCA fee income increased from £517.1m to £543.9m due to:

1. **A £27.3m increase in the Annual Funding Requirement** due to a £13.8m increase in total scope change recoveries, of which £7.7m relates to the first year recovery of £62m of consumer credit set-up costs, which are to be recovered over up to 10 years. The remaining scope recoveries in 2017 relate to implementation of the Senior managers and certification regime (SM&CR) in the Banking Sector and the Mortgage Credit Directive. Scope change activities are absorbed into the as the additional responsibilities are integrated with existing activities. The remaining increase in the Annual Funding Requirement was entirely due to the impact of a full year of consumer credit.

2. **Special project fees** increased £7.9m due to the increase of ring fencing activities during the year.

3. **Application fees** declined £13.1m as the majority of consumer credit applications were processed in 2016.

The PSR fee income declined from £28.1m in 2016 to £10.2m in 2017 as the prior year fees included the recovery of set up costs for the PSR and £5m rebate issued to fee payers in 2017 relating to an operating surplus in 2016.

Other income

Group other income reduced by £14.1m from £34.8m to £20.8m, the largest contributor to this being a decline in 'income' from skilled persons report of £13.3m. This 'income' represents a recovery of costs incurred by the FCA for engaging skilled persons to carry out a s166 review. The costs incurred by the FCA (recognised in administrative costs as professional fees) are recovered from the firm in question. Overall this has a net zero impact on the profit or loss of the FCA.

Total operating costs

Group total operating costs (Table 4) reduced by £33.4m or 6% during the year from £552.2m to £518.8m. This was primarily driven by a reduction in FCA administrative costs, which fell by £31.3m (14%), while staff costs also fell by £2.2m (0.7%).

Table 4: Total operating costs

	2017 £m	2016 £m	Increase/(decrease) £m
Staff costs	(321.9)	(324.1)	(2.2)
Administrative costs	(187.7)	(219.2)	(31.5)
FCA operating costs	**(509.6)**	**(543.3)**	**(33.7)**
PSR operating costs	(9.2)	(8.9)	0.3
Group operating costs	**(518.8)**	**(552.2)**	**(33.4)**

Group staff costs: The average staff numbers increased during the year by 65 (1.8%) to 3,635. A business drive to reduce the use of short-term resources (temporary and contractor staff) who typically incur higher costs than permanent employees drove down the staff costs for the organisation.

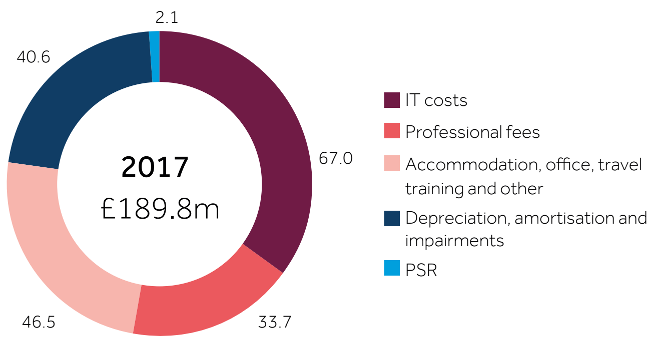
Table 5: Average staff numbers

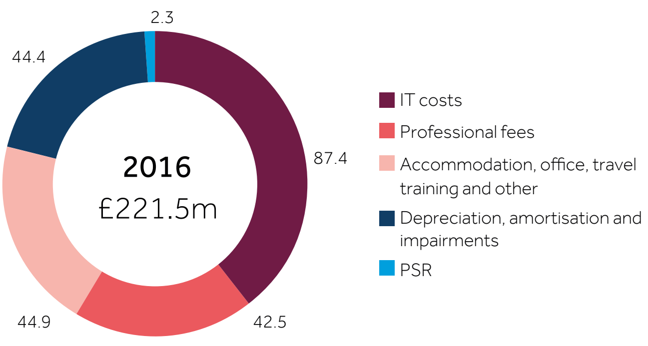
	2017	2016	Increase/(decrease)
Supervision	1,332	1,294	38
Enforcement & Market Oversight	670	656	14
Strategy & Competition	435	411	24
Operations and Central Services	926	871	55
FCA full-time equivalent employees	**3,363**	**3,232**	**131**
PSR full-time equivalent employees	58	44	14
Group full-time equivalent employees	**3,421**	**3,276**	**145**
Group short term resource	214	294	(80)
Group staff numbers	**3,635**	**3,570**	**65**

Group administrative costs: fell year on year by £31.7m or 14.3% from £221.5m to £189.8m (Chart 1 below), due to:

- A reduction in FCA IT costs of £20.4m (23.3%), mainly due to underspend in projects together with operational efficiencies. The IT spend is largely driven by the necessary IT change resulting from legislation.
- A reduction in FCA professional fees of £8.8m (20.7%) driven by a decrease in fees for s166 reviews of £13.3m.

Chart 1: Group Administrative Costs





Ongoing Regulatory Activity (ORA)

The FCA budgeted for ORA costs of £502.9m in the year to 31 March 2017 and levied its fees on this basis. The actual net ORA expenditure was lower than budget by £18.2m.

Table 6: FCA ORA Budget vs. Actual Expenditure

	2017 £m	2016 £m
ORA budget	502.9	479.0
ORA net actuals	484.7	461.6
Over recovery	18.2	17.4

The £18.2m over-recovery against budget was driven by lower external enforcement case costs, reduced staff costs together with slower than anticipated recruitment across the organisation, as well as savings in IT and project spend.

The over-recovery will be retained to reduce the accumulated deficit and to help meet the move and dual-running costs anticipated in 2018/19 when the FCA will re-locate to its new offices in Stratford.

The difference between the accounting surplus (before the actuarial losses of the final salary pension scheme) of £56.0m and the ORA over recovery of £18.2m is due to the financial accounting pension adjustment, the additional ORA fees recovered and the net scope change recoveries (as set out in Table 1).

Table 7 reconciles the FCA's actual gross ORA expenditure of £524.7m (£484.7m net of other income) to its operating costs, as set out in the financial statements, of £509.6m.

Table 7: Operating costs

	2017 £m	2016 £m	Increase/(decrease) £m
ORA actuals	484.7	461.6	23.1
Add - Other income	40.0	46.9	(6.9)
Gross ORA actuals	**524.7**	**508.5**	**16.2**
Financial accounting adjustments:			
Pension scheme	(24.9)	(15.0)	(9.9)
Scope change costs:			
Consumer credit	-	37.4	(37.4)
Markets in Financial Instruments Directive	6.1	7.3	(1.2)
Parliamentary Commission on Banking Standards	1.7	4.0	(2.3)
Other	2.0	1.1	0.9
Total scope change costs	**9.8**	**49.8**	**(40.0)**
FCA operating costs	**509.6**	**543.3**	**(33.7)**
PSR operating costs net of intercompany adjustments	9.2	8.9	0.3
Group operating costs	**518.8**	**552.2**	**(33.4)**

The key reconciling items between the FCA's ORA and operating costs are:

- A difference between the accounting charge and the cash costs of £24.9m relating to the pension scheme
- Scope change costs of £9.8m, primarily relating to Markets in Financial Instruments Directive II (MiFID II)

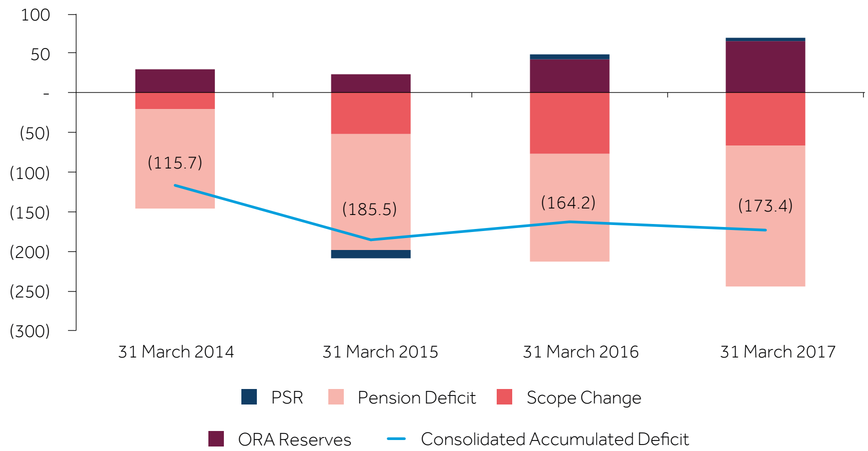
Financial position

Table 8: Movement in the Group Accumulated Deficit

Reserves	ORA Reserves £m	Scope Change £m	FCA Net Liabilities £m	Pension Deficit £m	FCA Total Accumulated Deficit £m	PSR £m	Group Accumulated Deficit £m
At 1 April 2015	**23.5**	**(51.9)**	**(28.4)**	**(145.6)**	**(174.0)**	**(11.5)**	**(185.5)**
PSR Recovery	-	-	-	-	-	12.3	**12.3**
Over recovery against budget	17.4	-	17.4	-	17.4	5.2	**22.6**
Additional fees	2.1	-	2.1	-	2.1	-	**2.1**
Scope change (net costs)	-	(24.2)	(24.2)	-	(24.2)	-	**(24.2)**
Pension movement	-	-	-	8.5	8.5	-	**8.5**
At 31 March 2016	**43.0**	**(76.1)**	**(33.1)**	**(137.1)**	**(170.2)**	**6.0**	**(164.2)**
Over/(under) recovery against budget	18.2	-	18.2	-	18.2	(0.6)	**17.6**
Additional fees	5.5	-	5.5	-	5.5	-	**5.5**
Scope change (net income)	-	8.1	8.1	-	8.1	-	**8.1**
Pension movement	-	-	-	(40.4)	(40.4)	-	**(40.4)**
At 31 March 2017	**66.7**	**(68.0)**	**(1.3)**	**(177.5)**	**(178.8)**	**5.4**[1]	**(173.4)**

1. PSR – Reserves balance of £1.0m to be retained with £4.4m returned to fee payers

Chart 2: Group Accumulated Deficit



The increase of £9.2m in the accumulated deficit from £164.2m to £173.4m at 31 March 2017 is driven by the £40.4m increase in the pension deficit following the current year actuarial loss of £65.3m, in part offset by the current year contribution of £24.9m. The pension liabilities will not crystallise for many years and the approach to managing and funding the pension deficit is explained in Note 13 to the financial statements.

This adverse movement is partly mitigated by an increase in ORA reserves of £23.7m due to an £18.2m underspend against budget (Table 6) in the year, together with an over collection of fees of £5.5m (Table 1). Net scope change recoveries of £8.1m also reduced the overall adverse movement in reserves. The scope change deficit is the consequence of the FCA funding scope change costs in advance of recovery of those costs from the relevant firms. As at 31 March 2017 the FCA had incurred cumulative scope change costs of £68.0m (2016: £76.1m) the majority of which relate to the setup of the FCA's Consumer Credit function which are to be recovered over a period of up to 10 years. Table 9 below details the movements that resulted in the net recovery of £8.1m during the current financial year.

Table 9: Reconciliation of scope change costs

Scope Change	Consumer Credit £m	MIFID [1] £m	PCBS [2] £m	Mortgage Credit Directive £m	SM&CR[3] £m	Other [4] £m	Total £m
At 1 April 2015	**44.9**	**1.0**	**2.6**	**0.7**	**-**	**2.7**	**51.9**
2016 costs	37.4	7.3	4.0	1.1	-	0.1	**49.9**
2016 recoveries	(22.9)	-	-	-	-	(2.8)	**(25.7)**
At 31 March 2016	**59.4**	**8.3**	**6.6**	**1.8**	**-**	**-**	**76.1**
2017 costs	-	6.1	1.7	0.3	0.8	0.9	**9.8**
2017 recoveries	(7.7)	-	(7.2)	(3.0)	-	-	**(17.9)**
At 31 March 2017	**51.7**	**14.4**	**1.1**	**(0.9)**	**0.8**	**0.9**	**68.0**

1 Markets in Financial Instruments Directive
2 Parliamentary Commission on Banking Standards
3 Senior Managers and Certification Regime: extension to all FSMA authorised persons
4 This relates to Claims Management (£0.3m), Packaged Retail Investment Product Review (£0.3m) and EU Benchmarks (£0.3m).

Group cash and cash equivalents

Of the year end cash position of £196.4m (2016: £232.2m), £13.3m (2016: £7.6m) was cash belonging to the PSR and £46.4m (2016: £46.3m) relating to penalties collected in 2016/17 which will be rebated to firms in 2017/18 fees.

Penalties collected on behalf of the Exchequer

Penalties of £189.2m (2016: £877.2m) were collected, of which £148.7m (2016: £843.1m) were paid to the Exchequer. No penalties were issued for the PSR.

Principal risks and uncertainties

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

FCA External Regulatory risk: This is the risk to the FCA's three operational objectives arising from the activities and conduct of the firms and markets the FCA regulates, which could cause markets not to work in the interest of consumers, harm the integrity of the financial system or leave consumers with an inadequate degree of protection. The FCA's key external risks and issues are set out in more detail in the FCA's Business Plan 2017/18, which incorporates the Risk Outlook. The FCA is focused on taking a strategic approach to risk, placing emphasis on sector and market-wide analysis. This puts the FCA in a strong position to prioritise its resources and efforts in order to mitigate those risks.

The FCA's business plan sets out the most important issues in each of the sectors as well as six cross-sector priorities as follows:

- Firms' culture and governance – promoting the right cultures, behaviours and effective governance and effective governance across the industry to prevent harm
- Financial crime and anti-money laundering – seeking to make the UK financial system a hostile environment for criminal money
- Promoting competition and innovation – looking to sustain a regulatory environment where consumers and firms can grasp the opportunities of competition while maintaining consumer protection and market integrity
- Technological change and resilience – aiming to ensure that new technologies are safely adopted and existing technology and systems become more resilient, thus safeguarding consumers and markets, and building confidence in the effectiveness of financial technology.

- Treatment of existing customers – pursuing further improvements in competition and the basic standards afforded to consumers
- Consumer vulnerability and access to financial services – seeking fair treatment for consumers

PSR External Regulatory risk

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

- Payment systems are not open, transparent and accessible
- Payment systems are not fast, easy to use, secure, reliable and do not provide value for money
- Payment systems are not responsive to current and future needs and do not promote innovation and competition
- No improvement in the representation of the people and organisations that rely on services provided by payments systems
- Payments systems do not function in the best interests of the people and organisations that use them and the services they support
- Consumers are not satisfied with the quality and outcomes of the PSR`s work

FCA and PSR: Key environmental and operational risks

Environmental risks: which include risks associated with the operating environment for the FCA and the PSR – in particular, political, legislative or socio-demographic change. Whilst it is set out in statute that both the FCA and the PSR are operationally independent organisations, they remain subject to changes in legislation and scope by the UK Government that can ultimately affect the size, activities and complexity of both organisations. The Government's decision to trigger Article 50, setting in train the UK leaving the European Union, may impact the scope and scale of the FCA's activities from April 2019.

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

- **People risks:** including risks associated with the capacity of our staff to deliver our business plan and the changing capability needs of the organisation such as cyber security and data analytics expertise, and risks around staff morale and engagement. The FCA and PSR continue to mitigate these risks as part of their People Strategy;
- **Governance risks:** including inadequate data and management information or failed internal processes and controls. The introduction of the Senior Manager & Certification Regime (SM&CR) internally aims to strengthen governance, controls and decision making; and
- **Systems risks:** including the availability, resilience, recoverability and security of core IT systems. Cyber risk continues to be a major focus for both organisations, with a significant increase in investment, as we respond to the rapidly evolving threat level.

Public confidence risk: which includes risks which could constrain the FCA's and PSR's ability to deliver against their objectives, due to diminished levels of public trust, a reduced ability to influence key stakeholders and/or a reduction in the organisations' credibility and standing as effective regulators. This could result from inappropriate judgements, decisions and actions taken (or inaction) which may be perceived by stakeholders as inappropriate; inconsistent or inaccurate messages being communicated externally; and clearly defining the FCA's and PSR's objectives and remit so that public expectations are set and managed appropriately.

As we have set out in the Strategic Report, value for money is also a key area of focus for both organisations and we will continue to embed our approach to it.

Going concern and key financial risks

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

1. **Liquidity risk:** can be assessed by looking at the following four key areas:

a. the FCA's current liquidity position reflects the fact that it has been funding (i) cumulative scope change costs for consumer credit (£51.7m) which are being recovered at circa £6.2m per annum; and (ii) capital expenditure over the useful economic lives of the assets rather than when the expenditure is incurred. The carrying amount of assets as yet unrecovered through fees is £104.5m at 31 March 2017

b. the triennial valuation of the FCA Pension Plan resulted in additional deficit funding costs to the FCA

c. the FCA's strong fee covenants are underpinned by the statutory powers granted to it to raise fees to fund its and the PSR's regulatory activities. Of the firms on which the FCA currently levies its fees, the top 100 are responsible for 54.8% of those fees (2016: 55.5%);

d. the FCA is currently well placed from a liquidity perspective, with cash deposits of £179.9m at 31 March 2017 and an available overdraft facility which has been increased from £50m to £150m to meet the costs for the move to Stratford.

2. **Credit risk:** falls into two main categories:

a. the collection of fees from the financial services industry: the FCA has a strong record in terms of collecting fees with bad debt experience averaging less than 0.2% of fees receivable over the last three years

b. the placement of those fees as deposits with various counter-parties: the FCA only invests with financial institutions that among other things, meet its minimum credit rating as assigned by credit rating agencies. The FCA also spreads its deposits across a number of counter-parties to avoid the concentration of credit risk.

3. **Significant Accounting Judgments and Key Sources of Estimate Uncertainty** that have been considered by the directors are the estimated useful economic lives of internally developed software and the assumptions underpinning the pension deficit as set out in Note 13 to the Financial Statements.

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

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

By Order of the Board

S Pearce

Secretary

22 June 2017

Chapter 10
Directors' report and Corporate governance statement

Directors' report

The directors present their report for the year ended 31 March 2017.

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

Directors' responsibilities in respect of the Annual Report and Accounts

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

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

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

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

As far as the directors are aware:

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

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

Qualifying indemnity provisions

Qualifying third party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were in force during the course of the financial year ended 31 March 2017 and remain in force at the date of this report.

Auditor

The Financial Services and Markets Act 2000 (FSMA) requires the Company's accounts to be examined, certified and reported on by the Comptroller and Auditor General. Accordingly the National Audit Office was auditor throughout the year.

By Order of the Board

S Pearce

Secretary

22 June 2017

Corporate governance statement for the year ended 31 March 2017

Introduction

This section of the report explains the Board's composition and governance structure. It also explains the Board's role, its performance, ongoing professional development and succession planning.

We are an independent public body, funded entirely by fees from the firms that we regulate. We are accountable to the Treasury, which is responsible for the UK's financial system, and to Parliament. The Financial Services and Markets Act 2000 (FSMA), which defines our work and purpose, requires us to meet and consult with various stakeholders. We work with consumer groups, trade associations and professional bodies, our statutory panels, domestic regulators, EU legislators and a wide range of other stakeholders.

We are open and accountable to the public through our Annual Report and our Annual Public Meeting. We report annually to the Treasury on how far we have met our regulatory objectives and are also subject to detailed scrutiny by the Treasury Committee.

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

The Role of the Board, Board committees and executive committees

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

The Board's role includes:

a. Deciding which matters it should make decisions on, including exercising our legislative functions and other matters as set out in the Schedule of Matters Reserved to the Board.

b. Making strategic decisions about our future operation.

c. Overseeing the executive management of our day-to-day business.

d. Setting appropriate policies to manage risks to our operations and the achievement of our regulatory objectives.

e. Seeking regular assurance that our system of internal control is effective in managing risks.

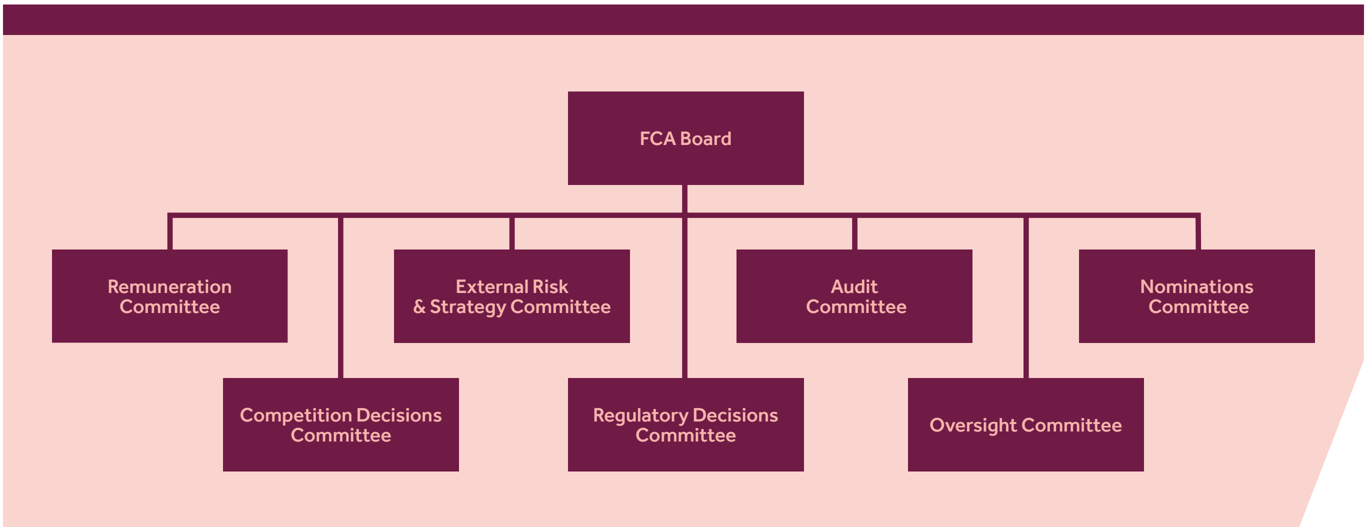
f. Maintaining a sound system of financial control.

g. Taking specific decisions that are not included in the Schedule of Matters Reserved to the Board, which the Board or executive management consider are novel, contentious or so significant that they should take them.

h. Maintaining high-level relationships with other organisations and authorities. These include Government, the Financial Services Compensation Scheme, the Financial Ombudsman Service, the Money Advice Service , the Bank of England, the Prudential Regulation Authority, and the Consumer, Practitioner, Smaller Business Practitioner, Markets Practitioner and Listing Authority Advisory Panels.

i. Establishing and maintaining the accountability for decisions made by committees of the Board and executive management.

The Board is supported by its principal committees, shown in the chart on the next page. Membership of these committees is given in Table 3.



Our website gives more details on our governance arrangements under 'Corporate governance'. We provide details of the committees' activities later in this report.

Our executive committees play an important role in our overall corporate governance. The Executive Committee is chaired by the Chief Executive. It is our most senior executive decision making body and discusses issues from across the FCA. It oversees our strategy, direction and activity in general, including delivery of our annual Business Plan. It monitors our direction and performance within the strategic framework set by the Board. The Executive Committee comprises the Chief Executive, the Executive Director of Supervision – Investment, Wholesale and Specialists, the Executive Director of Supervision – Retail and Authorisations, the Executive Director of Enforcement and Market Oversight, the Executive Director of Strategy and Competition and the Chief Operating Officer. General Counsel and the Director of Risk and Compliance Oversight attend in an advisory capacity.

Beneath the Executive Committee are a series of sub-committees. These include the:

- Executive Diversity Committee - which leads our diversity and inclusion agenda
- Executive Operations Committee - which monitors our economic and efficient use of resources, operational risk management, people strategy and culture and operational resilience
- Executive Regulatory Issues Committee - which takes decisions on regulatory issues, such as firm, sector or product specific issues
- Policy Steering Committee - which maintains oversight of our policy initiatives

The Senior Managers and Certification Regime (SM&CR), which came into force in March 2016, does not formally apply to the FCA. However, as best practice, we have set out a formal description of the core responsibilities of members of our Board, Executive Committee and those carrying out Senior Management functions. Our website has more details on how we apply the SM&CR to ourselves under 'About Us'.

Members of our Board

FSMA sets out the requirements for the membership of our Board. The Board currently comprises;

- the Chair and the Chief Executive appointed by the Treasury
- the Bank of England Deputy Governor for prudential regulation
- two non-executive directors appointed jointly by the Secretary of State and the Treasury
- one executive director and five non-executive directors appointed by the Treasury

All non-executive appointments adhere to the Code of Practice issued by the Office of the Commissioner for Public Appointments.

Table 1 gives the dates of Board members' appointments.

Table 1

Name	Original appointment date	Expiry of current term / date membership ceased
Andrew Bailey[1] Executive Director – Chief Executive	1/07/16	30/06/21
Catherine Bradley Non-Executive Director	2/08/14	1/08/17
Amelia Fletcher[2] Non-Executive Director	1/04/13	31/03/19
Bradley Fried Non-Executive Director	1/04/16	31/03/19
John Griffith-Jones Chair	1/04/13	31/3/18
Baroness Hogg Non-Executive Director	1/04/16	31/03/19
Ruth Kelly Non-Executive Director	1/04/16	31/03/19
Tracey McDermott Executive Director – Acting Chief Executive	1/04/13	30/06/16
Jane Platt[2] Non-Executive Director	1/04/13	31/03/19
Nick Stace Non-Executive Director	1/04/17	31/03/20
Sam Woods Bank of England Deputy Governor for prudential regulation	1/07/16	Not applicable
Christopher Woolard Executive Director – Director of Strategy & Competition	1/08/15	31/07/18

1 Andrew Bailey previously served as a non-executive director between 1 April 2013 and 30 June 2016 due to his former position as Bank of England Deputy Governor for prudential regulation.

2 Reappointed for an additional three-year term from 1 April 2016.

John Griffith-Jones and Andrew Bailey were appointed as Chair and Chief Executive respectively, each for a term of five years. All other directors were initially appointed for terms of three years. Amelia Fletcher and Jane Platt were each re-appointed for a further term of three years with effect from 1 April 2016.

During the reporting period the Board's membership changed as follows:

- Tracey McDermott was acting Chief Executive until a permanent successor was in post. Ms McDermott left the Board on 30 June 2016
- Andrew Bailey was appointed Chief Executive on 1 July 2016
- Sam Woods was appointed to the Board on 1 July 2016 due to his position as the Bank of England Deputy Governor for prudential regulation, in accordance with the requirements of FSMA
- Nick Stace was appointed as a non-executive director with effect from 1 April 2017.

A majority of Board members are non-executive directors (NEDs) and bring extensive and varied experience to the Board and Committees. Baroness Hogg was appointed Senior Independent Director (SID) with effect from 1 April 2016.

The Board wants to ensure it has a diverse membership. It pays particular attention in the recruitment process to ensure it has a variety of members with the appropriate balance of relevant skills and experience. Our female membership is above the 33% target figure for the boards of UK FTSE 350 companies as proposed by the Hampton-Alexander review.

The executive members of the Board have continuous employment contracts with the FCA, subject to the following notice periods (as set out in table 2):

Table 2

Director	Notice period
Andrew Bailey	6 months
Christopher Woolard	6 months

Details of committee membership during the year can be found in table 3.

Table 3

Audit Committee	External Risk and Strategy Committee	Remuneration Committee	Oversight Committee	Nominations Committee
Ruth Kelly (Chair)	Jane Platt (Chair)	Baroness Hogg (Chair)	John Griffith-Jones (Chair)	John Griffith-Jones (Chair)
Catherine Bradley	Amelia Fletcher	John Griffith-Jones	Catherine Bradley	Catherine Bradley
Bradley Fried	Ruth Kelly	Amelia Fletcher	Baroness Hogg	Amelia Fletcher
Jane Platt		Bradley Fried	Christopher Woolard	Bradley Fried
				Ruth Kelly
				Baroness Hogg
				Jane Platt

Board meetings and activities of the Board

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

The Board has a formal schedule of matters reserved to it, and meets regularly in order to discharge its duties effectively. It held eleven scheduled meetings during the year, including a two-day strategy meeting, and held three additional meetings to deal with specific matters which required attention between the scheduled meetings.

The Board committees also met frequently during the year.

Table 4 provides details of all the Board and committee meetings and attendance.

Table 4

Name	Scheduled Board Meetings	Additional Board Meetings[1]	Remuneration Committee	Nominations Committee	Audit Committee	External Risk and Strategy Committee	Oversight Committee
Andrew Bailey	11/11	3/3					
Catherine Bradley	10/11	3/3		6/6	4/4		6/6
Amelia Fletcher	11/11	1/3	6/6	4/6		4/4	
Bradley Fried	11/11	3/3	5/6	5/6	3/4		
Baroness Hogg	9/11	2/3	5/6	6/6			6/6
John Griffith-Jones	11/11	3/3	6/6	6/6			6/6
Tracey McDermott	3/3	2/2					
Jane Platt	9/11	3/3		5/6	4/4	4/4	
Ruth Kelly	8/11	3/3		5/6	4/4	3/4	
Sam Woods	7/8	0/1					
Christopher Woolard	11/11	3/3					6/6

1 Additional to those scheduled at the start of the year.

During the year, the non-executive directors met privately, both with and without the Chair and without members of the executive present.

The Chair and Company Secretary ensure that the Board's agendas reflect our priorities and review papers before they are circulated to members to ensure that information is accurate and clear. Papers for Board and committee meetings are normally circulated one week before meetings.

Committee chairs report to the Board after each committee meeting.

Board members rigorously challenge each other on strategy, performance, responsibility and accountability to ensure that the Board's decisions are robust.

The Board addressed many issues during the year. The principal areas of activity included:

Strategy and Policy

- approving the Mission statement
- reviewing market studies and analysis, including Sector Views
- approving the strategy and business plan
- approving major policy initiatives, such as the PPI deadline and campaign and capping pension early exit charges
- assessing the potential impact of the UK's withdrawal from the EU
- monitoring the progress of the Financial Advice Market Review
- approving the FCA's communications strategy
- approving and issuing rules and guidance

Governance

- reviewing the application of the Senior Managers and Certification Regime to the FCA
- implementing recommendations of the Board effectiveness review
- reviewing the governance arrangements of the FCA and the PSR
- reviewing the terms of reference of the Board committees
- approving major expenditure

Monitoring performance

- reviewing the financial performance of the organisation, the achievement of its statutory objectives and progress against its business plan
- approving its 2017/18 budget and fee allocation
- approving the Annual Report and Accounts
- reviewing the financial performance and approving the budget and business plans of the Payment Systems Regulator, Financial Ombudsman Service, Money Advice Service and the Financial Services Compensation Scheme.
- assessing the outcomes of external surveys of the FCA's performance
- considering the annual report of the Complaints Commissioner

Internal control and risk management

- discussing significant and emerging risks
- reviewing the effectiveness of internal control and risk management systems
- reviewing lessons-learned reviews

More detail of the Board's activities during the year can be found in the minutes of Board meetings which are published on our website.

Company Secretary and independent advice

Each director has access to the advice and services of the Company Secretary, who advises the Board on all corporate governance matters and ensures the Board follows appropriate procedures. The Company Secretary is also responsible for providing access to external professional advice for directors, if required.

In general under FSMA, the FCA has the benefit of an exemption from liability in damages for anything done or omitted in relation to the exercise or purported exercise of its statutory functions, provided that such acts or omissions are in good faith. This is supplemented with indemnities given by the FCA for the protection of individual employees, including directors. Accordingly, the FCA does not currently purchase Directors and Officers Liability Insurance.

Succession

The Board considers that all of the non-executive directors bring strong independent oversight and continue to demonstrate independence. However, the Board recognises the recommended term within the Code and is mindful of the need for suitable succession.

Succession planning remains a key agenda item for the Board and through its Nominations Committee is able to monitor the skills and experience of Board members and identify where gaps exists to facilitate engagement with the Treasury on future appointments.

Board induction and training

On joining the Board, Directors are given background information describing the FCA and our activities. They are given an induction pack which includes information on our governance arrangements, the Board's roles and responsibilities, its committees and officers and other relevant information. We also arrange structured meetings with a range of key people across the FCA to ensure directors have a thorough induction.

Members of the Board also receive ongoing professional development briefings on relevant issues. During the year the Chairman met with the non-executive directors to review their performance.

The Board programme includes regular briefings from management and informal meetings which increase the non-executive directors' understanding of the business and the sector.

Board effectiveness review

External reviews of Board effectiveness are commissioned every two years. The last external review was undertaken in June 2015 and the findings reported in the 2015/16 Annual Report. Accordingly in March 2017, the Board agreed to undertake a further review in the summer of 2017.

In intervening years the Board conducts internal effectiveness reviews. The last internal review was undertaken in 2016.

Conflicts of interests

All directors are required to declare relevant interests and where any potential conflict of interest arose during the year the Board took appropriate steps to manage it. The Company Secretary maintains a register of interests.

Board Committees

Audit Committee

The Audit Committee is responsible for reviewing and providing assurance to the Board on certain matters including the effectiveness of our internal controls, our operational risk management framework and mitigation strategies, the integrity of the financial statements in the annual accounts and the statements that relate to financial controls and operational risk[1] and for oversight of the external audit process.

The Audit Committee consists entirely of non-executive directors.

During 2016/17, the Audit Committee discharged its responsibilities and, in doing so, considered the following:

- FCA's financial policies
- identification of operational risks, including financial management risks, information systems risk and people risks and management's mitigation of these risks
- Internal Audit's three-year plan
- quarterly reports from Internal Audit
- commissioning an independent review of the organisation's Internal Audit function
- the NAO's audit strategy for the financial year
- the integrity of the financial statements
- financial reporting judgements and disclosure issues
- the Annual Report and Accounts and the Corporate Governance Statement
- the FCA chair's expenses
- risk and control self-assessments from directors
- annual report on internal risk reviews by the Risk and Compliance Oversight Division
- pension plan arrangements

1 Further information on the principal risks and uncertainties facing the FCA can be found in the Group financial overview (Chapter 9).

- key information about technology projects
- potential and actual litigation against the FCA
- completion of actions arising from the Davis Review

The Audit Committee also oversaw the FCA's relationship with the external auditor. Information on fees paid to the auditor is given on page 112;

The Board's statement below gives more information on internal controls. The Committee has assured itself that the financial statements give a true and fair view and have been prepared with integrity.

In addition to the report in the Annual Report on the activities of the Committee, the Audit Committee chair provided an update after each committee meeting to the subsequent board meeting.

The Audit Committee met on four occasions during the year. The Chief Operating Officer and the Executive Director of Supervision - Investment, Wholesale & Specialists Division, the Executive Director of Strategy and Competition and the Human Resources Director all attended at least one session. The Director of Internal Audit, the Director of Risk Compliance and Oversight and the Director – Financial Audit from the National Audit Office (NAO) attended each of the meetings. The Chair of the Board and the Chief Executive also attended meetings by invitation and relevant members of staff are also invited to attend for relevant items.

The Audit Committee held private sessions with the Director of Internal Audit, the Director of Risk and Compliance Oversight and external auditors during the year without management present. The committee also held private sessions on its own without management present.

Information on the committee's membership can be found in Table 3 and details of its members' attendance at meetings can be found in Table 4.

Internal controls

The internal control framework is an important part of our governance arrangements. It is designed to provide reasonable but not absolute assurance about the effectiveness of the control environment, to manage rather than eliminate risks to our statutory objectives.

The Board is satisfied that the internal control framework is broadly appropriate for the business and was assured that a sound risk management framework and internal controls have been maintained during the year. However, the Board recognises that the risks facing the organisation are not static. Throughout the year, the Board observed the internal control framework adapting accordingly and improving, including the embedding of the risk and control self-assessment process.

Operational risks are overseen by the Audit Committee and external regulatory risks by the External Risk and Strategy Committee. The Board's policy on internal controls and risk management includes established processes and procedures for identifying, evaluating and managing significant risks. The Audit Committee reported at least quarterly to the Board on internal controls and operational risk management. The Audit Committee received regular reports from managers on financial and operational controls and the risk management systems. It also received and reviewed reports from the Director of Internal Audit which summarised work undertaken, findings and actions by management.

Key features of the internal control framework included the following:

- Risk reporting that highlighted the key operational and external risks faced. This supported discussion on the best course of action to mitigate the key risks and helped senior managers make decisions on priorities and resource allocation. The Executive Committee and the Executive Operations Committee regularly reviewed these reports and their views were reported to the Audit Committee.
- A review of the framework of controls to mitigate the key operational and external risks faced.
- Internal Audit provided independent assurance about the effectiveness of risk management and controls to the FCA Board and management.

- The Audit Universe, which contained all the FCA's activities, systems and projects that contribute to managing our risks. Internal Audit assessed each unit within the Universe to support the prioritisation of reviews. Internal Audit periodically reviewed the Audit Universe and priorities, considering factors including risk and how business critical and significant they were.
- Clear reporting lines and delegated authorities, which were reviewed on a regular basis.
- The external audit, including interim and final audit, which provided assurance about financial controls to the Board and senior management.
- Clear segregation between the FCA's regulatory function and the internal treasury function to avoid either endorsing or criticising any financial institution through investment activities.
- Ensuring appropriate policies and procedures were included in the staff handbook.

Directors and senior managers regularly communicated their commitment to maintaining an appropriate control culture across the FCA to all staff.

External Risk and Strategy Committee

The External Risk and Strategy Committee has responsibility for the review and oversight of the external risks[2] to the FCA achieving its statutory objectives, the executive's appetite for such risks and the suitability of the scope and coverage of the mitigation used to reduce the potential impact of such risks.

The Committee is also responsible for the effective operation of the Regulatory Decisions Committee (RDC). The External Risk and Strategy Committee consists entirely of non-executive directors.

To meet its responsibilities, the Committee received regular reports from the Director of Risk and Compliance Oversight, Director of Internal Audit and the Chair of the RDC. The Committee sought assurance from the FCA executive and actively pursued open dialogue with the executive to ensure that:

a. the major external risks to the FCA's statutory objectives from the financial markets that we regulate were identified and prioritised appropriately

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

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

- considered reviews into the following areas:
  - the impact of zero and negative interest rates on consumers and business models
  - managing the risks of some debt management companies failing to get authorisation
  - supervision monitoring of external risk
  - ring fencing of retail banks
  - organisational risk tolerance
  - prudential regulation
  - the potential impact of the UK's withdrawal from the EU
- reviewed the development of house and sector views

2 Further information on the principal risks and uncertainties facing the FCA can be found in the Group financial overview (Chapter 9).

- received regular reports from the RDC on operational performance, resources and risk
- engaged with the FCA's panels in a structured way
- considered gaps and cross-cutting risks based on the work of the Risk and Compliance Oversight Division
- reviewed progress of the programme to move the FCA's offices to the International Quarter, London in Stratford

The Committee also reviewed its report for inclusion in the FCA's Annual Report about risks to the environment in which the FCA regulates. As well as producing a report in the Annual Report on its activities, the chair of the External Risk and Strategy Committee provided an update after each meeting to the next Board meeting.

The Committee met on four occasions during the year. Five meetings have been scheduled for 2017/18 to coincide with the risk reporting cycle for the year

The Chief Operating Officer and latterly the Acting Chief Operating Officer attended one and two sessions respectively with the Committee. The Director of Risk and Compliance Oversight attended each of the Committee's meetings at the Chair's request with the Director of Internal Audit attending all but one.

The Chair of the Board also attended by invitation. Other expert members of staff were also invited to attend relevant items.

Private sessions were held with the Director of Risk and Compliance Oversight during the year without management present. The Committee also held private sessions on its own without management present.

Information on the Committee's membership can be found in Table 3 and is also available on our website and details of its members' attendance at meetings can be found in Table 4.

Oversight Committee

The Oversight Committee provides support and advice to the Board on its relationship with the Money Advice Service (MAS) and Financial Ombudsman Service and its obligations for both under FSMA.

During the year, the Committee met on six occasions and met with key individuals from both organisations.

A key duty of the Committee was to review and challenge the basis of preparation, and underlying assumptions of each organisation's annual budget and business plan. The Committee also sought to ensure that the FCA maintained good and effective working relationships with both organisations to ensure matters of mutual interest were identified, discussed and acted on. Therefore, a regular feature of the Committee's discussions with the MAS included updates on developments regarding the government's announcement in 2016 to create a new single financial guidance body. The Financial Ombudsman Service reported regularly to the Committee on its complaint caseloads, including in relation to payment protection insurance.

Nominations Committee

The Nominations Committee is responsible for making recommendations for maintaining an appropriate balance of skills on the Board to ensure we maintain our ability to meet our statutory objectives.

During the year, the committee met on six occasions and, among other things, considered executive membership on the FCA Board and objectives for the Chairman, Chief Executive and Company Secretary for 2017/18.

Regulatory Decisions Committee

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

The External Risk & Strategy Committee received quarterly reports from the RDC Chair, who also attended the meetings to discuss significant matters in those reports.

The RDC is independent of the division of the FCA that has conducted an investigation or considered an application for authorisation.

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

The RDC becomes involved after the relevant division of the FCA has concluded that it is appropriate for us to use particular powers against a firm or individual. The division submits its proposal and the supporting evidence to the RDC. The RDC will review the evidence and, in most cases, seek the views of the relevant firm or individual before coming to a decision.

RDC members are selected for their experience of making independent evidence-based decisions, working in senior and expert positions in financial services, and/or their knowledge and understanding of consumers and other users of financial services. This range of skills and experience is intended to achieve fairness and enhance the objectivity and balance of the FCA's decision-making and help improve consistency across sectors and cases.

The RDC's separate annual review of its activities for 2016/17 can be found in Appendix 2 of this report.

Competition Decisions Committee

The Competition Decisions Committee (CDC) is a committee of the Board comprising three persons appointed from the CDC Panel. The CDC acts as the decision-maker in Competition Act 1998 investigations on behalf of the FCA. This includes decisions on whether there has been a competition law infringement, whether to impose a financial penalty for an infringement and any directions to be given. No CDC has yet been appointed.

The CDC Panel was established in 2015. Panel members have attended two training sessions during the year.

Remuneration Committee

The Remuneration Committee is responsible for ensuring there is a formal and transparent procedure for developing policy on executive remuneration and for agreeing the remuneration packages of individual executive board members and senior executives. The Committee is also responsible for recommending to the Board the annual budget for pay and incentive awards and also the remuneration of members of associated bodies (such as the Money Advice Service , the Financial Ombudsman Service and the Consumer Panel). During the year, the Committee met on seven occasions.

The Remuneration Committee consists solely of non-executive directors.

Information on the committee's membership can be found in Table 3 and on our website and details of its members' attendance at meetings can be found in Table 4.

The terms of reference for each committee are available on our website at www.fca.org.uk/your-fca/documents/corporate-governance.

Remuneration report

Remuneration Principles

The FCA's remuneration principles are to attract and retain high calibre individuals and to provide them with clear objectives that are focused on results and behaviours clearly aligned with the FCA's cultural characteristics. Pay and incentives are differentiated based on performance and moderated across the organisation.

The total remuneration package, which is common to all FCA employees, comprises:

- basic pensionable salary
- eligibility to be considered for performance-related pay
- additional flexible benefits
- a non-contributory defined contribution pension

The Remuneration Committee determined the remuneration of the executive board members and senior executives. To help with this, the Committee received information on, and assessment of, their individual performance. Performance was measured against the achievement of the collective objectives by reference to the Business Plan, the objectives relating to the directors' individual areas of responsibility and assessment of their leadership abilities.

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

- agreed the objectives of executive board members and senior executives (before responsibility for this was passed to the Nominations Committee)
- reviewed the disclosure of remuneration in the Annual Report
- considered the fees payable to directors of associated organisations (such as the Money Advice Service) and members of other bodies such as the statutory panels
- considered the FCA's policy on payments to leaving employees
- agreed the pay and incentive award budget for the year and the overall policy on remuneration
- considered the FCA's policy in respect of pension arrangements for employees who have met the lifetime allowance or the tapered allowance.

Remuneration focus for 2016/17

There were no changes to the remuneration strategy this year. We continued to focus on rewarding those who:

- demonstrate successful and consistent delivery against objectives
- make a significant overall contribution to the FCA's goals
- demonstrate the values and behaviours that the FCA expects and requires.

2016/17 Remuneration review

All salary increases and incentive awards for staff in 2016/17 were a matter for management judgement against the FCA's common set of performance standards. The aim has been to ensure that members of staff, at all levels, received appropriate recognition for their performance. A budget of 1% was made available for salary increases, supplemented by an additional 0.5% to address anomalies, resulting in 68% of all employees receiving a pay award.

The budget for incentive awards was set at 15% of salaries. Of the employees eligible to be considered for an incentive award, 93% received an incentive award of varying amounts as detailed in Table 5.

Table 5

Bonus percentage received	Percentage of workforce who received a bonus
0%	7%
0.1% - 5%	1%
5.1% - 9.9%	8%
10% - 14.9%	41%
15% - 19.9%	21%
20% - 24.9%	18%
25% - 29.9%	3%
30% - 34.9%	1%

In considering executive remuneration, the Remuneration Committee took advice from the Director of Human Resources, other relevant staff and market data from Willis Towers Watson, its external consultants.

Basic pensionable salary

During the year, salaries of executive board members and senior executives were reviewed in line with the policy. When making decisions on base salary, the Remuneration Committee was mindful of the importance of remuneration packages being sufficient to retain staff while awarding any salary increases in a responsible manner, ensuring careful use of the FCA's resources.

Performance related pay

During the period under review, from 1 April 2016 to 31 March 2017, the executive board members and senior executives were eligible to be considered for a performance-related award up to a maximum of 35% of average base salary applying during the previous year. Non-executive directors were not eligible to be considered for an award.

Other benefits

A sum was available for the Chair and each executive board member which could be spent against a range of benefits. This sum is included in 'other benefits' in the remuneration table. While acting as Chief Executive, Tracey McDermott also had access to a car and driver and the value of this benefit is included in 'other benefits' in the remuneration table. The current Chief Executive has elected not to use a car and driver.

Pensions

The FCA Pension Plan (the Plan) has two sections, both of which are non-contributory; a defined benefits section (closed to new entrants and any future accruals) and a defined contribution section. John Griffith-Jones and Andrew Bailey are not members of the Plan but both were entitled to receive a non-pensionable supplement instead. Christopher Woolard is a member of the Plan. The sums paid to the Chair and each of the executive directors are shown in the remuneration table.

Further information about the Plan is set out in Note 13 to the Financial Statements.

Directors' remuneration (audited)

The table below sets out the remuneration paid or payable to any person that served as a Director during the years ending 31 March 2017 and 2016. The remuneration figures shown are for the period served as Directors.

	Basic salary		Performance-related pay		Other benefits		Total FCA Remuneration (excluding pension)		Pension		Total FCA Remuneration	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
Chairman												
John Griffith-Jones [1,6]	**170**	170	**-**	-	**3**	2	**173**	172	**20**	20	**193**	192
Executive Directors												
Andrew Bailey [2,6]	**330**	-	**65**	-	**24**	-	**419**	-	**30**	-	**449**	-
Tracey McDermott [3]	**284**	376	**11**	75	**37**	74	**332**	525	**35**	45	**367**	570
Christopher Woolard [4,6]	**300**	200	**50**	41	**29**	19	**379**	260	**30**	26	**409**	286

Non-Executive Directors	Group Fee Paid		FCA Fee Paid	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Andrew Bailey [2,6]	**-**	-	**-**	-
Bradley Fried [6]	**42**	-	**35**	-
Amelia Fletcher [6]	**42**	35	**35**	35
Baroness Hogg [5,7]	**65**	-	**65**	-
Jane Platt [5,8]	**45**	38	**45**	38
Catherine Bradley	**35**	35	**35**	35
Ruth Kelly [5,9]	**45**	-	**45**	-
Sam Woods [10]	**-**	-	**-**	-

Notes

Chairman

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

Executive directors of the FCA

2. Andrew Bailey was appointed Chief Executive of the FCA on 1 July 2016 and accordingly ceased to be a non-executive director. Andrew's full-year salary is £440,000 per annum. Andrew was awarded a performance bonus of £65,000 for 2017, of which £26,000 (40%) was paid in March 2017. The remaining £39,000 (60%) has been held in deferment and will be paid with the approval of the Remuneration Committee in March 2018. Andrew received a non-pensionable supplement in lieu of pension contributions of £30,000 paid in cash. This amount is included under 'Pension' in the table above.

3. Tracey McDermott was appointed acting Chief Executive on 13 September 2015 and continued until 30 June 2016. Tracey's full-year equivalent salary increased from £300,000 to £430,000 per annum on 1 September 2015 for a period of 12 months. Her salary decreased to £300,000 in September 2016 whilst Tracey remained on contract with the FCA until 31 December 2016. Included in Tracey's 'Other benefits' is an amount of £19,822 being the value of the taxable benefit-in-kind for the provision of a car and driver from 1 April 2016 to 16 May 2016 in her role as acting Chief Executive. The car was also available as a pool car for all FCA directors to use for non-taxable business travel.

4. Christopher Woolard was appointed to the FCA Board on 1 August 2015. Christopher's full-year salary for year ending 2016 was £300,000 per annum. Christopher is a member of the FCA Pension Plan, he chooses to have £10,000 of the employer pension contribution paid into the Pension Plan, the remaining employer contribution is paid as a non-pensionable cash supplement. The amount is included under `Pension' in the table above.

Non-executive directors of the FCA

5. In accordance with FSMA, the Treasury is responsible for determining the remuneration of non-executive directors. The fee for non-executive directors remains unchanged at £35,000 per annum for 2017. An additional fee of £10,000 per annum is payable to any non-executive director who has been appointed to chair a committee of the Board. An additional fee of £20,000 is payable to the Chair of FCA Pension Plan Trustee Limited, the trustee of the FCA Pension Plan.

6. Amelia Fletcher and Bradley Fried received a separate fee of £6,875 for their role on the PSR Board. John Griffith-Jones, Christopher Woolard and Andrew Bailey, who was appointed as a non-executive director of the PSR on 1 July 2016, received no separate fee for their respective roles on the PSR Board.

7. Baroness Hogg was appointed as a non-executive director of the FCA, Chair of the Remuneration Committee and Chair of FCA Pension Plan Trustee Limited on 1 April 2016.

8. Jane Platt's fees were paid to her primary employer, National Savings and Investments, whilst employed there. From 1 September 2016 Jane received her fees directly from the FCA. Jane was appointed Chair of the External Risk and Strategy Committee on 1 January 2016.

9. Ruth Kelly was appointed as a non-executive director and Chair of the Audit Committee on 1 April 2016.

10. Sam Woods was appointed as the Deputy Governor of the Bank of England for prudential regulation on 1 July 2016 and therefore became a non-executive of the FCA in accordance with FSMA. Sam does not receive a fee from the FCA.

Fair pay disclosure (audited)

	Group		Parent Company	
	2017	2016	**2017**	2016
Highest-paid Director's total remuneration[1]	**£536,553**	£598,175	**£536,553**	£598,175
Median remuneration of total workforce	**£64,984**	£65,014	**£64,785**	£64,897
Ratio (to total workforce)	**8.3**	9.2	**8.3**	9.2
Number of employees paid in excess of highest-paid Director	**Nil**	Nil	**Nil**	Nil

1 The difference between the total remuneration of the highest-paid director for the purposes of this disclosure and the total remuneration (excluding pension) as set out in the directors' remuneration table is that the directors' remuneration table includes actual amounts paid, whilst the remuneration ratio is a calculation of full year equivalent remuneration.

The Accounts Direction from the Treasury, in accordance with Schedule 1ZA, paragraph 14(1) of FSMA, requires the FCA to disclose the relationship between the remuneration of the highest-paid director and the median remuneration of the organisation's total workforce for 2017 and 2016.

The remuneration ratio represents the difference between the highest-paid director and the median full-time equivalent annualised remuneration of the total workforce at the reporting period end date (excluding the highest-paid director) expressed as a multiple. Definitions are below:

- **Remuneration** is total remuneration and includes salary, performance-related pay and benefits, whether monetary or in-kind. It does not include severance payments or employer pension contributions.

- **Total workforce** includes employees, temporary staff, contractors and other short-term resource.

The median pay calculations reflect the FCA as a stand-alone entity ('FCA Parent Company') and the consolidated position including the PSR ('Group').

The Chief Executive of the FCA was the highest-paid director for 2017 and 2016. The reason for the fall in total remuneration is due to the fact that the previous year included the benefit of car and driver which the current Chief Executive has elected not to use.

Excluding the highest-paid director, remuneration ranged from £19,250 to £440,000 (2016: £21,448 to £582,359).

In 2017 no employees (2016, nil) received remuneration in excess of the highest-paid director.

The Board of the FCA

John Griffith-Jones
Chair

Andrew Bailey
Chief Executive

Catherine Bradley
Non-executive Director

Amelia Fletcher OBE
Non-executive Director

Bradley Fried
Non-executive Director

Baroness Sarah Hogg
Non-executive Director

Ruth Kelly
Non-executive Director

Jane Platt
Non-executive Director

Nick Stace
Non-executive Director
(Appointed with effect from 1 April 2017)

Sam Woods
Non-executive Director

Christopher Woolard
Executive Director

Simon Pearce
Company Secretary

Chapter 11

Financial statements of the Financial Conduct Authority for the year ended 31 March 2017

Company Number 01920623

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

I certify that I have audited the financial statements of the Financial Conduct Authority for the year ended 31 March 2017 under the Financial Services and Markets Act 2000. The financial statements comprise: the Group and Parent Statements of Comprehensive Income, Financial Position, Cash Flows, Changes in Equity; and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Financial Services and Markets Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the Financial Conduct Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Financial Conduct Authority; and the overall presentation of the financial statements.

In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the group's and of the Financial Conduct Authority's affairs as at 31 March 2017 and of the group's and the parent's surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union;
- the financial statements have been properly prepared in accordance with the Companies Act 2006 and HM Treasury directions made under the Financial Services and Markets Act 2000.

Opinion on other matters

In my opinion:

- the parts of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Financial Services and Markets Act 2000;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and these reports have been prepared in accordance with the applicable legal requirements; and
- in light of the knowledge and understanding of the group and the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with relevant guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse **Date: 27 June 2017**
Comptroller and Auditor General

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

Statement of comprehensive income for the year ended 31 March

		Group		Parent Company	
	Notes	Total 2017 £m	Total 2016 £m	Total 2017 £m	Total 2016 £m
Income					
Fee income	4	554.1	545.2	543.9	517.1
Other income	4	20.8	34.8	22.4	36.5
Total income		**574.9**	**580.0**	**566.3**	**553.6**
Operating costs					
Staff costs	5	(329.0)	(330.7)	(321.9)	(324.1)
Administrative costs	6	(189.8)	(221.5)	(187.7)	(219.2)
Total operating costs		**(518.8)**	**(552.2)**	**(509.6)**	**(543.3)**
Surplus for the year		**56.1**	**27.8**	**56.7**	**10.3**
Net actuarial losses for the year in respect of the defined benefit pension scheme	13	(65.3)	(6.5)	(65.3)	(6.5)
Total comprehensive (loss)/ surplus for the year		**(9.2)**	**21.3**	**(8.6)**	**3.8**

Statement of changes in equity for the year ended 31 March

	Accumulated Deficit	
	Group £m	Parent Company £m
At 1 April 2015	**(185.5)**	**(174.0)**
Total comprehensive surplus for the year	21.3	3.8
At 31 March 2016	**(164.2)**	**(170.2)**
Total comprehensive loss for the year	(9.2)	(8.6)
At 31 March 2017	**(173.4)**	**(178.8)**

Statement of financial position as at 31 March

Company Number: 01920623

	Notes	Group Total 2017 £m	Group Total 2016 £m	Parent Company Total 2017 £m	Parent Company Total 2016 £m
Non-current assets					
Intangible assets	7	75.7	84.2	75.7	84.2
Property, plant and equipment	8	28.8	25.7	28.8	25.7
		104.5	**109.9**	**104.5**	**109.9**
Current assets					
Trade and other receivables	9	22.0	33.7	22.7	34.4
Cash and cash equivalents	9	196.4	232.2	183.1	224.8
		218.4	**265.9**	**205.8**	**259.2**
Total assets		**322.9**	**375.8**	**310.3**	**369.1**
Current liabilities					
Trade and other payables	10	(313.9)	(392.8)	(306.7)	(392.1)
Short-term provisions		-	(0.1)	-	(0.1)
		(313.9)	**(392.9)**	**(306.7)**	**(392.2)**
Total assets less current liabilities		**9.0**	**(17.1)**	**3.6**	**(23.1)**
Non-current liabilities					
Trade and other payables	10	(2.4)	(7.5)	(2.4)	(7.5)
Long-term provisions	10	(2.5)	(2.5)	(2.5)	(2.5)
		(4.9)	**(10.0)**	**(4.9)**	**(10.0)**
Net liabilities excluding retirement benefit obligation		**4.1**	**(27.1)**	**(1.3)**	**(33.1)**
Retirement benefit obligation	13	(177.5)	(137.1)	(177.5)	(137.1)
Net liabilities including retirement benefit obligations		**(173.4)**	**(164.2)**	**(178.8)**	**(170.2)**
Accumulated deficit		**(173.4)**	**(164.2)**	**(178.8)**	**(170.2)**

The financial statements were approved by the Board on 22 June 2017, and signed on its behalf by:

John Griffith-Jones, **Chairman**

Andrew Bailey, **Chief Executive**

Statement of cash flows for the year ended 31 March

		Group		Parent Company	
	Notes	Total 2017 £m	Total 2016 £m	Total 2017 £m	Total 2016 £m
Net cash (used)/ generated by operations	3	**(1.2)**	**251.8**	**(7.0)**	**244.4**
Investing activities					
Interest received on bank deposits		0.6	0.8	0.5	0.8
Expenditure on software development	7	(21.9)	(26.4)	(21.9)	(26.4)
Purchases of property, plant and equipment	8	(13.3)	(6.1)	(13.3)	(6.1)
Net cash used in investing activities		**(34.6)**	**(31.7)**	**(34.7)**	**(31.7)**
Net (decrease)/ increase in cash and cash equivalents		**(35.8)**	**220.1**	**(41.7)**	**212.7**
Cash and cash equivalents at the start of the year		232.2	12.1	224.8	12.1
Cash and cash equivalents at the end of the year		**196.4**	**232.2**	**183.1**	**224.8**

Notes to the financial statements

1. General information

The Financial Conduct Authority Limited (FCA) is a company incorporated in the United Kingdom under the Companies Act 2006 and is a company limited by guarantee with no share capital. The directors of the company are the members and have agreed to contribute £1 each to the assets of the company in the event of it being wound up. The nature of the FCA's operations is set out in the Financial Overview.

These accounts have been prepared on a consolidated basis to include the Payment Systems Regulator Limited (PSR), a wholly-owned subsidiary of the FCA.

Under the FCA's Accounts Direction from Her Majesty's Treasury (the Treasury) in accordance with Schedule 1ZA, paragraph 14(1) of the Financial Services and Markets Act 2000 (FSMA), we are required to disclose additional information this year regarding sickness absence (no comparative data required) and have included this in the 'Our resources' section of the Annual Report.

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

The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the FCA and the PSR operate.

2. Core accounting policies

a) Basis of preparation

The consolidated financial statements have been prepared on a going concern basis, under the historical cost convention in accordance with: International Financial Reporting Standards (IFRS) as adopted by the European Union; the Treasury's Accounts Direction issued under the Financial Services and Markets Act 2000; and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. We discuss the reason why the going concern basis is appropriate in the Financial Overview.

The principal significant accounting policies applied in the preparation of the financial statements are set out below. We have included the policies with the relevant notes where possible. These policies have been consistently applied to both accounting years presented, unless otherwise stated.

Under s.454 of the Companies Act 2006, on a voluntary basis, the directors can amend these financial statements if they subsequently prove to be defective.

b) Significant judgements

The preparation of financial statements requires management to make estimates and assumptions. Actual results could differ from estimates. Information about these judgements and estimates is contained in the relevant accounting policies and notes to the accounts. The key areas of estimation uncertainty are:

- Pension deficit (note 13) – the quantification of the pension deficit is based upon assumptions made by the directors relating to the discount rate, retail price inflation (RPI), future pension increase and life expectancy.

c) Group financial statements

The PSR is a private company, limited by shares (a single share with a £1 nominal value), and is a wholly owned subsidiary of the FCA.

d) Changes in accounting policy

There are no new or amended IFRSs or International Reporting Interpretations Committee (IFRIC) interpretations that have been adopted.

e) Impairment of intangibles and property, plant and equipment
Each year the FCA reviews the carrying amount of its intangible assets, property, plant and equipment to determine whether there is any indication that its assets have suffered any impairment in value. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. The assets' residual values and useful lives are reviewed and adjusted if appropriate.

The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment is immediately recognised as an expense.

When an impairment subsequently reverses, the carrying amount is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised for the asset in prior years. A reversal of an impairment is immediately recognised as income.

f) Taxation
As a UK incorporated company, the FCA is subject to the provisions of the UK Taxes Acts, the same corporation tax rules as any other UK incorporated company.

On the basis of the relevant tax legislation and established case law, the results of the FCA's regulatory activities (on which it does not seek to make a profit) are not subject to corporation tax because the FCA's regulatory activity does not constitute a 'trade' for corporation tax purposes.

The FCA invests heavily in its own fixed assets, mainly IT software, and accounts for these as intangible fixed assets. It thus has significant levels of amortisation charges. The FCA has applied the intangible fixed asset tax rules to these assets and as a result tax relief is available for the amortisation.

This amortisation is currently being utilised to offset any corporation tax due on investment income, resulting in nil corporation tax being payable by the FCA at this time.

The application of the corporation tax regime for intangible assets has also led to an unrecognised deferred tax asset (unrecognised in the FCA's balance sheet) in relation to unused tax losses carried forward as it is not sufficiently certain that the FCA will actually have taxable income to set against these losses in future. As at 31 March 2017 this deferred tax asset equated to £35.3m (2016: £33.1m).

The FCA is partially exempt for VAT purposes because a significant part of the revenue relates to regulatory activities which are outside the scope of VAT.

The corporation tax treatment of the PSR's activities is the same as for the FCA, for the same reasons and agreed with Her Majesty's Revenue and Customs. As the FCA wholly owns the PSR, the FCA and the PSR are part of the same group for corporation tax and VAT.

3. Notes to the cash flow statement

	Notes	Group		Parent Company	
		Total 2017 £m	Total 2016 £m	Total 2017 £m	Total 2016 £m
Surplus for the year from operations		56.0	27.8	56.6	10.3
Adjustments for:					
Interest received on bank deposits	4	(0.6)	(0.8)	(0.5)	(0.8)
Amortisation of other intangible assets	7	28.6	31.9	28.6	31.9
Loss on disposal of intangible assets		0.4	-	0.4	
Impairment of intangible assets	7	-	1.1	-	1.1
Depreciation of property, plant and equipment	8	11.6	11.1	11.6	11.1
Impairment of tangible assets	8	-	0.3	-	0.3
Decrease in provisions	10	(0.1)	(0.1)	(0.1)	(0.1)
Difference between pension costs and normal contributions	13	4.3	4.5	4.3	4.5
Payments made against unfunded pension liability	5	0.6	-	0.6	-
Additional cash contributions to reduce pension scheme deficit	13	(29.7)	(19.5)	(29.7)	(19.5)
Operating cash flows before movements in working capital		**71.1**	**56.3**	**71.8**	**38.8**
Decrease/(increase) in receivables	9	11.7	(13.7)	11.7	(3.4)
(Decrease)/increase in payables	10	(84.0)	209.2	(90.5)	209.0
Net cash (used)/generated by operations		**(1.2)**	**251.8**	**(7.0)**	**244.4**

4. Income

FSMA enables the FCA to raise fees and the Financial Services (Banking Reform) Act 2013 enables the FCA to raise fees on behalf of the PSR, to recover the costs of carrying out their statutory functions. **Fee income** includes the annual periodic fees receivable under FSMA for the financial year and is recognised in the year and measured at fair value.

Fee income

	Group		Parent Company	
	Total 2017 £m	Total 2016 £m	Total 2017 £m	Total 2016 £m
Ongoing Regulatory Activity fees [1]	513.1	507.1	502.9	479.0
Ongoing Regulatory Activity fees - Consumer Credit (CC)[2]	-	10.4	-	10.4
Additional Ongoing Regulatory Activity fees	5.5	2.1	5.5	2.1
Scope change costs recovered - CC	7.7	-	7.7	-
Scope change costs recovered - non CC	10.2	2.8	10.2	2.8
Application fees and other regulatory income [3]	9.4	22.5	9.4	22.5
Special project fees	8.2	0.3	8.2	0.3
Total fee income	**554.1**	**545.2**	**543.9**	**517.1**

1 Of the £502.9m (2016: £479.0m) Ongoing Regulatory Activity fees, £46.3m (2016: £41.9m) related to penalties collected in the previous year for the sum of enforcement costs and returned to fee payers through reduced fees. See note 11 on Penalties
2 2017: Consumer Credit fees are now part of Ongoing Regulatory Activity.
3 2016 figures for both group (£22.5m) and FCA (£22.5m) now include application fees and other regulatory income, previously disclosed as other income.

Other income is recognised when the services are provided and is analysed below:

	Group		Parent Company	
	Total 2017 £m	Total 2016 £m	Total 2017 £m	Total 2016 £m
Skilled person reports (s.166) income[1]	6.5	19.8	6.5	19.8
Services provided to other regulatory bodies[2]	9.8	9.8	11.5	11.5
Publications and training services	0.6	1.4	0.6	1.4
Interest received on bank deposits	0.6	0.8	0.5	0.8
Other sundry income	3.3	3.0	3.3	3.0
Total other income	**20.8**	**34.8**	**22.4**	**36.5**

1 This income is a recharge of the costs of the s.166 reports to the firm in question. Overall this has a net zero impact on the statement of comprehensive income for the FCA as the these charges are included in administrative costs.
2 This relates to services provided to other regulatory bodies as described in note 16.

5. Staff information

Staff costs (including executive directors) comprise:

		Group		Parent Company	
	Notes	Total 2017 £m	Total 2016 £m	Total 2017 £m	Total 2016 £m
Gross salaries and taxable benefits		247.0	238.8	242.2	234.7
Employer's national insurance costs		28.6	27.7	28.0	27.2
Employer's defined contribution pension costs		22.8	22.5	22.4	22.2
Payments made against unfunded pension liability	3	0.6	-	0.6	-
Net interest on defined benefit pension scheme	13	4.3	4.5	4.3	4.5
Permanent staff costs		**303.3**	**293.5**	**297.5**	**288.6**
Temporary		2.9	8.3	2.9	8.3
Secondees		1.5	2.0	1.5	2.0
Contractors		21.3	26.9	20.0	25.2
Short-term resource costs		**25.7**	**37.2**	**24.4**	**35.5**
Total staff costs		**329.0**	**330.7**	**321.9**	**324.1**

Staff costs of £4.9m (2016: £8.1m) were capitalised during the year.

Staff numbers comprise:
The average number of full-time equivalent employees (including executive directors and fixed-term contractors) during the year to 31 March is presented by division below:

	Group		Parent Company	
	Total 2017	Total 2016	Total 2017	Total 2016
Supervision - Retail & Authorisation	822	808	822	808
Supervision - Investment, Wholesale and Specialist	510	486	510	486
Enforcement and Market Oversight	670	656	670	656
Strategy and Competition	435	411	435	411
Sub-total	**2,437**	**2,361**	**2,437**	**2,361**
Operations	654	619	654	619
Other central services	272	252	272	252
PSR	58	44	-	-
Total	**3,421**	**3,276**	**3,363**	**3,232**

As at 31 March 2017, there were 3,482 (2016: 3,337) full-time equivalent employees of which 3,422 (2016: 3,285) were FCA and 60 (2016: 52) were PSR.

The average number of short-term resources utilised during the year to 31 March by type was:

	Group		Parent Company	
	Total 2017	Total 2016	Total 2017	Total 2016
Temporary	64	104	63	101
Secondees	24	34	24	34
Contractors	126	156	116	147
Total	**214**	**294**	**203**	**282**

As at 31 March 2017, there were 182 (2016: 254) short-term resources of which 171 (2016: 243) were FCA and 11 (2016: 11) were PSR.

Exit packages

Redundancy and other departure costs incurred in accordance with the redundancy policy are set out below. A compulsory redundancy is any departure resulting from a restructure or other change leading to a role ceasing to exist. Other departures are those mutually agreed with the individual concerned. Long-term ill health settlements are credited back to the FCA by our insurers.

Exit package cost band	Number of compulsory redundancies 2017	Number of other departures agreed 2017	Number of Long-term ill health settlements 2017	Total 2017	Number of compulsory redundancies 2016	Number of other departures agreed 2016	Number of Long-term ill health settlements 2016	Total 2016
£0 - £10,000	-	3	-	3	-	1	-	1
£10,001 - £25,000	1	2	-	3	-	4	-	4
£25,001 - £50,000	2	2	-	4	4	5	-	9
£50,001 - £100,000	-	1	1	2	-	-	-	-
£100,001 - £150,000	-	1	1	2	-	-	1	1
£150,001 - £200,000	-	-	-	-	-	-	-	-
£200,001 and above	-	-	1	1	-	-	-	-
Total number of exit packages	**3**	**9**	**3**	**15**	**4**	**10**	**1**	**15**
Total costs	**£0.1m**	**£0.3m**	**£0.4m**	**£0.8m**	**£0.1m**	**£0.3m**	**£0.1m**	**£0.5m**

6. Administrative costs

The administrative costs for the year ending 31 March comprise the following:

		Group		Parent Company	
	Notes	Total 2017 £m	Total 2016 £m	Total 2017 £m	Total 2016 £m
IT costs		67.1	87.6	67.0	87.4
Professional fees		28.4	23.8	27.2	22.7
Professional fees: s166[1]		6.5	19.8	6.5	19.8
Accommodation and office services		37.5	34.3	37.5	34.3
Amortisation of intangible assets	7	28.6	31.9	28.6	31.9
Travel, training and recruitment		9.3	11.1	8.6	10.1
Depreciation of property, plant and equipment	8	11.6	11.1	11.6	11.1
Loss on disposal of intangible assets		0.4	-	0.4	-
Impairment loss	7/8	-	1.4	-	1.4
Other non staff costs		0.4	0.5	0.3	0.5
Total		**189.8**	**221.5**	**187.7**	**219.2**

1 These professional fees are the costs of the s166 ('skilled person') reports recharged to the firm in question. Overall this has a net zero impact on the statement of comprehensive income for the FCA as the recharges for these costs are recognised in other income.

Auditors

The Comptroller & Auditor General was appointed as auditor on 1 April 2013 under FSMA. The auditor's total remuneration for audit services is set out below:

	Group		Parent Company	
	Total 2017 £'000	Total 2016 £'000	Total 2017 £'000	Total 2016 £'000
Fees payable to the National Audit Office for the audit of the financial statements	98	98	76	76

7. Intangible assets

In accordance with IAS 38: Intangible Assets, costs associated with the development of software for internal use are capitalised only where:

i. the FCA can demonstrate the technical feasibility of completing the software

ii. the FCA has adequate technical, financial and other resources available to it as well as the intent to complete its development

iii. the FCA has the ability to use it upon completion

iv. the asset can be separately identified, it is probable that the asset will generate future economic benefits, and the development cost of the asset can be measured reliably.

Only costs that are directly attributable to bringing the asset to working condition for its intended use are included in its measurement. These costs include all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in a manner intended by management. All additions are initially capitalised as work in progress during the development stage. When the asset is brought into use (immediately once completed) it is then transferred from work in progress to the appropriate asset category.

Intangible assets are amortised on a straight-line basis over their expected useful lives, generally between three and seven years, with the amortisation reported as an administration expense in the statement of comprehensive income.

When software is not an integral part of the related hardware, it is treated as an intangible asset.

Where no intangible asset can be recognised, research and development expenditure is expensed when incurred.

Internal software development costs of £21.9m (2016: £26.4m) have been capitalised as additions during the year. Internally developed software is designed to help the FCA carry out its various statutory functions, such as holding details relating to regulated firms. These functions are particular to the FCA, so this internally developed software generally has no external market value. Management judgement has been applied in quantifying the benefit expected to accrue to the FCA over the useful life of the relevant assets. Those expected benefits relate to the fact that such software allows the FCA to carry out its functions more efficiently than by using alternative approaches (for example, manual processing). If the benefits expected do not accrue to the FCA (for example, if some aspect of its approach to discharging its statutory functions changes, perhaps due to the impact of implementing a European directive), then the carrying amount of the asset would require adjustment.

The PSR does not hold intangible assets.

	Internally generated software £m	Other software costs £m	Work in progress £m	Total £m
Cost				
At 1 April 2015	**140.4**	**25.5**	**39.0**	**204.9**
Additions	-	-	26.4	26.4
Transfers	47.8	3.3	(52.4)	(1.3)
Reclassification	-	-	2.8	2.8
Impairments	-	(0.7)	(0.4)	(1.1)
At 31 March 2016	**188.2**	**28.1**	**15.4**	**231.7**
Additions	-	0.2	21.7	21.9
Transfers	17.7	-	(17.7)	-
Reclassification	-	-	(1.4)	(1.4)
Disposal	(23.8)	(1.8)	-	(25.6)
At 31 March 2017	**182.1**	**26.5**	**18.0**	**226.6**
Amortisation				
At 1 April 2015	**94.8**	**20.8**	**-**	**115.6**
Charge for year	27.7	4.2	-	31.9
At 31 March 2016	**122.5**	**25.0**	**-**	**147.5**
Charge for year	27.2	1.4	-	28.6
Disposal	(23.4)	(1.8)	-	(25.2)
At 31 March 2017	**126.3**	**24.6**	**-**	**150.9**
Net carrying value				
At 31 March 2016	**65.7**	**3.1**	**15.4**	**84.2**
At 31 March 2017	**55.8**	**1.9**	**18.0**	**75.7**

Of the net carrying amount of internally generated software of £55.8m and other software of £1.9m:

i. £22.2m relates to INTACT, a case management tool for authorising firms and individuals and firms (four years useful life remaining)

ii. £16.1m relates to Gabriel, a system for submitting regulatory data online (two years useful life remaining)

iii. £5.6m relates to Business Intelligence, a reporting tool that allows business users to create and run reports (one year useful life remaining).

Of the net carrying amount of work in progress of £18.0m:

i. £1.8m relates to INTACT systems enhancements, used to gather information on the Senior Managers and Certification Regime

ii. £4.4m relates to EMS2 (Evidence Management Systems) an upgrade of EMO's (Enforcement and Market Oversight) evidence management application

iii. £9.5m relates to MiFID projects - the Market Abuse Regulation (MAR), Markets in Financial Instruments Regulation (MiFIR) and Markets in Financial Instruments Directive II (collectively 'MiFID II') are a major package of reforms to the regulation of securities, derivatives and investment markets.

8. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated to write off the cost less estimated residual value on a straight-line basis over the expected useful economic lives. The principal useful economic lives used for this purpose are:

Leasehold improvements	Ten years or lease expiry
Furniture and equipment	Ten years
Computer equipment (excluding software)	Up to five years

	Leasehold improvements £m	Computer equipment £m	Furniture and equipment £m	Work in progress £m	Total £m
Cost					
At 1 April 2015	**23.6**	**42.5**	**14.6**	**7.0**	**87.7**
Additions	0.1	0.7	0.3	5.0	6.1
Transfers	0.1	4.8	0.1	(3.7)	1.3
Reclassification	-	-	-	(2.8)	(2.8)
Impairments	-	-	-	(0.3)	(0.3)
At 31 March 2016	**23.8**	**48.0**	**15.0**	**5.2**	**92.0**
Additions	-	0.2	-	13.1	13.3
Transfers	1.8	3.1	0.1	(5.0)	-
Reclassification	0.1	-	-	1.3	1.4
Disposal	-	-	(0.1)	-	(0.1)
At 31 March 2017	**25.7**	**51.3**	**15.0**	**14.6**	**106.6**
Depreciation					
At 1 April 2015	**14.5**	**32.2**	**8.5**	**-**	**55.2**
Charge for year	3.0	6.7	1.4	-	11.1
At 31 March 2016	**17.5**	**38.9**	**9.9**	**-**	**66.3**
Charge for year	4.0	5.9	1.7	-	11.6
Disposal	-	-	(0.1)	-	(0.1)
At 31 March 2017	**21.5**	**44.8**	**11.5**	**-**	**77.8**
Net book value					
At 31 March 2016	**6.3**	**9.1**	**5.1**	**5.2**	**25.7**
At 31 March 2017	**4.2**	**6.5**	**3.5**	**14.6**	**28.8**

Of the net carrying amount of £14.6m in work in progress, £14.3m relates to the costs incurred relating to the move to Stratford in 2018, see note 14.

The PSR does not hold property, plant and equipment.

9. Current assets

Trade receivables are recognised initially at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of comprehensive income when there is objective evidence that an asset is impaired.

Cash and cash equivalents comprise cash and short-term fixed-rate bank deposits with a maturity date of 12 months or less and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates to their fair value.

Of the £196.3m (2016: £232.2m), £5.1m (2016: £71.8m) related to fees collected on behalf of other financial regulatory organisations (disclosed in trade creditors, note 10).

The FCA currently has a £150m (2016: £50m) unsecured overdraft facility with Lloyds Banking Group (LBG) available until further notice and reviewed periodically by LBG. The increase is to meet the costs for the move to Stratford. The PSR does not have or need its own credit facilities currently.

Intragroup receivable is based on a provision of services agreement between the FCA and PSR which sets out the services supplied and the respective costs of those services. The costs are based on charges the FCA incurs and have been eliminated in the consolidated figures.

		Group		Parent Company	
	Notes	Total 2017 £m	Total 2016 £m	Total 2017 £m	Total 2016 £m
Fees receivable		3.6	3.5	3.6	3.5
Net penalties receivable	11	1.4	10.2	1.4	10.2
Other debtors		1.4	1.3	1.3	1.3
Prepayments and accrued income		15.6	18.7	15.6	18.7
Intragroup receivable – PSR		-	-	0.8	0.7
Trade and other receivables		**22.0**	**33.7**	**22.7**	**34.4**
Cash deposits		179.9	155.9	176.9	155.9
Cash at bank		16.5	76.3	6.2	68.9
Cash and cash equivalents		**196.4**	**232.2**	**183.1**	**224.8**
Total current assets		**218.4**	**265.9**	**205.8**	**259.2**

The average credit period is 37 days (2016: 36 days).

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

All of the fees and other receivables have been reviewed for indications of impairment. This provision has been determined by reference to past default experience:

	Group		Parent Company	
	Total 2017 £m	Total 2016 £m	Total 2017 £m	Total 2016 £m
At 1 April	0.8	0.3	0.8	0.3
(Decrease)/ increase in provision for fees receivable	(0.2)	0.5	(0.2)	0.5
Total at 31 March	**0.6**	**0.8**	**0.6**	**0.8**

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

	Group		Parent Company	
	Total 2017 £m	Total 2016 £m	Total 2017 £m	Total 2016 £m
Not more than three months	0.2	0.3	0.2	0.3
Between three and nine months	0.5	0.3	0.5	0.3
Total unimpaired fees receivable	**0.7**	**0.6**	**0.7**	**0.6**

The FCA policy is to review receivables systematically for recoverability when they are more than three months past due.

10. Current and non-current liabilities
Current liabilities
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

		Group		Parent Company	
	Notes	Total 2017 £m	Total 2016 £m	Total 2017 £m	Total 2016 £m
Trade creditors and accruals		76.7	149.6	75.6	148.9
Other taxation and social security		11.4	11.6	11.4	11.6
Net penalties payable	11	50.6	68.0	50.6	68.0
Fees received in advance		175.2	163.6	169.1	163.6
Trade and other payables		**313.9**	**392.8**	**306.7**	**392.1**
Short-term provisions		-	0.1	-	0.1
Total current liabilities		**313.9**	**392.9**	**306.7**	**392.2**

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade payables is 27 days (2016: 24 days).

As at 31 March, the group and FCA (parent company) current liabilities have contractual maturities which are summarised below:

	Within 6 months		6 to 12 months	
	2017 £m	2016 £m	2017 £m	2016 £m
Trade creditors and accruals	74.6	147.3	2.1	2.3
Fees received in advance	173.6	162.0	1.6	1.6
Other liabilities	61.8	77.0	0.2	2.6
Total	**310.0**	**386.3**	**3.9**	**6.5**

Other liabilities maturing within 6 months include £1.0m (2016: £0.7m) for the PSR.

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

	1 to 5 years	
	2017 £m	2016 £m
Lease accrual	2.4	7.5
Long-term provisions	2.5	2.5
Total	**4.9**	**10.0**

The lease accrual of £2.4m (2016: £7.5m), being the cumulative difference between cash paid and expense recognised on operating leases for land and buildings, is recognised as a long-term liability. Details of the FCA's operating leases are set out in note 15.

11. Penalties

Penalties issued and not yet collected as at 31 March are included in both current assets and current liabilities and are subject to an assessment of recoverability.

A liability to the FCA fee payers arises when a penalty is received. This liability is limited to the sum of the enforcement costs for that year agreed with the Exchequer and these retained penalties are returned to the fee payers through reduced fees in the following year. Once total penalties collected during the year exceed this amount, a liability to the Exchequer arises.

Recognition of enforcement expenses: all costs incurred to the end of the year are included in the financial statements but no provision is made for the costs of completing current work unless there is a present obligation.

In the course of enforcement activities, indemnities may be given to certain provisional liquidators and trustees. Provisions are made in the accounts for costs incurred by such liquidators and trustees based on the amounts estimated to be recoverable under such indemnities.

Net penalties receivable

		Group	
	Notes	Total 2017 £m	Total 2016 £m
Penalties receivable at 1 April		20.9	20.6
Penalties issued during the year		181.0	879.5
Write-offs during the year		(0.4)	(2.0)
Penalties collected during the year		(189.2)	(877.2)
Penalties receivable at 31 March		**12.3**	**20.9**
Allowance for bad debts		(10.9)	(10.7)
Net penalties receivable at 31 March	9	1.4	10.2

Allowance for bad debts

Penalties receivable were also reviewed for impairment and an allowance made as set out below. These allowances reduce the amounts receivable.

	Total 2017 £m	Total 2016 £m
At 1 April	10.7	17.3
Increase/ (decrease) in allowance for bad debts	0.2	(6.6)
Total at 31 March	**10.9**	**10.7**

Penalties collected during the year

	Total 2017 £m	Total 2016 £m
Retained penalties to be returned to fee payers	46.4	46.3
Penalties paid to Exchequer during the year	148.7	843.1
Penalties payable to Exchequer	3.2	9.1
Payable to Exchequer from previous years	(9.1)	(21.3)
Penalties collected during the year	**189.2**	**877.2**

Net penalties payable

	Notes	Total 2017 £m	Total 2016 £m
Retained penalties to be returned to fee payers		46.4	46.3
Penalties (over)/ under-released to fee payers		(0.4)	2.4
Penalties payable to Exchequer		3.2	9.1
Net penalties receivable		1.4	10.2
Net penalties payable	10	**50.6**	**68.0**

The PSR did not issue any penalties during the year ended 31 March 2017.

12. Losses and Special Payments

The Accounts Direction from the Treasury requires a statement showing losses and special payments by value and by type where they exceed £300,000 for the year to 31 March 2017 only (no comparative figures required).

There are no losses and special payments to report for 2016/17

13. Retirement benefit obligation

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

The Money Purchase Section forms part of a wider flexible benefits programme where members can, within limits, select the amount of their overall benefits allowance that is directed towards their pension plan.

Payments to the Money Purchase Section of the Plan are recognised in the statement of comprehensive income, as they fall due. Pre-paid contributions are recognised as an asset to the extent that a cost refund or a reduction in future payments is available.

The total expense recognised in the statement of comprehensive income of £23.4m (2016: £22.5m) represents contributions payable to the Plan by the FCA at rates specified in the rules of the Plan.

The Final Salary Section has no active members and the benefits of the deferred members are calculated based on their final pensionable salary as at 31 March 2010, when the Final Salary Section closed to further accrual.

The net liabilities of the Final Salary Section of the Plan are calculated by deducting the fair value of the Plan assets from the present value of its obligations and they are disclosed as non-current liabilities in the statement of financial position.

The obligation of the Final Salary Section of the Plan represents the present value of future benefits owed to employees in respect of their service in prior periods. The discount rate used to calculate the present value of those liabilities is the balance sheet date market rate of high quality corporate bonds having maturity dates approximating to the average term of those liabilities. The calculation is performed by a qualified actuary using the projected unit credit method at each reporting date.

Actuarial gains and losses arising in the Final Salary Section of the Plan (for example, the difference between actual and expected return on assets, effects of changes in assumptions and experience losses due to changes in membership) are fully recognised in other comprehensive income in the period in which they are incurred.

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

The most recent Scheme Specific Valuation (SSV) of the Plan was carried out as at 31 March 2016 by the Scheme Actuary. The results of this valuation have been taken into account for the purpose of the IAS 19 retirement benefit as at 31 March 2016, in order to allow for any changes in assumptions and movements in liabilities over the period.

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

- pension deficit – the quantification of the pension deficit is based upon assumptions made by the directors relating to the discount rate, retail price inflation (RPI), future pension increases and life expectancy
- generally, the level of annual pension increases awarded by the Plan for pensions in payment is the annual increase in RPI, or 5.0% a year if lower, although some of the pension rights transferred in from the FCA's predecessor organisations receive different levels of pension increases.

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

At 31 March	2017	2016
Discount rate	2.45%	3.45%
Retail price inflation (RPI)	3.35%	3.05%
Future pension increases	3.05%	2.85%
Plan membership census dates	31/03/2016	31/03/2013

The discount rate was chosen with reference to the duration of the Plan's liabilities (around 21 years) and takes into account the market yields for high-quality corporate bonds of appropriate durations.

In assessing the value of funded obligations, the mortality assumptions for the Plan are based on current mortality tables and allow for future improvements in life expectancy. The mortality assumptions for 2017 are based on CLUB VITA tables and reflect an update to the CMI mortality improvements from the mortality assumptions from 2016.

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

	2017 Males	2017 Females	2016 Males	2016 Females
Retiring today aged 60 (years)	27.8	29.4	28.2	30.4
Retiring in 15 years aged 60 (years)	29.0	30.8	29.5	31.9

The results of the pension valuation are sensitive to changes in all of the assumptions referred to above. The table below provides an estimate of the sensitivity of the present value of pension obligations, and the cost of servicing those obligations, to small movements in those assumptions.

		Increase/ (decrease) in pension obligation at 31 March 2017	
Assumption	Sensitivity	£m	%
Present value of funded obligation	Assumptions as above – no change	886.5	-
Discount rate	10 bps increase to 2.55%	(17.7)	(2.0%)
Discount rate	10 bps decrease to 2.35%	18.3	2.1%
Retail Price Inflation (allowing for impact on pension increases)	10 bps increase to 3.45%	15.4	1.7%
Longevity	Life expectancy for a 60 year old increases by 1 year	26.0	2.9%

The amounts recognised in the statements of financial position are:

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Fair value of Plan assets	712.5	590.1	585.3	487.2	461.9
Less: Present value of funded obligations	(886.6)	(724.2)	(727.9)	(610.9)	(574.0)
Deficit in the Plan	**(174.1)**	**(134.1)**	**(142.6)**	**(123.7)**	**(112.1)**
Unfunded pension liabilities	(3.4)	(3.0)	(3.0)	(2.7)	(2.6)
Net liability	**(177.5)**	**(137.1)**	**(145.6)**	**(126.4)**	**(114.7)**

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

	Notes	2017 £m	2016 £m
Net interest on the net defined benefit liability		(4.3)	(4.5)
Other net finance costs	5	**(4.3)**	**(4.5)**

Actuarial losses of £65.3m (2016: £6.5m) are recognised in the period in which they occur as part of other comprehensive income. Cumulative actuarial losses recognised in other comprehensive income are as follows:

	2017 £m	2016 £m
Losses at 1 April	(223.3)	(216.8)
Net actuarial losses recognised in the year	(65.3)	(6.5)
At 31 March	**(288.6)**	**(223.3)**

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

	2017 £m	2016 £m
Opening obligation	(724.2)	(727.9)
Benefits paid	17.4	15.9
Interest cost on Plan liabilities	(24.7)	(24.5)
Actuarial (losses)/ gains	(155.1)	12.3
Closing obligation	**(886.6)**	**(724.2)**

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

	2017 £m	2016 £m
Opening fair value of plan assets	590.1	585.3
Expected return on plan assets	20.4	20.0
Actuarial gains/ (losses)	89.7	(18.8)
Contributions by the employer	29.7	19.5
Benefits paid	(17.4)	(15.9)
Closing fair value of Plan assets	**712.5**	**590.1**

The fair value of the Plan assets and asset allocation at 31 March were as follows:

	Asset allocation 2017 %	Fair value 2017 £m	Asset allocation 2016 %	Fair value 2016 £m
UK equity securities	12.2	86.9	10.8	63.7
Overseas equity securities	38.8	276.5	37.3	220.1
Corporate bonds	19.5	138.9	21.5	126.9
Index-linked gilts	11.1	79.1	21.4	126.3
Fixed index gilts	0.1	0.7	0.1	0.6
Real estate/property	7.0	49.9	7.7	45.4
Buy-in asset[1]	9.3	66.3	-	-
Other	2.0	14.2	1.2	7.1
Closing fair value of Plan assets	**100**	**712.5**	**100**	**590.1**

1 In September 2016, the Trustee of the Plan completed the purchase of an insurance contract to cover the pension payments for a tranche of the Plan's pensioner members. Under this this policy the insurer makes pension payments to the Plan that match the payments due to the members covered and is an asset of the Plan.

There are no deferred tax implications of the above deficit.

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

As the Plan closed to future benefit accrual with effect from 31 March 2010 no accrual funding contributions were paid after that date. A Recovery Plan was put in place following the SSV as at 31 March 2016 and required an annual deficit contribution of £30.0m (£29.0m for the FCA and £1.0m for the Financial Ombudsman Service) to be paid over 10 years from 1 April 2017 with the aim of removing the Plan deficit.

In order to mitigate the risks of significantly increased future annual pension deficit funding contributions, the FCA has agreed with the Trustee a set of triggers whereby the level of exposure to equity securities will be reduced in favour of debt securities (i.e. corporate bonds and index-linked gilts). These triggers have been determined to identify material improvements in the Plan's funding position, measured relative to its long-term funding target.

14. Capital commitments

On 20 May 2015 the FCA signed an Agreement for Lease with Lendlease to move to The International Quarter (TIQ) in Stratford in 2018. The lease is for 20 years commencing in April 2018. Building works commenced in July 2015 and the FCA is committed to incur fit-out costs as part of preparing the building for occupation. Capital commitments for fit-out costs and rent have been included in note 15.

The FCA had also entered into contracts at 31 March 2017 for future capital expenditure totalling £5.8m relating to intangible assets (2016: £1.7m), which is not provided for in the financial statements.

There were no capital commitments for the PSR.

15. Operating lease arrangements

At the reporting date, the FCA had outstanding commitments for future minimum lease payments under non-cancellable operating leases and commitments (fit-out costs and lease payments) under the Agreement for Lease with Lendlease for TIQ, which fall due as follows:

	2017 £m	2016 £m
Within one year	73.9	30.7
In the second to fifth years inclusive	31.8	146.0
Greater than five years	293.8	275.4
Total	**399.5**	**452.1**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. There are no finance leases in place. All other leases are treated as operating leases.

Under the new IFRS 16, which comes into effect from 1 January 2019, the lease for TIQ will be treated as a finance lease and the statement of financial position will reflect both an asset and a liability.

Rentals payable under operating leases are charged to the statement of comprehensive income on a straight-line basis over the term of the lease. Benefits received and receivable as an incentive to enter into an operating lease are spread on a straight-line basis over the term of the lease term.

The PSR occupies the FCA's building and has no lease commitments of its own.

16. Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Key management personnel include the chairman, executive board members and directors that report directly to the CEO and COO. This includes senior management acting in the role of director for more than three months. Of this group, 16 (2016:15) personnel received remuneration of £100k or more for the year.

	Group		Parent Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Short-term benefits	5.3	4.5	4.8	4.2
Post-employment benefits	0.4	0.4	0.4	0.4
Total	**5.7**	**4.9**	**5.2**	**4.6**

Other relationships

Two non-executive members of the board, Baroness Sarah Hogg and Bradley Fried also held directorships with FCA-regulated firms during the financial year. Baroness Sarah Hogg was a Chairman/Director of John Lewis Partnership Plc, part of John Lewis group. Bradley Fried was an executive director of Grovepoint Capital LLP which is authorised and regulated by the FCA. Their remuneration from the group and FCA is disclosed in the remuneration table.

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

Significant transactions with other financial services regulatory organisations

The FCA enters into transactions with a number of other financial services regulatory organisations. The nature of the FCA's relationship with these organisations is set out in FSMA. The FCA considers all of the below organisations to be related parties.

The FCA is required under various statutes to ensure that each of the Financial Services Compensation Scheme (FSCS), the Financial Ombudsman Service and the Money Advice Service (MAS) can carry out their functions. The FCA has the right to appoint and remove the directors of these organisations, with the approval of the Treasury. However, the appointed directors have to exercise independent judgement in accordance with the Companies Act 2006. IFRS 10 Consolidated Financial Statements defines control as 'the ability to use power to vary returns'. On the basis of this, the FCA does not control these entities and hence is not required to prepare consolidated financial statements which includes these organisations.

a) The Financial Services Compensation Scheme Limited
During the year, the FCA provided an agency service to FSCS to collect tariff data, issue levy invoices and collect levy monies on its behalf. The charge for the service in 2017 was £0.3m (2016: £0.3m). The net amount of fees collected that remained to be paid over by the FCA to FSCS at 31 March 2017 was £0.9m (2016: £1.2m).

b) The Financial Ombudsman Service Limited
During the year, the FCA provided an agency service to the Financial Ombudsman Service to collect tariff data, issue levy invoices and collect levy monies on its behalf. The charge for the service in 2017 was £0.1m (2016: £0.1m). The net amount of fees collected that remained to be paid over by the FCA to the Financial Ombudsman Service at 31 March 2017 was £1.1m (2016: £14.9m).

The FCA is a guarantor to a lease agreement for the Financial Ombudsman Service's premises in Exchange Tower, Harbour Exchange, London, E14. The lease is for a 15-year term commencing 1 September 2014. The FCA does not guarantee the short-term leases in Exchange Tower.

The Financial Ombudsman Service is also a participating employer in the FCA Pension Plan described in note 13 and makes contributions at the same overall rate as the FCA.

c) Money Advice Service
During the year, the FCA provided an agency service to MAS to collect tariff data, issue levy invoices and collect levy monies on its behalf. The charge for the service in 2017 was £0.1m (2016: £0.1m). The net amount of fees collected that remained to be paid over by the FCA to MAS at 31 March 2017 was £0.6m, (2016: £30.8m).

d) The Prudential Regulation Authority (PRA)
In April 2013, the FCA entered into an agreement with the PRA to provide services under a Provision of Service Agreement (PSA). This includes issuing invoices and collection of levy monies, the provision of: information systems, enforcement and intelligence services, contact centre and data migration. The annual charge for these services in 2017 was £8.4m (2016: £9.1m).

The net amount of fees collected that remained to be paid over by the FCA to the PRA at 31 March 2017 was £2.4m, (2016: £24.8m).

e) The Office of the Complaints Commissioner (OCC)

Following legislative changes which took effect on 1 April 2013, the OCC deals with complaints against the FCA, PRA and the Bank of England in respect of its oversight over the recognised clearing houses and payment schemes. It has been agreed that the FCA will continue to fund the OCC until 31 March 2018.

The FCA funds the activities of the OCC through the periodic fees it raises. During 2016/17, the FCA transferred £0.5m (2016: £0.5m) to the OCC to cover running costs, which have been expensed in the FCA group financial statements. At 31 March 2017, the balance owing to the FCA from the OCC was £0.1m (2016: £0.1m).

By virtue of certain provisions contained in FSMA, the FCA (together with the Bank of England and the Treasury) has the right to appoint the Complaints Commissioner, who is both a member and a director of the company and as such has the ability to control the OCC. However the OCC activities are immaterial compared to those of the FCA and have been accounted for at fair value through the statement of comprehensive income.

17. Events after the reporting period

There were no material events after the reporting period.

Appendix 1
Skilled persons report

Section 166 of FSMA (s166) gives us the power to obtain an independent view of aspects of a firm's activities that cause us concern or where we require further analysis. Appointment of the skilled person firm(s) can either be by the regulated firm, or (under the Financial Services Act 2012), directly by the FCA. In each case, we set the scope of the review and the costs are borne by the regulated firm.

Key activities

In 2016/17, we used the s166 power in 49 cases[1] of which four were contracted directly by us.

The aggregate costs incurred by regulated firms for s166 work undertaken in this financial year, including any reviews that remain in progress since April 2013, was £110.1m[2].

The reviews examined a number of regulatory issues, including:

- past business and quality of advice
- adequacy of systems and controls, including the effectiveness of control functions
- corporate governance and senior management arrangements
- financial crime
- client money and client asset arrangements.
- capital adequacy

During 2016/17, the following skilled persons firms were appointed to undertake s166 reviews:

- ATEB Consulting
- BDO LLP
- Bovills Limited
- Clifford Chance LLP
- Complyport Limited
- Deloitte LLP
- Ernst & Young LLP
- Eversheds LLP

1 This includes some reviews where a Requirement Notice has been issued but work has not yet started and so no costs have incurred.

2 Costs quoted are net of VAT except where reviews are directly appointed, where costs are reported as gross. One review constitutes a significant proportion of the total costs quoted. The Financial Statements (Note 6) give information about costs related to directly appointed s166 reviews.

- FTI Consulting LLP
- Grant Thornton UK LLP
- Huntswood CTC Limited
- KPMG LLP
- Macfarlanes LLP
- Mazars LLP
- Moore Stephens LLP
- PA Consulting Services Limited
- PriceWaterhouseCoopers LLP
- Telos Consulting
- The Consulting Consortium Limited
- Willis Towers Watson

	Firm classification		
Lots	Fixed	Flexible	Total
Client Assets	1	3	4
Governance, Controls & Risk Frameworks	7	3	10
Conduct of Business	3	22	25
Data & IT Infrastructure	1	0	1
Financial Crime	1	4	5
Prudential – Insurance	1	0	1
Prudential - Investment Firms, Intermediaries and Recognised Investment Exchanges	2	1	3
Total	16	33	49

The table above relates to reviews where we have exercised our powers under s166 for 2016/17. For PRA and Bank of England information please refer to their publications.

Notes

1. Lots is a term used to describe the different subject areas in which a skilled person review can be carried out and details of the different Lots can be found at www.fca.org.uk/your-fca/documents/skilled-person-panel-lot-descriptions
2. Definitions of the FCA's firm classifications can be found at www.fca.org.uk/about/supervision; 'Approach to Supervision for fixed portfolio firms' and 'Approach to Supervision for flexible portfolio firms'
3. The updated costs in relation to the ongoing 15 reviews of interest rate hedging products stated in the 2013/14 Annual Report now stands at £391.5m. These costs are as at 31 March 2017.
4. For 2015/16 one review commissioned shortly before the financial year end was subsequently cancelled, with no costs being incurred. The total number of s166 reviews commissioned was therefore reduced to 41.

Appendix 2

Regulatory Decisions Committee Annual Review for the year to 31 March 2017

Introduction from Tim Parkes, Chair of the Regulatory Decisions Committee

Welcome to the second annual review published by the Regulatory Decisions Committee (RDC) of the Financial Conduct Authority (FCA). As last year, we look back at what the RDC has done and look forward briefly to some of the things we might expect to see over the next 12 months.

As is evident from the overview section of this report, it has been a busy year for the RDC; 445 cases were opened and 431 cases concluded in the period, compared to 204 and just under 200 in the previous year. Whatever our case-load, it is important that we always aim to make fair and appropriate decisions on the FCA's behalf. We also endeavour to do our work efficiently. The RDC is supported by a secretariat which includes our own legal advisers, case-handlers and administrators, and I would like to take this opportunity to thank them for their hard work, without which it would not be possible for the RDC to meet its objectives.

I referred last year to the House of Commons Treasury Committee's concern to see 'entrenchment' of the RDC's independence from those in the FCA who are responsible for investigating cases and making recommendations to us. This point was repeated, in August 2016, when the Treasury Committee published my written response to some outstanding questions. The Chairman of the Treasury Committee commented at the time:

'Decisions made by the RDC must be taken on their merits. So the Committee needs to be independent from the FCA, and demonstrably so. This is all the more important if enforcement is to become a credible last line of defence in the regulatory armoury.'

I hope that our record over the last year demonstrates that this has been the case. We carefully consider the material put before us both by the relevant division of the FCA (generally the Enforcement and Market Oversight Division (EMO)) and by the subject of the regulatory action, before we make a determination. In most cases we dealt with, we also heard directly from the firm or individual that was the subject of the action as well as from their legal advisers. In some cases, we decided not to adopt the case team's recommendation for regulatory action.

I indicated last year to the Treasury Committee that I wished to look at the RDC's composition, to ensure that we had members with expertise from the consumer credit sector (as the FCA took over consumer credit regulation from the Office of Fair Trading in 2014) and with direct experience of consumer issues more generally. I am very pleased to say that the RDC has recently been joined by Nick Lord, who has over 30 years' experience representing the consumer interest in financial services, and by Karen Johnston who also has a specialist interest in consumer services and consumer protection.

In last year's review I said that I wanted to look for opportunities to communicate more directly to those involved in financial services about the RDC and what it does. Since then, I have spoken at several conferences and seminars to explain our remit and processes. I remain keen to continue with this, since, in my experience, there is much that practitioners and consumers do not understand about the RDC.

The RDC has considered some interesting and important cases this year. These include the case of Andrew Tinney, the former Chief Operating Officer of Barclays Wealth and Investment Management. The RDC concluded that Mr Tinney recklessly made misleading statements and omissions about a report on the culture of Barclays Wealth Americas. The RDC gave Mr Tinney a decision notice setting out its decision to censure him publicly and prohibit him from performing any senior management or significant influence function; Mr Tinney has referred the decision notice to the Upper Tribunal.

We also considered applications by firms in the debt management sector to convert their interim permissions under the transitional regime for consumer credit firms into full permissions. In some cases, we were not able to ensure that the firms concerned would satisfy, and continue to satisfy, the threshold conditions for authorisation, and decided that the applications should, accordingly, be refused. In some other debt management cases, we decided that the firms should be authorised, as we were satisfied that the firms would meet the threshold conditions.

As will be seen from later sections of this review, the nature of the RDC's case-load is likely to change in the light of the measures introduced on 1 March 2017 which enable subjects of regulatory action to opt to contest cases in part, rather than settle or contest them fully. This should ensure that cases brought to the RDC are more focused and therefore capable of being dealt with more efficiently.

I summarise below our review of the FCA's enforcement settlement process during the past year, and present our conclusions and recommendations.

I am very much looking forward to the next 12 months as Chair of a committee made up of talented and committed members, whose collective aim is to ensure that, in each case we deal with, the appropriate regulatory outcome is reached.

Tim Parkes

Tim Parkes

Overview

The RDC is a committee of the FCA Board and makes certain decisions on its behalf. The Board appoints the RDC's Chair and members. Apart from the RDC Chair, RDC members are not employees of the FCA. So the RDC is a part of the FCA, but it is operationally independent of the executive. As the RDC's Terms of Reference make clear, 'The RDC is separate from the FCA's executive management structure.'[1]

The RDC Chair reports quarterly to the External Risk and Strategy Committee (ERSC) of the FCA Board on matters relating to resourcing and performance (for example, on the length of time taken to complete cases).The RDC Chair does not report on the basis for individual decisions made by the RDC.

Case work

The RDC made almost 600 decisions on cases (at either the first or final stage) last year. Many of these relate to enforcement action against firms for failure to pay regulatory fees or submit regulatory returns.

The committee also makes decisions on:

- contested enforcement and supervisory actions alleging serious breaches by regulated and unregulated firms and individuals
- applications by firms and individuals for authorisation or approval which the Authorisations team proposes to refuse, and
- whether to give authority for the FCA to bring civil or criminal proceedings.

Making decisions

The RDC has its own legal advisers and support staff who work in a separate division from the FCA staff involved in conducting investigations and making recommendations to the RDC. The RDC staff report through the Company Secretary to the FCA Chair. The RDC's dedicated legal function advises the RDC Chair and members on the legal and evidential soundness of cases, which assures an objective and independent approach to issues arising from cases brought to the RDC.

The FCA's website includes a detailed description of what the RDC's role is in contested cases and explains the different notices which the RDC may issue.[2] The RDC determines what is an appropriate decision based on its understanding of the issues before it. In each case, the RDC assesses the evidence and legal basis for any recommendation for regulatory action.

The process allows the subject of the action or their representative to make both written and oral representations to the RDC.[3] Members use their experience and knowledge in their assessment. When appropriate, the RDC will depart from the recommendations made to it, for example:

- to change the basis of a case from deliberate to negligent misconduct (or vice versa)
- to change the amount of a proposed financial penalty
- to conclude that no disciplinary action is appropriate, or
- to decide that an application for authorisation of a firm or approval of an individual should be granted.

As explained further below, the RDC's decision-making remit has been extended to include cases where the firm or individual concerned wishes to contest only a part of the case against them.

RDC decisions are decisions of the FCA and can, therefore, only be challenged by the subject of the action, who may refer the matter to the Upper Tribunal for a re-hearing.

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1 Paragraph 2(a) of the RDC's Terms of Reference: see www.fca.org.uk/publication/corporate/fca-corporate-governance.pdf

2 www.fca.org.uk/about/committees/regulatory-decisions-committee-rcd

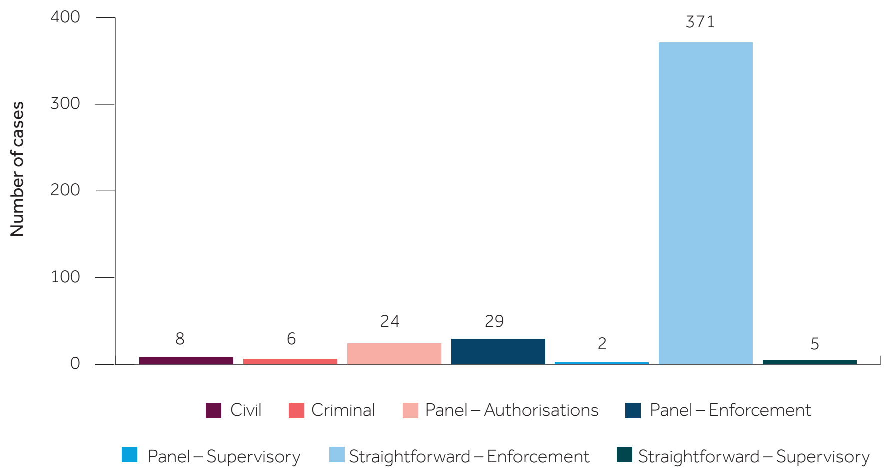
3 The Financial Services Lawyers Association may provide pro-bono legal assistance to a subject: see www.fsla.org.uk/scheme

Operational performance

Inputs

Case inputs during the year have more than doubled since last year. In recent years the largest increase has been in straightforward enforcement actions against firms that fail to submit returns or pay fees. This is due, in part, to the significant increase in the size of the population of firms regulated by the FCA.[4] These actions may result, ultimately, in a firm's permissions being cancelled. In approximately 21% of cases brought to the RDC last year, the firms rectified the regulatory breach during the process, thus ending the regulatory action and enabling the firms to continue trading.

Figure 1: Cases opened during the year by case type[5]



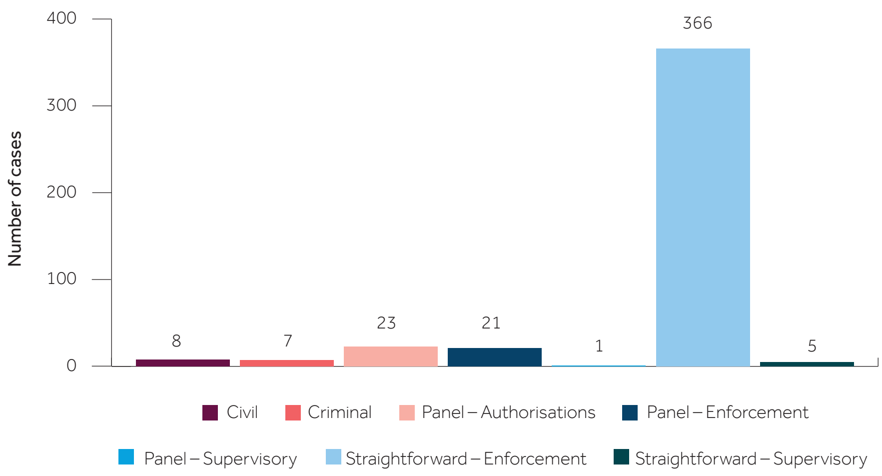
4 Since the RDC's secretariat introduced a new case management system in February 2016, cases are logged at an earlier stage, when the RDC is first notified of potential cases; a proportion of those cases do not progress, for one reason or another (for example, in straightforward cases the firm might rectify the breach before the RDC receives the papers). Accordingly, these cases account for some of the increase in case numbers. However, such cases require preparatory work on the part of the secretariat before they are withdrawn.

5 Panel – Enforcement/Supervisory: enforcement or supervisory actions, other than straightforward cases, against firms/individuals for regulatory breaches.
Straightforward– Enforcement: enforcement actions decided by the RDC Chair or a Deputy Chair alone where the use of a panel is not necessary or appropriate (the majority being for failure to pay regulatory fees or submit regulatory returns).
Straightforward – Supervisory: supervisory matters decided by the Chair or a Deputy Chair alone (for reasons of urgency).
Civil/Criminal: cases where permission is sought from the RDC Chair or a Deputy Chair alone for the FCA to begin proceedings against firms or individuals in the civil or criminal courts.
Panel - Authorisations: cases where it is proposed to refuse an application by a firm for authorisation or for an individual to be approved.

Outputs and outcomes

The number of cases completed during the year has also increased compared to the previous year (from almost 200 to over 400).

Figure 2: Cases completed during the year by case type



The outcomes of the 22 completed Panel - Enforcement/Supervisory cases were that:

- the RDC issued five prohibition orders (preventing an individual from carrying on certain activities) and in one further case decided not to issue a decision notice imposing a prohibition order
- the RDC withdrew approval from three individuals to perform certain functions within authorised firms
- the RDC issued one public censure (i.e. a public statement of misconduct) and two financial penalties
- the RDC cancelled the permissions of two firms
- the RDC granted an application to revoke a prohibition order
- EMO decided not to continue with the cancellation of one firm's listing after other information was provided
- two cases were case was settled during the process
- EMO withdrew ten cases, either before or after the RDC received the papers.

The 23 completed Authorisations cases had the following outcomes:

- the RDC refused four firm authorisation applications
- the RDC decided to approve the applications for authorisation by firms in three cases
- the Authorisations team decided to approve two firms after receiving further information from them
- in eight cases, the RDC stayed its proceedings at the request of the Authorisations team and the firms concerned, following an agreement between those parties for a variation of permission with a view to a phased withdrawal from the market. The applications were withdrawn at the end of this process
- five further cases were withdrawn by the subject either after they had made representations or without their doing so
- the RDC referred one case back to the Regulatory Transactions Committee for decision as the firm had not made representations, despite indicating an intention to do so.

Timing

The average time taken to complete a Panel - Enforcement case was approximately 6.5 months from the RDC receiving the case papers until it gave a Decision Notice or decided not to give a notice. This is an improvement on last year's average. Panel - Authorisations cases were completed on average in 3.7 months. This figure is higher than last year which reflects the significant increase in numbers of this case type being referred to the RDC as well as the temporary stays agreed as part of the process of these firms withdrawing from the market (as explained above).

Upper Tribunal decisions

Where disagreements arise between the FCA and firms or individuals about the FCA's regulatory decisions, the RDC's decision can be referred to the Upper Tribunal (Tax and Chancery Chamber) by the firm or individual, for a re-hearing. The Tribunal is an independent judicial body established by the Tribunals, Courts and Enforcement Act 2007.

Tribunal proceedings constitute a full re-hearing of the case (not an appeal), and involve different evidence – most notably live witness evidence, including cross-examination before the Tribunal. The RDC does not have any role in the proceedings, and the FCA's case is presented by EMO, which can choose to present the case to the Tribunal on a different basis from that before the RDC, for instance by arguing for a higher financial penalty.

For these reasons, the RDC does not (and cannot) directly assess the quality of its decisions, in cases which are referred, on the basis of whether the Tribunal reaches the same conclusion as the RDC. Nevertheless, Tribunal decisions are frequently informative and illuminating, and the RDC actively reviews them for any learning points either in relation to the specific case or to RDC processes and procedures more generally.

During the year, there were substantive Tribunal decisions (i.e. covering liability and sanction, or the outcome of an authorisation application) in relation to two parties who had referred decision notices issued by the RDC. In each of these cases, the Tribunal reached the same conclusion as the RDC. The Tribunal also made decisions in three cases where the RDC had refused permission for firms to carry on consumer credit activities, and the firms applied to suspend the effect of those decisions (which otherwise take immediate effect). In each such case, the Tribunal refused to suspend the effect of the RDC's decision.

Thirteen RDC cases which were referred to the Tribunal during the year were awaiting a decision on the reference at the year-end (31 March 2017).

In another case, Ms Angela Burns is appealing against the decision of the Tribunal which held that she was in breach of Statement of Principle 1, which relates to integrity (although it found against the FCA in respect of certain allegations). The FCA is appealing against a costs order. The Court of Appeal hearing is listed for July this year.

Third party rights

As mentioned in the RDC's last Annual Review, in May 2015 the Court of Appeal published its decision in ***Achilles Macris v FCA***, which related to the issue of third party rights. Following this decision, the RDC adjusted its view on third-party rights to ensure consistency with the test set out by the Court of Appeal. On 22 March 2017, the Supreme Court ruled in the FCA's favour, finding that Mr Macris was not identified by the FCA in its Final Notice against his employer, JP Morgan Chase Bank NA (issued under the settled notices procedure), and that the test for identification was more restricted than the lower courts had considered it to be. This is likely to reduce the number of cases with third party rights which will come before the RDC for decision.

Ongoing case loads

At the end of the period of this review (31 March 2017), the RDC had 71 ongoing cases, comprising:

- 9 stayed Enforcement Panel cases (stayed following requests by the Serious Fraud Office)
- 18 imminent referrals that had been notified to the RDC (including one Criminal and one Panel – Supervisory case)
- 35 Straightforward cases
- 1 Panel - Authorisations case

- 8 open Enforcement Panel cases.

Membership

The committee now has 19 members. Between 1 April 2016 and 31 March 2017, six new members of the committee were appointed.[6] These were chosen particularly for their competition law and/or consumer (including consumer credit) experience. The terms of office of five existing members[7] were extended for a further three years after the expiry of their initial three-year term.

The membership of the RDC comprises current and recently retired financial services industry practitioners and non-practitioners who are appointed for a fixed term (normally three years, but this can be extended to six). There are currently nine practitioners[8] and ten non-practitioners.[9] Six members of the committee, including the Chair, are lawyers[10] and three are accountants.[11] Further details are set out on the FCA's website.[12]

RDC members are selected on the basis of their:

- experience of making independent evidence-based decisions
- work in senior and expert positions in financial services, or other relevant sectors
- knowledge and understanding of consumers and other users of financial services.

This range of skills and experience is intended to enhance the objectivity and balance of the FCA's decision-making and to help achieve fairness and consistency across cases.

The full membership of the RDC meets regularly. The object of these meetings is to: enhance the effectiveness of the Committee by sharing insight and experience in relation to decided cases; undertake training in relevant technical aspects of regulation by the FCA; and keep members informed of likely workloads and areas of focus.

The RDC regularly reviews the membership of the committee. The diversity of the committee is considered when recruiting new members. It is important that the committee reflects, as far as possible, the different sectors of the regulated community and consumers.

Resources

The RDC is supported by a secretariat of FCA staff, which comprises case management, legal and administrative functions. The team supports the Chair, Deputy Chairs and members to deal with cases efficiently and effectively to a high standard. The team provides legal advice to the RDC, monitors case inputs and timeliness and ensures that cases are progressed appropriately, taking into account complexity, the requirements of the subjects of regulatory action, and resourcing.

The Chair reports to the FCA Board through the External Risk and Strategy Committee on resource requirements. The Board fully supports the RDC having enough resources to manage its caseload.

Review of the enforcement settlement process

In its report on enforcement decision-making at the financial services regulators[13], the Treasury recommended that the RDC (as the FCA's decision-maker in contested cases) should regularly review the FCA's processes in settled

6 Karen Johnston, Nick Lord, Philip Marsden, Robin Mason, Stuart McIntosh and Malcolm Nicholson
7 Iraj Amiri, John Callender, Peter Craddock, Elizabeth Neville and Pauline Wallace
8 Iraj Amiri, Niki Beattie, Kevin Brown, John Callender, Peter Craddock, Chris Cummings, Nick Lord, Stuart McIntosh and Caroline Ramsay
9 Tim Parkes, Elizabeth France, Peter Hinchliffe, John Hull, Karen Johnston, Robin Mason, Philip Marsden, Elizabeth Neville , Malcolm Nicholson and Pauline Wallace
10 Tim Parkes, Peter Hinchliffe, John Hull, Karen Johnston, Philip Marsden and Malcolm Nicholson
11 Iraj Amiri, Caroline Ramsay, Pauline Wallace
12 www.fca.org.uk/about/structure/committees/rdc-biographies
13 www.gov.uk/government/uploads/system/uploads/attachment_data/file/389063/enforcement_review_response_final.pdf

cases. It recommended that the review should include seeking comments from all or a sample of those who have settled cases and speaking with the relevant EMO staff. It said the RDC should monitor the effectiveness of the recommended changes to the settlement process, identify whether there may be settlement process lessons to be learned, and make generic public recommendations. The RDC undertook to do this, and to publish in the RDC's Annual Review any recommendations arising out of its review.

Accordingly, the RDC invited, where appropriate, firms or individuals who had settled a disciplinary or prohibition case with EMO during the financial year to participate in a survey to provide their views on the settlement process. The results of the survey are summarised below.

The RDC sent surveys to six firms and eight individuals, and received responses from two firms and three individuals. Although this represents a response rate of just over one third of recipients (and response rates were broadly similar for both firms and individuals), the RDC has adopted a cautious approach to drawing conclusions from what is nevertheless a small data-set. Responses in future years should provide a bigger body of data for analysis. In the meantime, the comments below should be read with that in mind.

Individuals tended to find that the adequacy of the information received about the settlement process was poor. In contrast, firms said that they had received adequate information, noting: open lines of communication, regular updates regarding timescales and the clarity of the information received.

Most firms and individuals which had requested extra time were afforded extensions and said that they had enough time to respond. The firms stated that settlement negotiations progressed quickly; however, the majority of individuals found that settlement negotiations did not progress quickly enough.

The majority of individuals said that the documentation received as part of the settlement process, in terms of clarity, fairness and conciseness, was quite poor. In contrast, the firms and one of the individuals stated that the clarity of the documentation was excellent. One firm and individual also rated its fairness and conciseness as excellent, and the other firm rated the fairness and conciseness as satisfactory and good, respectively.

Most individuals did not feel that settlement negotiations were conducted 'professionally and courteously'. They did not feel that FCA staff of the appropriate level were involved. However, the firms and one of the individuals believed that FCA staff conducted themselves well, and that staff of the right level were involved.

All responses were considered in detail. Where the subject agreed, EMO were given an opportunity to respond to the responses to the survey. On reviewing the responses, the RDC did not identify specific concerns that would require a change to the settlement process. It should be noted, however, that the individuals were more critical of the settlement process than the firms.

The RDC recommends that case teams which tend to deal more with individuals than with firms should be briefed on the settlement process adopted in relation to firms and reflect upon whether there may be lessons to be learned. Any briefing should focus on the clarity of correspondence and tone of meetings with the individuals, ensuring the process follows a clear timetable, that EMO is transparent about who is its decision-maker, and that EMO explains the reason behind a decision.

The RDC's survey next year will include questions on the partly contested case procedure and will have a section focused on how well this new procedure is being implemented. Once the results of next year's survey are available, this may help the RDC to identify trends and make recommendations accordingly.

The next 12 months

The FCA has recently expanded the RDC's remit in a significant respect, in the policy statement published on 1 February 2017.[14] With effect from 1 March 2017, the RDC will now receive partly contested cases, where firms or individuals under investigation may agree certain elements of a case (whether penalty, facts, liability, or a combination of these aspects) while contesting the other elements before the RDC.

14 www.fca.org.uk/publication/policy/ps17-01.pdf

The continuing expansion of the FCA's regulatory responsibilities is likely over time to increase the number of cases seen by the RDC, as is the impact of the Senior Managers and Certification Regime. The RDC has recently received the papers in its first case involving an application under the new regime. Otherwise, the RDC expects to see cases reflecting the priorities set out in the FCA's Business Plan for 2017/18.

The recent policy statement also introduced a change relating to the composition of RDC panels. Previously it was usual for the RDC panel, in cases where representations were made, to include additional members of the RDC who had not previously considered the matter. With effect from 31 January 2017, it is now usual for the same panel to decide whether to issue a warning notice and (where applicable) a decision notice in the same case.

However, this is not an absolute rule. In particularly complex cases involving novel points of law or practice (as provided in the applicable guidance in the FCA Handbook), it may be appropriate for a larger panel to consider the case at both the warning notice and representations stage. And there may still be cases where it is appropriate to enlarge the panel to include additional RDC members at the decision notice stage.

Appendix 3
Sustainability report

Environmental impact

We are committed to good environmental practice as part of our overall approach to corporate responsibility; we seek to follow industry best practice in all that we do. Effective environmental management and prudent use of resources also fits within the remit set by FSMA in so far as it supports one of the principles of good regulation – to make the most efficient and economic use of resources. The key focus this past year has been to:

- use resources wisely to deliver both environmental and financial benefits
- make all FCA employees aware of their responsibility to understand the environmental management policy
- commit to measuring, reporting and reducing our impact on the environment wherever practicable
- set objectives and targets for each of our key impacts and review them regularly to ensure they remain achievable
- engage with our suppliers to ensure that they reflect our commitments to sound environmental practice and good corporate responsibility

We manage our business in an environmentally responsible manner with an ongoing focus on sustainability. This involves careful control over the use of resources and consumables, and minimisation of waste. We have made progress through a number of initiatives:

- we have encouraged use of black and white printing by making it a default setting
- in 2016/17 we recycled 363kg of waste which saved the equivalent of 2,595 trees and 471,440kg of CO^2. We expect these figures to improve further as we have introduced more sustainable food packaging options for the staff restaurant
- we have also participated in activities such as Earth Hour and installed LED lighting throughout the lift lobby areas and on some floors

Performance commentary

Plant and equipment

We have two offices in London and one in Edinburgh: sole occupancy of 25 The North Colonnade (25TNC) which accounts for the majority of our estate; two floors of 1 Canada Square as a tenant; and one floor of Quayside House in Edinburgh, also as a tenant.

We refurbished our 25TNC headquarters in 2008 (improving the building's infrastructure) which reduced the overall energy consumption from 18m to 10m kWh pa. Since April 2010 we began reporting under the Carbon Reduction Commitment and during that time have reduced our carbon emissions by 16%.

During 2015 and 2016, we furthered our commitment to reducing energy consumption by installing a variety of energy saving initiatives. We have implemented a new lighting control system, significantly reducing energy usage by automatically activating and deactivating lights as required during evenings, nights and early mornings.

While we strive for increasing efficiency and reducing energy consumption year on year, the opportunities to gain further significant savings in our current premises are limited due to previous successful initiatives and the FCA's impending move from our two Canary Wharf offices to a single new office in the Olympic Park during 2018, which constrains capital investments.

		2017	2016	2015
Non-financial indicators **(CO^2e in tonnes)**	Total gross emission for scope[1 2]	4,987	4,837	5,452
	Total net emissions for scope[1]	50	56	65
	Total net emissions for scope[2]	4,937	4,781	5,387
	Gross emissions scope – business travel[3]	1,107	1,202	765
Related energy consumption (kWh)	Electricity: non-renewable	11,222,271	10,866,214	10,900,717
	Gas	265,436	295,030	348,798
Financial indicators (£'000 excl. VAT)	Total expenditure on energy	1,229	1,418	1,372
	Total expenditure on electricity	1,221	1,406	1,355
	Total expenditure on gas	8	12	17
	CRC offsetting payments	109,850	98,400	101,652
	Total expenditure on official business travel (excluding accommodation and subsistence)	1,523	1,327	1,688

1 Excluding 1 Canada Square as included in the service charge.
2 Excluding 1 Canada Square and Edinburgh as included in the service charge.
3 Emissions for air and rail (domestic, European and international).

Business travel

Our staff visit regulated firms across the UK and globally. To minimise the impact of our business travel, we have a policy that encourages sustainable travel and prioritising the use of public transport.

Overall, there has been a decrease in UK domestic air travel and a second year decrease in rail travel. There has been an increase in short haul air travel in Europe and long-haul international air travel from 2016 but the figures remain lower than in 2015.

Our taxi service requires that all vehicles used are no older than two years old. To ensure we are getting value for money and to help with our commitment to the environment, low emission cars are provided for all journeys on the account.

	Mode of travel	2017	2016	2015
Rail Business travel $CO^{2}e$ kg	Rail	31,394	31,718	34,908
Air Business travel $CO^{2}e$ kg[1,2]	Air – Domestic (between UK airports)	451,279	615,042	610,381
	Air – Europe (short haul up to 3,700 km)	105,253	65,242	149,838
	Air – International (long haul over 3,700km)	540,744	416,249	764,899
Eurostar Business travel[1]	Eurostar	66,782	N/A	N/A
Taxi Business travel $CO^{2}e$ kg[1]	Taxi	1,725,651	1,814,353	N/A
Car Hire Business travel $CO^{2}e$ kg[1]	Car Hire	28,500	23,407	68,038
Mileage Business travel $CO^{2}e$ kg[1,3,4]	Mileage	127,685	173,024	193,234
Total		3,077,288	3,139,035	1,821,298

Notes:

1. $CO^{2}e$ conversion rates calculated under the class of average passenger as per guidance on the DEFRA's website for business travel.

2. Flight distance uplift factor – figures do not include the 9% uplift factor.

3. Excludes travel booked and then claimed through expense reimbursement except mileage.

4. Approx. 1/3 have been entered using the diesel calculations for CO^{2} output and 45 mpg in the equation, the other 2/3 have used the petrol calculation and 40 mpg in an attempt to ascertain an approx. CO^{2} reading.

Waste generation

We follow the waste hierarchy ('reduce, reuse, recycle, recover, disposal') in order to lower costs and reduce environmental impacts.

We recycled 80% (2016: 68%) of our general (non-hazardous) waste. This increase of 12% recycled is due to the introduction of 'Mixed Recycling'.

We still convert organic waste produced in our kitchens into biogas and liquid fertiliser through aerobic digestion.

We continue to operate a policy of zero waste to landfill.

			2017	2016	2015
Non-financial indicators (tonnes)	Total waste		489	531	604
	Hazardous waste total		1.6	1.0	0.8
	Non-hazardous waste	Incineration	92.8	170	172
		Recycled	396	360	431
Financial indicators (£'000 excl. VAT)	Total disposal cost		141	127	113
	Hazardous waste – disposal cost		11	8	6
	Non-hazardous waste – disposal cost	Incineration	41	36	38
		Recycled	89	83	69

Paper consumption

Printing

Our 'Follow Me' print solution across all multi-functional device printers has continued to be more efficient and less paper intensive. Printers are configured to black and white and double sided by default to ensure the most efficient use of paper. In 2016/17, we have seen a 7% reduction of overall printing against the previous financial year. All printing paper is recyclable and print levels are continuously monitored and reported. All printer equipment and consumables are disposed of and/or recycled in accordance with best practice print industry guidelines.

Indicators	2017*	2016	2015
Non-financial indicators (sheets of paper)	18,794,456	20,060,516	24,413,459
Financial indicators (£'000 excl. VAT)	94,415	100,775	122,642

*This data does not include the reduced energy consumption from having more environmentally friendly printers; however, the reduced energy consumption levels are included in the kWh calculation disclosed earlier.

Purged printing

'Follow Me' printing has saved us 3,200,129 sheets of paper in 2016/17, the equivalent of 300 trees, from purged print jobs. These are print jobs that were sent to the printer but never released to print by the user and as such cancelled for printing.

Deleted Pages	Expired pages	Sheets	Trees	Water (gallons)	CO2 (pounds)
2,696,131	3,332,208	3,200,129	300	123,525	281,291

Reprographics

Our staff use the in-house reprographics function for any specialist printing or photocopying over 100 sheets.

		2017	2016	2015
Non-financial indicators (sheets)	Paper consumption (A4)	3,658,306	3,128,181	2,820,000
	Paper consumption (A3)	69,210	51,227	53,000

Reprographics has experienced an increase in paper consumption during this current period.

Water usage

The 25TNC headquarters has reduced cistern capacity from 9 litres to 6 litres and uses sensors to reduce the amount of water used in the lavatories.

		2017	2016	2015
Non-financial indicators (m^3)	Water consumption	44,922	39,964	40,764
Financial indicators (£'000 excl. VAT)	Water supply costs	97	85	85

Sustainable procurement

Our procurement policy requires suppliers to meet our commitment to sound environmental practice. It encourages them to develop and supply goods and services that help improve both our and their environmental performance.

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