Contents

1. Risk Outlook
   - Chairman’s foreword p6
   - Chief Executive Officer’s Introduction p8
   - p12

2. Our strategy
   - Our strategy p34

3. Key priorities
   - Key priorities p38

4. Ongoing activities
   - Ongoing activities p60

5. How we operate
   - How we operate p68

Annex 1
- Current and planned market studies and thematic work p76

Annex 2
- Current EU initiatives p80

Annex 3
- FCA organisation chart p82
The UK’s financial industry

In 2014, financial and insurance services contributed £126.9bn in gross value added (GVA) to the UK economy, 8% of the UK’s total GVA.

The banking sector alone contributed £21.4bn to UK tax receipts (in corporation tax, income tax, national insurance and the bank levy).

The financial services industry employs 1.1 million people, which is the equivalent to 3.4% of UK employment.

Consumers

97% of adults in Great Britain own a current account.

44% of GB adults own at least one credit card.

Total credit card debt in January 2015 was £61.2bn, the equivalent of £2,292 per household.

FCA – The number of firms we regulate

When it opened its doors in 2013 the FCA regulated around 26,000 firms.

From April 2014, around 50,000 firms carrying out consumer credit business registered with us for interim permission, many of them new to the FCA and some already authorised by us for other activities.

In total we now regulate around 73,000 firms.

1 The Bank of England added £1bn in Sep 2014 and another £2bn in Oct 2014 to the reported figures for credit card balances. These increases reflect changes in the reporting of balances during the period, rather than additional borrowing by consumers.
Previously we have also published a Risk Outlook alongside our Business Plan. This year we have decided to bring these two documents together. This will more clearly show how our analysis of risk is connected to our regulatory actions and how we seek to advance our objectives.

This year’s plan is also very relevant because it outlines a new strategy developed in response to the changing scope of the FCA and the context in which we operate, to enable us to better deliver on our objectives. This strategy is firmly grounded in an assessment of the risks we face to our objectives.

In our last Risk Outlook we identified the seven most important forward-looking areas of focus in our view. We do the same this year. Unsurprisingly, given the long-term nature of these risks and the underlying drivers the list is largely unchanged. Poor culture and controls continue to concern us, notwithstanding the efforts being made by firms to improve both. Pensions were already included, but the scale of the challenge has now greatly increased. Financial crime has joined the top seven risks, replacing rapid house price growth – which nevertheless remains firmly on our radar.

It is the nature of predictions that not all of these will crystallise during the next 12 months and that other priorities will rapidly move up the agenda. We aim, by sharing this list, to work together with the industry to reduce the likelihood of the most harmful things going wrong in the first place.

It is one thing for us to identify areas of risk – it is another for us to decide how to use our resources to the best
We are also committed to working as efficiently as possible with firms to deliver value for money, as well as the right outcomes for consumers and the financial markets.
In many ways, adapting to change of this magnitude is now business as usual for the industry and regulators, with the last two years seeing the market undergo considerable change in how and what is regulated.

This time 12 months ago, we were preparing for our regulatory remit to extend to consumer credit, and with it, the number of firms coming under our responsibility expanding to over 70,000, three times the number of firms we regulated in our inaugural year.

Since then we have carried out a thematic review into the annuities market, explored competition in the wholesale market, as well as reaching a settlement on foreign exchange manipulation. It has been a busy year on the domestic and international front, as we have continued to establish ourselves as a key player on both agendas.

The next 12 months will be no less demanding, as this year’s Business Plan makes clear.

Given the changes that will occur in pensions, we intend to review retirement sales practices and, in particular, how firms are supporting consumers to make the right choices given the new, wider range of options available. In addition we will look at how the market is working after the reforms have been brought in, and the business models that are emerging. Continuing to implement and review our consumer credit regime and the firms and practices within the sector will remain a priority, particularly as we see growing youth indebtedness as a feature of the market.

We will continue to monitor developments in technology and how that affects firms and consumers. This will include a market study on the use of Big Data in the insurance market.

We will look at the mortgage market and plan to examine how it is working following the introduction...
We will continue the work we have started in the wholesale markets, including our recently announced market study into competition in investment and corporate banking services.

The Mortgage Market Review and other changes. In particular we want to look at several of the key issues that are causing debate in the sector, from barriers to competition and consumers’ ability to switch provider or access credit.

We will continue the work we have started in the wholesale markets, including our recently announced market study into competition in investment and corporate banking services, while continuing to work alongside the Bank of England and the Treasury on the Government’s Fair and Effective Markets Review.

More broadly, we will now have the power to act against anti-competitive behaviour in the financial services industry, concurrent with the Competition and Markets Authority.

But this year’s plan is more than just laying out the work we plan to undertake or the key priorities for the year ahead. It also marks an evolutionary point in our development.

Over the last 12 months, we have asked ourselves some serious and searching questions about how we can best carry out our responsibilities. How we can regulate effectively both for firms and consumers. With a regulatory scope that has increased in size, the changing nature of financial services and their importance to the UK economy and to the lives of people up and down the country, it was right to look at every aspect of how we work.

Our strategic objective to ensure that financial markets work well remains unchanged. But our approach better fits the world we work in, with more emphasis on sector and market-wide analysis, allowing us to look across regulated sectors and their products and have a tighter set of studies.

A key element of this work will be the development of a common view of markets and sectors, providing firms and stakeholders with more certainty about what we think on these issues and what they can expect from us.

Alongside this we want to use our resources effectively – so we do not over-burden those we regulate. Allowing firms to provide consumers with the services they want and need, but also giving us the flexibility to adjust our focus when we think it is required.

This sharpened focus on what we do and how we do it runs through our priorities for 2015/16. From those areas that are a risk to our statutory objectives, to our focus on areas that are important to firms and to consumers.

We will see a number of exciting and important changes to the UK’s financial system that will resonate for many years to come. We will be playing a key role at the heart of these changes, which I believe will create new opportunities for firms and consumers alike, and I look forward to the challenge of what is now business as usual.

Martin Wheatley
Chief Executive Officer
Seven forward-looking areas of focus

Technology may outstrip firms’ investment, consumer capabilities and regulatory response

Poor culture and controls continue to threaten market integrity, including conflicts of interest

Large back-books may lead firms to act against their existing customers’ best interests

Pensions, retirement income products and distribution methods may deliver poor consumer outcomes

Poor culture and practice in consumer credit affordability assessments could result in unaffordable debt. This risk may increasingly affect younger people

The range of issues that need to be considered in unfair contract terms is given sharper focus by developments over the last year in legislation and legal precedents

The importance of firms’ systems and controls in preventing financial crime
Seven forward-looking areas of focus

A strategic markets-led approach to regulation
Market-focused work programme
Wholesale market integrity
Competition

Protecting consumers
Pensions and an ageing population
Consumer credit

Individual accountability
Changing culture
Senior managers and certified persons regimes
Remuneration codes
Enforcement action against individuals
Whistleblowing

International issues
International engagement
Implementing EU policy
Financial crime

Our people
Diversity and inclusion
Investing in our staff

Key priorities

Market-focused work programme

New

General insurance and protection
Technology: use of Big Data and access
The role of Appointed Representatives

Retail investments
Inducements and conflicts of interest
Emerging distribution models (non-advised sales)

Retail lending
Mortgages – post-MMR/responsible lending
Collection of unsecured debts
Staff remuneration and incentives in consumer credit

Cross sector
Culture review

Pensions and retirement income
Retirement sales practices
Retirement outcomes – consumer outcomes from advised and non-advised sales

Investment management
Post-authorisation review of funds
Asset management

Wholesale banking
Investment and corporate banking
Introduction

An assessment of risk forms the cornerstone of our planning process. From this we create a Business Plan that focuses our resources on priorities, while retaining some flexibility to respond to emerging issues.

In Our Strategy of December 2014 we made a commitment to take a more strategic approach to risk, as well as developing a common FCA view of markets and key sectors. As part of this new direction we will take a more market-focused approach, which will allow us to tackle risks at a cross-cutting level, while also addressing specific issues within firms. We believe that our market-focused approach, in combination with a common FCA view, will further improve our ability to plan activities aimed at mitigating key risks.

The identification and analysis of risk is the starting point of our business planning each year. In previous years we have published a more detailed Risk Outlook separately from our Business Plan. This year we are bringing these two pieces of work together into one document. In this chapter we discuss our thinking on medium to long-term, continuing and emerging risks. In addition to this, we are planning to hold an FCA Risk Conference in 2016.

Throughout this chapter we articulate what we consider to be the high-level risks that the financial services sector needs to consider over the coming years. This is not an exhaustive list, and while it is one of our roles to identify key areas of risk, we also expect firms and other regulated entities to ensure they are observing, identifying and acting on risks that arise over time, and that are relevant to their businesses.

How we assess risk

As we regulate a diverse range of sectors and markets we use a variety of sources of information and data to inform our risk assessment. These include the intelligence we gather from the regular returns completed by firms, as well as other information from firms, complaints data, market research commissioned by the FCA, relevant research commissioned by others, economic analysis, and outputs and insight from discussions with a wide range of stakeholders, including consumers and trade bodies. Independent Panels1 feed-in risks that they consider pose a challenge to our objectives and these are also analysed and assessed.

1 Practitioner, Markets Practitioner, Smaller Business Practitioner, and Consumer
From an initial long-list of risks of differing scale and nature, we establish which in our view pose the biggest risks to consumers, markets and our objectives. We then apply a number of tests, which include assessing:

- Which risks are relevant to our objectives, and therefore should be prioritised
- The materiality of the risk, including the scale and the likelihood to cause direct harm to the greatest number of consumers, and which risks require immediate action to prevent them crystallising or to limit the harm caused
- The extent to which we are able to address the level of harm to ensure we offer value for money to consumers and firms

It is through this cycle of research, assessment and testing that we identify our key areas of risk.
Forward-looking areas of focus

In 2014/15 we identified seven forward-looking areas of focus. We have now refined our understanding of the potential risks in these areas, and the steps we may need to take to mitigate them.

Four of these forward-looking areas of focus continue to be of significant interest to us. These are:

Technology may outstrip firms’ investment, consumer capabilities and regulatory response

Poor culture and controls continue to threaten market integrity, including conflicts of interest

Large back-books may lead firms to act against their existing customers’ best interests

Pensions, retirement income products and distribution methods may deliver poor consumer outcomes
Last year we highlighted consumer credit and complex terms and conditions as forward-looking areas of focus, and we consider that these issues remain a theme. However, we have expressed them slightly differently this year, as based on the experience we have gained over the past 12 months in consumer credit, and the changing environment around terms and conditions, these better reflect our key concerns in this area:

Poor culture and practice in consumer credit affordability assessments could result in unaffordable debt. This risk may increasingly affect younger people.

The range of issues that need to be considered in unfair contract terms is given sharper focus by developments over the last year in legislation and legal precedents.

One new forward-looking area of focus this year is:

The importance of firms’ systems and controls in preventing financial crime.

This has been elevated due to the increased potential for financial crime to have a negative impact on our objectives. Last year’s focus on house price growth giving rise to conduct issues continues to be an area that we will monitor closely.
Our approach

Alongside the specific work we will carry out to mitigate the risks we have identified, our business as usual activity will also continue to address both strategic and operational risks. We assess risk to inform our allocation of resource across all of our regulatory activities. We also use it to identify the market studies and thematic reviews that we will start in a given year, as well as the research we need to undertake to provide further insights into key areas of risk.

Our work regulating firms is sharpened by our assessment of risk, as we aim to concentrate our resources on markets and firms that are most exposed to the risks that may give rise to poor outcomes for consumers, impact market integrity, and where competition is not working for the benefit of consumers. This day-to-day work is vital in ensuring such inherent or continuing risks are kept within acceptable tolerance levels so that we can advance our objectives.

Categories and key areas of risk

There are some key social and environmental factors that drive risks to our objectives. We have grouped our key areas of risk into categories to reflect this and highlight how our thinking has progressed since 2014/15. We have also highlighted some links that exist between them.

We consider most of these risks to be medium–term, while we have identified others as being longer-term and requiring further assessment before they can be fully understood (for example, indebted younger consumers).

When considering risks, our focus is on those firmly within our remit. In some instances we will need to work with the Prudential Regulation Authority, Bank of England or the Payment Systems Regulator to mitigate these risks. We may also need to work with other bodies with responsibility for, or an interest in, the financial services sector to address these risks.

Business conduct

Last year we noted that improvements in the culture of firms, as well as structures, processes and incentives, continued to be needed to ensure that markets work well. We maintain a strong focus on this area and believe that these risks will continue to influence our business planning.

The risks around controls and behaviours go to the heart of our work as a conduct regulator. In this area we consider that there is a role for both frontline and senior staff to prove that lessons have been learned from the experiences of the past. Our findings on the attempted manipulation of forex mirrored some of those in relation to LIBOR. It is vital that firms, in wholesale and retail markets, ensure that cultural changes have been made to prevent poor conduct in future.

The focus on benchmarks in recent years has gone some way to mitigating the risk of the type of poor conduct that leads to a lack of trust in the financial sector. However, we consider the risk of manipulation still exists and this year we will continue our regulation of LIBOR, and an additional seven benchmarks (see page 46).
Culture in firms

Our Risk Outlook 2014/15 noted how important embedding cultural change would be to regaining the trust of consumers, as well as achieving our objectives. This remains true for the coming year and the foreseeable future. We continue to believe that a cultural shift within firms to celebrating good conduct that places consumer interests and market integrity at the heart of the financial sector will benefit all stakeholders. We continue to address conduct issues arising from failures in firm culture and are committed to ensuring this momentum is not lost.

Change in culture will only come when the tone at the top is right. However, it also requires staff throughout a business to understand and accept the values and practices the firm espouses. This means that firms must ensure that all of their processes support and reinforce the culture they want to promote. Some examples include firms’ remuneration, hiring, performance management and promotion decisions, as well as how they treat internal reporting of concerns, the level of responsibility the first line takes for the right outcomes and the autonomy and empowerment of key control functions. We have a range of tools at our disposal to actively combat any poor conduct by firms and individuals.

We consider complexity in business models to be an issue that firms should be addressing. Questions should be posed by firms themselves as to whether they are able to simplify their structures to deliver better consumer outcomes and reduce the risks associated with complexity.

It is particularly important that incentives are structured in a way that rewards behaviours that act in the long-term interests of consumers, rather than creating conflicts of interests that, for example, may encourage staff to sell unsuitable or unwanted products to consumers. While recognising the progress retail firms have made in financial incentives of sales staff, the design of incentives is an area of risk that we identified in last year’s Risk Outlook and we consider that there is a continued need for firms to consider the impact their incentive structures and other performance management tools may have on behaviours and the steps they need to take to adjust these.

Cultural change will also be an important aspect in mitigating the risks associated with large back-books. A proactive move by firms to act in the interests of both existing and new or potential customers, would lead to a reduction in the risks associated with large back-books and evidence a commitment to offering suitable, accessible and good value products to all their customers.
Consumer behaviours

Firms need to take steps to positively address the known behaviours and traits consumers may exhibit, rather than seeking to capitalise on them. This could be in a number of ways, including shortening their terms and conditions and making them more accessible as part of communicating more smartly overall.

We carry out research and use a variety of sources to gain a deeper insight into the experiences and behaviour of the consumers of financial services. Harm can manifest itself in many ways: For example – people and businesses can face limited choice, be unable to get the right product for their needs, or be treated unfairly by their chosen provider through the life of the product.

Information asymmetries – when one party in a transaction has more or better information than the other party – are common both in retail and wholesale financial markets. They can affect outcomes for consumers, potentially leading to mis-selling and reduced trust, which can also undermine market integrity if firms benefit at the expense of clients.

Consumer inertia, characterised by a lack of confidence or desire to switch providers or products, can lead firms to offer poor value to those on their back-books, when compared with the offering made to new customers. A change in culture is a significant factor in minimising the risks associated with large back-books, and active consumers can play a role in driving better value for existing customers. There is a need to support consumers to become more active and increase confidence, to enable them to shop around.

Many consumers struggle to match their needs with the products and services on offer. This is partly due to low levels of understanding of financial products and services, and partly to the difficulty of knowing what their future financial needs will be, given that circumstances and the external environment could change significantly. For more vulnerable groups of consumers the challenges can be considerable.

Vulnerability is characterised by a range of emotional and practical consequences, including heightened stress levels, time pressures, a lack of perspective, poor decision-making, an inability to plan ahead and foresee problems, and changing attitudes towards risk-taking. All of these can shape the financial experiences of consumers in vulnerable circumstances. For example, an older person who loses their life partner who always made their financial decisions is at risk of making poor choices, being misled or confused.

Vulnerability can play a role in consumers’ experiences at many different stages of life. All consumers may, at different times, be vulnerable for different reasons. We will continue to work to improve providers’ awareness of the needs of vulnerable consumers, including access to the products and services they need, so they put policies in place to serve their interests better.

Our consumer segmentation model is integral to understanding which customer groups may be more at risk in relation to particular products, services and practices. Each of these groups, has specific characteristics and needs and much of our work uses the knowledge gained from this research. For example, we know that the retired with resources segment may be at higher risk of being victims of financial crime than other groups, so our ScamSmart campaign targets this group.

Visit www.fca.org.uk/consumerspotlight for more information
**Conflicts of interest, with a focus on wholesale markets**

Conflicts of interest are at the root of many conduct risks across markets, and when combined with information asymmetries, consumers may find it difficult to check if the firm is acting in their best interest. The risk can be mitigated by adequate separation of functions in one firm or group.

Conflicts of interest are currently particularly pertinent in wholesale markets. On managing conflicts of interest associated with business models and activities, we believe there is more work still to be done in wholesale markets, for example to improve conduct where the firm acts as both an agent and principal. We will work to ensure that robust risk management strategies are in place, including that steps are taken to protect sensitive and confidential client information.

**Financial crime**

Financial crime poses a significant threat to the realisation of our objective to promote and enhance the integrity of the UK financial system. As is true of each area of risk, when planning the work we will undertake on financial crime in coming years, we assess where we can have the most impact, while using the resources we have available most effectively.

Firms that fail to place adequate emphasis on implementing necessary systems and controls are more vulnerable to being used to further financial crime.

Risks arise from steps not being taken to prevent money laundering and bribery and corruption. During 2015/16 we will continue to focus on both anti-money laundering (including terrorist financing and sanctions) and anti-bribery and corruption measures, as these are the areas in which we consider we can deliver the most value.

We will maintain our focus on fraud that affects consumers. Firms appear to have stronger mechanisms to identify consumer fraud, therefore we consider that more regulatory resources will be needed to reduce money laundering, bribery and corruption.

Concern has been expressed internationally that banks are using issues around financial crime,
We play a key role in the UK, along with the Treasury, Bank of England and Prudential Regulation Authority, in implementing domestic and European legislation, as well as international policy.

**Unfair contract terms**

Last year, we noted how terms and conditions can be long and complex, meaning that consumers often do not read them at the time of purchase, leading to unsuitable products being bought or problems coming to light at a later point; for example, when seeking to exit the contract.

This year unfair contract terms will come into sharper focus as the Consumer Rights Act is due to come into force. Part 2 of the Act deals with unfair contract terms in a wide-range of sectors, including financial services, and will widen the scope for the assessment of fairness. This follows cases from the European Courts, which have clarified the basis for assessing the fairness of contracts for consumers (including financial services contracts).

The risks arising from unfair contract terms include consumers getting a poor deal if firms change the nature or costs of their products, or if firms have too much discretion around what benefits may derive from a product and when, which may negatively impact confidence in financial services in the UK.

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**Policy, legislation and regulation**

**EU and International**

We play a key role in the UK, along with the Treasury, Bank of England and Prudential Regulation Authority, in implementing domestic and European legislation, as well as international policy. Much of our domestic regulation originates in the EU. Active engagement with Europe is essential, and this is a key part of our new strategic approach. We therefore have a strong international focus in much of the work that we do.

**Market infrastructure**

There is a risk that the integrity and reputation of the UK’s markets becomes diminished if consumers and other investors lack confidence that those markets operate fairly and transparently. If realised, this risk may lead investors and participants to move capital away from the UK markets, which would have a negative impact on the UK economy and could have broad consequences. This need for increased transparency across a wider range of asset classes and greater regulation of trading venues has been recognised in the revisions being made to the Markets in Financial Instruments Directive (MiFID) and the introduction of directly applicable implementing EU regulations.

In addition, we recognise the value of the work going on at a European level to facilitate further competition between trading venues. While the transition to new market models represents some disruption and additional resource requirements for firms, we believe the potential for greater competition should benefit...
UK consumers of financial services through them having access to more liquid and transparent services and ultimately lower costs. As a result, we will remain heavily engaged in the work to influence, shape and implement the regulatory changes in this area.

**Prudential**

We prudentially regulate more firms than any other regulatory body in Europe and actively maintain a programme of prudential assessment for significant firms. We will continue to roll out two key EU initiatives this year: the Capital Requirements Directive (CRD IV), which we implemented by January 2014 and which affects approximately 960 FCA solo-regulated firms, and the Recovery and Resolution Directive (RRD), which affects approximately 200 firms.

Although CRD IV primarily addresses capital and liquidity concerns, it also covers firms’ systems and controls, good governance arrangements and effective risk management capabilities (including the risk of misconduct).

RRD requires firms to plan recovery and resolution strategies in the event of financial distress, and forces them to envisage the possibility of their winding down, contributing to minimising the potential negative impacts of the failure of these firms on markets and on their customers.

Both directives support our wider conduct agenda while mitigating a range of prudential risks, resulting in changes to some of our processes and interactions with affected firms.

**Shadow banking**

Shadow banking is a highly dynamic and constantly evolving part of financial markets, responding to the changing nature of bank regulation but also broader macroeconomic conditions such as a low interest rate environment and abundant liquidity.

The US, the Euro area, and the UK have the largest shadow banking sectors in the world. According to the International Monetary Fund (IMF), in the UK, for example, shadow banking assets as a share of GDP are more than twice those in any other area. Similarly, the share of shadow banking activities in total financial system assets is growing. By contrast, the share of bank assets of total financial system assets is declining. This demonstrates, among other things, the close connection that exists between the regulation of banks and the growth of shadow banking.

International bodies such as the Financial Stability Board (FSB) and the IMF recognise there are still substantial gaps in the empirical data to determine size and direction of financial transactions, including issues of interconnectedness with the broader financial system.

Much of the current international debate on shadow banking is driven by systemic risk concerns. In 2015/16 we will explore further broader market developments and issues that affect our concerns more generally, in particular, market integrity, competition, and retail finance.
Domestic policy

Pension reforms

Last year we outlined a range of risks associated with retirement-income products, which could lead to products in this area delivering poor value to consumers. We consider that these risks remain, but our focus is slightly altered due to the detail on the liberalisation of the pensions market coming to the fore over the past year. In April 2015 there will be significant changes made to the pensions market, with more choice being available to those aged over 55 about the financial options they have available to them. We are mindful of the risks that may flow from innovation and a market place that has yet to reach maturity in terms of the range of products and services available. We will monitor this closely over the coming year and beyond.

The implementation of the pension reforms provides an opportunity for innovation from firms to meet the changing needs of this group and options available to them. This may lead to more competition in this market, delivering benefits for consumers. We are keen to support and promote such developments, and our Innovation Hub will be one of the mechanisms we use to better understand the products in development.

The Pension Wise guidance service that is to be introduced with the pension reforms will assist consumers in their decision-making at retirement. However, we are aware that this is just one route consumers may use to access information. It will not give advice on products or providers, so there will be a need for high-quality financial advice and guidance to be available from a range of sources, including face-to-face and online sources, which consumers may turn to as more options become available to them.

There is a further risk that, without appropriate information and guidance to empower consumers, greater choice and the offering of more complex products in the pensions market will reduce consumers’ confidence and appetite to shop around and so weaken competitive pressure on providers to offer good value in this market, as highlighted in our market study on retirement income.

We also believe there may be an increased risk of scams at the point of liberalisation and onwards and much of our work in this area in the short term will focus on those vulnerable consumer groups of pensionable age, due to the particular risks this group may face in coming years. Our Consumer Spotlight segmentation research, which we launched in January 2015, helps us to better understand the consumers who may be particularly vulnerable during the early stages of the change to the pensions market.

Consumer credit

Last year we noted that the growth in consumer credit could lead to unaffordable debt. This risk remains, and we consider it will continue to do so for some time yet. Consumer credit remains a significant issue on the domestic policy agenda, as rates of borrowing increase2 and the focus on consumer credit remains among commentators and politicians of all parties, as evidenced by the work of the All Party Parliamentary Group on Debt and Personal Finance.

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We became responsible for the regulation of consumer credit in April 2014. In coming years we will continue to increase our knowledge and understanding of this diverse sector and the particular conduct risks that it poses.

All consumer credit firms will need to apply to become fully authorised between now and April 2016. As firms go through the authorisation process we are gaining greater insight into business models, culture and processes. Authorised firms will also report data as part of their regulatory responsibilities, and this information will feed into our assessment of risk.

We have identified which risks are common across the consumer credit sector. In particular, we consider there to be a risk of potential harm to consumers arising from poor practice when assessing affordability before a credit agreement is entered into, as well as re-assessments during the lifetime of the agreement. We will be undertaking work to gain a deeper understanding of a wide range of issues, including how firms assess affordability, which will help take steps to mitigate the risks we find.

In this relatively new area of regulatory responsibility, we are particularly mindful of the potential unintended consequences that may flow from our interventions. Levels of consumer borrowing are rising rapidly and any regulatory action that may reduce access to a particular form of credit could cause consumers to seek sources of credit that may be unsuitable for their needs, potentially in the unregulated sector. We will continue to monitor the impact of our interventions and consider the potential consequences. We may also need to be flexible and to adjust our approach if there is an unforeseen impact.

**Economic and market trends**

Developments in the economy and financial markets play a role in influencing consumer behaviours and decisions, as well as firms’ business models, strategies and financial soundness. So we need to be alert to how likely developments may affect the financial markets and activities we regulate.

While there are signs of growth in many of the world’s major economies, issues that may give rise to risk remain in evidence and we provide a brief overview of some of these issues below.

Growth has been boosted in a number of economies by low oil prices and monetary easing; however, low inflation and interest rates could give rise to financial instability. While the US economy outperformed many developed market economies in 2014, there are questions as to whether growth in some emerging markets will slow, stop or decline in 2015 and the global impact of this. A prolonged period of low economic growth across developed countries could place pressure on financial firm profitability – returns and income – affecting financial soundness and risk taking.

In the US the recent fall in oil prices, low inflation, dollar appreciation and potential spare capacity, mean the timing of an anticipated interest rate increase in response to improving conditions remains difficult to predict, leading to uncertainty which has the potential to negatively affect economies worldwide.

China’s growth has slowed, but is viewed by the OECD as becoming

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more sustainable\(^4\) as it addresses macro imbalances and risks in the financial sector. The rest of the world is having to adjust to slower, though higher quality, growth from China.

The overall picture in Europe is far from clear, and is complicated by a good deal of uncertainty, linked in part to developments in Greece and a number of other Member States having elections in 2015. The OECD recently forecast growth of 1.4\% in 2015 and 2\% in 2016, though performance will continue to vary widely across countries.

The start of sovereign Quantitative Easing in the Eurozone and the recent depreciation of the Euro are both factors that may support recovery and we will monitor closely whether the early positive signs continue to be evident.

In the UK GDP grew at above trend levels in 2014 and this is expected to continue in 2015. There have been improvements in employment, although this has been reflected slowly in real wage growth, and consumption spending has been accompanied by a fall in the savings ratio, which suggests that either borrowing or a fall in savings has been the cause of the increase. Modest wage growth together with excess capacity and falling commodity prices has created an environment of subdued inflation. This has supported a prolonged period of low interest rates, which has continued to support indebted households and enabled them to maintain high levels of debt. Household leverage (debt-to-income ratio) has fallen to less than 145\% from a peak of 170\%.

In the secured sector, credit conditions have eased for borrowers who meet lenders’ (stricter) criteria, but have tightened for those unable to meet these criteria. Easing credit conditions in unsecured credit have enabled household debts to grow over the last year, particularly borrowing from firms outside the monetary and financial sector. We will continue to monitor whether growth in consumer credit borrowing could become unsustainable over time for some households.

The low interest rate environment has supported asset price inflation, house prices and stocks and, if it were to continue, pressure on the profitability of some regulated firms. We could expect this pressure on profitability to lead to more active management of back-books to extract value that may not be in the interest of consumers.

Falling oil and food prices have pushed UK inflation down, providing a boost to consumer spending power that in the short run will boost GDP. Interest rates are expected to increase gradually over the next two years, and when oil prices recover it could place upward pressure on inflation. We will be mindful that a growing economy could lead to interest rates rising more quickly than expected, potentially placing pressure on overindebted households.

As rates start to rise, asset prices could see some adjustment. The response of firms and consumers to this period of adjustment could also lead to a risk of poor outcomes. Last year we noted that house prices remained elevated and we believe this continues to hold. In the year to December 2014 house prices were up 10% on the previous year5, although there remains concern that price growth may not be sustainable over the long term. While house prices remain elevated against earnings, the rate of growth has slowed. Indications from the Bank of England that any increase in rates will be gradual may mitigate some of the risks here. In addition, policy changes have been made to address the issue of unaffordability: underwriting standards are higher than they used to be and new affordability measures mean that affordability of mortgage for consumers is closely assessed, including in the event of interest rate rises.

With economic growth expected to continue into the medium term, there are also potential risks to consider, which are associated with a period of sustained recovery. The move into a more optimistic mind-set of future prospects and returns may play to behavioural biases and lead to poor decisions being made that underplay downside risks. In addition, there are challenges created by the period of adjustment itself, as improvements in the economy will affect firms and consumers at different times and in different ways and therefore affect how consumers interact with financial services firms. Finally, firms and consumers will have to adjust to the recovered economy, which even after recovery may not look the way it did before the crisis.

Firms’ optimism could lead them to pursue unrealistic strategies, while others may find that old business models no longer serve them. For example, they may not allow them to compete with new entrants in some areas or underwriting standards may become more relaxed over time, raising the risk profile of borrowers.
Risk Outlook

Increases in interest rates could create market volatility, as markets reassess risks associated with their positions in less liquid markets. This could result in volatility in bond prices and exchange rate movements.

Social factors

The ageing population and older consumers

The UK’s population of over 65 year olds is growing and this trend is expected to continue over the long term as life expectancy increases, due largely to medical advances and positive changes to lifestyle. Projections indicate that 24% of the UK’s population will be 65 and over by 2035, the figure in 2010 was 17%. The increase in those aged 85 or over is pronounced, up from 2% in 2010, to 5% of the population in 2035.6

The pension reforms aim to increase consumer choice and encourage saving for retirement. The majority of customers have historically had minimal experience of making proactive decisions regarding retirement income and when faced with uncertainty on their life expectancy and behavioural biases, they may not make decisions that are in their best long-term interests. April 2015 will also see the continued roll-out of auto enrolment to include businesses with fewer than 50 employees, so more people will start saving for retirement.

The pace of medical advances and lifestyle changes makes it increasingly difficult for consumers to determine the most appropriate life and pension products to meet their needs, including potentially funding long term care. This is evidenced by our recent market study into the retirement income market, which found that consumers tend to consistently under-estimate longevity, as well as inflation and investment risks.

Firms may develop decumulation products or services that could highlight certain product features or the price at the expense of other important information, or be difficult to compare due to hidden costs and fees and include barriers to exiting. There is also a risk that these could result in increasingly complex products or a mix of products that require ongoing servicing and potentially higher costs, which some financial advisers may recommend in a bid to generate higher fees. It may be challenging for people with different degrees of wealth at retirement to find products that suit their needs. Those with smaller funds will likely have fewer options and it is important that consumers are not disadvantaged by this lack of choice.

We know that the annuities market is not working well for many consumers,7 and that the proportion and number of people with defined contribution schemes is rising, due in part to the withdrawal of defined benefit schemes and the roll-out of auto enrolment.8 These factors increase the potential to amplify the risks in this area as more people seek to purchase annuities or other fixed income products and rely on the income they provide for their retirement.

Recent research indicates that around two in five people in the UK are not confident in their ability to maintain a comfortable living standard in retirement, with

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Recent research indicates that around two in five people in the UK are not confident in their ability to maintain a comfortable living standard in retirement, with a similar proportion not currently saving for retirement, or having no intention to do so. We consider one of the biggest risks in this area to be people not being able to, or choosing not to, save enough to provide them with the lifestyle they hope to have in retirement.

Consumers may also be ill-prepared for the cost of long-term care due to a lack in savings combined with a context of low returns on savings, or decisions made about the early withdrawal of their funds. Financial firms may seek to fill this gap with innovative products that provide finance for long-term care in old age. However, long-term care is usually a distress purchase and unsuitable advice or unfair pricing could lead to significant detriment for the customer.

The Care Act 2014 introduced a limit to the amount people will be required to contribute to the costs of their social care from April 2016: the Care Cap. As of April 2015 it will be possible for those requiring social care to defer the selling of their property to pay for care until after they die.

The changes to the arrangements for paying for care provision will limit the amount a person pays for their care. This could create conditions that we consider may prompt insurers to develop products to cover the cost of social care. In the early years of this policy change, the key role for us is to support innovation in products and services to help a competitive market develop and to provide guidance as necessary.

We are also aware that older consumers can find obtaining medical, critical illness, car and travel insurance difficult. When they are able to find suitable policies, the cost of the policy is often very high or contains many exclusions, making it prohibitive to some people.

Firms that adopt technology to improve efficiency and engage with consumers in financial services may increasingly fail to meet the needs of certain consumer groups (e.g. within certain age groups or regions) who do not have access to computers or who are not computer literate. Such customers may consequently miss out on better products or services available online.

It will also mean considering the other products and services on the horizon aimed at this age group, for example lending into retirement and equity release. Firms will need to consider whether the range and specification of the products they offer is meeting the needs of consumers, and whether adjustments will be required to meet the differing needs that will arise in years to come.

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Younger consumers
At the other end of the age range, those under 30 are also facing increasing financial pressures and signs of stress, and may become more vulnerable in coming years.

As these younger consumers get older, the effects of their financial position in their late teens and twenties is likely to affect their use of financial products and services, so firms will need to be ready to adjust their offerings. For example, if this age group takes their first steps on the property ladder at a later age than the generations above them, their need and use of financial products up to that point and beyond is likely to be very different from those older than them. Equally, if younger consumers can afford to buy a property, they are faced with large mortgages (potentially over a long term to aid affordability) and this may mean they handle their finances differently.

Trends in employment for the younger generation and external conditions in the housing market combined with some increasing indication of economic stress levels in those under 30 may have contributed to young people making more use of credit and debt products to service their day-to-day living.

There is a risk that high levels of debt for younger consumers are leading to knock-on problems later in life, with research suggesting a significant number had experienced a range of difficulties including: obtaining credit, problems getting a phone contract, trouble getting a mortgage, and difficulties obtaining employment. As the financial conduct authority we must be mindful of any emerging patterns of economic stress for younger consumers and establish the facts.

Although unemployment among young people fell 3.6% in the year to January 2015, it remains at a relatively higher level than for other groups. Real incomes for young


Although unemployment among young people fell 3.6% in the year to January 2015, it remains at a relatively higher level than for other groups.
adults in employment have also fallen since the recession due to increased under-employment combined with a fall in hourly wages. For example, according to one study, median hourly wages fell by 11% in real terms for employees aged 22-30 between 2007/8 and 2012/13, and by just 3% for those aged 31-59. In 2012 the Office for National Statistics reported that 36% of recent graduates were employed in lower skilled jobs, up from 27% in 2001, representing a rise in cyclical downgrading.

These factors will not only affect the financial situation of young people, but may also affect their parents’ financial decision-making, and put potential increased strain on household incomes.

Over the coming year more work will need to be done to establish the scale of the trends we have identified among younger consumers, whether they are long term or cyclical and the challenges they pose for our regulatory objectives. In particular we will explore whether the range of products and services on offer are appropriate to meet their needs and whether the market is responding to any trends that appear to be of a more medium-term nature.

Technological challenges

We placed a significant focus on the challenges faced by the financial services sector around technology last year, and we consider that this will remain for a number of years to come. While the risks are likely to change in nature, the overarching area of risk will continue to need to be addressed. We work with firms to strengthen consumer protection regarding technological risks, and it is a factor we often highlight in our market studies.

We face the challenge of balancing the steps we take to reduce conduct risks related to technology, while ensuring that the regulatory regime supports the development of innovations that can bring benefits to consumers. We are committed to ensuring that our rules keep pace with technology, while acknowledging that this will be a challenge.

Innovation in online and web-based channels

The growth of digital channels is commonly linked to the emergence and adoption of technologies that support innovative products, such as mobile banking, digital wallets, cheque imaging and price comparison websites.

While digital advancements can make financial services faster and more convenient, foster competition in the market-place and reduce costs, they can also increase security and resilience risks that may arise from cyber-attacks or weaknesses in the underlying IT infrastructure if they are not implemented with due diligence. This can cause certain groups of customers to become excluded or potentially misuse the platforms. It can also lead other groups, such

12 IFS (2014) Living Standards, Poverty and Inequality in the UK
as younger consumers, to become over-reliant on easy access (often high-interest) credit when a more affordable source could be available to them.

In addition, such advances can encourage consumers to adopt poor behaviours or allow firms to present information in such a way as to encourage poor choices, possibly resulting in mis-selling. Widespread adoption of innovative technologies across a range of firms – from large retail banks and insurers to challenger banks and new start-ups – may present benefits to consumers, but can also increase the risk of harm to customers and market integrity if the pace and complexity of digital transformation is not effectively managed.

This growth is also increasing the use of personal mobile devices to access financial services and the risks associated with redirection to counterfeit websites are likely to rise. This could lead to an individual’s affairs being managed by a third party who is not authorised to do so, such as a relative helping out an older person without power of attorney, which may create risks neither party had foreseen.

**Cyber-crime**

Cyber-crime risks are increased by the complexity and age of IT systems operated by some firms. These factors can make it more difficult for firms to embed effective security measures across their IT systems.

Market exchanges and trading venues are high-profile examples, but are not the only targets that if exploited could significantly disrupt financial markets. Cyber exposure, including card fraud and financial crime, is exacerbated by the increased reliance on web-based front-end channels that increase the risk of personal data and consumer funds being compromised. The growth of digital channels is commonly linked to the emergence and adoption of technologies that support innovative products, such as mobile banking, digital wallets, cheque imaging and price comparison websites.
Growing inter-connectedness of firms increases the risk of an impact on one having a knock-on effect on others.

Separately, insurance firms are already offering cover for cyber risks and are collecting large volumes of data about their customers that, if compromised, could provide a valuable source of information to cyber attackers. It is also vital that there is absolute clarity about what such policies do and do not cover, and under what circumstances it will be possible to claim. The perpetrators of cyber-crime vary from nation states with a political agenda, to hacktivists, to those wishing to exploit data for profit, and this breadth challenges the traditional security controls that are often used.

**Complex systems with intermediaries and/or gatekeepers**

The increasing prevalence of firms acting as gatekeepers or intermediaries can lead to a competition risk, and also give rise to single point of failure risks. This arises where there are significant economies of scale and switching is difficult or costly, and/or using more than one service concurrently is not possible. This could make it more difficult for new players to enter the market and for the market to work well.

The issue is increasingly relevant to us because of complex systems becoming more prevalent and fast-moving as a result of, among other factors, online markets and digitisation. For us the challenge is in terms of whether and, if so, how to intervene. In assessing the merits of potential interventions we will draw on our understanding of the
Failure to invest and maintain

A significant amount of ongoing technological investment is required to enter or continue being present in a market. The complexity and cost of such systems encourages firms to modify existing systems to deliver new functionality rather than replace them. As a consequence, systems may become increasingly complex, less resilient and potentially less secure.

This gives rise to a number of risks, for example, a failure in a firm’s IT systems can significantly harm consumers. Outages can lead to consumers being unable to complete transactions, incurring fees on late payments and having a domino effect on transaction counterparties. The increased reliance on third parties in an outsourced, offshore model for the maintenance of key systems may also affect the speed of response to critical failures, leading to extended periods in which consumers suffer harm. Indeed, the perceived failure of a firm to provide an effective, secure and resilient systems environment can affect the reputation of the firm and lead consumers to withdraw their business. This could cause a market integrity issue.

This is one area in which new businesses have an advantage over existing firms, as they do not have the legacy of old and fragmented IT systems, but have the opportunity to design systems that closely align with their business model and use newer and often cheaper technology. However, there is a risk that new entrants may not be able to compete with existing firms equally, due to existing firms having better contract terms and more established relationships.

Market resilience

The risks on infrastructure resilience are closely linked to the other keys areas of risk. Poor conduct may arise from inadequate investment in the systems that firms use to undertake, monitor and control business in the wholesale markets, or in their failure to have robust business continuity plans in place. Such failures could lead to harm to customers, and we will take action to minimise the risk of this occurring.
In December we announced a new strategy for the FCA. This is an evolution of our regulatory approach, in light of new developments in financial services and the continued expansion of our remit. We will build on those things we believe are effective and introduce improvements where these will help us have a greater impact and achieve better value for money.

The last two years have seen significant changes in the scope of our regulatory responsibilities (for example, regulating consumer credit), the number of firms we regulate (from around 26,000 to over 70,000), and the economic and social context in which we operate (for example, the pensions landscape). To respond to these changes and ensure we are tackling the risks we have identified, we have reviewed our priorities and ways of working to ensure that we are in the best shape to deal with the challenges we face this year and in future.

Our core strategic objective has remained the same: ensuring that the relevant financial markets function well – but we recognised that we needed a different approach to regulate such a large and diverse industry. While our scope has changed, our resourcing has remained largely fixed, so we need to use the intelligence we have to focus on key priorities, while remaining flexible enough to respond to emerging issues.

Our strategy now places more emphasis on sector and market-wide analysis. This will put us in a stronger position to identify and address the risks outlined in the Risk Outlook chapter. We will change our intelligence and data analysis processes to form a more consistent, collective view on key markets and sectors, and address the issues they identify in a more strategic way with greater prioritisation. This prioritisation will inform the programme of work we set out in our business plans each year.

When considering intervention, we aim to use the most appropriate tool in pursuit of our objectives. This will be proportionate to the issue and could range from changes to our Handbook to enforcement action. We will intervene where the most significant issues and risks to our objectives have arisen and use our resources where we can have the greatest impact. We will build in greater ability to adapt and reprioritise where necessary and will clearly explain our rationale for these decisions.
Our strategic themes

1. Sustainable model of regulation

As we now regulate around 73,000 firms – three times more than in 2013/14 - we intend to take a more market-focused approach, looking broadly across regulated sectors and products. To do so, we are bringing together our cross-market thematic and market study work, undertaking fewer, more focused studies, and we are taking steps to create greater flexibility in the resourcing of our priorities. Our programme of work for 2015/16 can be found in Annex 1.

2. Common view of markets and sectors

We will build our strategy and competition function during the year, with a greater focus on market intelligence and analysis. We will bring together the intelligence that we collect from a wide range of sources to form a common view of each of the markets and sectors we regulate. This will include the intelligence we have from firms. This combined with our work engaging with consumer bodies, findings from market research and interactions with consumers, will form a rich picture of the markets we regulate and the issues across the different financial sectors.

We remain committed to being pre-emptive, seeking to identify and take action before risks crystallise or grow in scale; we do this by making judgements on the big issues and where we believe there are likely to be poor outcomes for consumers, poor cultures, business models or incentives within financial services.
3. Priority setting

We will establish a new way of prioritising and streamlining our work so that we align our resources in the most effective way. Our Business Plans will continue to set out our intent and state our priorities, but we will retain the ability to adjust or adapt our priorities where necessary. We will, of course, do this openly and be able to clearly explain changes to our plans. This approach also helps us to be more transparent and predictable. We will be clear with those we regulate what our priorities are and the issues that are the most important to us.

4. Strategic approach to risk

As part of our changes to structure and strategy we will bring together all of our second line risk functions to form a single risk and compliance division. Our risk and compliance division will provide a strong, independent oversight of our activities and approach.

5. Engaging and influencing

We will seek to engage and influence more strategically on regulatory and policy developments, particularly internationally. We know from experience that it is vital to have effective engagement internationally, particularly in Europe, to achieve good policy outcomes for markets and consumers. We have brought together our international and markets policy work to ensure we are coordinated in our international activity and can influence the European and international agenda at an earlier stage.

6. Increase internal ability to be flexible

While focusing our resources on our key priorities, we will also ensure that we have greater flexibility to use resources on emerging issues when necessary. We will seek to work in an agile way, by bringing people together to focus on specific issues and tackle emerging risks quickly using the full range of our expertise. It is vital for us to act quickly where the most significant risks to our objectives have arisen and we will ensure we use our resources where we can have the greatest impact.

7. Making the most of our resources

We remain focused on the principles of good regulation and advancing our objectives in the most efficient and effective way. We will continue to measure and evaluate our impact and report publically on this. Our aim will be to be as effective as possible and focus our resources on the front line of regulation.

In 2015 we will launch an Efficiency and Effectiveness Review, which will look at the value for money of areas of higher expenditure. As part of this we will review our governance and decision-making processes.

To embed this we will have a new structure, this is set out in Annex 3.
Our strategic objective is to ensure that the relevant markets function well. To support this, we deliver our work through three operational objectives:

To secure an appropriate degree of protection for consumers

To protect and enhance the integrity of the UK financial system

To promote effective competition in the interests of consumers

We decide our activities for the year ahead based on the risks we see to our objectives. Our annual Business Plan sets out what these are and how we will integrate new responsibilities, improve our systems, develop our people and ensure that our priorities are focused on achieving our objectives.
During 2015/16 our priorities will cover the following five key areas, alongside our business as usual activities. In line with our strategy, we will also ensure we are able to respond flexibly to emerging issues.

1. **A strategic markets-led approach to regulation – p41**
   - Market-focused work programme
   - Wholesale market integrity
   - Competition

2. **Protecting consumers – p49**
   - Pensions and an ageing population
   - Consumer credit

3. **Individual accountability – p54**
   - Changing culture
   - Senior managers and certified persons regimes
   - Remuneration codes
   - Enforcement action against individuals
   - Whistleblowing

4. **International issues – p56**
   - International engagement
   - Implementing EU policy
   - Financial crime

5. **Our people – p59**
   - Diversity and inclusion
   - Investing in our staff
A strategic markets-led approach to regulation

As part of the new FCA strategy, we have shifted the emphasis of some of our work to be more markets-focused, looking broadly across the sectors we regulate. We will conduct competition market studies, looking at the operation of the markets we regulate, and deciding whether interventions are needed if those markets are not working in the interests of consumers.

We will continue to undertake thematic supervision work, looking across sectors or products to assess firms are meeting our expectations and complying with our rules. This approach enables us to look broadly across sectors and products to identify issues that are common to more than one firm, and in some cases across more than one sector.

Interventions at the market level mean we can respond comprehensively to issues and promote competition in the interest of consumers, while also addressing the potential effects of poor conduct on consumers and other firms in a sector. It is an effective and powerful way of identifying and mitigating problems and addressing these across a large number of firms, which in turn benefits a large number of consumers.

To do this, we will draw on the forensic supervisory skills we have developed and used in our thematic work, with the investigative and analytical skills we use in competition market studies. Overall we expect to conduct fewer individual pieces of thematic and market study work than in 2013 and 2014, but to undertake deeper and more impactful investigations.
Market-focused work programme

We have ongoing work from 2014/15 that we will continue or report back on later this year. We also have a programme of new market study and thematic work for 2015/16. In line with our new strategy and priorities, we will focus on delivering fewer, more in-depth pieces of work. We will provide updates on our programme during the course of the year, as we complete preliminary work and prioritise interventions.

In line with our key priorities for 2015/16, some of the significant work we plan includes our market study on investment banking and a thematic review of conflicts of interest in dark pools. We will also explore staff remuneration and incentives as well as debt collection practices, and we plan a review of sales practices and how firms support consumers to make the right choices.

We set out our current and planned work below and in Annex 1.

Cross sector

Our ongoing programme of work includes working with the PRA and Bank of England on visibility of IT resilience and risks at board level, and with Treasury and regulatory partners on addressing cyber risk. We are consulting with a view to issuing final guidance later this year to help firms manage the risk of mis-selling arising from poor performance management.

Culture review – In 2015/16 we will conduct a new thematic review on whether culture change programmes in retail and wholesale banks are driving the right behaviour, in particular focusing on remuneration, appraisal and promotion decisions of middle management, as well as how concerns are reported and acted on.

Retail investments

We will continue our review of due diligence of financial advisers and will complete our work to identify risks in the way firms offer contracts for difference products and mitigate any risks found.

Inducements and conflicts of interest – Following our published guidance on inducements and conflicts of interest relating to retail investment advice (January 2014), we will assess firms’ practices in this area. Our assessment will inform our consultation on Handbook changes needed to implement MiFID II – including changes to strengthen the inducements rules.

Emerging distribution models (non-advised sales) – We will undertake a market study into non-advised sales of investment and protection products. We want to see how consumers behave when they are making their own investment decisions and how firms support consumers in choosing products that are suitable for their circumstances.
General insurance and protection

Following our 2014 market study into general insurance add-ons, we will consult on remedies to tackle the issues we found. These include banning ‘opt-out’ selling across all products sold by an authorised firm (or its representative) and issuing guidance to improve the way add-ons are sold on price comparison websites. We will also make final rules to address competition issues in the Guaranteed Asset Protection insurance market in 2015. We will consult in 2015 on our proposals for introducing a measure of monetary value for general insurance products, in particular the option of requiring the publication of claims ratios for such products.

We will continue our review of commercial claims for SME customers and report on our review of controls and effectiveness of distribution chains where authority is delegated.

Role of Appointed Representatives – We will review the role of Appointed Representatives in the distribution of general insurance products. We will consider the role and work of the principal firm in ensuring that it has adequate and robust systems, controls and resources to effectively select and oversee its Appointed Representatives, including in relation to their sales practices and provision of post-sale services.

Technology and use of Big Data – We will conduct a market study to investigate how insurance firms use Big Data, such as web analytics and behavioural data tools (including the increasing use of social media) as well as other unconventional data sources. We will identify potential risks and benefits for consumers, including whether the use of Big Data creates barriers to access products or services. We will also examine the regulatory regime to ensure that it does not unduly constrain beneficial innovation in this area.

Wholesale banking

Our review of controls over flows of information in investment banks will be completed this year, as will our assessment of whether firms have embedded appropriate processes and controls around benchmarks. We have been considering the risks around dark pools and will continue to increase our knowledge of the conflicts of interest that may be inherent in the operation of dark pools and explore how firms are managing them.

Investment and corporate banking – In February 2015, we announced that we will undertake a market study to investigate competition in the investment and corporate banking sector. We will launch this study in spring 2015 and the terms of reference will set out the scope in more detail.
Pensions and retirement Income

We will complete our retirement income market study and engage firms in our ongoing review of sales practices for annuities. We will also complete our assessment of fair treatment of long-standing customers in life insurance.

From April, we are required to monitor the standards we have set for delivery partners appointed by the Treasury to give pensions guidance, under the PensionWise brand (known as designated guidance providers). By setting and monitoring standards for these providers, we aim to help protect consumers. We will also make recommendations to providers and the Treasury if we identify any standards have been breached.

**Retirement sales practices** – The Pensions landscape has seen substantial changes in 2014 and 2015 and this will be a significant area of focus for us involving policy, supervision, market studies and thematic work. We will review how retirement sales practices of pension providers, in relation to their vesting customers, have changed. In particular to assess how firms are supporting customers to make the right choices given the wider range of options available. Our key objectives are to ensure that firms have stepped up and improved their practices since the publication of our thematic report in December 2014 and to ensure that firms do not seek to undermine or circumvent the Pension Wise service for the purposes of retention.

**Retirement outcomes** – From April 2015 we will scope and plan a follow-up to the market study into the outcomes consumers receive from the products and services they buy at retirement. This will review how well the market is working after the reforms and the guidance guarantee have been introduced, in particular after the full pensions flexibilities are introduced in April 2015. We will look at both advised purchases (reviewing the suitability of advice given) and non-advised purchases (reviewing the information provided). We would expect to launch this work in early 2016 once we have a greater evidence base of actual outcomes.

Investment management

We are assessing improvements in suitability standards across wealth management.

**Asset management** – We will launch a market study on asset management in 2015/16. We will develop the full scope during this year but the issues we will examine will include the charges paid by investors, and the factors that drive those charges. These will be set out in a terms of reference document that will be published when the study is formally launched.

**Post authorisation review of funds** – We will review whether UK authorised investment funds and segregated mandates are operated in line with investors’ expectations as set by marketing material, disclosure material and investment mandates. We will also consider compliance with other responsibilities to investors such as adherence to risk management parameters.
**Retail banking**

In this sector, we plan to complete our review of **unauthorised transactions**, to ensure that firms are not placing unreasonable obstacles or responsibilities on their customers, or unfairly rejecting claims and our review of **packaged bank accounts** to assess how banks have implemented our rules.

We will continue to work with the Competition and Markets Authority as it progresses its inquiry into retail banking.

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**Retail lending**

This year we will implement the Mortgage Credit Directive, particularly affecting providers of second charge and consumer buy-to-let mortgage products. We will complete our **credit cards** market study and conclude our review assessing the quality and appropriateness of **debt management advice**.

**Mortgage market** – We will continue our assessment of how firms are implementing our post-MMR rules, including completing our advice and distribution review in the summer, and commencing our review into responsible lending from April 2015. Building on this, from autumn 2015 we will begin a wider assessment of barriers to competition (such as factors affecting consumers’ ability to access credit and ability to switch providers, and barriers to entry and/or expansion) with a view to launching a market study in early 2016 on those aspects of the mortgage market that are not working to the benefit of consumers.

**Collection of unsecured debts** – We will examine the ways in which consumer credit debts are collected and the extent to which firms involved in the recovery and collection process are following our rules, treating customers fairly and showing appropriate forbearance.

**Staff remuneration and incentives in consumer credit firms** – We will review remuneration and incentive structures in credit and debt services firms and assess how these firms are managing the risk that their reward arrangements could encourage potentially undesirable behaviours that might lead to poor outcomes for consumers.
Wholesale market integrity
Making sure that wholesale markets are working well is a vital part of what we do. If they are not functioning in a fair and efficient way it will not only have a harmful impact on firms, but this will often filter through the system to eventually result in harmful outcomes for consumers.

We will increase our focus on wholesale markets to ensure they are efficient, stable, fair, clean and resilient, that their infrastructure is made more robust, and that conduct standards are improved.

Fair and Effective Markets Review
The Government’s Fair and Effective Markets Review\(^\text{13}\) will make a comprehensive and forward-looking assessment of the way wholesale financial markets operate regarding fixed income, currencies and commodities.

The aim of the review is to identify ways to reinforce confidence in the fairness and effectiveness of wholesale financial market activity conducted in the UK, and to influence the international debate on trading practices. Its final recommendations will focus on:

- structure – markets microstructure; competition and market discipline; and benchmarks
- conduct – standards of market practices; responsibilities, governance and incentives; and surveillance and penalties

We will continue to work closely with the Bank of England and the Treasury, and contribute ideas and research to support this work and implement the recommendations. We will focus on how these recommendations fit with other proposed reforms and reforms already being implemented.

Benchmarks
In April 2013, we became responsible for the regulation and supervision of the London Interbank Offered Rate (LIBOR), following a number of fines for serious misconduct relating to LIBOR. The Fair and Effective Markets Review recommends a list of additional major benchmarks across the Fixed Income, Currency and Commodity (FICC) markets to be brought in the regulatory framework.

In December 2014, the Government confirmed the seven additional benchmarks would be:

- Sterling Overnight Index Average (SONIA)
- Repurchase Overnight Index Average (RONIA)
- ISDAFIX (soon to be renamed ICE Swap Rate)
- WM/Reuters (WMR) London 4pm Closing Spot Rate
- London Gold Fixing (soon to be replaced by the LBMA Gold Price)
- LBMA Silver Price
- ICE Brent Index

\(^\text{13}\) The Review is being led by Bank of England Deputy Governor for Markets and Banking, Minouche Shafik, and co-chaired by Martin Wheatley (the FCA’s CEO) and Charles Roxburgh, Director General, Financial Services, the Treasury.
In March 2015, we published our framework for regulating and supervising these additional seven benchmarks, which will be brought into scope on April 2015. We have adapted the existing regulatory regime (MAR 8) to be applicable to these different benchmarks, so users can be confident they are robust.

We are working closely with these firms to undertake significant evolution in their methodologies. Some of our key requirements of firms include identifying potentially manipulative behaviour, managing conflicts of interest, and implementing robust governance and oversight arrangements.

We will also continue to contribute to international benchmark reform, focusing on the Financial Stability Board’s (FSB) reviews of interbank interest rate benchmarks and FX benchmarks. In the EU, we will continue to provide support to the Treasury, which represents the UK in the European benchmark regulation negotiations.

As per FSB recommendations, we are encouraging the LIBOR administrator to continue evolving LIBOR in line with its underlying market, and to encourage market choice for interest rate benchmarks.

Our intensive work on the failings of controls in Foreign Exchange (FX) trading operations, resulted in fines of over £1bn in 2014. We will continue to deliver significant enforcement outcomes in the area of benchmarks where appropriate.

**MiFID II and the Market Abuse Regulation (MAR)**

We will ensure that we continue to be at the heart of setting the wholesale markets policy regime in Europe and internationally, and will specifically focus on MiFID II and MAR.

The Markets in Financial Instruments Directive (MiFID) was implemented in the UK in 2007, and has recently been revised in light of the financial crisis and to strengthen investor protection. The new regime, known as MiFID II, is a comprehensive set of reforms that will reshape the secondary trading of financial instruments, particularly derivatives, and seeks to ensure firms put the best interests of clients at the heart of their business.

The Market Abuse Regulation (MAR) updates and strengthens the existing market abuse framework provided by the EU Market Abuse Directive and domestic measures.

**The MAR ensures that regulation:**

- keeps pace with market developments, such as the growth of new trading platforms, over-the-counter trading and new technology, such as high frequency trading
- strengthens the fight against market abuse across commodity and related derivative markets
- prohibits as a regulatory offence the manipulation of benchmarks (such as LIBOR)
- reinforces the investigative and administrative sanctioning powers of regulators
- ensures a single rulebook while reducing, where possible, the administrative burdens on SME issuers

MiFID II, which also affects retail markets, comes into effect across Europe on 3 January 2017, and the Market Abuse Regulation takes effect on 3 July 2016. We will focus on feeding into the technical standards for both at the European Securities and Markets Authority (ESMA) level, and will consult on transposing the rules into our Handbook. We will educate and prepare firms for the implementation of the new rules.
Competition

Effective competition is a powerful way to achieve benefits for consumers, which include better value, genuine choice, quality products and services, and useful innovation in financial services. Without it, new firms may find it difficult to enter certain markets, incumbents have fewer incentives to offer better deals and services, and consumers might not be able to compare options and choose the products and services that are right for them.

We will consider potential competition issues as we design and implement our policies and regulatory approach, and we will engage with a range of stakeholders to raise their awareness and understanding of our competition mandate, while at the same time improving the intelligence we hold on competition in the market.

Concurrency powers

On 1 April 2015 our current regulatory toolkit will extend to include powers to enforce against unlawful anti-competitive behaviour in the financial services industry. These competition functions will be discharged in concurrency14 with the Competition and Markets Authority (CMA).

Unlawful anticompetitive behaviours cover agreements between firms to prevent, restrict or distort competition (such as directly or indirectly fixing prices or other selling conditions, or agreements to limit or control production), and abuses of a dominant position in the market (such as exploiting customers or suppliers, or conduct excluding existing or potential competitors).

We will enforce these rules in coordination with other regulators, particularly the CMA, and will jointly decide which organisation is best suited to deal with the problem identified. To this end, we have signed a Memorandum of Understanding with the CMA that outlines the areas of coordination and provides a framework for cooperation. In 2015/16 we will be implementing these proposed changes.

Supporting innovation

Innovations often drive effective competition in markets. In 2014, we launched Project Innovate to ensure that our regulatory regime supports the development of positive, innovative products and services that can improve the lives of consumers.

Over the next year we will use our Innovation Hub to continue to offer support to innovators across a range of sectors. We will also continue to identify regulatory barriers to innovation and work to resolve these, either through policy or process changes.

Smarter consumer communication

We will continue to work on driving improvements in the effectiveness of the information consumers receive about the financial products or services they are considering buying or already hold. As part of this, we will draw on behavioural insights and innovative practices from within and outside the UK financial services sector, to work with firms to identify improvements in the industry’s consumer communications.

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14 These competition powers may also be exercised by the CMA with regard to financial services and other sectors of the economy. This means that, in respect of enforcing against unlawful anticompetitive behaviour in financial services, the CMA and the FCA will have ‘concurrent powers’ and the FCA will be a ‘concurrent regulator’.
Protecting consumers

It is part of our job to protect consumers from the harm that can be caused by bad conduct in the financial services industry. This affects most people in the UK, but over the coming year we will focus particularly on examining youth indebtedness, and the older population, who will be affected by the changes happening in pensions legislation.

Pensions and an ageing population

The pensions sector is undergoing significant changes. The ageing population in the UK is likely to drive more demand for certain types of financial products, and the 2014 and 2015 Budget reforms to pensions increased the number of options consumers have to generate a retirement income from their pension savings.

By 2018, automatic enrolment will have been rolled-out to all employers, and it is estimated that between eight and nine million people will be newly saving, or saving more, into a workplace pension scheme. Therefore, many more people entering the market will not have made active choices about their pension savings.

Given these changes and the associated risks, the pensions market will remain a priority area for us. We will continue to work closely with the Pensions Regulator (TPR), the Treasury and the Department for Work and Pensions (DWP) in our policy, competition and supervision work.

Saving for a pension

We have brought in a range of new protections to help protect consumers saving in workplace pensions, particularly those who are saving for the first time as a result of automatic enrolment.

We will introduce rules requiring transaction cost information to be disclosed to Independent Governance Committees (IGCs) and trustees in a standardised format and, if necessary, we will...
In April 2015, we will place a charge cap on saving in default funds, extend the ban on consultancy charging and ban active member discounts to protect those who are saving in workplace pensions.

Provide further guidance on our expectations of the assessment of value for money. We expect IGCs to notify us of any concerns before deciding to alert relevant employers and scheme members, and before making concerns public. We will then consider whether the firm is in breach of our rules or principles.

In April 2015, we will place a charge cap on saving in default funds, extend the ban on consultancy charging and ban active member discounts to protect those who are saving in workplace pensions. We will also continue to engage with firms involved in providing advice in the Enhanced Transfer Value market, and with Self Invested Personal Pensions (SIPPs) operators.

Our work on the Enhanced Transfer Value market uncovered a high level of unsuitable advice in this market and we are working with firms to identify where customers may have suffered harm as a result. Where remediation is required we will take a proportionate and firm-specific approach to ensure that disadvantaged customers receive appropriate redress.

Given our recent work with SIPP operators on due diligence on non-standard investments and the developments in this market, particularly the new capital requirements, we will continue to monitor the situation with these firms and act if issues arise.

**Taking income in retirement**

In February 2014 we launched a market study into the retirement income market. In December 2014 we published the interim report, which set out provisional findings and proposed remedies for consultation. That consultation closed in 30 January 2015 – we expect to publish our final report in March 2015.

To support the new increased flexibility for consumers looking to use their pension fund, the Government announced a new service – ‘Pension Wise’, which entitles everyone with a Defined Contribution pension fund to access free (at the point of delivery) impartial guidance, including a face-to-face conversation about their options when accessing their pension savings. The Treasury hold responsibility for the overall service design and getting it up and running for April 2015.

Our role is to set standards for the service offered and monitor designated guidance providers’ compliance with those standards. We will integrate this new role into our work. Where we identify that a designated guidance provider has failed to comply with our standards, we will be able to recommend that the guidance partner take remedial steps. If the provider continues to fail to comply with our standards, we can recommend that the Treasury gives a direction to the designated guidance provider if necessary.

The scale of change in workplace pensions will require us to work on a number of fronts over the coming year. We will undertake a thorough review of our rules in the pension and retirement area, including the new retirement risk warnings. Following on from our retirement income market study, we will review the wake-up packs and introduce further measures to improve communication with pension savers, supporting choice and competition in the retirement income market.
We will review our rules around disclosure for consumers using drawdown products and how these relate to the new freedoms to take lump sum withdrawals directly from pensions. We are also consulting on new rules to ensure that all pension transfers advice will need to be carried out, or checked, by a Pensions Transfer Specialist, regardless of when the transferred benefits are being crystallised.

We will review how firms have implemented the pension reforms to ensure the retirement income market functions effectively and works in consumers’ interests. We will continue to address the issues from our 2014 review of firms’ annuities sales practices, which found that sales and customer retention practices are contributing to consumers not shopping around and switching, and at times to consumers not buying an enhanced annuity when they may be eligible for one. We are now asking firms involved to determine if our results are indicative of a more widespread problem and/or have led to poor consumer outcomes. We will then consider what further action to take.

In addition we will work with the Treasury in light of their consultation on the creation of a secondary market in annuities.

Pensions fraud
There is a risk that fraudsters might attempt to capitalise on the pension reforms. We will continue to actively monitor this area and work closely with other organisations. Our ScamSmart campaign, which was launched in October 2014, with a second phase from March 2015, will continue to help consumers to spot the warning signs and avoid investment scams, including those related to pensions.

The scale of change in workplace pensions will require a thorough review of our rules in the pension and retirement area, including the new retirement risk warnings.
Consumer credit

We took on the regulation of consumer credit from the Office of Fair Trading (OFT) on 1 April 2014. Successfully integrating these firms into our regime and helping them to meet their regulatory responsibilities remains a key priority for us to increase standards, restore public faith, and ultimately contribute to and uphold a robust UK financial market.

We want to ensure that there is a sustainable credit market where consumers continue to have access to the products and services they need, while protecting them from harmful practices that could lead to problems such as spiralling debt that they struggle to repay, or inappropriate debt management plans.

Authorising consumer credit firms

All consumer credit firms with interim permission who want to apply for authorisation need to have applied by the end of March 2016. Each firm has been allocated a specific application period in which to apply. This staggered approach allows us to efficiently process the large number of applications. We began assessing authorisation applications in October 2014 and we expect this process to be complete in March 2017.

It has been a significant effort to build our capability to determine these applications. The number of firms we regulate has grown from around 26,000 to around 73,000 – two-thirds of our total regulated population is now conducting consumer credit activities, and the majority of these firms will be assessed over the coming year. We have had to develop significant and tailored communications to alert such a wide variety of firms to what they need to do to apply for authorisation.

To improve standards our approach is more detailed than the previous licensing regime under the Office of Fair Trading. We will scrutinise firms as they apply by ensuring that they meet our ‘threshold conditions’, which are the minimum standards that we

The number of firms we regulate has grown from around 26,000 to around 73,000.
expect firms to meet to be authorised and continue to do business.

We expect:

- customers to be treated with fairness
- firms to have a good understanding of the rules, regulations and objectives of regulation
- firms to have business models that do not rely on exploiting consumers

We want to help firms that put customers at the heart of their business to get authorised quickly and efficiently, but if firms have poor practices we may refuse their applications.

Changes to rules

We will review whether we need to make further changes to our Consumer Credit sourcebook (CONC), to address existing and emerging issues. We will engage with firms, trade bodies and other regulatory bodies to ensure we understand the way the market and the regulatory regime are working for both firms and consumers.

We published a consultation paper in February on credit broker remuneration, including issues such as guarantor loans, building on changes introduced earlier this year to improve transparency. We are also looking into how firms assess creditworthiness and affordability, including how consumers may be protected from taking on unmanageable debt. This includes looking in particular at issues around multiple and repeat borrowing. Subject to the findings, we intend to consult later in 2015 on changes to our rules on creditworthiness, to clarify our expectations of firms. We see this as a key element of responsible lending.

We are planning to consult on proposals in relation to cold-calling, as unsolicited marketing may be causing significant distress to consumers. We also want to look at the use of quotation searches, which will enable consumers to shop around for credit without their credit record becoming unduly impaired.

Our rules on high-cost short-term credit will also be strengthened to promote greater competition in light of the remedies proposed by the Competition and Market Authority’s payday lending market investigation.

Credit card market study

We are carrying out a market study into credit cards, looking at potential areas of concern for the 30 million people that use them.

We want to see the extent to which consumers drive effective competition by shopping around and switching, as well as how firms recover their costs across different cardholder groups and what impact this has on the market. We will also assess the extent of unaffordable credit card debt, and in particular whether some consumers are over-borrowing or under-repaying on their balances and whether firms have incentives to provide unaffordable lending that could lead to consumers being harmed.
Individual accountability

To drive a cultural change in the industry that puts consumers and market integrity at the heart of the way firms do business, we must ensure that senior individuals in positions of responsibility are held personally accountable for how their firm operates, and for the consequences of misconduct.

Over the coming year we will continue to focus on this, as well as remuneration practices and incentives in financial services firms. Our work in this area will also see us continue to implement recommendations made by the Parliamentary Commission on Banking Standards (PCBS).

Changing culture

A firm’s culture is a key driver behind the behaviour of those in it. In many cases, where things have gone wrong in a firm, a cultural issue is at the heart of the problem.

An effective culture is one that supports a business model and business practices that have the fair treatment of customers and clients at their core, as well as behaviours that are supportive of market integrity. Creating such a culture begins at the top, and we will continue to work with firms to ensure that conduct issues are a priority for them and a key issue on their boards’ agendas.

We will look at how a board engages in conduct issues, including for example, whether it probes high return products or business lines, whether it understands strategies for cross-selling products, how growth is obtained, and whether products are being sold to the customer segments they are designed for.

We will also ensure that firms are translating this customer focus into practices that drive how business decisions are made, how the firm responds to consumer-related issues and problems as they arise, how individuals should behave, how issues are escalated in an open way, and how remuneration and incentives are awarded.

Senior managers and certified persons regimes

The accountability of individuals in positions of responsibility needs to be improved and overall standards of governance raised. In July 2014, together with the PRA, we consulted on a new regime to strengthen accountability in banking.

Our proposed rules address recommendations made in the final Parliamentary Commission on Banking Standards (PCBS) report and create a new framework for UK banks, building societies, credit unions and PRA-designated investment firms. They will make it easier for both firms and regulators to hold individuals to account. Increased individual accountability will improve behaviour, benefit consumers and markets, and can help restore public trust in banking.

We will make final rules by the summer, and work with firms ahead of the changes coming in to effect by March 2016. We will also put in place a new accountability regime for incoming branches of foreign banks. Finally, we will also reform the existing accountability regime for insurance firms.
Remuneration codes

Performance management, and reward schemes are a powerful lever to influence the culture of any organisation. We have seen in financial services how the misalignment between incentives structures and corporate values can lead to excessive risk taking that is not in the interests of customers or market integrity.

Inappropriate remuneration policies were widely identified as a contributory factor behind the financial crisis, and are also highlighted in the PCBS recommendations and the Government’s Fair and Effective Markets Review. We introduced codes that make fundamental changes in firms’ approaches to remuneration to help avoid future crises. There is also broad international agreement on the need for supervisory action.

Our remit on remuneration is to make sure that pay practices in the firms we regulate do not encourage inappropriate risk taking and that variable remuneration is only paid or allowed to vest where justified by performance.

These codes apply to over 3,000 firms – including all banks, building societies, large alternative investment fund managers, broker-dealers, asset managers, plus some firms that engage in portfolio management, corporate finance, private equity, venture capital, and the provision of financial advice, brokers, multilateral trading facilities and others.

The regulation of variable remuneration remains a rapidly evolving area, and we will continue to play a key role in driving this, including by making final rules on deferral and claw-back to follow our consultation last year.

Enforcement action against individuals

During 2014/15 we successfully prosecuted, banned and fined individuals for misconduct and for breaching our rules. We will continue to focus our efforts on individual accountability in our enforcement work, and will continue to pursue appropriate cases against individuals.

Whistleblowing

Whistleblowers can play an important role in identifying wrongdoing but they may be fearful of personal repercussions. We consulted on a new regime designed to help firms foster a culture that gives their employees the confidence to speak out, which we will follow with final rules this year.

An effective culture is one that supports a business model and business practices that have the fair treatment of customers and clients at their core, as well as behaviours that are supportive of market integrity.
International issues

Many of the rules that we implement in the UK originate from EU and international agendas. The financial industry is a globally connected system – we saw in the financial crisis how issues in one area can have a huge impact elsewhere – so it is vital that we work together to ensure that the markets, and ultimately consumers, are safe.

International engagement

A large number of the rules we implement originate from broader international debate. It is therefore of great importance that we maintain consistent and effective relationships internationally beyond the EU to influence these decisions as they are made.

As such we will engage in international debates and rulemaking, to ensure that standards set (on consumer protection, market integrity and prudential matters within our scope) are consistent with our objectives. In doing so, we will coordinate with the Prudential Regulation Authority, the Bank of England, the Treasury and other Government departments. In particular we will remain an active member of the International Organisation of Securities Commissions (IOSCO) and the Financial Stability Board (FSB).

Where possible, we will use our relationships with key stakeholders around the globe to share information, ideas and good practice to find the best solutions. We will cooperate on supervisory and enforcement matters and the development of international standards. In June 2015 we will host securities regulators from across the world at the 40th IOSCO Annual Conference in London.

We will also continue to engage early in debates, taking the lead in negotiating where appropriate and drafting standards, and
and negotiating these binding rules. Of particular importance will be the technical standards developed in MiFIR/MiFID, Market Abuse Regulation (MAR/MAD), Capital Requirements Regulation and Directive (CRD IV/CRR) and Packaged Retail and Insurance-Based Investment Products (PRIIPs).

A number of existing proposals remain to be negotiated. Of these the Benchmark Regulation, Payment Services Directive 2 (PSD 2), Insurance Mediation Directive 2 (IMD 2) and Fourth Anti-Money Laundering Directive (AMLD) are the most significant for us. Our principal role here is to provide technical assistance to the Treasury who are the UK’s lead negotiators in Europe.

Implementing EU policy

There are a large number of pieces of European legislation that will affect our activities. In many cases we are under a legal obligation to implement this legislation. We also propose, consult and implement domestic changes to rules.

For European legislation, to ensure the intent of the legislation is achieved, is consistent with our objectives and is fit for the UK market, we will be working closely with our European counterparts and the ESAs themselves on drafting
Firms play a key role in the UK’s fight against financial crime, and we expect them to have effective, proportionate and risk-based systems and controls in place to ensure their business cannot be used for financial crime.

Financial crime

Fighting financial crime is an issue of great international significance and has been a top political priority of the UK and the EU for a number of years. This has an impact on the fight against organised crime generally, as by removing organised criminals’ access to money we can significantly reduce the power of criminal groups.

Firms play a key role in the UK’s fight against financial crime, and we expect them to have effective, proportionate and risk-based systems and controls in place to ensure their business cannot be used for financial crime.

At the same time, we expect them to avoid broad decisions to ‘derisk’ their books of entire categories of customers by denying or withdrawing their services to particular sectors and/or categories of customer, in ways that may be anti-competitive or impede legitimate consumers’ access to financial services. We will continue to work on this issue, emphasising that a risk-based approach to sectors and consumers is not simply risk avoidance, but requires risk judgements. We will analyse and, where appropriate, take action to address any concerns.

We will continue to focus particularly on anti-money laundering (AML) and anti-bribery and corruption (ABC). We are implementing an enhanced anti-money laundering supervision strategy, which includes continuing our Systematic Anti-Money Laundering Programme to assess AML (including counter terrorist financing and sanctions) and ABC controls at major firms. We will also continue our visits to smaller firms that may be exposed to a high risk of being exposed to financial crime. In addition, our thematic work will help us to assess how the industry is dealing with particular risks relating to financial crime and to give advice to the industry about how controls can be made more effective.

We will work closely with international and domestic partners in Government, law enforcement, regulation and the banking industry to combat current and emerging financial crime threats. The Financial Action Task Force (FATF) will continue its fourth-round of mutual evaluations and the EU will adopt the Fourth Money Laundering Directive, which we will help transpose into UK law. We will also contribute to the EU-level guidance and binding technical standards that are required by and will support the Directive. We will continue with the work associated with the competition review of wholesale markets, following the call for inputs.

Whistleblowing will continue to be a priority. After seeing an increase in the number of whistleblowers who contacted us in 2014/15, and in the quality of information they gave us, we will continue our work on whistleblowing and will embed better arrangements and support for whistleblowers in the coming year.
Our people

Demand for the knowledge and skills required to manage good conduct is growing in the financial services sector, and as a result our people are in high demand. We are actively building our ability to attract and retain talent and have achieved a 97% offer acceptance rate and 43,000 followers on LinkedIn.

We will also continue to widen our secondment and graduate programmes both in the UK and internationally. Last year we supported 171 secondments, 106 graduates and we established 87 exchanges with consumer agencies, regulated and professional service firms. This is an important way of providing our people with current consumer and commercial insights and giving firms an opportunity to embed our perspective of good conduct into their organisation.

Diversity and inclusion

We have strong gender diversity at senior levels and have hired a number of openly LGBT colleagues into our senior leadership team. We also achieved a place in Stonewall’s Top 100 Employers Index.

A continuing priority for us in 2015/16 will be to strengthen senior representation from our Black, Asian and Minority Ethnic talent pools.

Investing in our staff

A key element of our strategy is our FCA Academy. This is our core curriculum and training in each area of regulatory practice from authorisations to supervision and enforcement. The FCA Academy plays a central role by ensuring that our people have the development opportunities and support to deliver on our commitments and helps us attract and retain talent.

The academy also invests in the education of our future and senior leaders. We have established a next generation leadership development programme with Cranfield Business School, and a ground breaking senior leadership equivalent with Said Business School at Oxford University for those in our most critical roles. These partnerships provide access to the most current thinking in complex systems, scenario planning, neuroscience and behavioural economics.

As the FCA Academy grows we will increasingly look for opportunities to share ideas and resources with other regulatory organisations in the UK and overseas. We will also widen access for those in regulated firms, extending our education programme to become part of our wider regulatory toolkit.

Last year we supported 171 secondments, 106 graduates and we established 87 exchanges with consumer agencies, regulated and professional service firms.
When firms apply to us to carry out regulated business, we assess them to make sure they meet our standards.15 If they become authorised we then supervise the way they work and where we see risks to consumers and markets, or where competition isn’t working well for the benefit of consumers, we decide on the appropriate response, including intervening early and taking action to prevent harm.

This could include altering or creating rules, removing authorisation, taking supervision or enforcement action, or securing redress for consumers where necessary. We take a proportionate, judgement-based approach, assessing the risk a firm poses to our objectives and focusing our resources on the higher-risk firms. Where we consider it necessary to make or amend our rules, we consult with the industry before doing so.

By performing rigorous analysis – and by regularly engaging with various stakeholders, including regulated firms and individuals, statutory panels, trade and professional associations, consumer bodies, and consumers themselves – we can understand what is at the core of firms’ business models and cultures. Where we find poor practice we use our supervisory and enforcement tools to mitigate risks and secure redress for consumers where appropriate.

We consider the principles of good regulation16 when carrying out our work and we are committed to using our resources in the most efficient and economical way. This includes ensuring that our processes are not unduly burdensome for firms.

In addition to our key priorities for 2015/16, we will continue to perform our core functions, embed our new strategy, and carry out the following ongoing activities.

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15 The threshold conditions, which are the standards against which we assess firms, are set out in FSMA, Financial Services and Markets Act 2000
16 www.fca.org.uk/about/operate/principles
Assessing and supervising firms and individuals

Examining firms as they apply to do business

We examine firms as they apply to us to be authorised, using all the relevant information available to us to gain a thorough understanding of their internal culture, their business models and the way they treat their customers. We use a risk-based approach across all authorisation processes, according to the nature, scale and complexity of the proposed business.

We aim to:

- assess firms and individuals robustly to achieve good outcomes for consumers and the wider financial services market
- ensure firms’ business models are sustainable and approved individuals have sufficient competence and integrity, with a strong consumer focus present in all decisions
- allow good firms to enter the financial services sector quickly

We believe that 2015/16 will see similar volumes of activity as in previous years, and are expecting to receive over 150,000 cases of different kinds, in addition to consumer credit cases.

We prevent firms from entering the market that we believe may pose a significant risk to consumers or to the market through poor behaviour. Before we allow them to do business, they must address our concerns and we must be confident they have the right leadership and good practices in place to provide value and good outcomes for their customers.
Over 2015/16 we will focus on:

- Helping firms submit better quality applications
- Increasing engagement with innovative firms
- Improving our assessments of the fitness of senior individuals in deposit taking firms
- Developing our new IT system and delivering an effective and robust platform to collect firm and consumer intelligence
- Developing our processes to improve the efficiency, quality and effectiveness of our work

**Supervising firms**

We supervise the conduct of about 73,000 financial services firms operating in the UK, and we prudentially supervise those that are not covered by the Prudential Regulation Authority (PRA).

We look closely at firms’ business models and culture and use our judgement to assess whether they are sound and robust. We focus on the big issues and the causes of problems, as well as ensuring that there are accountable individuals in the firm if things go wrong. We have to be confident that if problems do arise, firms will be able to do the right thing for their customers and markets. Where we find poor practice we use our supervisory and enforcement tools to deter others, mitigate risks and secure redress for consumers where necessary.

Our supervisory approach is based on a number of consumer and market-focused principles. As a regulator we want to be forward-looking and pre-emptive, using our judgements rather than relying wholly on process to seek out problems.

We do not do this in isolation. We engage openly with the firms and individuals we regulate, being as transparent as we can be and listening through our consultations, firm visits and events. We are also joined up in our work where it affects other regulators, such as the Prudential Regulation Authority and the Bank of England.

Following our strategic review, our supervision model may be subject to some changes, especially for smaller firms. We will further shift our approach to supervision for these firms, by removing the distinction between C3 and C4, supervising individual firms on a more risk-based model, and removing some of our standard Pillar 1 activity.

**Supervising Client Assets – CASS**

There have been significant policy developments for CASS firms that will affect how we engage with and supervise them this year.

The Treasury has published an independent review of the Special Administration Regime (SAR), which makes numerous recommendations. We will review our client money distribution rules in line with this and consult on any new proposals in 2015. We will also publish final client money rules for insurance intermediaries in 2015 and we will engage with the market to assist in implementation.

We will consider the impact of international client assets initiatives and EU legislation on the CASS sourcebook and implement any necessary changes.
**Supervising consumer credit**

All regulated firms, including the providers of consumer credit or affiliated services, should have sustainable and well controlled business models, underpinned by a culture based on doing the right thing for their customers.

To ensure this we will focus on the following five key objectives, which are aligned with different stages of the customer journey:

- **Transparent communication** – information in advertisements and other promotions are clear, fair and not misleading.

- **Responsible lending** – lenders are taking appropriate steps to assess whether providing credit is affordable and sustainable, and lenders and brokers are not promoting products that are unsuitable for the individual borrower.

- **Treatment of customers in difficulty** – firms and individuals seeking to recover debts are treating customers fairly and exercising appropriate forbearance.

- **Suitable debt advice and solutions** – debt advice provision and debt solutions are accessible to those who need them, are suitable and are in the customer’s best interests.

- **Consumers’ best interests** are at the heart of how the firm operates – business models are appropriate, sustainable and incorporate adequate systems and controls, supported by a culture that is based on ‘doing the right thing’ for customers.

In our Business Plan 2014/15, we identified a number of key priorities for supervisory intervention. These included a proactive focus on the high-cost short-term credit and debt management sectors, where there was evidence of significant consumer harm. Over the last year, we identified credit broking as a new priority, in light of emerging evidence of unfair treatment of customers in this sector. We will continue to focus on these high priority sectors by:

- publishing the final report of our ongoing thematic review of the suitability of advice provided to their customers by debt management firms

- ensuring that the findings of the thematic review on arrears and forbearance by high-cost short-term credit lenders, published earlier in March 2015, are widely understood across the sector

- continuing to intervene to put things right where we find evidence that firms are not acting in the interests of their customers

We will widen the focus of our supervision activity, with a particular interest in affordability and forbearance across all sectors. We will launch two further thematic reviews into debt collection, and the role of staff remuneration and incentives in driving the way firms treat their customers. We will focus on ensuring that debt management firms and peer-to-peer lenders follow client asset rules and adequately protect and segregate client money. As well as this we will continue to review financial promotions across all consumer credit sectors to ensure that they are fair, clear and not misleading,
Ongoing activities and deliverables

and to tackle cases of poor practice across all sectors in response to specific intelligence.

We will take tough and meaningful action against the firms and individuals that break our rules, and will reinforce proper standards of market conduct. Firms do not meet the standards we expect will either have to adjust their business models and improve their conduct to meet the standards, or exit the market. New rules that apply to certain sectors of the consumer credit markets are likely to have a greater impact on firms and consumers – for example our price cap and conduct rules on high-cost short-term credit, and conduct rules for debt management and credit brokers.

We are aware that some firms might exit these markets as a result of our raised standards. We believe, however, that there will still be a viable market giving affordable loans, and with some presence on the high street. Early indications from the market suggest that this is indeed the case.

Some consumers might no longer be able to access credit markets where better compliance with affordability rules means lenders are no longer willing to lend. We believe that where consumers cannot afford to borrow, it is in their best interests not to borrow more, as this will only worsen their financial situation in the long run. In general, consumers will benefit from firms improving their standards, and from market exits of firms that caused harm.

Enforcement

We will continue to pursue a strategy of credible deterrence, taking tough and meaningful action against the firms and individuals who break our rules, reinforcing proper standards of market conduct and ensuring that firms put consumers at the heart of their businesses. We do this by promoting high standards of conduct by individuals in firms and taking action against those who do not meet them by using the full range of our criminal, civil, and regulatory powers. Where we find significant issues we intervene early and seek effective redress for consumers where appropriate.
Over 2015/16 we will continue to inform and educate members of the public about the dangers of dealing with unauthorised firms and take action against firms and individuals operating outside the perimeter in order to protect consumers. We will also reinforce our expectations of wholesale markets by taking action where firms fail to manage risks effectively or observe proper standards of market conduct and continue to deliver significant outcomes following intensive work on the attempted manipulation of the benchmark rates. We will continue to work very closely with our domestic and international regulatory colleagues and law enforcement agencies.

On 18 December 2014, the Treasury published its review of enforcement decision-making at the FCA and Prudential Regulation Authority and made 39 recommendations across the entire enforcement process. In 2015/16 we will also consider how best to implement the FCA-related recommendations.

From April 2015 we will have concurrent powers with the Competition and Markets Authority (CMA) to enforce certain contraventions of competition law in the financial services sector. We will consider how to use these new powers in conjunction with our existing toolkit to help us achieve our objectives to promote competition in the interests of consumers and ensure relevant markets function well.

Our role in primary markets, as the UK Listing Authority, is to ensure that those markets work well in performing their central role in bringing together investors and issuers, matching the need for capital with the need for investment opportunities.

Overseeing the financial markets

The UK is a global centre for the issuance and trading of securities – tradable financial instruments like shares and bonds – with issuers from almost every industry sector and from countries all over the world, and with a broad range of investors.

We oversee primary and secondary market activity, and aim to do so in a way that is proportionate, risk-focused and forward-looking, through educating the market, and using a range of tools and techniques. Our rules help to protect consumers and deliver market integrity by ensuring high standards of market practice and appropriate disclosure.

Our role in primary markets, as the UK Listing Authority, is to ensure that those markets work well in performing their central role in bringing together investors and issuers, matching the need for capital with the need for investment opportunities. Linked to this is our ongoing work to combat market abuse to ensure markets remain clean and fair, and that investors in them have the ability to invest with confidence.

Our aim in primary markets is to ensure that we appropriately balance investor protection with the need to ensure that those markets work well when providing capital for businesses and enterprises. We will maintain a focus on our key operational activities, to ensure they are carried out with timeliness, consistently and in a manner that responds appropriately to market developments. We will ensure we participate constructively in important debates on the shape of markets18, and proactively seek opportunities for market education and market engagement.

18 Such as those prompted by the Myners Report and the Capital Markets Union
Ongoing activities and deliverables

We will undertake a review of our listing fees to ensure they remain fair and appropriate, and to identify opportunities for greater simplification. We will refresh the technology that market participants use to submit documents to us to help improve the efficiency of the prospectus vetting process.

We will continue our review of conflicts of interest of sponsors in light of our consultation, and will ensure that the new sponsor competence requirements are embedded in sponsor firms in a proportionate and effective way. More broadly we will continue to try to broaden the range of market views and voices we seek out and take account of when addressing important market issues, while continuing to work constructively with the Listing Authority Advisory Panel.

Our efforts to combat market abuse will have a continued emphasis on education and engagement with industry to drive cultural change within firms. We will continue with our open and constructive supervision of the suspicious transaction reporting regime used across the industry and reach out to participants to discuss current and emerging surveillance issues. We will also continue to perform surveillance of the markets, using a variety of techniques and technology. This works in conjunction with other intelligence sources in tackling market abuse.

We will deliver an industry education programme on MiFID transaction reporting to provide market participants with the knowledge and skills to improve transaction reporting in their firms, leading to improved overall data quality to enable more effective monitoring.

Developing policy

When we make policy we set out what we expect from authorised persons and other market participants, focusing in particular on changing behaviour in financial markets. We consult publicly with the industry, consumers and other interested parties on our rules and guidance before they are published.

The evidence and analysis behind our proposals looks at the expected costs and benefits, and how the proposals are compatible with our statutory objectives, general duties and regulatory principles. We also consider the effects of rule changes on the different categories of the organisations and activities we regulate.

We make our policies by following these principles:

• Prioritising our policy activities so that they are targeted where they can make the most difference.

• Making new rules and guidance only if we think they will be effective at dealing with and proportionate to the problem we have identified.

• Planning our initiatives so they align with the European and international timetable. For example, this may mean delaying policy until there is a European initiative. We may want to carry out a post-implementation review or policy research in time to influence international initiatives, including planned reviews of European Directives.
How we operate

Working with stakeholders and other UK bodies

We work in collaboration with the UK Government, a number of other UK regulatory bodies and a wide range of stakeholders.

We have a statutory Memorandum of Understanding with the Prudential Regulation Authority (PRA) that sets out clear responsibilities for each regulator against which we regularly monitor performance, including quarterly joint reviews by the CEOs. We will continue to coordinate and cooperate with the PRA across all relevant activities, which we actively and jointly oversee.

We will continue to work with the Bank of England, the Financial Ombudsman Service, the Financial Services Compensation Scheme, the Competition and Markets Authority and the Money Advice Service. As a member of both the UK Regulators Network and the UK Competition Network, we will also continue to be engaged with broader regulatory issues and priorities.

We engage with the Serious Fraud Office, the National Crime Agency, the City of London Police and other enforcement agencies when taking action against firms and individuals that may have committed financial crime.

We will also work closely with the Payment Systems Regulator (PSR), – a subsidiary of the FCA, which was incorporated in April 2014 and will become fully operational in April 2015.

We will continue to create and develop relationships with consumer groups, which together with our own research, help us get the insights we need to understand the consumer experience and identify emerging issues.

Measuring our performance

Accountability and transparency are fundamental to how we work, and there are many ways in which we are held to account, including scrutiny and challenge from our board, independent Panels, our complaints scheme, and a requirement to report to the Treasury in the event of a regulatory failure.
**Reporting on our achievements**

A key part of this is how we measure performance and success and report on our achievements. The main way we do this is through our Annual Report. In this we report on a range of performance factors prescribed by FSMA, and self-imposed ones, such as the delivery of our business plan commitments, outcome measurement, operational effectiveness and efficiency, value for money and key work delivered. This shows how we are advancing our statutory objectives.

In our Annual Report we include several measures that analyse the efficiency and effectiveness of our activities, processes and services. Measures for our authorisations function include how we determine applications within the statutory service standards, the average time to make a decision on different types of cases, feedback from stakeholders on our process, quality assurance results, and the level of compliance over time demonstrated by newly authorised firms.

Examples from other areas include the delivery of our supervision model, the redress obtained for consumers, how we use our enforcement powers, the outcomes of our enforcement activity, the number of financial penalties levied, the number of fines and prohibitions, the delivery of market interventions (thematic work and competition market studies) to schedule, and the impact of specific interventions.

We also report the results of our outcomes-based performance framework. This analysis examines the external markets we regulate and assesses the impact of our work on our statutory objectives in different financial sectors. Our framework breaks down our statutory objectives into outcomes that we would like to see in the industry, indicators of these outcomes and performance measures. Our outcomes are aspirational and achieving them will take time; however, they tell us if we are heading in the right direction.

To make our work more transparent throughout the year we also publish a quarterly data bulletin, which provides information about what we do and the markets we regulate.

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### Measuring performance against the statutory objectives

<table>
<thead>
<tr>
<th>Statutory objectives</th>
<th>Ensuring that financial services markets function well</th>
<th>Promoting effective competition in the interests of consumers</th>
<th>Protecting and enhancing the integrity of the UK financial system</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Outcomes</strong></td>
<td>Consumers have access to fair products and services, which deliver what they promise</td>
<td>Consumers can be confident that firms treat them fairly and fix problems promptly</td>
<td>Competition contributes to improved consumer outcomes</td>
</tr>
<tr>
<td><strong>Outcomes indicators</strong></td>
<td>Fair products and services</td>
<td>Building trust and engagement</td>
<td>Value for money products and services</td>
</tr>
<tr>
<td></td>
<td>Improved consumer experience</td>
<td>Effective remedies</td>
<td>Getting better service</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td>Clear and useful information</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Low financial crime</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Respected, joined-up regulation</td>
</tr>
</tbody>
</table>
Analysing our performance
We analyse our performance against broad industry sectors based on consumer need rather than how the financial services sector is structured. The sectors we analyse are:

- **Retail banking**
- **Retail lending**
- **General insurance & protection**
- **Pensions & retirement income**
- **Retail investments**
- **Investment management**
- **Wholesale banking**
- **Capital markets**

We approach this pragmatically and take into account the appropriate use of our resources. This means we use all available research and analysis, rather than relying on large research programmes specifically designed by us. We use many sources of data and information for this analysis, which includes:

- **Complaints data** from which we learn about consumer issues, their experience with and treatment by firms, and of potential emerging issues. We use Financial Ombudsman Service data and our own complaints data for this.
- **Consumer trust in financial firms** in different sectors, and how firms have lived up to consumers’ expectations. Here we use surveys conducted by the European Commission, market research companies as well as our own market research.
- **Market share data** to gauge levels of concentration in different markets. We use financial returns from firms and market research for this.
- **Satisfaction of customers** with firms and of problems experienced in dealing with firms. Here too we use existing market research, as well as our own.
- **Switching between different providers**. We use information from the Payments Council, ABI and market research.
- **Level of reported financial crime**. Here we use information from Financial Fraud Action UK.
- **Firms’ view of financial regulation**, attractiveness of different markets and the competitiveness of the UK as a financial centre. We use existing reports and market research, as well as the Practitioner Panel’s survey to firms, and our survey to firms.

Measuring outcomes is challenging and regulatory success is hard to judge, especially as our success often exists in what we prevent from happening or worsening, which may not be as visible. Some difficulties include establishing cause-effect relationships, the time lag between our actions and their impact, and our limited control over outcomes that are heavily affected by external factors and the
The shift to a more markets-focused approach will broaden our understanding of issues in the market, improve our prioritisation and increase our impact.

Value for money

Value for money (VFM) encompasses our culture, behaviour, decisions and outcomes. Our overarching VFM strategy is to maximise our impact on our statutory objectives and desired outcomes, while minimising costs.

We will achieve this by delivering year-on-year improvements in effectiveness, efficiency and economy. One of the key drivers of our strategy is to increase our efficiency and effectiveness. The shift to a more markets-focused approach will broaden our understanding of issues in the market, improve our prioritisation and increase our impact. The emphasis we put on being flexible and agile, alongside our planned Efficiency and Effectiveness Review, will also contribute greatly to VFM.

In addition, we will be implementing a number of VFM initiatives throughout the year, and will monitor, measure and report on them. We will be focusing on embedding VFM into our culture, so that VFM implications are considered in everything we do. We will also work together with the National Audit Office (NAO) and address recommendations coming from its review of the FCA.

How we organise ourselves

To help embed our new strategy we have made changes to our structure as an organisation to enable us to better identify and address risks and take a more markets-focused approach, using intelligence and analysis to form a common FCA view of markets and key sectors.

We set out our new structure in Annex 3.

Our budget for 2015/16

Our annual budget reflects the cost of the resources we need to carry out our work in 2015/16, and is set in the context of the environment that we operate in:

- the policy and regulatory environment, including the increasing amount of EU legislation and the impact of UK Government policies
- changing economic conditions and market developments
- the continuing need to invest in our people
- the need to adapt to the changing technological environment while maintaining our existing systems

The key elements of our budget are:

- the cost of our core operating activities (our Ongoing Regulatory Activity) the largest element of which is our people
- the total amount we charge the industry to fund our plans (our Annual Funding Requirement)
• capital expenditure for the development of our information systems to deliver new regulatory and operational requirements

• the costs of delivering the consumer credit regime and the Payment Systems Regulator

Operating costs

Our budget for our Ongoing Regulatory Activity (ORA) for the year is £479m, an increase of £27m (6%) driven by investment in our people and in our information systems.

We will increase our ORA-funded headcount to about 3,060 FTE to help us deliver our competition objective, undertake more enforcement activity to combat market abuse and unauthorised business, and enhance our supervisory model for benchmarks. We will also invest in Project Innovate, our new initiative to ensure the regulatory environment is supporting innovation in the market.

It is vital that we attract and retain the right people to achieve our objectives. In particular, we will continue to invest in the FCA Academy to offer continuous, relevant training and development to our people.

This will be supported by our ongoing work to upgrade and improve our information systems (IS) and technology platform to ensure that our systems efficiently support our key regulatory functions.

Ongoing Regulatory Activity (ORA) expenditure

<table>
<thead>
<tr>
<th>Operating costs</th>
<th>2014/15 £m</th>
<th>2015/16 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff costs</td>
<td>263.8</td>
<td>279.9</td>
</tr>
<tr>
<td>IS costs</td>
<td>88.2</td>
<td>95.2</td>
</tr>
<tr>
<td>Depreciation</td>
<td>42.5</td>
<td>47.3</td>
</tr>
<tr>
<td>Accommodation and office services</td>
<td>30.6</td>
<td>30.5</td>
</tr>
<tr>
<td>Enforcement case costs</td>
<td>11.0</td>
<td>10.7</td>
</tr>
<tr>
<td>Professional fees</td>
<td>18.1</td>
<td>17.6</td>
</tr>
<tr>
<td>Training, recruitment, travel</td>
<td>12.8</td>
<td>16.2</td>
</tr>
<tr>
<td>Printing and publications</td>
<td>3.6</td>
<td>3.9</td>
</tr>
<tr>
<td>Other costs</td>
<td>4.6</td>
<td>3.1</td>
</tr>
<tr>
<td>Sundry income</td>
<td>(23.2)</td>
<td>(25.6)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>452.0</strong></td>
<td><strong>479.0</strong></td>
</tr>
</tbody>
</table>
Capital expenditure

Our capital expenditure budget reflects the ongoing delivery of the Information Systems Investment Programme (ISIP) and INTACT system for interacting with firms (INTElligent Application of Case management Technology) as well as implementing the new Markets in Financial Instruments Directive (MiFID) and Regulation (MiFIR).

<table>
<thead>
<tr>
<th>Capital expenditure</th>
<th>2014/15 £m</th>
<th>2015/16 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT systems development</td>
<td>21.7</td>
<td>19.6</td>
</tr>
<tr>
<td>IT infrastructure</td>
<td>22.6</td>
<td>21.0</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>2.2</td>
<td>3.9</td>
</tr>
<tr>
<td><strong>Total capital</strong></td>
<td><strong>46.5</strong></td>
<td><strong>44.5</strong></td>
</tr>
</tbody>
</table>

Annual Funding Requirement (AFR)

Our AFR for 2015/16, which excludes the cost of setting up our consumer credit regime, is £481.6m, an increase of 7.9%. This includes our operating costs and the additional scope changes we need to embed the Alternative Investment Fund Managers Directive. Tighter budgeting has resulted in no under spend this year to be returned to fee payers (2014/15 – £10m).

<table>
<thead>
<tr>
<th>Annual Funding Requirement (AFR)</th>
<th>2014/15 £m</th>
<th>2015/16 £m</th>
<th>Movement %</th>
</tr>
</thead>
<tbody>
<tr>
<td>ORA budget</td>
<td>452.0</td>
<td>479.0</td>
<td>6.0%</td>
</tr>
<tr>
<td>Recovery of scope change activities</td>
<td>4.4</td>
<td>2.6</td>
<td>(40.9%)</td>
</tr>
<tr>
<td><strong>Less:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Underspend</td>
<td>(10.0)</td>
<td>(0.0)</td>
<td>10.0 (100.0%)</td>
</tr>
<tr>
<td><strong>Total AFR</strong></td>
<td><strong>446.4</strong></td>
<td><strong>481.6</strong></td>
<td><strong>7.9%</strong></td>
</tr>
<tr>
<td>Financial Penalty Rebate</td>
<td>(39.1)</td>
<td>(40.3)</td>
<td>(1.2) (3.2%)</td>
</tr>
<tr>
<td>Fees payable</td>
<td>407.3</td>
<td>441.3</td>
<td>33.9 (8.3%)</td>
</tr>
</tbody>
</table>

Consumer credit

In 2015/16 we plan to increase consumer credit headcount to 500 FTE and incur £43m costs driven by authorising firms under the consumer credit regime (£16m associated project costs incurred in 2013/14). Consumer credit firms will not be billed in full for the annual costs of regulating consumer credit until 2016/17. These costs are not included in our ORA budget or AFR in 2015/16. The costs are instead ring-fenced so that they do not flow through to fee payers until the consumer credit regime is fully operational in 2016/17.

Payment Systems Regulator

The Payment Systems Regulator (PSR) becomes fully operational from April 2015.

The PSR is a separate legal entity, based at the FCA, with its own board and objectives. The estimated set-up cost for the PSR is £12m, which we are consulting on recovering over a one to three-year period. In addition there will be ongoing costs recovered annually.

You can find more details in the PSR’s Annual Plan.
Applying financial penalties

We must pay to the Treasury all financial penalties that we receive, less certain enforcement costs.

These retained penalties are used to reduce our fees for firms, apart from the fees of the penalty payer themselves. We estimate the financial penalty rebate to be £40.3m in 2015/16.

Impact on our fee payers

Every year we consult with our fee payers on how we allocate our Annual Funding Requirement (AFR) between fee-blocks and how we set our fee rates for the forthcoming financial year. We do this via our fees consultation paper, which we publish in March every year.

Our consultation paper summarises the main elements of our ORA budget and explains how this has been allocated across fee blocks, as well as any changes being made to the fee blocks. Among other things it also explains any proposed change to the minimum fee and provides details of the financial penalty scheme, our estimated financial penalty rebates for 2015/16, and our current and future proposals for consumer credit fees. The chart below reflects how we will be funded by industry sector as proposed in our March 2015 consultation paper.

Community engagement and sustainability

Through creating volunteering and community engagement opportunities, we encourage our staff to gain an understanding of the diversity and breadth of different consumers, their financial behaviours and the impact our regulatory decisions could have on them, while positively contributing to the wider community. We will continue to allow people to use 28 hours per calendar year for this.

We constantly strive to manage and reduce our impact on the environment. We look to reduce our costs and safeguard resources through finding efficiencies that help the environment. These include smarter use of energy, paper and water, and we encourage our people to reduce, reuse and recycle.

Currently approximately 75% of all our waste is recycled or composted. All other waste is processed at an energy recovery site, in line with our zero-waste to landfill policy. We will continue to look at our practices and policies, such as procurement and travel, to ensure we are being as efficient and environmentally friendly as possible.
### Current and planned market studies and thematic work

<table>
<thead>
<tr>
<th>Sector</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross sector</td>
<td>Visibility of IT resilience and risks at Board Level</td>
<td></td>
<td>Performance management of staff</td>
<td></td>
</tr>
<tr>
<td>General insurance and protection</td>
<td></td>
<td></td>
<td>Commercial claims by SME customers</td>
<td>Distribution chains – end date TBC</td>
</tr>
<tr>
<td>Pensions and retirement income</td>
<td>Annuities sales practices</td>
<td></td>
<td>Fair treatment of long-standing customers in life insurance</td>
<td></td>
</tr>
<tr>
<td>Retail investments</td>
<td></td>
<td></td>
<td></td>
<td>Due diligence for financial advisers – End date TBC</td>
</tr>
</tbody>
</table>

#### Key
- **Carry over**
- **Confirmed new work**
- **Confirmation, scope and dates TBC**

* Post April 16
## Current and planned market studies and thematic work

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
</tr>
<tr>
<td><strong>Technology: use of Big Data and access market study</strong>*</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Role of Appointed Representatives</strong> – start and end date TBC</td>
<td></td>
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<tr>
<td><strong>Retirement sales practices</strong> – start and end date TBC</td>
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<tr>
<td><strong>Culture review</strong> – start and end date TBC</td>
<td></td>
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<tr>
<td><strong>Retirement outcomes</strong> – consumer outcomes from advised and non-advised sales – End date TBC</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Emerging distribution models (non-advised sales) market study</strong>*</td>
<td></td>
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<tr>
<td><strong>Inducements and conflicts of interest</strong></td>
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</tr>
<tr>
<td>Sector</td>
<td>Q1</td>
<td>Q2</td>
</tr>
<tr>
<td>-------------------------</td>
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</tr>
<tr>
<td>Retail lending</td>
<td>Quality of debt management advice – mitigation phase</td>
<td></td>
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<tr>
<td>Retail banking</td>
<td></td>
<td>Unauthorised transactions</td>
</tr>
<tr>
<td>Wholesale banking</td>
<td>Controls over flows of information in Investment banks</td>
<td></td>
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<tr>
<td>Investment management</td>
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</tbody>
</table>

**Key**
- **Carry over**
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* Post April 16
### Current and planned market studies and thematic work

<table>
<thead>
<tr>
<th>2015</th>
<th>2016</th>
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<tr>
<td>Q1</td>
<td>Q2</td>
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<tr>
<td><strong>Mortgages – post MMR/responsible lending and market study – end date TBC</strong></td>
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<tr>
<td><strong>Collection of unsecured debts</strong></td>
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<tr>
<td><strong>Staff remuneration and incentives in consumer credit</strong></td>
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<tr>
<td><strong>Packaged bank accounts</strong></td>
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<tr>
<td>**Investment and Corporate Banking * **</td>
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<tr>
<td><strong>Conflicts of Interest in dark pools</strong></td>
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<tr>
<td><strong>Post authorisation review of funds</strong></td>
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<tr>
<td><strong>Wealth management review (suitability of client portfolios)</strong></td>
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<tr>
<td><strong>Asset management market study – end date TBC</strong></td>
<td></td>
</tr>
</tbody>
</table>
## Current EU initiatives

- Consultation / drafting
- Level 1 negotiation
- Transposition / Technical standards

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Implementation Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solvency II</td>
<td>2012-2017</td>
</tr>
<tr>
<td>Single Euro Payments Area (SEPA)</td>
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<tr>
<td>European Market Infrastructure Regulation (EMIR)</td>
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<tr>
<td>Omnibus II</td>
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<tr>
<td>Alternative Dispute Resolution Directive / Online Dispute Resolution Regulation</td>
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<tr>
<td>Mortgage Credit Directive (CARRP)</td>
<td></td>
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<tr>
<td>Capital Requirements Directive IV / Regulation (CRD IV/CRR)</td>
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<tr>
<td>Transparency Directive II</td>
<td></td>
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<tr>
<td>Accounting Directive</td>
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<tr>
<td>Markets in Financial Instruments Directive II and Regulation (MiFID2/MiFIR)</td>
<td></td>
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<tr>
<td>Market Abuse Regulation (MAR)</td>
<td></td>
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<tr>
<td>Credit Ratings Agencies Regulation</td>
<td></td>
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<tr>
<td>Audit Regulation and Directive</td>
<td></td>
</tr>
<tr>
<td>Venture Capital Funds and Social Entrepreneurship Funds Regulation</td>
<td></td>
</tr>
<tr>
<td>Revised Data Protection Directive and Regulation</td>
<td></td>
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<tr>
<td>Central Securities Depositories Regulation (CSDR)</td>
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<tr>
<td>Bank Recovery &amp; Resolution Directive (BRRD)</td>
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<tr>
<td>Packaged Retail and Insurance-based Investment products (PRIIPS)</td>
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<td>Insurance Mediation Directive II (IMD II)</td>
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<tr>
<td>Undertakings for Collective Investment in Transferable Securities Directive (UCITS V)</td>
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<tr>
<td>Anti-Money Laundering Directive IV (AMLD IV)</td>
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<td>Wire Transfer Regulation</td>
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<tr>
<td>Payment Accounts Directive (PAD)</td>
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<tr>
<td>Regulation on Interchange Fees</td>
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<tr>
<td>Long Term Investment Funds Regulation (ELTIF)</td>
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<tr>
<td>Payment Services Directive II (PSD II)</td>
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<tr>
<td>Regulation on Money Market Funds (MMF)</td>
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<tr>
<td>EU Benchmarks Regulation</td>
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<tr>
<td>Bank Structural Reform Regulation</td>
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<tr>
<td>Reporting and Transparency of Securities Financing Transactions Regulation</td>
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<tr>
<td>Institutions for Occupational Retirement Provisions Directive (IORP)</td>
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<tr>
<td>Revised Shareholders’ Rights Directive</td>
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<td>Review of the Prospectus Directive</td>
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<tr>
<td>EU framework for simple, transparent and standardised securitisations</td>
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Current EU initiatives

Dates are approximate and are subject to change
FCA organisation chart