

Minutes

Meeting: FCA Board
Date of Meeting: 25 & 26 February 2015
Venue: 25 The North Colonnade, Canary Wharf, London E14 5HS

Present: Andrew Bailey* Catherine Bradley
Amanda Davidson Amelia Fletcher
John Griffith-Jones (Chair) Mick McAteer
Tracey McDermott Jane Platt*
Sir Brian Pomeroy Martin Wheatley

In attendance: Set out in Annex A

Apologies: David Harker

* Mr Bailey and Ms Platt were unable to attend the part of the meeting held on 25 February.

Quorum and Conflicts

The Meeting noted there was a quorum present and proceeded to business.

1 Specific items of business

1.1 Wholesale conduct strategy

The Board received an update on the progress of the Wholesale Conduct Strategy. The Board noted the following points:

- there had been some key pieces of work carried out to address each of the desired outcomes and to mitigate risks to the operational objectives;
- the methodology of using small flexible teams, drawn from different specialists had worked well when addressing particular themes and issues in the wholesale area;
- the ways in which the FCA was assessing the impact of interventions;
- that there was some work in progress to review how competition was working in wholesale markets;
- the restructuring provided opportunities to work closely with colleagues in Enforcement on the market abuse joint venture.

The Board agreed it should receive another update on this topic at an appropriate time in future.

1.2 Sector report – Capital Markets

The Board noted the presentation describing the Capital Markets Sector and discussed the key trends and concerns and the regulatory response to date. The Board noted that amongst other things, there were still some challenges to promote transparency in this area and to increase retail consumer awareness of the risks of different assets.

The Board noted it would receive a presentation on the Capital Markets Union in March and would have the opportunity to discuss the sector further.

1.3 Payment Systems Regulator Annual Plan 2015/16

The Board received a presentation on the development of the Payment Systems Regulator including the key work streams. The Board noted the proposal for the plan and budget and that the PSR was working on how to measure its performance.

After consideration, the Board approved the PSR plan and budget for 2015/16 of £15.9 million and delegated authority to Martin Wheatley and John Griffith-Jones to sign off the plan if any changes are subsequently required before publication on 25 March 2015.

The meeting adjourned. Members noted that the meeting would continue the following day on 26 February 2015.

The meeting re-commenced on 26 February 2015 at 9am.

Ms Platt joined the meeting.

Mr Griffith-Jones reported that Mr McAteer had been asked to extend his term for several more months, until December 2015. In agreement with Ms Platt, Mr McAteer would now remain as Chair of the External Risk and Strategy Committee until the end of his term and continue to serve on the Oversight and Audit Committees.

Sir Brian Pomeroy provided an update on his work at the Financial Inclusion Commission which he had previously declared as a potential conflict. He explained that the work of the Commission was concluding and some of its recommendations might be relevant to the work of the FCA. He explained that his role as President did not involve developing the detailed recommendations of the Commission.

2 Minutes and meetings

2.1 Minutes of the FCA Board meeting

The Board approved the minutes of the FCA Board meeting held on 29 January 2015.

2.2 Draft minutes of the External Risk and Strategy Committee

The Board noted the minutes of the External Risk and Strategy Committee meeting held on 9 February and received an update from Mr McAteer.

2.3 Draft minutes of the Oversight Committee meeting

The Board noted the minutes of the Oversight Committee meeting held on 26 January and the draft minutes of the meeting held on 24 February 2015. Mr Griffith-Jones explained that, following the board discussion of the MAS budget in January, the Treasury had provided MAS with comments on its budget and, as a result, MAS had decided to reconsider it and resubmit it to the FCA Board. The Board agreed the Oversight

Committee should review the detail of this revised budget and provide a recommendation to the Board in March.

2.4 Draft minutes of the PSR Board meeting

The Board noted the draft minutes of the PSR Board meeting held on 21 January 2015 and 11 February 2015.

2.5 Remuneration Committee meeting

Ms Davidson provided an update on the Remuneration Committee meeting held on 20 February at which the performance and remuneration of Directors for whom the Committee was responsible were considered.

2.6 Matters arising

The Board noted the matters arising.

The Board noted that discussions continued between Mr Griffith-Jones, Sir Brian Pomeroy and Mr Tyrie in relation to Internal Audit Reports.

Work had been undertaken in the Communications Division to improve processes and procedures. In addition, the way in which communications risks were captured and recorded was being reviewed by external consultants and the internal risk function to provide assurance that these were appropriate. An update would be provided at a future Board meeting.

2.7 Monthly reports from the Independent Panels

The Board noted the Panel reports and in particular the following points were discussed:

- the concerns of the Consumer Panel regarding the face-to-face delivery of the guidance guarantee; the Board felt that the FCA should respond by confirming it was working with HM Treasury to implement the policy in line with the Government's timetable;
- Ms Bradley had attended the Consumer Panel meeting earlier in the month and reported on her experience, in particular noting that the Consumer Panel was grateful for the Board's clarification of its terms of reference;
- the Practitioner Panel was providing input to the internal audit review of the implementation of the tone of voice guidance and the Board agreed that the Consumer Panel should also be asked to provide input;
- the Board encouraged Executive Committee members to attend Panel meetings as often as possible to ensure that the Panels' expertise was utilised through provision of early input into FCA discussions; and
- the ongoing issues with Gabriel highlighted by the Smaller Business Practitioner Panel which would be kept under review by the Audit Committee.

3 Report from the Chief Executive

The Board received the CEO's report. The ensuing discussion included:

- Connaught series one funds: the FCA had been working with the parties to try and reach an agreed outcome which would deliver some redress to consumers;

- the Pensions Guidance Guarantee and other possible developments in pensions which would have a significant impact on the FCA; and
- the Consumer Credit Authorisations process was likely to lead to reduction in debt management firms and this would have an impact on the consumers who used them.

4 Specific items of Business

4.1 Quarterly Performance Report – Q3 2014/15 (October to December 2014)

The Board discussed and noted the following points:

- **Authorisations:** There had been a higher number of defects than expected with the INTACT system and fixes were being released to resolve these; however, in general the system had proved a success and enabled the Division to cope with a large quantity of applications, particularly relating to consumer credit. The Firm Contact Centre had failed to meet some service standards due to a sustained increase in calls of a higher than average complexity; additional staff had been given training to support the team;
- **Supervision:** the report showed some elements of resource stretch in the division and Ms McDermott explained she was reviewing the supervision model, including whether it would be possible to build in more flexibility, particularly around the regular firm evaluation cycles. The Board also noted that the FCA was reviewing publically available indicators that might be used as potential indicators of increased risk of consumer detriment;
- **Enforcement:** As the Enforcement team completed FX cases, it was able to turn its focus to other investigations, although there would inevitably be a delay before this was apparent in terms of outcomes;
- **Markets:** There had been a significant increase in the number of CASS visits, which was expected to continue;
- **Policy Risk and Research:** the progress made against priorities and the importance of finalising pensions guidance in advance of the new rules taking effect on 6 April 2015. PRR also was leading on developing the "house view" of risks and issues. Mr McAteer volunteered to assist in the development of this;
- **Operations:** Staff turnover had stabilised, but was expected to rise again in April. The FCA was awaiting the date of commencement for the Accountability regime in order to plan for its implementation with firms; and

Mr Bailey joined the meeting at 11am.

- **Internal Audit:** The work relating to the Davis report had slightly displaced some reviews but it was expected that these would catch up and there was a good system of following up on outstanding actions.

The Board agreed that the quarterly performance report was helpful and that, similar to last year, should form the basis of the performance metrics in the Annual Report.

4.2 2014/15 Annual Report

The Board discussed the draft outline of the Annual Report.

The Board agreed with the structure of the report and asked the team to consider whether it was possible to include some case studies to illustrate cases of complex decision making in the FCA to make this more transparent.

The Board noted the timetable for producing and agreeing the report and accounts.

4.3 Business Plan 2015/16

The Board noted the final draft of the business plan which had been developed from earlier drafts by grouping particular items and providing an explanation of the prioritisation of issues.

The Board felt that the document still required further editing in terms of tone, duplication and introduction of infographics.

The Board was keen that the plan included some information about how the new strategy would affect the FCA's work. It requested that the plan highlighted key areas of focus, but was less prescriptive so that there was flexibility over resource allocation.

The Board also suggested including more data in the report on the amount of work that the FCA was undertaking, such as the increase in the number of firms regulated and more information on sectors to help put the work into context.

The Board approved the Business Plan and delegated authority to Mr Wheatley, Mr Griffith-Jones and Mr Woolard to authorise any further changes before publication on 24 March 2015.

5 Report from the PRA

The Board received an oral update from Mr Bailey and noted the following key points:

- there had been several announcements made in relation to senior appointments in firms;
- the time taken by the development of the Senior Manager Regime;
- the work on developing compliance with Solvency II to be ready for 2016; and
- the issues in relation to providing clear guidance on sanctions for institutions.

6 Specific items of business (continued)

6.1 PCBS Accountability – Conduct Rules

The Board noted the basis on which the FCA had consulted on the scope of application of the conduct rules and the requirements that should be placed on firms to report individual breaches.

The Board noted the feedback on the proposals, some of which were very supportive, and some which claimed they would place disproportionate requirements on firms, for example for training staff. The Board debated the relative merits of wider or narrower scope (such as only senior managers and certified persons), as well as the ability of the FCA to act on reports of suspicions and the external expectations of the FCA.

The Board noted the Executive preference to ensure the financial services industry had standards that everyone should adhere to, similar in some ways to professional services firms. The Board supported this approach but sought assurance from the Executive that it could provide appropriate guidance to explain the reporting frequency and detail and deal appropriately with the level of reporting proposed.

The Board approved the overall approach to introducing the conduct rules and the proposals for communicating the decisions.

6.2 PCBS Application of the Individual Accountability Regime to UK branches of foreign banks

The Board discussed and noted the proposals which sought to retain the spirit and intention of the SMR rules in foreign branches.

The Board suggested that the consultation needed to be very clear, using case studies where appropriate.

The Board agreed to consult on the proposed regime for individual accountability in foreign branches, with a preference for providing further guidance for clarification for those exercising management functions outside the UK.

6.3 PCBS Consultation on guidance on the presumption of responsibility

The Board discussed and noted the proposals to publish changes to the Decision Procedure and Penalties manual in relation to the presumption of responsibility for the Senior Manager Regime. This would include Non-Executives carrying out designated roles in relevant firms.

The Board discussed the expectations of people and the definitions in relation to what could be construed as reasonable steps. The Board stressed to the Executive that decisions on which enforcement cases to pursue would be very important to set out the FCA's view on how the responsibility applied.

The Board also agreed that it would be important to ensure that RDC was provided with training and information on the application of the FCA's policy in this area.

The Board agreed to publish the guidance.

6.4 2015/16 Fee Rates CP

Ms Davidson declared a potential conflict as a member of a regulated firm which would be subject to the fees. The Board noted the declared conflict and authorised it pursuant to Article 10.2, permitting Ms Davidson to participate in the decision of the matter.

The Board approved the proposed allocation of the 2015/16 annual funding requirement (AFR) across fee-blocks.

6.5 Sector report – Retail Banking

The Board received an update on the retail banking sector.

7 Decisions reserved to the Board

7.1 Rules & Guidance to be determined

Ms Platt declared a potential conflict in relation to one of the instruments due to NS&I's role in selling "Pensioner" bonds. The Board noted the declared conflict and authorised it pursuant to Article 10.2, permitting Ms Platt to participate in the decision of the matter.

The Board made the five instruments set out in Annex B.

7.2 Matters requiring a decision of the Board

The Board approved:

- the appointment of John Millar and Ursula Newton as members of the Listing Authority Advisory Panel (LAAP) for 3 years from 1 April 2015;

- the re-appointment of Paul Swann as a member of the FCA Markets Practitioner Panel for two years from 1 April 2015 to 31 March 2017;
- the re-appointment of Alexander Justham as a member of the FCA Markets Practitioner Panel, and his appointment as a member of the Practitioner Panel, for 3 years from 1 April 2015 to 31 March 2018; and
- the appointment Marlene Shiels to the FCA Smaller Business Practitioner Panel for 3 years from 1 March 2015 to 28 February 2018.

8 Papers for noting

8.1 Forward agenda

The Board noted the Forward Agenda.

9 Any other business

There was none.

10 HBOS Review Update

Mr Griffith-Jones and Ms McDermott left the meeting having previously declared potential conflicts in this matter.

The Board received an oral update from Sir Brian Pomeroy on the progress of the report.

Claire Strong
Deputy Company Secretary

ANNEX A: Attendees

Sean Martin	General Counsel
Simon Pearce	Company Secretary
Claire Strong	Deputy Company Secretary
Christopher Woolard	Director of Policy, Risk & Research Division
Maria-Jose Barbero	Manager, Early Intervention (for item 6.1)
Jamie Bell	Manager, Banking Sector & Themes Unit (for item 6.5)
Andrea Bowe	Head of Department, Enforcement Market Oversight, Strategy & Delivery – Law, Policy & International (for item 6.3)
Jennifer Dalby	Manager, Planning & Performance (for items 4.2 & 4.3)
Mikael Down	Head of Department, Cross Cutting & Prudential (for items 6.1 & 6.2)
David Geale	Director, Policy (for items 6.1, 6.2, 6.3 & 7.1)
David Godfrey	Director, Finance & Operations (for items 4.1 & 6.4)
Mark Hunnable	Manager, Finance & Operations (for item 6.4)
Graeme McLean	Head of Department, Approved Persons, Passporting & Mutuals (for items 6.1, 6.2 & 6.3)
Karina McTeague	Director, Retail Banking (for items 6.5)
Mark Nicol	Head of Department, Finance & Operations (for item 4.2)
Georgina Philippou	Director, Enforcement Market Oversight (for item 6.3)
Alex Roy	Manager, Life, Pensions & Other Products (for item 7.1)
Emma Stranack	Head of Department, Consumer Comms & Engagement (for item 4.3)
Will Amos	Director, Wholesale Banking & Investment Management (for item 1.1 & 1.2)
Hannah Nixon	Managing Director, Payments System Regulator (for item 1.3 & 6.5)
David Lawton	Director, Markets (for items 1.1 & 1.2)
Grahame Tinsley	Manager, Payments System Regulator (for item 1.3)

Relevant Technical Specialists and Associates were also present for the meeting.

ANNEX B: Resolution

The Board of the Financial Conduct Authority hereby resolves to make the following instruments:

Conduct of Business Sourcebook (Retirement Risk Warnings) Instrument 2015 (FCA 2015/10)

Personal Pension Scheme (Restrictions on Charges) Instrument 2015 (FCA 2015/5)

Collective Investment Schemes Sourcebook (Accounting Amendments) Instrument 2015 (FCA 2015/7)

Benchmarks (Amendment) Instrument 2015 (FCA 2015/6)

Building Societies Regulatory Guide (Revocation) Instrument 2015 (FCA 2015/8)