

The Journey to the FCA document – key points

The document brings together all our latest thinking and work on the Financial Conduct Authority (FCA). Below is a summary of some of the key points in each chapter of the document.

Chapter 1 - The creation of the FCA: Spotlight on some of our new powers

We summarise the FCA's role in the Government's proposed new structure for financial regulation and its relationship with the Prudential Regulation Authority (PRA) and the Financial Policy Committee (FPC). We set out how we intend to use some of our new powers and fulfil our competition duties.

Key points

- The FCA's statutory objective is that relevant markets work well. It is responsible for the conduct supervision of financial services firms and prudential supervision of firms not supervised by the PRA.
- The FCA is accountable to HM Treasury and Parliament. The FPC will be able to give the FCA and PRA directions, using its macro-prudential tools for the purpose of protecting and enhancing financial stability.
- We will have a clear mandate to make rules to ban products that pose unacceptable risks to consumers. In cases where we need to intervene quickly, products can be banned for up to 12 months without consultation.
- One of our new powers enables us to ban misleading financial promotions and remove them immediately from the market.
- Through our competition mandate, we will want to bring about markets where there are no inappropriate barriers to entry; consumers are empowered; no single firm dominates the market; firms are focussed on meeting consumers' genuine needs; and the regulatory framework minimises or limits other distortions to competition.

Chapter 2 - Protecting the perimeter

The FCA's authorisations processes and regulatory decisions will help ensure that only the right firms, run by the right people, selling the right products to the right consumers are approved to do business. Many of the FSA's processes will carry over to the FCA, with changes as appropriate; there will also be some new elements to our authorisations processes.

Key points

- The FCA will strike the right balance between ensuring high standards to regulated activities and making sure we don't stifle innovation and appropriate levels of access for new participants.
- FSA-regulated firms and individuals will automatically transfer to the appropriate regulator at Day One and do not need to reapply.
- When the FCA and PRA consider applications from dual-regulated firms they will ensure the authorisation process is as smooth and efficient as possible.
- Our new Business Model threshold condition will demonstrate the importance of a firm's ability to put forward an appropriate, viable and sustainable business model. Firms will need to make clear to us how their business model meet the needs of clients and customers; if they cannot do this we may refuse their application at an early stage. We aim to consult on how we will use this new threshold condition in November 2012.
- The FCA will continue to take a risk-based approach to approving individuals who perform 'controlled functions' on behalf of an authorised firm. We will take the applicant's personal integrity, financial soundness, honesty and record of treating customers fairly into account when making our decision.
- We issued a [Consultation Paper](#) in October 2012 outlining changes that may be needed to the FCA's Approved Persons regime for the FCA going forwards.
- We also set out how firms can disclose their authorisation status in a [Consultation Paper](#) on 12 September 2012.

Chapter 3 – Ensuring firms continue to meet our standards

Chapter 3 sets out in detail the FCA's supervision model, including how we will prudentially supervise FCA-only firms, and our approach to wholesale conduct supervision.

Key points

- There will be fewer supervisors allocated to specific firms; but this will allow us to react to problems faster and carry out more in-depth reviews across a particular sector or market.
- We will make supervisory judgements about a firm's business model and forward-looking strategy and will intervene if we see unacceptable risks to the fair treatment of customers. We will want firms to continue to demonstrate they are achieving the six consumer outcomes set out through the FSA's TCF initiative.
- Our approach will recognise that activities in retail and wholesale markets are connected and that risks caused by poor conduct can be transmitted between them.
- Our approach to prudential supervision will be based on ensuring that client assets are protected and that a firm can be run down without adversely affecting consumers.

Chapter 4 – Taking action against firms that do not meet our standards

The agenda of credible deterrence will remain central to our enforcement approach.

Key points

- We are committed to bringing more enforcement cases and tough penalties; holding senior managers accountable for their actions; pursuing criminal prosecutions; and getting consumers compensation.
- We will retain the FSA's current allocation of decision making between the Regulatory Decisions Committee and senior executive.
- Stopping firms from being used to facilitate financial crime will continue to be a top priority.
- Action will be taken against firms and individuals who unlawfully conduct activities such as boiler room frauds, land banking scams and fraudulent collective investment schemes.

Chapter 5 - Building our understanding of the markets

We explain how the FCA intends to identify and respond to risks in financial markets that are causing, or could cause, harm to consumers and the integrity of the market. We set out how we will publish policies, engage with stakeholders, and regulate the UK's securities markets regulator.

Key points

- The FCA's new Policy, Risk and Research Division will act as a radar for what is happening in the markets and to consumers, and drive the actions that we take across our organisation as a result.
- We will gather and use a wide range of data and intelligence to help us identify and assess risks in financial markets, including information on consumers' behaviour, experiences and concerns.
- We will identify issues sooner and tolerate lower levels of risk. This will mean we will step in earlier and act faster to deal with problems that could harm consumers or the integrity of the market.
- We will assess risks in relation to our legal objectives and duties, and prioritise actions where we believe there is the greatest threat to achieving those objectives.
- The FCA will publish its core standards in a central handbook (or rulebook). Most provisions within the FSA's Handbook will be incorporated into two new handbooks, one for the FCA and one for the PRA.
- The FCA will continue to be the UK's securities markets regulator. In addition we will inherit responsibility for overseeing other exchange-traded markets and the over-the-counter derivatives market. Responsibility for the supervision of clearing and settlement infrastructure will move to the Bank of England however.
- Our Markets Division will fulfil these responsibilities through its risk analysis, policy making, supervisory and enquiries functions, and will carry forward our enforcement-based approach to tackling abusive market behaviour and failures to disclose information to the markets.

Chapter 6 - Maintaining effective relationships

The FCA will maintain the FSA's relationships and work more closely with its wide range of stakeholders, including other regulatory bodies, EU and international partners, consumer groups, and firms.

Key points

- We will be part of the wider family of regulatory bodies that are in place to protect financial consumers including the Financial Ombudsman Service (FOS), the Financial Services Compensation Scheme (FSCS) and the Money Advice Service. These organisations will be operationally independent but we will have statutory oversight responsibilities for them.
- We will shape policies and drive the consumer protection agenda in Europe and internationally. This will be through maintaining constructive relationships with our key EU and international stakeholders and engaging early with new policy initiatives and debates.
- We may take action to address domestic issues even if standards are due to be set internationally at a later date. An example of this is the Retail Distribution Review, which has led to the UK setting its own conduct rules in the retail investment market despite European standards being developed subsequently.
- We will work with consumer groups to help us better understand issues and problems that financial consumers face, and ensure we look at regulation from a consumer's point of view.
- Our communication with firms will also improve. There will be more regional workshops and roadshows to clarify our expectations and cover the subjects firms tell us they want help with. We will also work with the trade associations, panels and other relevant stakeholders at the start of pieces of thematic work on issues and products.

Chapter 7 - Accountability, transparency and measuring our success

Chapter 7 sets out how the FCA will be held accountable, how we will be funded, some of the organisational and cultural changes needed to fulfil the FCA's remit, and our early thinking on how we can effectively measure our performance.

Key points

- The FCA will be held accountable for its actions in a number of ways, including:
 - *Our Board*: This will be made up of executive and non-executive members. It will set our overall direction, ensure we achieve value for money, and oversee future senior executive appointments.
 - *Panels*: We will be required to consult practitioners and consumers on the extent to which our practices and policies are consistent with our general duties. There will be four independent panels – the Financial Services Practitioner Panel, the Smaller Businesses Practitioner Panel, the Financial Services Consumer Panel, and the Markets Practitioner Panel – who represent the interests of their constituencies to us.
 - *Complaints, freedom of information, and audits*: We will have a formal process for dealing with complaints about the FCA, which will be subject to the Freedom of Information Act. The National Audit Office will become our statutory auditor, with the power to carry out value-for-money reviews.
 - *Investigations into regulatory failure*: The FCA must investigate, and subsequently report to the Treasury, if there has been a significant regulatory failure.
- The FCA's running costs will be paid for by the firms that we regulate, through the fees we charge them. Our annual fees rate consultation will aim to clearly show people the link between the fees we charge and the work we do as a regulator. The FCA will also have a comprehensive value-for-money strategy, owned by our Board.
- The FCA will build upon the organisational and cultural changes already underway to help achieve the FCA's vision. We have strengthened our recruitment of senior staff to ensure we have the right people at the top. We are also taking a fresh look at how we recruit and measure our staff performance, and the training and development support we offer.
- Regulatory success is hard to judge, so we have consulted firms and other stakeholders on how they interpret the FCA's objectives and what

they expect from the regulator. This information will help us to develop a set of desired outcomes against which we can measure our performance.

- We are also considering a set of eight key success measures – such as how we deal quickly and efficiently with ‘crystallised risks,’ and how we address competition issues for the benefit of consumers – that represent some of the things the FCA should achieve in the first two to three years of its existence. Our first business plan will set out these success measures in more detail, as well as our plans for the year ahead.