Business Plan

2021/22

FINANCIAL CONDUCT AUTHORITY

Business Plan
2021/22

Contents

Nikhil Rathi, Chief Executive

We are an organisation with immense responsibility. Our actions have a profound effect on people's daily lives and the UK economy

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Chief Executive's message

Nine months ago, I became the Chief Executive of an organisation acting with remarkable speed to protect consumers and businesses. We were helping 3.2 million adults suffering from income shocks from the pandemic through mortgage deferrals. On my second day, we applied to the Supreme Court so UK firms – including many small businesses – would receive insurance payments for pandemic-related business interruption as soon as possible.

We are an organisation with immense responsibility. Our actions have a profound effect on people's daily lives and the UK economy. We oversee markets that remained resilient in the face of unprecedented economic stress and record levels of volatility. We promote competition and innovation in the interests of consumers, who we expect to benefit from the firms we support through our new Regulatory Sandbox. We protect this same diverse group of consumers, especially the 14.2 million adults with low financial resilience.

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We operate in a world of rapid and disruptive change. To be an effective regulator, we can't just respond to today's challenges. We need to prepare for those of tomorrow

We feel these responsibilities keenly. Our people are dedicated and committed. Through the pandemic, we acted with confidence, energy and effectiveness to stand up for consumers and businesses all over the UK.

We are an organisation that also needs to transform. Profound forces – the pandemic, Brexit, technology, the drive to a greener economy – are transforming the entire landscape of financial services. We need to change the way we do things, and in some cases what we do. We are becoming a different organisation. The FCA must continue to become a forward-looking, proactive regulator.

That involves three distinct changes. We will be:

- more innovative – taking advantage of data and technology to increase our ability to act decisively in the interests of consumers
- more assertive – testing the limits of our own powers and engaging with partners to make sure they bring their powers to bear
- more adaptive – constantly learning and always adjusting our approach as consumer choices, markets, services and products evolve

This year, we will harness the drive, dedication and decisiveness we displayed through the pandemic and direct it towards our longer-term challenges.

Our plans for 2021/22

We operate in a world of rapid and disruptive change. To be an effective regulator, we can't just respond to today's challenges. We need to prepare for those of tomorrow. Our Business Plan sets out our key priorities for the year ahead and how we're transforming the FCA to face the future.

We have to be prepared for disruption and to adapt our priorities to reflect the changes around us. Our remit is large, and it's growing, so we need to make complex trade-offs to focus our efforts. We need to be upfront about what we see are the biggest issues in financial services, and how we'll address them. This year, we will:

1. continue to deliver for consumers by taking forward the 4 priorities we identified in last year's Business Plan, as well as our new Consumer Duty
2. continue to enhance market integrity by reinforcing the effectiveness of UK wholesale markets and enhancing our supervisory approach to specific issues
3. focus on 6 of the most important cross-market issues; fraud, financial resilience, operational resilience, improving diversity and inclusion, enabling a more sustainable financial future, and international cooperation

We also need to be upfront about what success looks like. We have set out key strategic overarching outcomes and metrics to demonstrate our impact. From April 2022, we will report on our progress against each to hold ourselves accountable publicly and transparently.

Finally, we need to be open about our long-term vision for financial services. We've set out the focus of our role and the changes we're making to meet current and future challenges in Chapter 2. In early 2022, we will publish our wholesale and retail strategies to set out our ambitions for these markets. Our future Business Plans will then explain the actions we are taking to deliver against these objectives. We have significant changes to make – changes that won't happen overnight – and we are facing closer scrutiny than ever before. We need to show we're using our resources effectively to deliver in the public interest.

And we will deliver. We are transforming so we do. Over the next year, you will see another step-change in our approach. One that is even more innovative, led by data and technology. Even more assertive to ensure consumer protection and market integrity. And even more adaptive to meet the challenges we know about and prepare for those that will come.

Nikhil Rathi
Chief Executive

Over the next year, you will see another step-change in our approach. One that is even more innovative, led by data and technology

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Our role

This chapter explains our role – what we do, why and how we're transforming to address new challenges in the next few years, and how we'll measure progress.

Our role focuses on two main themes:

1. We use our authority and influence to improve overall market outcomes in financial services. We enable competition and innovation to prosper in the interest of consumers and ensure market integrity.
2. We stop and prevent serious misconduct that leads to harm. We enforce our rules to maintain trust and integrity in markets. We aim to act quickly and assertively to stop immediate harm and impose sanctions to punish offenders and deter others.

In summary, we explain through this chapter that our objectives remain constant, but the world we operate in doesn't. We need to do more to embrace the challenges and opportunities from new technologies and greater choice in the marketplace. We must adapt to how firms and consumers engage with the digital economy in a post-pandemic world.

We are doing this through investing in our people, technology and capabilities – particularly in data and intelligence. We will be more data-driven to find and stop harm quicker, and will respond faster and more assertively to new challenges. We will prioritise issues where we can have the greatest positive impact and demonstrate impact by setting measurable goals and reporting publicly on progress.

We will continue to work closely and proactively with firms, consumer groups and partner organisations in the UK and internationally. We will use data and intelligence to ask questions where we suspect misconduct, even where we are not the principal regulator. Together, we can drive up standards.

What we do

We protect consumers, support competition in financial services and maintain market integrity.

We regulate firms and individuals in financial services to:

- Drive a healthy and successful financial services system. We want to see open and transparent markets, in which firms can thrive and consumers can make informed choices about financial products.
- Drive innovation, productivity and economic growth. Consumers, businesses and the economy can benefit from innovative and competitive markets (including capital markets): they can improve quality and value, provide better choice and support the effective raising and allocation of capital.
- Protect users from firms that engage in harmful behaviour. Regulated firms should understand and respond to their customers' needs and prioritise good consumer outcomes.

> The most harmful behaviour, like fraud, often occurs across jurisdictions and sectors beyond financial services. We work with partners so we have a greater impact in disrupting misconduct

In addition, we:

- Investigate where we suspect serious misconduct and if we suspect unauthorised firms and individuals are carrying out regulated activities. We stop harm and deter others from causing harm by stopping them from trading, imposing penalties, or securing redress for consumers.
- Drive up standards and improve conduct by working closely with others, both in the UK and internationally. We focus our efforts where our powers and remit mean we have the most impact. Very few of the issues we face can be dealt with by one agency alone. The most harmful behaviour, like fraud (see Chapter 5 for our approach to fraud), often occurs across jurisdictions and sectors beyond financial services. We work with partners so we have a greater impact in disrupting misconduct.
- Allow weak firms to leave the market. But if firms fail financially and do so in a disorderly way, they can cause significant harm to consumers and markets. We expect firms to have tested contingency plans to deal with reasonably foreseeable events.
- Play a role in ensuring investors have the information they need to make choices that match their needs, goals and risk appetite. We can't prevent all investors from losing money. The value of investments changes constantly. It is rarely appropriate for us to intervene in the way markets move and the economy needs risk capital to grow and support sustainable investment returns.
- Contribute to broader societal goals by delivering our objectives. For example, we want to improve diversity and inclusion in financial services to ensure high standards of conduct and behaviour. Similarly, we have an important role to play in the UK's transition to a low carbon economy and a more sustainable future.

The financial services landscape

Almost nine in ten **(88%)** adults held at least one insurance product in February 2020

200 overseas firms are operating in the UK banking sector

UK financial services **employ over 1.1 million people** and contribute £75.6 billion in tax to the UK economy

The outstanding value of all residential mortgage loans was **£1,561.8 billion** at the end of 2021 Q1, 3.6 % higher than a year earlier

Between March and October 2020, **one in six (17%) mortgage holders (3.2m)** told us they took up a mortgage payment deferral. Of those who took a deferral, **four in ten (40%)** told us they would have struggled a lot without it.

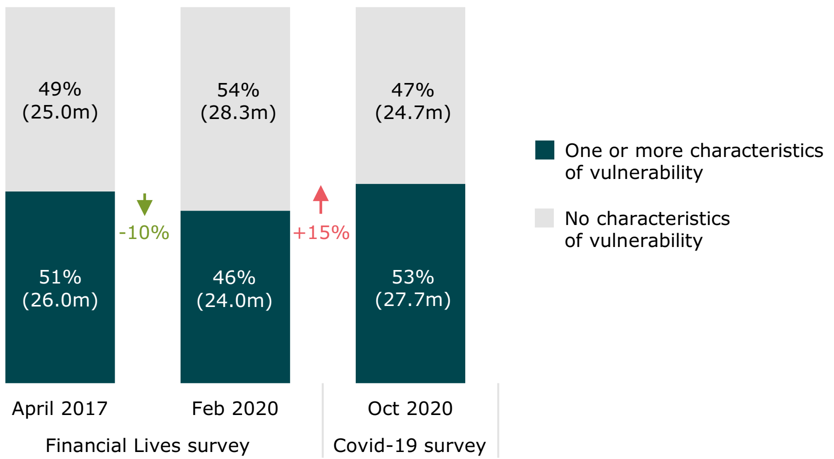
70% of people who have not yet retired have a pension in accumulation

Why we're changing

Our work has a major impact on people's daily lives and the UK economy. We deliver our objectives in a world subject to continual disruptive change. Significant changes are happening in the way people access and use financial services, as well as in the structure of global wholesale markets.

- The digitalisation of financial services brings profound changes in the way consumers make decisions and global markets operate.
- The transition to a net zero economy will require an entirely different approach to markets and investment products in the UK and internationally.
- Persistently low interest rates may lead to consumers taking excessive financial risk or broader systemic risks in wholesale markets.

In the last year, we've seen rapid changes in the firms we regulate and the diverse consumers we aim to protect. For example, between March and October 2020, as the pandemic struck, the number of adults with characteristics of vulnerability increased by 3.7 million to 27.7 million (ie 53% of all adults).



The pandemic also triggered a shift to remote working and rapid increases in digital interaction with consumers. This created new opportunities, but also posed greater operational and market integrity risks. Despite these changes, unprecedented economic stress and record volatility levels, firms and markets remained open and operationally resilient. As firms increasingly serve consumers through digital channels, we will work to support those who are digitally excluded.

> **Significant changes are happening in the way people access and use financial services, as well as in the structure of global wholesale markets**

Scale of change

Between March and October 2020, the number of adults with low financial resilience increased by **3.5 million to 14.2 million**, ie to 27% of UK adults

Over **£5.5 billion** in equity capital was raised in UK markets during the first quarter of 2021 (more than double the amount raised in the same period in 2020)

The UK FinTech market's revenue rose to **£11bn** in 2019 – almost doubling in only 4 years and accounting for almost 10% of the global total that is expected to grow to **£380bn** by 2030

2020 saw inflows of more than **£200 billion** to European sustainable funds, almost double those seen in 2019

Our estimate for UK consumers holding cryptoassets has risen to **2.3 million**

84% of consumers made a contactless payment in the 12 months to February 2020, up from **63%** in 2017; **55%** said they did so more frequently in October 2020 compared with the end of February 2020

Our Financial Lives Survey in 2020 found that **5 million** adults considered that they relied on cash to a great or very great extent

New products, such as cryptoassets, have captured the interest of millions of UK consumers. But the potential use of cryptoassets in financial crime and their highly volatile nature bring significant risks to consumers and market integrity.

Harm can occur more quickly in today's digital environment, so we need to find and stop harm faster. We're improving our technology, our capabilities and our information so we're quicker at identifying and responding to these new challenges. We need to focus our efforts where we make the biggest difference and report on progress, with clear, measurable outcomes.

Finally, we need to adapt to changes in our remit, which is large and continues to grow. Through legislation, the Government and Parliament set the 'perimeter' between what we do and don't regulate. They can change our perimeter by changing our powers and responsibilities. Examples of current and upcoming changes include:

- The Government is adapting the UK's framework for financial services regulation, following the UK's withdrawal from the EU. The Future Regulatory Framework will transfer some rule-making responsibilities to regulators like the FCA and strengthen accountability, scrutiny and transparency.
- We will start regulating the pre-paid funeral plans sector from July 2022.

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How we're changing to improve performance and meet future challenges

This section sets out how we are changing to be faster, more targeted and more effective in the future. These steps build on changes over recent years to continuously improve our performance and address the recommendations of recent independent reviews. In doing this, we will continue to prioritise, making complex trade-offs to use our finite resources efficiently and effectively.

Setting the bar high to support market integrity and sustainable innovation

Setting standards is one way we support innovative and competitive markets, which benefit consumers and the economy. At a minimum, we expect firms to meet our standards and do the right thing by their customers. We are committed to setting – and playing a leading role in developing – high, internationally consistent standards. We want firms to be clear about what we expect from them, including from their governance and culture.

We welcome firms who are willing and able to meet our high standards. The UK is home to many globally important markets and international firms. We cooperate with our international partners so firms can't avoid regulation by taking advantage of different countries' rules. To support this, we will complete a systematic review of wholesale regulatory regimes. We want to ensure they better suit UK markets and the needs of investors and companies but remain at least equivalent to those in the EU (see Chapter 4). We will also assess firms leaving the Temporary Permissions Regime against the same criteria as UK-based firms (see Chapter 5).

When competition doesn't work well, it can lead to unreasonably higher prices, lower quality and a lack of choice – ultimately damaging trust in financial services. We will continue to intervene so consumers – including those in vulnerable circumstances – aren't unfairly disadvantaged. Our recent work in tackling the loyalty penalty in insurance is an example of an evidence-based change to improve consumer outcomes (see Chapter 3 for further details).

Ensuring firms start with high standards and maintain them

Firms and individuals need to be authorised by us to carry out certain activities. Before authorising firms and individuals, we check that they meet our standards.

Once authorised, they need to continue to meet our standards and rules, and achieve good outcomes for users. We have already taken steps to look at firms holistically, operating proportionately within our mandate set by Government and Parliament, to minimise the risk from firms' unregulated business. We are undertaking a 'use it or lose it' exercise, piloting the removal of firms' permissions where they aren't carrying out regulated activities. This is to limit the 'halo effect' of regulation – where firms use our oversight of one activity to make unregulated activities appear more trustworthy.

We have explained details of this and other recent changes we've made to our capabilities and processes in our report, 'Implementing the recommendations from the Independent Reviews'. We are also introducing:

- A more robust gateway for new firms. Our standards will be higher with more intensive assessment and greater scrutiny of firms' financials and business models. While our assessment will be tougher, the application process will be more straightforward (eg easier-to-use forms, better digital applications).
- Stronger oversight for newly authorised firms (a regulatory 'nursery'). Our approval is based on firms' business plans, which can evolve significantly in their early stages. As they develop, we will oversee these firms to check they comply with our rules and to identify potential harm early.
- Stronger oversight of firms which are growing significantly, in line with the Chancellor's announcement on the Kalifa Review's recommendation, for a Regulatory Scalebox. This will help newly authorised firms with plans to scale fast to receive support and oversight. A smart compliance culture and sound governance improve firms' operational resilience and enable them to scale sustainably.

Using new approaches to find issues and harm faster

The volume of data we receive – which supports our supervisory, policy and enforcement work – is growing exponentially. Providing this data is a cost to firms, so we need to make sure that we collect the right data efficiently. With the right technology and capability, we can use this data more effectively and be more data-driven.

We are investing more than £120m over 3 years to deliver our data strategy. Ultimately, we will automate more of our data collection, better analyse data across systems and act earlier to prevent or stop misconduct, and strengthen our holistic firm assessments. We aim to review and analyse unstructured data (such as emails, documents and video files) from different sources more efficiently. We will gather publicly available information on firms and products to identify potential risks to consumers, such as financial scams. This includes, for example, using social media monitoring and web scraping to find, and raise awareness about, new types of scams and to inform our consumer campaigns.

We will focus on the following outcomes over the next 12 months:

- Data: Strengthen the foundations of our data, improving accuracy and accessibility. This will mean we can use it more effectively to identify harm and intervene more quickly.
- Information: Build capabilities to deliver automation and efficiencies, improve systems infrastructure and use technology to make operations more efficient.
- Intelligence: Use advanced analytical techniques to proactively identify and prioritise firms or harms for investigation.

> We expect to intervene in real-time more often to prevent harm to consumers and market integrity

Tackling misconduct to maintain trust and integrity

There will always be some firms and individuals unable or unwilling to meet our standards or who deliberately exploit consumers. Digitised markets create new and faster ways for them to cause harm, including across borders.

We won't tolerate conduct that fails to meet our standards, is dishonest or unlawful. While we won't be able to stop every instance of misconduct, we will seek to identify poor behaviours and be assertive in driving them out of financial services promptly, whether they are deliberately exploiting consumers, or well-intentioned but lacking competence.

We want to prevent and stop harm faster and more effectively. To do that, we need to focus on making changes to areas within our control, including taking greater risks when making decisions.

- We are making changes to our financial promotions regime. We have put new procedures in place to fast-track our supervisory and enforcement response to breaches. We will proactively monitor firms that repeatedly breach our rules and investigate where breaches indicate more serious issues. Further details about this are in our report, 'Implementing the recommendations from the Independent Reviews'.
- We will shortly consult on proposals to streamline decisions about authorisation and specific supervisory and enforcement actions. We propose to change the balance of decisions taken by the FCA Executive and our Regulatory Decisions Committee. We expect to intervene in real-time more often to prevent harm to consumers and market integrity, including, if necessary, turning down more applications for authorisation. This will strengthen our regulatory system and, over time, reduce the overall regulatory costs of dealing with firms and individuals that fail to meet our standards.

> We want firms to consistently focus on consumer outcomes so that customers can act and make decisions in their interests

We will also:

- detect harm and misconduct faster thanks to continued improvements to the way we use our data and technology
- continue with a targeted litigation strategy to provide legal clarity and to protect consumers, as we did with business interruption insurance
- continue to engage actively with relevant partners so they can act where we have limited or no powers to intervene

Enabling consumers to make informed financial decisions

Exercising our powers over firms and markets is important in protecting consumers.

A core principle in the legislation underpinning the FCA is that consumers should take responsibility for their choices and decisions. We can't stop every case of poor conduct by firms. But we're in a stronger position to improve conduct when consumers are informed and empowered, which can drive up standards when combined with our action. At the same time, we know that consumers' ability to take responsibility for their decisions may be limited, especially if they are in vulnerable circumstances. We also have high expectations for the standard of care that firms should give consumers. We want firms to consistently focus on consumer outcomes so that customers can act and make decisions in their interests.

We set and enforce standards for the information firms give to consumers. We also provide information and warnings for consumers and carry out targeted campaigns, such as ScamSmart. There is more we can do. We will:

- Improve the information we publish for consumers. This will include what 'authorised and regulated by the FCA' means and where protections may or may not apply. We will also explain why we are making rule changes and what they mean for consumers as they happen.
- Use proactive communications to improve consumers' understanding of risk. This year, we will launch a new multi-year investment harms campaign. We will target new, less experienced investors tempted into taking higher risks than they realise when investing online (further details are in our report, 'Implementing the recommendations from the Independent Reviews').
- Publish more data about firms to help inform consumers and influence firms' conduct. This will include regulatory data that we have not shared before, and Financial Ombudsman Service complaint and uphold rates.

Proactive at the boundaries of the perimeter

While we don't give investment advice, we do warn consumers where types of products, like cryptocurrencies, are high risk. We maintain a list of cryptoasset businesses that aren't registered with us, so everyone can see they aren't complying with anti-money laundering regulations.

We will continue to actively seek out intelligence where we suspect misconduct. As we improve our technology and capabilities, we will be able to identify and make better, faster judgements about harm. Where we can't act, we will share with our partners so they can act.

We speak out when we see the need for legislative change. We welcome the proposal to include investment fraud in the Online Safety Bill. But this should apply to online advertisements as well – the biggest source of consumer fraud – not just user-generated content. Including online advertisements would support the recent change, which means online platforms have to comply with elements of the financial promotion rules.

We will seek to reduce harm outside our perimeter by:

- asking questions and analysing data outside our perimeter
- being clearer where we see legislative gaps, including on information-gathering powers
- speaking up and alerting our partners when we find risks and issues in markets

Working with others so we achieve more

We will build on our existing status as an international thought leader, working with peers to address global issues. We will continue to work closely with our partner organisations, both in the UK and internationally, to set high, internationally consistent standards. We will also use the increased flexibility available following the UK's exit from the European Union.

The examples below highlight some of our close cooperation with partners, within the UK and across the world. Together, we can drive up standards and improve conduct in the financial services sector. Ultimately, our leadership and collaboration will protect consumers, promote competition and ensure market integrity.

Consumer protection and advice in financial services

The Financial Ombudsman Service settles complaints between consumers and 'live' businesses which provide financial or claims management services. The ombudsman service resolves disputes fairly and impartially, and has the power to put things right. It is completely free for consumers and easy to use.

The Financial Services Compensation Scheme (FSCS) protects consumers when authorised financial services firms fail. If the firm you've been dealing with has failed and can't pay claims against it, the FSCS can step in to pay compensation. The FSCS offers a completely free service to consumers and it's funded by the financial services industry.

MoneyHelper (also known as the Money and Pensions Service) aims to make money and pension choices clearer. It cuts through the complexity, explains what users need to do and how to do it. It gives impartial guidance that's backed by the Government and recommends further, trusted support if consumers need it. It's free to use.

Financial services regulators

The Prudential Regulation Authority (PRA), part of the Bank of England, regulates and supervises all the major banks, building societies, credit unions, insurers and major investment firms in the UK. The PRA promotes the safety and soundness of the firms it regulates and supervises, and helps to secure an appropriate degree of protection for policyholders.

Payment Systems Regulator (PSR) makes sure payment systems serve everybody as well as they can. The PSR promotes competition and innovation in the interests of the people and businesses using payment systems, and has a range of powers to help pursue those objectives.

The Pensions Regulator (TPR) is the UK regulator of workplace pension schemes. TPR makes sure that employers put their staff into a pension scheme and pay money into it. They also make sure that workplace pension schemes are run properly so that people can save safely for their later years.

Our partners

We work with **domestic** partners to address issues that cut across financial services and other industries.

For example:

- We work with the Government – primarily the Treasury – to adapt the legal framework for financial services when new challenges arise. Through legislation, the Government gives us and other regulators certain powers and responsibilities.
- We work with the National Economic Crime Centre, law enforcement agencies and the Home Office to identify and stop fraud
- We help tackle the unique challenges of regulating online platforms through the Digital Regulatory Cooperation Forum, which includes the Competition and Markets Authority, Ofcom and the Information Commissioners' Office – all of whom we work with individually on other matters.

We work with **international** partners to set and maintain high and consistent standards and respond to global issues.

For example:

- We work with international partners in the transition away from LIBOR to alternative risk-free rates
- We coordinated our response to Covid-19 with EU counterparts and through standard-setting bodies, such as the Financial Stability Board (FSB), the International Organization of Securities Commissions (IOSCO), and the International Monetary Fund (IMF)
- We're supporting the establishment of a Sustainability Standards Board, set up by the IFRS and endorsed by G7 Finance Ministers

Investing in our people and reshaping our culture

The breadth and depth of FCA work is complex and demanding. The challenges we face are unlike those we have seen before, with events unfolding more quickly. But our strong sense of purpose is consistent – we are committed to delivering in the public interest, using our expertise and partnerships to achieve positive outcomes for markets and consumers.

We need a culture where our people are empowered to act decisively. We need to be active, front-footed and persistent in seeking answers, and question whether there is evidence to suggest actual or potential harm or a breach of our rules. We aim to get ahead of problems in the marketplace and look for new and innovative ways to deliver outcomes effectively.

Diversity and inclusion within the FCA

We have a role in improving diversity and inclusion in the firms and markets we regulate so they better reflect those they serve. We should therefore be as diverse and inclusive as possible, reflecting the communities in which we work and the consumers we protect.

We know we have work to do and have set ambitious targets: for example, women accounting for 45% of our senior leadership by 2020 and 50% by 2025. We missed our 2020 target by 5 percentage points but have regained ground following recent senior appointments. We are also focusing strongly on our ethnicity action plan; see Chapter 5 for details on this year's actions.

National location strategy

We are a regulator for the whole of the UK. Alongside our ongoing strong commitment to presences in London and Edinburgh, we are developing a national location strategy.

- Like the Bank of England, we are exploring opening an office in Leeds. We are currently working on what functions and precise numbers it will have: we envisage at least 100 colleagues in the first phase, with substantive progress by the end of 2022.
- We recognise the importance of engagement with devolved administrations and legislatures, as the different nations of the UK may have different needs and views. We will establish a presence in Belfast and Cardiff by the end of the year and expect to double our Edinburgh headcount to over 200 over the next 2 years.

What we expect to see in how we approach and deliver our work.

Purposeful

We're driven by the FCA's sense of integrity and purpose to deliver in the public interest and are committed to accountability and transparency.

Professional

In both the deep expertise we need across the organisation and in how we manage and lead our people. Our professionalism and sense of public service make us tenacious in achieving positive market and consumer outcomes.

Partnering

We can only deliver through partnership working within the FCA and with other UK and international organisations. We value the important insights we'll get from integrating all our data and evidence and working together. We will be highly collaborative and inclusive, actively seeking diverse thinking to deliver better outcomes.

Proactive

We approach complex problems with a curious mindset, taking ownership for ensuring we properly grasp them. We look for new and innovative ways to help deliver outcomes more effectively.

Pace

We need the capability to be ahead of problems in the marketplace, knowing both how and where harm could arise – and moving rapidly to prevent or reduce it. We will have the cutting-edge technology we need to become a data and evidence-led regulator. We expect high standards of performance and are committed to ongoing professional development.

Pride

We take pride in – and are proud of – our work. This means knowing we are delivering to the very highest standards, every day. Delivering our mission and purpose demands that we continuously learn and improve individually and together as an organisation.

Being accountable for our progress

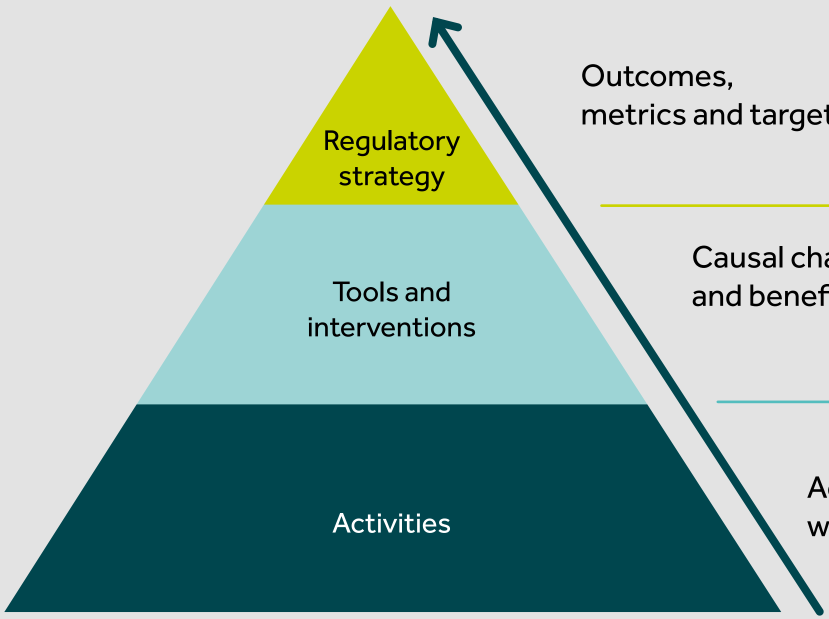
Accountability is central to the financial regulatory framework. We expect to see further accountability measures as new powers are brought onshore to the UK authorities. We will set measurable goals and report publicly on our progress towards achieving them to:

1. support **accountability** for how we deliver our statutory objectives and regulatory strategy, and whether we deliver value for money
2. **monitor** outcomes in markets and understand what impact our interventions are having and what drives the bigger impacts, to **prioritise** and **intervene** more effectively
3. **drive improvements** in our operational effectiveness

This will inevitably be an ongoing and evolving process as the UK regulatory framework stabilises in the coming years.

We will be clearer on what outcomes matter and what metrics we will use to measure them. Where appropriate and helpful for accountability, we will also set targets for metrics. We will implement causal chains – identifying cause and effect – more widely in our work to explain how we expect our interventions to deliver ultimate results and to enable us to identify specific metrics for our interventions. We will also further develop our established impact evaluation programme. This will mean we can examine the impact of our work in more detail, enabling us to get better at choosing the right intervention.

We will distil our priorities into a series of topline outcomes and metrics, based on a clear framework. These outcomes and measures will form the basis for our work and interventions. They will enable us to become a more transparent, accountable and evidence-driven organisation.



Outcomes, metrics and targets

Regulatory strategy covers key areas that we want to influence and outcomes that we want to be measured against. Our regulatory strategy will comprise retail and wholesale strategies.

Causal chains and benefits

Our tools and interventions are the specific way we act to deliver our regulatory strategy. These range from types of policy interventions to particular forms of enforcement or supervisory action. These actions have clear value in terms of their delivery of outcomes.

Activities with cost

Our activities cover the work we do that allows the tools and interventions to be deployed.

We will distinguish between:

1. **Consistent topline outcomes and metrics**, which stay the same from year to year and enable us to deliver our statutory objectives. They will include an estimate of the aggregate benefits we deliver (where we can monetise and estimate those benefits).
2. **Strategic overarching outcomes and metrics**, which we will set over a multi-year period and review each year. These will reflect additional strategic priorities that we want to pursue; for example, outcomes and measures linked to our Treasury remit letter and our strategic business priorities.

These will be in place for first reporting in April 2022. We will develop our metrics over time with input from stakeholders, and we will evolve them as we implement our data strategy to enable better measurement. While no measure is perfect, they will provide a basis for us to be more accountable.

This year, we are also setting our first strategic overarching outcomes and metrics to align with our transformation programme. In some cases, it will take time for our work to show in the metrics so it will need to be considered over several years. They will include:

1. **Setting the bar high to support sustainable innovation for consumers:** We will publish the aggregate amount by which consumers benefit from our policy work to improve market outcomes. We aim to expand this metric over time to bring in other areas of our work, such as how our interventions other than new rules deliver benefits for consumers.
2. **Setting the bar high to support market integrity in wholesale markets:** We will continue to monitor, and expect improvements in, our suite of market cleanliness statistics.
3. **Ensuring firms start with high standards and maintain them:** As we strengthen our gateway and early years supervision, we will monitor:
   - **a.** refusal/withdrawal/rejection rates – we will expect these to increase initially as we make the gateway more robust
   - **b.** complaints about newly authorised firms (involving their first 3 years of authorisation) – by giving more support for firms in these early years, we would expect to see the number of relevant Financial Ombudsman Service complaints fall over time

4. **Using new approaches to find issues and harm faster:** We will evaluate our efforts to reduce disorderly failure by monitoring the value and volume of Financial Services Compensation Scheme (FSCS) claims, with the aim of reducing these over a multi-year period to bring down the FSCS levy on the industry.
5. **Tackling misconduct to maintain trust and integrity:** We expect our increased capability to detect signs of misconduct and act faster will lead to an initial increase in the number of firms whose permissions we remove either permanently or temporarily.
6. **Enabling consumers to make informed financial decisions:** With increased communication with consumers, we will expect:
   - **a.** a reduced number and proportion of calls to the FCA that we need to direct elsewhere
   - **b.** increased effectiveness of our ScamSmart campaigns, including increased use of the ScamSmart website and clicks through to the Financial Services Register

7. **Diversity and inclusion across the industry:** To ensure we are as diverse and inclusive as possible, we will continue to monitor and set targets for ourselves as outlined above. We will also drive stronger outcomes across the industry as a whole, including supporting delivery of the Women in Finance Charter, Parker Review and other economy-wide initiatives.

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Our consumer priorities

This and the next 2 chapters of this Business Plan explain our priorities for the coming year.

In last year's Business Plan, we highlighted 4 priorities for our consumer-facing work:

- enabling effective consumer investment decisions
- ensuring consumer credit markets work well
- making payments safe and accessible, and
- delivering fair value in a digital age

The shape and scope of some of these priorities have changed to reflect changes in consumers' finances and behaviour. Consumers are likely to continue seeking higher yields from risky and often unsuitable investments because of continued low interest rates and increased uncertainty. The pandemic has also caused financial difficulties for many consumers, increasing the risk they will take on credit at interest rates that will be unaffordable in the medium to longer term.

These priorities remain fundamentally important to us and are reflected in our consumer priorities for the coming year, along with our aim to improve consumer outcomes through our new Consumer Duty, which is currently under consultation. We will also focus on tackling scams and fraud (see Chapter 5 for details), promoting competition and fair value, and reducing 'sludge practices', which exploit consumers' behaviour to make it harder for them to make decisions in their best interests. We will focus on ensuring firms have the right systems and controls in place, helping them to improve their culture and working with them to support innovation that both meets our rules and improves overall market outcomes.

> **Consumers should have clear information that helps them make effective choices and take responsibility for those choices**

Putting consumer outcomes first

Consumers benefit when firms actively seek to understand what they want and compete to serve their needs. We will assess firms' business models, and how these affect their products and services, to understand their ability to meet consumers' needs, particularly those in vulnerable circumstances. A better understanding will help us target our action to foster healthy, innovative markets, where developments in technology, artificial intelligence (AI), and new models – like Open Finance – can deliver better and fairer outcomes for consumers.

Consumers should have clear information that helps them make effective choices and take responsibility for those choices. We will continue to work with our partners to improve the quality and consistency of information consumers receive.

Firms' information disclosures don't always have as much impact on consumer decision-making as we would like. We need to increase our use of behavioural science, economic analysis and available data capabilities to design targeted, effective disclosures. Where disclosures are ineffective, we will intervene so consumers have appropriate protection and competition works in their interests.

Our work will help to ensure that financial services markets support consumer needs and sustain a strong environment for long-term investment in financial services firms.

Enabling consumers to make effective financial decisions

We want consumers to invest with confidence, understand the risks they are taking and what regulatory protections they have. This means we must reduce the harm to consumers from unsuitable advice and inappropriately risky investments.

If consumers choose to invest outside the mainstream market, they should do so knowingly. They should understand the additional risks and be able to absorb the losses.

Those principles should apply to current and emerging investment opportunities, for example, cryptoassets. Cryptoassets are a very high-risk investment that we don't regulate, so investors should be prepared to lose all their money. The Treasury published a consultation to extend the financial promotions rules to investment in cryptoassets so that appropriate warnings are a requirement. It also published a consultation and call for evidence on the broader regulatory approach to cryptoassets.

> Cryptoassets are a very high-risk investment that we don't regulate, so investors should be prepared to lose all their money

Outcomes we want to achieve

- More consumers who want to save long-term consider investment opportunities. We expect to see fewer consumers who have a higher appetite for risk holding over £10,000 in cash.
- Fewer consumers lose money because they are straying into investments that are riskier than they would prefer. We expect to see fewer consumers with a preference for low-risk investments, or who have one or more characteristics of vulnerability, investing in high-risk investments.
- Fewer consumers lose money to investment scams.
- Less consumer harm from unsuitable advice and a higher portion of redress paid by the firms that cause this harm. We want to prevent harm, which will reduce the burden on levy payers. We want the scale of compensation owed first to stabilise, and then reduce over time.

How we will achieve the outcomes

We will be publishing our 3-year Consumer Investments Strategy shortly. This will include how we tackle firms and individuals who cause consumer harm. Alongside this, we will publish our second data report, detailing our work to protect consumers from investment harm in the previous financial year.

Earlier this year, we sought views on strengthening our financial promotion rules for high-risk investments and authorised firms that approve financial promotions (see our report, 'Implementing the recommendations from the Independent Reviews'). We will consult on changes to our rules, taking into account the feedback we receive. Our aim is to strengthen the classification of high-risk investments, segment the high-risk market and strengthen the responsibilities of firms that approve financial promotions.

We are improving how we detect, triage, disrupt and take enforcement action to help reduce fraud and harm. We are increasing public awareness and confidence through our ScamSmart campaign and our consumer alerts about unauthorised firms and individuals.

We will continue our work to improve pension advice, including defined benefit pension transfer advice. This includes helping to ensure that consumers who have lost valuable benefits following unsuitable advice know how to get redress. We will also take assertive enforcement action where there is serious misconduct.

We will continue our consumer campaigns on high-risk investments to help consumers make better decisions about their investments.

We will continue proactive work with our partners. We will create a 'consumer investment coordination group' with the FSCS, the Financial Ombudsman Service and the Money and Pension Service (MaPS). We will also gather information on sharp practices so we can better target interventions. In parallel, we will begin a review of aspects of our rules on the scope and coverage of FSCS compensation payouts, for specific regulated activities. We are reviewing our compensation policy framework so it is appropriate, proportionate and takes into account changes in the market and our regulatory approach.

Approving financial promotions

In July 2020, the Treasury consulted on changes to the regulatory framework for firms approving financial promotions. It proposed a new regulatory gateway, which an authorised firm must first pass through before approving financial promotions for unauthorised persons. Currently, any authorised firm can approve financial promotions for unauthorised persons, even if the product or service is beyond their ordinary sphere of expertise or experience. In June 2021, the Treasury announced it would bring forward legislation to introduce this new gateway. We will continue to work closely with it and consult on relevant Handbook changes.

Ensuring consumer credit markets work well

Our aim is to ensure markets can meet the continuing and changing demands for credit in a sustainable way. Consumers should be able to access affordable products and make informed decisions to meet their borrowing needs. Firms should treat borrowers fairly, including if they fall into financial difficulty, and compete and innovate to support good consumer outcomes and prevent poor practices.

Outcomes we want to achieve

- affordable credit is available to consumers to smooth their consumption
- consumers do not become over-indebted with credit they cannot afford
- consumers can find products to meet their needs
- consumers can take control of their debt at an early stage when they fall into financial difficulty

Over time, we expect to see fewer upheld complaints in consumer credit. The number of these complaints will help us gauge whether fewer consumers are suffering harm from unaffordable lending (eg data from the Financial Ombudsman Service, and from complaints to firms).

How we will achieve the outcomes

Borrowers in financial difficulty

Over the coming year, it's likely that more borrowers will be in financial difficulty. This is due to the uncertain economic environment and the end of Government schemes, such as furlough.

We will continue to monitor how firms provide tailored support and tackle areas of greatest harm. We will also undertake more in-depth work to assess whether consumers are getting fair and appropriate outcomes, including customers with characteristics of vulnerability. This will shape our next steps, including targeted action against firms not meeting expectations, and considering whether to make the temporary changes to our rules and guidance permanent.

Consumers struggling with debt

We expect greater demand for debt advice, including from consumers who would not previously have needed it.

We are reviewing our approach to our debt advice rules. We will update our expectations of debt advice services to help ensure over-indebted consumers get high-quality advice. Recent supervision work has found significant problems with advice given by a sample of firms that package debt, creating risk of serious consumer harm. We are taking assertive action with those firms and considering policy changes. We aim to complete this work this summer. If we decide to make changes, we aim to consult before the end of the year.

Deferred Payment Credit

The Woolard Review recommended bringing the currently exempt Buy Now Pay Later sector (now referred to as 'Deferred Payment Credit') into regulation. Subject to the Treasury's consultation on the scope of the regime, we plan to consult on new rules in 2022 and are developing our approach to the authorisation gateway and supervision.

High-cost credit

Our aim is to increase the availability of legal alternatives to high-cost credit by raising consumer awareness and tackling barriers to access. We want to make sure firms properly assess consumers to ensure they can repay their loans. We also want to make sure firms treat consumers who fall into arrears fairly when collecting their debts. We are a permanent member of the Government's Financial Inclusion Policy Forum, providing regulatory expertise on measures to increase consumer access to 'fair and affordable credit'.

> Recent supervision work has found significant problems with advice given by a sample of firms that package debt, creating risk of serious consumer harm

Credit information

Good quality information is critical to well-functioning consumer credit-markets.

Lenders should be able to get consistent and accurate credit information so they can make sure lending is affordable to consumers. Good creditworthiness assessments are also essential to making lending decisions in consumers' interests. This year, we will restart our credit information market study to understand whether Credit Reference Agencies can provide the coverage and quality of credit information that lenders need.

We want to see a market where consumers can choose to use credit information to make better-informed decisions. We will look at how consumers use their credit information and how this affects behaviour. This includes considering possible future changes in credit information markets. We aim to publish our interim report by Q1 2022.

We are looking at the relationship between credit information and firms' forbearance measures. We will also look at the impact of credit information on borrowers in financial difficulties – a key issue during the pandemic.

Evaluating our overdrafts measures

Our interventions in the overdraft market are designed to deliver fair value to customers, ensuring firms monitor and help customers in financial difficulty who are stuck in their overdraft. Our 2019 Policy Statement said we would carry out a post-implementation evaluation of the remedies we introduced, including changes to how firms charge for arranged and unarranged overdrafts. We postponed the evaluation to limit any distortions from the pandemic and from our temporary measures on the evaluation. We will collect firm data later in 2021 and aim to complete the evaluation in 2022.

Making payments safe and accessible

The payments services sector continues to develop rapidly. As this continues, consumers and smaller businesses should be able to safely access a variety of payment services.

There are many risky forms of cryptoassets, which are unlikely to benefit consumers in the long-term. Other developments, however, could be beneficial for payments, such as 'stablecoins', which could increase competition in payments, making them faster and cheaper for retail consumers. But they also carry risks. We continue to work closely with Treasury and the Bank of England to develop a regime which encourages innovation while protecting consumers.

Outcomes we want to achieve

- Consumers make payments safely and with confidence.
- When consumers make payments, they do not lose money because firms fail. Where firms fail, a greater proportion of firms safeguarding customer funds return them to customers in a reasonable timeframe.
- Consumers and smaller businesses have access to a variety of payments services, including cash. We want to see fewer complaints to banks about branch closures. When firms close a branch or ATM, we want them to consistently make sure that alternative services are available and to consider the needs of customers in vulnerable circumstances.
- The payments market is competitive and innovative, offering smaller businesses access to a variety of services.

How we will achieve the outcomes

Payments supervisory work

Payment services and e-money firms can offer innovation, choice and fair value for customers. However, we remain concerned about the pandemic's impact on the financial strength of payment services firms.

We've asked firms to explain to customers the difference between safeguarding of e-money accounts and FSCS coverage. We will also raise safeguarding and wind-down planning standards through targeted communications, reviewing firms' arrangements and safeguarding audits. Our supervisory work will focus on ensuring payment services and e-money firms are financially robust and identifying outlier (at risk) firms.

Access to cash

Along with the Payment Systems Regulator (PSR), the Bank of England and the Treasury, we are committed to protecting access to cash – particularly for consumers in vulnerable circumstances who rely on cash. The Treasury is consulting on legislation. We issued a joint statement with the PSR to clarify that we expect firms to help protect access to cash and wider banking services in ways that meet consumers' needs.

More than 5 million consumers rely on cash to a great extent for their daily lives. While our evidence shows that most people can access cash and essential banking services, we need to make sure this continues as the future of cash and branch banking evolves. We are supervising bank branch closures closely, assessing plans based on the risk of harm to consumers. This includes checking whether firms give customers adequate information, treat them fairly and consider customers in vulnerable circumstances.

Future regime design

The payments industry has evolved rapidly since the regulatory framework for payment services was first introduced. We are working with the Treasury to develop policy and recommendations on payments, e-money and cryptoassets, following its call for evidence last year as part of its Payments Landscape Review.

Delivering fair value in a digital age

Fair value for consumers is key to healthy competition and underpins consumer trust in financial services. We want consumers to be confident they are getting fair value and can make informed choices about the products and services they use. We expect firms to deliver this by providing products and services of suitable quality and price.

Outcomes we want to achieve

- consumers can choose from products that meet their needs at a competitive quality and price
- digital innovation and competition support greater value for consumers
- consumers in vulnerable circumstances have fair access to key services and products, and firms do not exploit or target them with poor value products and services

As we build our digital markets strategy, we will develop a framework to identify and assess potential harms and benefits arising from the increasing digitalisation of financial services markets, as well as indicators and success measures.

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Over the coming year, we will investigate practices, such as 'sludge practices', which make it hard for consumers to cancel a product or service online

How we will achieve the outcomes

General insurance pricing practices

Our systems and controls and product governance measures come into effect in October 2021. We will implement pricing and automatic renewal remedies in January 2022. These measures will help ensure that firms deliver fair value in home and motor insurance products. We will use firms' reporting data to measure success, track market changes and identify firms that continue to engage in price walking.

Digital competition

We will continue to assess the impact that digitalisation can have on competition to help ensure that digital financial services markets:

- deliver greater value for consumers by fostering effective competition while providing appropriate protection
- provide consumers with a choice of quality products that meet their needs at a competitive price

We will collaborate with external parties, including the Government, the Digital Markets Unit and through our Digital Regulation Cooperation Forum membership.

Investigating harmful business practices

Over the coming year, we will investigate practices, such as 'sludge practices', which make it hard for consumers to cancel a product or service online. We want to establish how common and harmful they are. We want to stop these practices so consumers make informed and timely decisions about the products and services they buy. Our new Consumer Duty seeks to address these outcomes.

Consumer Duty

We are consulting on proposals for a Consumer Duty to set clearer and higher standards for firms' culture and conduct. It would require firms in retail markets to:

- ask themselves what outcomes their customers should be able to expect from their products and services
- act to enable rather than hinder those outcomes
- assess the effectiveness of their actions

Outcomes we want to achieve

We want firms to consistently place their customers' interests at the centre of their business so that:

- communications equip consumers to make effective, timely and properly informed decisions about financial products and services
- products and services are specifically designed to meet consumers' needs and sold to those whose needs they meet
- customer service meets the needs of consumers, enabling them to get the benefits of products and services and act in their interests without unnecessary barriers
- the price of products and services represents fair value for consumers

The new Consumer Duty will give firms more certainty about both our and consumers' expectations of the standards they should meet.

How we will achieve the outcomes

Our consultation closes on 31 July 2021. After considering the responses, we will set out details of any proposed new rules or guidance in a subsequent consultation. We expect to do so by the end of 2021, and we will finalise and introduce any new rules before the end of July 2022.

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Our wholesale markets priorities

This chapter covers our wholesale priorities for the next year.

Wholesale financial markets play a vital role in our economy. They enable companies and governments to access capital and give retail and institutional investors opportunities to invest, facilitate domestic and international trade, and underpin growth and prosperity. Much of our work in wholesale markets is focused on market integrity. Market integrity fosters confidence, trust, and the level of participation in wholesale markets – and so how effective these markets are.

Market participants from around the globe choose to participate in the UK's wholesale markets because they work well. Cross-border cooperation with other national and international authorities, including through IOSCO, is important; both for establishing standards and in our supervisory work. Our work on market integrity dovetails with the financial stability mandate of central banks and the FSB – for example, our work on non-bank finance and the transition away from LIBOR.

While there are significant differences between wholesale and retail markets, they cannot be entirely separated. For example, asset management firms are important players in wholesale markets, but retail consumers use many of their products. Retail consumers can benefit from direct access to prices established in wholesale markets. There has been increased interest in trading in shares and other regulated financial instruments as well as unregulated products, such as cryptocurrencies. This is partly as a result of the 'gamification' of finance in our increasingly digital lives. When making transactions directly online, retail investors must understand the risks and potential for losses. They will not always have the same protections as when a firm acts as an intermediary to assess whether an investment is suitable for a customer's ability to bear to risk. Participants in wholesale markets must meet conduct obligations, including rules against manipulating prices or spreading misleading information.

An appropriate degree of consumer protection partly relies on firms in wholesale markets meeting the components of market integrity set out in FSMA: orderly operation, resilience, transparency and strong defences against financial crime and market abuse. Ensuring user protection in wholesale markets can also be closely linked to how participants manage conflicts of interest, for example, when an investment bank serves the needs of both an issuer and its investors.

When making transactions directly online, retail investors must understand the risks and potential for losses

Our wholesale priorities for the next year include:

- Work to reinforce the effectiveness of UK wholesale markets. This includes revising the listing and prospectus rules framework for issuance of securities in primary markets, as well as the MiFID rules around trading of financial instruments in secondary markets. Ensuring UK markets complete an orderly transition away from LIBOR to stronger, more transparent risk-free rates, will help increase the resilience and transparency of key interest rate markets.
- Non-bank finance, which will include increasing our supervision of whether the environmental, social and government (ESG) attributes of asset managers' investment products are fair, clear and not misleading. We will also work with market participants, the Bank of England and Treasury to establish the right framework for long-term asset funds (LTAFs) and decide where the regulatory framework for money market funds needs amending given illiquidity issues revealed last spring. Continued low interest rates make investment structures that aim to achieve a premium return over the most liquid investments more attractive. But it is important that the liquidity and other risks of these structures are clear and managed in a way that does not harm investors or distort market functioning.
- Tightening our supervision and supervisory expectations of Appointed Representatives and their principal firms to reduce risks that the use of ARs in wholesale markets weakens conduct standards.

These workstreams, as well as our other wholesale priorities for this year, are described in detail below.

Review of our rules in primary and secondary markets

Leaving the EU has given us freedom to tailor our rules better to suit UK markets, while maintaining high, and internationally consistent, standards at least equivalent to those in the EU. We are making our rules more efficient and targeted, and removing unnecessary barriers to entry.

Outcomes we want to achieve

We want our rules framework to support the needs of investors and companies seeking to raise finance and manage risks through capital markets.

How we will achieve the outcomes

We are reviewing our listing rules to ensure that the UK's primary markets work well, including considering the recommendations from Lord Hill's UK Listing Review Report. This year, we have published 2 consultation papers proposing amendments to our Listing Rules. These included a more robust framework for listings by special purpose acquisition companies (SPACs) and our entry requirements for new commercial company listings. Retail investors can already buy shares in SPACs. These proposals aim to strengthen key investor protections while supporting access to capital markets for issuers seeking to list and improving investment choices. We expect to finalise rules on SPACs later in Q3 2021, and on our further Listing Rule proposals before the end of 2021. The second consultation paper also sets out a broader discussion on whether more structural reforms to our listing regime could make our market more effective. We aim to respond to this discussion and consider consulting on further potential changes during the next 12-18 months.

We have amended our listing rules to support the Government's 'Roadmap' towards mandatory Task Force on Climate-Related Financial Disclosures (TCFD)-aligned disclosures across the economy. Our first step was to introduce a new Listing Rule linked to the TCFD's recommendations, which came into effect from 1 January 2021 for companies with a UK premium listing. We are now consulting on extending that rule to a wider number of listed issuers.

We are working with the Treasury on complementary legislative and FCA rule changes to improve the effectiveness of secondary market trading of financial instruments. Our aim is to simplify the complex rules around pre- and post-trade transparency in securities and derivatives markets, as well as the commodity derivatives position limits regime inherited from MiFID II.

> We want our rules framework to support the needs of investors and companies seeking to raise finance and manage risks through capital markets

LIBOR transition

In March 2021, we announced that Euro LIBOR and Swiss franc LIBOR will no longer be published after 31 December 2021. Under our new powers in the 2021 Financial Services Act, we are consulting on requiring firms to publish the most commonly used sterling and yen LIBOR settings on a 'synthetic' basis – the sum of risk-free rate expectations plus a fixed spread – for a further period after end-2021. This is to help firms complete an orderly transition. The most commonly used US dollar LIBOR rates will continue on a panel bank basis until end-June 2023, but essentially only for use in 'legacy', rather than new, transactions.

Outcomes we want to achieve

We want firms and markets to complete an orderly transition away from LIBOR to alternative risk-free rates, with customers treated fairly throughout this transition.

How we will achieve the outcomes

We are consulting on how we will use our new powers from the Financial Services Act to support an orderly transition. We will work with the Prudential Regulation Authority (PRA) and Bank of England to monitor the progress of firms' transition plans. We will continue to encourage and support collective action by market participants to move business formerly concentrated on LIBOR to SONIA and other risk-free rates. We did this for sterling loans at the end of March 2021, for non-linear sterling derivatives in May 2021, for sterling futures in June 2021, and for the 'SOFR first' initiative for US dollar LIBOR swaps in July 2021. We will continue close coordination with overseas authorities around transition for both new business and dealing with legacy issues.

Market abuse and financial crime

Outcomes we want to achieve

We want the firms we regulate to be effective in preventing market abuse and reducing the risks of financial crime.

How we will achieve the outcomes

We will continue to monitor the transactions in financial instruments reported to us, assess Suspicious Transaction and Order Reports (STORS) and follow up intelligence from whistleblowers on financial crime or fraud.

We measure the impact of our work to reduce market abuse and financial crime in different ways across our different portfolios (groups) of firms. For example, we track the volume and quality of STORs from wholesale firms and venues as an indicator of market quality and potential market abuse. We track the number of supervisory cases involving financial crime and other issues, including information from whistleblowers. We also publish annual data on market cleanliness.

Asset management and non-bank finance

The UK investment management sector manages the savings and pensions of millions of people across the UK, the EU and globally. The sector helps channel capital into investments that support economic activity. Institutional and retail investors often use a variety of open-ended and closed-ended fund structures offering different risk, expected return and liquidity features.

Outcomes we want to achieve

We want firms to offer investors products that are fair value, meet their investment needs and offer an appropriate level of protection. Marketing and disclosures for these products need to be fair, clear and not misleading. Asset managers should manage liquidity in funds to avoid unnecessary risks to investors and market integrity. They should also enable investment in less liquid assets for those with a long-term investment view who can cope with the risk of these investments.

How we will achieve the outcomes

Our supervisory approach and interventions will continue to focus on how asset managers ensure value for consumers. We will increase our supervisory focus on whether asset managers present the environmental, social and governance (ESG) properties of funds in terms that are fair, clear and not misleading. We will continue to seek to identify funds that are outliers to their peers – for example, due to high fees – to understand why, and work with Authorised Fund Managers and Depositaries to take corrective action where necessary.

In June, we published a review of 'host' Authorised Fund Managers. Some of these firms had weaknesses in governance structures, managing conflicts of interest, operational controls, and oversight of third-party investment managers. We have followed up with each firm we reviewed and plan to review progress in the next 12–18 months.

There is continued international focus on how open-ended funds, including money market funds, manage the risks of liquidity mismatches between their assets and liabilities. Through the first half of 2021, we have continued our work to reduce liquidity mismatches, with the Bank of England, coordinated through the Financial Policy Committee. We consulted on amendments to our Handbook to create a dedicated fund structure – the LTAF – through which investors can invest with appropriate confidence in less liquid assets. The fund structure will be specifically designed to accommodate relatively illiquid assets.

Following feedback, we will also decide whether to proceed with requirements for notice periods for open-ended property funds. If we do require notice periods, we will allow ample time to implement this change to avoid the potential risks from rapidly changing the rules. Informed by the discussion among international authorities through FSB and IOSCO, we will also consider and recommend amendments to the regulatory framework for money market funds. This is in light of the large outflows from some types of money market funds in spring 2020, and the way this interacted with limited liquidity in markets for the commercial paper and certificates of deposit held by these funds.

Pension products

Consumers have significant choice but also significant responsibilities when it comes to pensions. We want them to be able to make effective choices, though many consumers need support to achieve good long-term outcomes when faced with complex decisions. Given the low interest rate environment, consumers can be tempted by high risk or, in the worst case, fraudulent investment offers. Firms are required to give consumers easier access to 'default options' that avoid unsuitable risks. Fees can also have a dramatic impact on returns over time. Our focus for default options is that they deliver good value to consumers.

How firms structure, design, and charge for pension products has a significant impact on almost all retail investors. This is regardless of whether they are offered by an FCA-authorised firm or through a scheme regulated by The Pensions Regulator.

> Firms are required to give consumers easier access to 'default options' that avoid unsuitable risks

Outcomes we want to achieve

Pension providers offer good value products, and consumers use guidance and support to help them make effective choices.

How we will achieve the outcomes

This year, we will focus on product design during accumulation – saving into a pension – to help consumers make better decisions. We will:

- Design and launch an evidence-led view on how best to drive value for money in pensions. We will do this work jointly with The Pensions Regulator to help ensure comparability across products, using evidence and insight on what information firms should give consumers and how these disclosures can help them in making informed choices.
- Consult on changes for non-workplace pension providers to help ensure consumers are offered an appropriate default solution where they need it.

During 2022, we will assess how our rules to help consumers make choices at the point of retirement have been working.

We will also continue work to ensure pension scheme members have the right information and support at the right time. We will implement the nudge to Pension Wise and support cross-government work to create pensions dashboards.

Appointed Representatives regime

Appointed Representatives (ARs) can carry out specific regulated activities if a principal firm, which already has regulatory permission for those activities, takes responsibility for them. In recent years, we have seen increased problems from principal firms having poor due diligence and oversight of their ARs.

Outcomes we want to achieve

We want principals and ARs that are competent, financially stable and ensure fair outcomes for consumers when selling products or giving advice.

How we will achieve the outcomes

We will carry out more targeted supervision to reduce the most significant risks from ARs in wholesale markets. We also plan to consult on cross-sector changes to improve and strengthen elements of the AR regime later this year. For example, changes to ensure we get more timely information on principals and their ARs and to improve principals' ongoing oversight and due diligence of current and prospective ARs. Much of the AR regime is governed by FSMA. We will consider whether more fundamental changes are needed to the regime, including legislative change.

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Our priorities across all markets

This chapter focuses on some of the most important cross-market issues we will address over the coming year. This is not a complete list; we have focused on key areas that reflect the breadth of our work. We give further details of our work on our website and the Regulatory Initiatives Grid sets out information about and timings of further initiatives that may have a significant operational impact on firms.

Fraud strategy

The volume and variety of fraudulent activity in the UK is increasing. Fraud causes significant harm to consumers and businesses and can pose a risk to the integrity of the UK financial system. We are increasingly taking action to tackle harm – for example, through our ScamSmart campaigns and information sharing and cooperation with partners. We need a collective effort at a national level to tackle fraud; we work closely with several agencies, including the Home Office, the National Economic Crime Centre and law enforcement agencies to contribute to this. We will work with partners to disrupt fraudsters harming UK consumers and identify what further steps we can take. This includes addressing the recommendations on proactive surveillance, triage and intervention from the independent reviews.

Online platforms, such as search engines and social media platforms, play an increasingly significant role in putting consumers at risk of harm through adverts for financial products. These range from scams and promotions of high-risk investments to false or misleading adverts, which can fall inside or outside our perimeter.

We focus our work on the areas where our powers and remit mean we can have the most impact, including:

- keeping fraudsters out of financial services at the gateway
- stopping the firms we regulate from facilitating fraud
- detecting and pursuing fraudsters who are FCA-supervised
- detecting and pursuing improperly unauthorised/unapproved fraudsters
- informing and empowering the public to protect themselves

Outcomes we want to achieve

Our aim is to use our authority and influence to work with our partners to help drive down the incidence and impact of fraud.

How we will achieve those outcomes

We will seek to prevent and disrupt fraud by:

- conducting proactive surveillance and monitoring, using effective triage to prioritise, so that we can intervene where we see potential fraud or other serious irregularities
- disrupting the work of fraudsters, and identifying the right intervention – whether by the FCA, or by our counter-fraud partners where they are better placed to act
- removing FCA-supervised fraudsters from the financial system
- working closely with anti-fraud partners to maximise our collective fight against fraud, such as the PSR's work on Authorised Push Payment fraud

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We need a collective effort at a national level to tackle fraud

Financial resilience and resolution

Firms with weak financial resilience are more likely to fail. Our job is to minimise the harm and loss to customers and markets when firms fail. This is the focus of our prudential regulation.

We prudentially regulate all firms apart from banks, building societies, credit unions, insurers and large investment firms, which are prudentially regulated by the PRA. We have multiple prudential regimes. Some of these result from legacy EU requirements, or are a legacy from our predecessor, the Financial Services Authority (FSA). As a result, firms' prudential requirements are not always linked to the potential for harm to the consumers and markets they serve.

The firms we prudentially regulate are not deemed individually systemic and so should be allowed to fail without harming the wider economy. Orderly entries and exits by firms are part of any well-functioning market. However, significant failures can harm consumers, the effectiveness of markets and overall confidence in the UK's financial system. The economic downturn is likely to affect some sectors and types of business models disproportionately. In line with our financial resilience survey, we continue to plan for a significant number of regulated firms, particularly smaller firms, to potentially fail in the year ahead, though recent economic data has been more encouraging.

Outcomes we want to achieve

In the long-term, we want firms that fail to do so in an orderly manner. We want to be better aware of those firms most likely to fail so that we can reduce the harm from their failure. To support this, we want:

- Firms to have appropriate capital, liquidity and reserves to cover outstanding redress liabilities, so they do not fail in a disorderly manner.

- Firms to hold financial resources proportionate to the potential harm caused if they do fail. Over time, this will reduce the level of FSCS payouts.
- We want the scale of compensation liabilities to stabilise in the medium-term and reduce longer-term as firms hold more capital and liquidity, and fewer cause misconduct that requires them to pay redress on a large scale.

How we will achieve the outcomes

Over the coming year, we will:

- Introduce the Investment Firms Prudential Regime (IFPR) for investment firms. We will support firms as they adapt to the new regime ahead of wider changes planned to our prudential framework.
- Continue to strengthen our data-driven monitoring of the financial resilience of solo-regulated firms (firms that only we regulate).
- Target our interventions at firms with weak financial resilience and those that are likely to cause material harm if they fail.
- Continue our work to automate and combine financial resilience data with other data on firms that we hold. This will enable us to better target interventions at the root cause of firms' financial risk management weaknesses.
- Review aspects of the compensation framework to ensure it remains appropriate and proportionate. This is in addition to our work to tackle the root causes of harm that create compensation liabilities through our Consumer Investments Strategy and improving firms' financial strength to reduce the number of disorderly failures.

Operational resilience

Operational disruptions can cause far-reaching harm to consumers and risk market integrity. Disruptions can also threaten the viability of firms and cause instability in the financial system.

The pandemic caused serious disruption. Firms had to maintain their services despite moving to widespread remote working, challenges to their control environments and staff wellbeing. This period has shown why it is critically important for firms to understand the important business services they provide and to protect themselves, consumers and markets.

Outcomes we want to achieve

Firms should be operationally resilient against multiple forms of disruption to minimise the harm caused to consumers and markets. Over time, we would expect to see a reduction in the number, type, duration of incidents and the level of harm they cause.

How we will achieve the outcomes

In March 2021, we published our final operational resilience Policy Statement and shared the policy summary with the Bank of England and the PRA. We expect firms and the financial sector to implement these requirements so they are better prepared to prevent, adapt, respond to, recover and learn from operational disruptions.

During 2021/22, we will assess firms' progress in implementing these new operational resilience requirements and identify areas for improvement.

From 31 March 2022 to 31 March 2025, we will assess how able firms are to remain within their impact tolerances – the maximum tolerable amount of disruption to an important business service. This will help us evaluate how effective our work to improve the operational resilience of the financial sector has been.

Diversity and inclusion

We take diversity and inclusion seriously and we expect regulated firms and market participants to do the same.

Our ambition is to ensure the financial system supports the economy through well-run firms and sound financial markets that can meet the diverse needs of their consumers. Firms that represent the society they serve support the design of financial services and products that improve consumer outcomes.

We want a resilient financial services sector, which brings together and responds to different perspectives so concerns are raised and decisions challenged effectively. An inclusive culture in which all staff can speak up allows conduct risk to be managed. Together, diversity and inclusion can reduce groupthink, encourage debate and innovation and so improve outcomes for consumers and across markets.

While there has been progress over the past decade, the rate of change has overall been slow. This is despite evidence of the positive relationship between diversity at senior levels and firm outcomes. Research suggests that greater gender diversity, for example, improves risk management culture and corporate governance, such as fewer European banks being fined for misconduct.

Outcomes we want to achieve

We want to improve our own diversity and inclusion so:

- we have an inclusive working environment with diverse teams who are confident to share their experience and opinions
- our people reflect the society we serve
- our regulation supports improved outcomes for different groups in the population

We will continue to publish key indicators of diversity in the FCA – diversity at different grades (including in our Senior Leadership Team), pay gap data and progress against our ethnicity action plan.

We want to see the following outcomes in the financial services sector:

- regulated firms and listed companies have more diverse representation at all levels
- regulated firms and listed companies foster cultures that are inclusive so that staff can share their diverse experiences and backgrounds
- firms design and deliver products that reflect the diverse needs of consumers, offer fair value and are delivered in a fair and accessible way

To support the outcomes, we expect to see better data collection by regulated firms. We will develop how we measure progress against these outcomes to ensure a consistent approach across financial services.

How we will achieve the outcomes

We have published a Regulatory Diversity and Inclusion Discussion Paper (DP), jointly with the PRA and Bank of England. It sets out our roles in improving diversity and inclusion and our plans to issue a survey, and opens a discussion on possible policy changes to help drive progress. We are also considering our approach to diversity in listed firms and will communicate more in the coming weeks.

Over the coming year, we will refresh our internal diversity and inclusion strategy, redefining our objectives and priorities and how we will measure progress. It will take into account key initiatives, such as our ethnicity action plan, and will align with our transformation programme.

Our community engagement volunteering work supports our focus on diversity and inclusion. For example, we will continue with skills-based volunteering to support communities and our Inspiring Futures volunteer programme, which partners staff with 3 Newham-based schools to build young people's skills, confidence and resilience. We will also continue bringing diverse consumer insights into the organisation as part of our consumer engagement work.

You can find further details about our diversity and inclusion work in our Annual Diversity Report.

Environmental, Social and Governance (ESG)

Financial services and markets have a central role in the transition to a low carbon economy and a more sustainable future. The Government has committed to achieving a net-zero economy by 2050. We will support this aim by adapting our regulatory framework to enable a market-based transition.

Outcomes we want to achieve

- high-quality climate- and sustainability-related disclosures to support accurate market pricing, helping consumers choose sustainable investments and drive fair value
- promote trust and protect consumers from mis-leading marketing and disclosure around ESG-related products
- regulated firms have governance arrangements for more complete and careful consideration of material ESG risks and opportunities
- active investor stewardship that positively influences companies' sustainability strategies, supporting a market-led transition to a more sustainable future
- promote integrity in the market for ESG-labelled securities, supported by the growth of effective service providers – including providers of ESG data, ratings, assurance and verification service
- innovation in sustainable finance, making use of technology to bring about change and overcome industry-wide challenges

How we will achieve the outcomes

- We are continuing our world-leading work to implement disclosure rules in line with the recommendations of the TCFD. We are consulting on new disclosure rules for asset managers, life insurers and FCA-regulated pension schemes, linked to the TCFD's recommendations. We are also consulting on extending our existing TCFD-aligned Listing Rule to a wider scope of issuers.
- We propose to bring our new rules into force from 1 January 2022, which would standardise climate-related disclosures by listed companies and other FCA-regulated market participants.
- Work to address concerns about greenwashing will remain a priority. We will continue to clarify our expectations in relation to this through our supervisory and authorisations processes.
- We will continue to work with Government and international partners to promote standardisation of wider ESG-related disclosures by listed companies and regulated firms. As part of this, we will take an active role in setting international standards. We are co-chair of both an issuer disclosures workstream of IOSCO's Sustainable Finance Taskforce, and a working group on climate disclosures under the Financial Stability Board. We are engaging closely with the IFRS Foundation, which is developing a baseline global reporting standard. Under the UK's presidency, the G7 Finance Ministers and Central Bank Governors have welcomed this initiative.
- We will continue to collaborate domestically, supporting the Government's 2019 Green Finance Strategy and plans announced by the Treasury in July 2021 to implement economy-wide Sustainability Disclosure Requirements for businesses and investment products, and a new sustainable investment label. We will also continue to work closely with industry through the Climate Financial Risk Forum, which we co-chair with the Bank of England.
- We will monitor the exercise of investor stewardship by institutional investors, including voting at Annual General Meetings. If there is insufficient evidence of active stewardship to advance environmental and social goals, we will consider further regulatory action.
- We will gather market intelligence to gauge how well firms are supported by service providers, such as ESG rating providers.
- We will encourage innovation in sustainable finance through our TechSprints, Digital Sandbox and Regulatory Sandbox.
- We will enhance our role as a facilitator of sustainability in financial markets and firms by acting as a convener, agent of change and role model – including by working towards publishing a Climate Adaptation Report later this year, as well as our own report aligned with the TCFD's recommendations in 2022.

Our international priorities

Given the cross-border nature of our markets, international cooperation with other supervisors and global standard-setting bodies is more important than ever for us to meet our objectives.

We are committed to developing and maintaining high-quality international standards. We remain an active member of key global standard-setting bodies and will maintain our close bilateral relationships with other regulatory partners.

> By promoting high international standards for these firms and markets, we make the global financial system more resilient

Outcomes we want to achieve

Strong international cooperation enables us to effectively supervise cross-border firms and markets, and address global issues, supporting market integrity and consumer protection. By promoting high international standards for these firms and markets, we make the global financial system more resilient. We want to see:

- robust international standards
- strong relationships with authorities around the globe
- effective supervision of cross-border financial services

How we will achieve the outcomes

- We will continue to be active members of global standard-setting bodies such as the Financial Stability Board, the International Organization of Securities Commissions and the International Association of Insurance Supervisors. We will also maintain active relationships with regulatory partners, including the European Supervisory Authorities and EU Member State National Competent Authorities.
- We will participate in the 2021 review of the UK in the IMF's Financial Sector Assessment Programme (FSAP), as well as other routine implementation assessments of global standards.
- We will work to ensure the smooth operation of the Temporary Permission Regime (TPR). Once the Temporary Transition Power (TTP) period ends, firms will need to comply fully with the onshored rulebook. We have started to assess overseas firms which have entered the TPR, and all firms will have left the regime by the end of 2023.
- We will engage with firms that rely on our Brexit transitional regimes so they can exit these regimes in an orderly way.

Market access, equivalence and trade negotiations

We will provide technical advice to the Government as it develops mechanisms to enable cross-border market access in financial services.

Outcomes we want to achieve

- future trade relationships that support open markets in a way that respects and promotes our objectives and ensures regulatory and supervisory autonomy
- a domestic market access regime that addresses regulatory and supervisory risks from cross-border access, operates effectively post EU-withdrawal and recognises the benefits of open markets

How we will achieve the outcomes

We expect to provide technical advice on Free Trade Agreement negotiations and on negotiations for a Mutual Recognition Agreement on financial services with Switzerland. We will continue to engage with the Treasury on the Financial Services Act and on its Call for Evidence on the UK's overseas framework

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Our budget

Our annual budget reflects the cost of the resources we need to carry out our work in 2021/22. The key elements are:

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

We give additional detail in our annual fees rates consultation paper CP21/08.

Annual Funding Requirement (AFR)

£m	2020/21	2021/22	Change	% Change
ORA budget	548.5	575.6	27.1	4.9%
EU Withdrawal	15.0	10.0	(5.0)	(33.3%)
Transformation	10.0	10.0	-	-
Consumer Harm Campaign	2.3	2.3	-	-
Scope change recovery	14.1	8.3	(5.8)	(41.1%)
Business interruption insurance special fee	-	7.5	7.5	-
Total AFR	**589.9**	**613.7**	**23.8**	**4.0%**

Our AFR for 2021/22 is £613.7m, an increase of 4.0%. Our AFR includes our ORA budget, EU Withdrawal, Transformation, our Consumer Harm Campaign, the costs we need to recover for changes to our regulated activities (scope change), and a special fee for the recovery of external legal costs for the business interruption insurance test case. The actual fees we collect will reflect the AFR net of rebates from financial penalties collected (£50.5m).

The ORA budget

The ORA budget comprises a flat, in real terms, base ORA budget increasing by 2% (£11m), and additional charges to reflect new fees and changes to responsibilities of £16.1m. This gives a rebased ORA budget of £575.6m, representing an overall 4.9% increase on last year.

EU Withdrawal

Our fees for EU Withdrawal have reduced to £10m for 2021/22. We continue to focus the recovery of these costs on the firms most affected by EU Withdrawal.

Transformation

Our transformation programme is investing in systems and capabilities to enable better use of data and intelligence to regulate around 51,000 firms effectively and efficiently. We continue to recover the costs of this at the same level as 2020/21.

Consumer Harm Campaign

In 2020/21, we sought industry support to undertake a communications and information campaign to tackle areas where we see real risk of consumer harm, building on and supplementing our existing campaign, ScamSmart. We continue to recover the costs of our Consumer Harm Campaign at the same level as 2020/21.

Scope change recovery

In 2021/22, we will recover scope change costs for the Senior Managers and Certification Regime, EU Benchmarks, and following the withdrawal from the EU, Credit Rating Agencies, Trade Repositories and Securitisation Repositories.

Business interruption insurance

In 2021/22, we will recover our external costs in undertaking the business interruption insurance test case from insurers (other than those party to the case and their group members). Covid-19 led to widespread disruption and business closures resulting in substantial financial loss and many customers made claims for these losses under their business interruption insurance policies. There was widespread concern about the lack of clarity and certainty for some customers making these claims, and the basis on which some firms were making decisions about claims. Our action in taking the test case is likely to have saved insurers and policyholders significant legal costs as well as bringing all parties, including the FCA, clarity on the issues much more quickly than would otherwise have been the case.

Capital expenditure

The increase in our capital expenditure budget reflects the investment in our IT systems required to support the transformation programme and operational resilience. Capital expenditure is largely funded through the ORA depreciation charge.

Capital expenditure (£m)	2020/21	2021/22
IT systems development and infrastructure	40.1	50.0
Property, plant and equipment	1.0	1.0
Total budget	**41.1**	**51.0**

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