



The Davis Review – The FCA Response

10 December 2014

1. Introduction

- 1.1 On 8 April 2014 the Financial Conduct Authority's (FCA) Non-Executive Directors appointed Simon Davis of Clifford Chance to conduct an independent inquiry into the handling of the FCA's announcement of proposed supervisory work on the fair treatment of long standing customers in life insurance. The FCA has now published the report of Mr Davis' review in full.
- 1.2 Mr Davis has produced a comprehensive and rigorous report based on a forensic analysis of a significant amount of evidence, both written material and interviews with individuals. The report has been produced in accordance with the published terms of reference and protocols which were agreed at the outset.
- 1.3 In his report Mr Davis makes a number of criticisms of the way the FCA handled the launch of the 2014/15 Business Plan and in particular the communications of the scope of the proposed thematic review of life assurance.
- 1.4 The FCA Board fully accept Mr Davis' criticisms and on behalf of the FCA we apologise for the mistakes that were made and the shortcomings in systems and controls which his report has revealed.
- 1.5 We are making a number of changes to our structure and operating model in order to sharpen our focus, which will also address some of the issues identified in the report.

2. The main findings

- 2.1 The report provides a detailed account and a thorough analysis of the events leading up to and immediately after the publication of the Daily Telegraph story about the FCA's planned life assurance review on 27 and 28 March 2014. Although it is a lengthy document, Mr Davis has provided a concise Executive Summary (Chapter 4) and a summary of his recommendations (Chapter 19).
- 2.2 Of particular relevance is the following extract from paragraphs 4.4 and 4.5 in the Executive Summary:
 - 4.4 *The FCA's strategy of giving an advance briefing to The Telegraph in relation to the scope of the Life Insurance Review was well intentioned: the FCA had sought to avoid the nature and scope of the Life Insurance Review being misunderstood when it was announced for the first time in the Business Plan, to be published on Monday March 31 2014.*
 - 4.5 *The strategy and the manner in which it was pursued was, however, high risk, poorly supervised and inadequately controlled. When it went wrong, the FCA's reaction was seriously inadequate and fell short of the standards expected of those it regulates.*
- 2.3 As well as errors by individuals, the report identifies a number of shortcomings in the FCA's systems and ways of working.

3. The recommendations

3.1 In Chapter 19 the report makes recommendations across seven areas about changes to our systems, processes and ways of working, which would help to avoid the situation ever occurring again.

3.2 We accept all of these recommendations and have already made progress in acting on them.

3.3 In parallel we have completed three separate pieces of work looking at:

- the handling of price sensitive information
- the external communications strategy
- the FCA issue and crisis response framework

The outputs of all three are now being implemented alongside Mr Davis' recommendations.

3.4 Good progress has been made in the following areas, which were identified by Mr Davis as particularly important.

3.5 We have introduced substantial improvement in the procedures relating to the identification, control and release of price sensitive information. We have informed staff of the revised policies and guidance. We have begun central training about these revised procedures for all managers and further training and awareness initiatives will be rolled out to all staff within their divisions shortly.

3.6 In future the annual Business Plan will be released to all market participants at the same time.

3.7 We have reaffirmed our existing policy and practice that we will not brief price sensitive information externally under any circumstances. In addition, selective media briefing without an embargo on any thematic review, or indeed any other announcement, will only take place after the relevant team have agreed the communications approach and with the express approval of the Chief Executive.

3.8 We have agreed and implemented new sign-off procedures for all external and internal communications.

3.9 We are developing new operational protocols which will apply to communications with our audiences, including the media. These will be benchmarked against those of other regulators.

3.10 We are enhancing our frameworks to support incident, issue and crisis handling, recognising that speed of escalation and decision-making are critical in such situations.

4. Strategic review

- 4.1 We recently announced a number of changes to our structure and operating model. These changes, which result from a recently completed review of our strategy, are primarily designed to sharpen our focus and increase our effectiveness. The [review](#) and the [new structure](#) were published on Monday 8 December and details can be found on the [FCA website](#).
- 4.2 We have achieved a great deal over the 18 months since the FCA was established and have much to be proud of. This review will build on that success and we remain committed to our mission as a forward looking, judgement based and proactive regulator.
- 4.3 Although not a direct response to Mr Davis' report, we believe the changes we are making will also address some of the issues and challenges he has identified.
- 4.4 As a consequence of the new strategy and organisational structure Executive Committee members Clive Adamson and Zitah McMillan have announced that they have decided to leave the FCA.

5. Individual accountability

- 5.1 In considering Mr Davis' report the FCA Non-Executive Directors recognised that a number of individuals made errors. Having thoroughly reviewed the report the Non-Executive Directors have agreed the following actions.
- 5.2 Chief Executive, Martin Wheatley, Director of Supervision, Clive Adamson, Director of Communications and International, Zitah McMillan and Director of Markets, David Lawton will not be receiving a bonus for 2013/14.
- 5.3 Reflecting their collective responsibility, the 2013/14 bonus payments for all other members of Executive Committee have been reduced by 25%. Other disciplinary action has been completed as appropriate.

6. Costs

- 6.1 An independent report of this length and complexity inevitably calls for a high level of specialist expertise and has incurred some costs. The total costs of the report since it was commissioned in April this year have been £3.15m excluding VAT, and £3.8m including VAT. A breakdown of the costs is available in Annex 1.

7. Moving forward

- 7.1 We are grateful to Mr Davis for the care and detailed consideration he has taken with this comprehensive report.
- 7.2 As a regulator we recognise that we must hold ourselves to the highest standards and we have learned a great deal from this report. We will do our utmost to ensure that a situation like this will never happen again.

Annex 1

Service	Supplier	Amount (ex VAT)
The report	Clifford Chance	£2.04m
Advice to FCA and witness representation	Kingsley Napley	£1.0m
Strategic communications advice	FTI Consulting	£60,000
IT support	Fujitsu	£50,000
Total (ex VAT)		£3.15m