

Financial Conduct Authority

Review of Board Effectiveness

The Board commissioned Advanced Boardroom Excellence to conduct an evaluation of the Board between May and July 2021. The Board discussed the Board Evaluation at a meeting in October 2021.

The Board welcomes the review and has established a programme of workshops to run for the remainder of the year to discuss how best to implement its recommendations in the context of the government's Future Regulatory Framework review and a change in Chair in Spring 2022.

In an environment where the responsibilities of the regulator are increasing and its remit widening, the Board particularly notes the Evaluation's recommendation to HM Treasury that the size of the Board be increased by at least one director.



FINANCIAL CONDUCT AUTHORITY

INDEPENDENT EXTERNAL BOARD REVIEW

Prepared By:

Advanced Boardroom Excellence Ltd

September 2021

INTRODUCTION

This Independent External Board Evaluation of the Financial Conduct Authority (FCA) was conducted by Advanced Boardroom Excellence Limited, an independent Board Effectiveness consultancy, against the principles set out in the Board Effectiveness framework shaped by the Financial Reporting Council (FRC) in their Guidance on Board Effectiveness.

The FCA conducts regular Board Evaluations, previous evaluations were taken into account in so far as they still had relevance.

As with all Effectiveness Reviews of this nature (see Appendix A) they involve examining:

- Board Structure
- Board Management
- Board Processes
- Board Support
- Director Independence
- Collective and Individual Director Competence and Capability, and
- Board Dynamics and Behaviour
- Committees
- Chairmanship
- Strategy

This enables conclusions to be drawn for the collective Board Effectiveness and Individual contributions to that Effectiveness.

REVIEW PROCESS

The Review commenced in May 2021 and concluded at the Board meeting held on the 8 September. It was agreed that the areas identified from the interviews, observations and documentation review gave the Board clear areas where they agreed to take action.

One to one interviews took place with all nine Directors and six other Stakeholders. The Board and Committees were also observed and documentation covering the Board and Sub Committees was reviewed. The information collected formed a full picture of the Board's Effectiveness.

The Directors were sighted on all the issues and challenges identified in the Review and were very committed to continuing the work, already commenced in many of these areas.

CONTEXT OF THE REVIEW

The results of this Board Review show a developing Board which is responding to the challenges of a very wide scope of change and activity. This is a strong Board of individuals who have a clear sense of drive and commitment to deliver on the goals of the

FCA.

The Review was set within the context of:

External and Internal Environment

- An internal and external pressure for change.
- An equally large amount of internal activity and a significant Transformation programme established to meet that drive for changes in the organisation.

Board

- A NED tenure which is relatively short in the majority of instances.
- A Board operating under the constraints of the challenging Covid landscape necessitating remote interaction, with a number of new Members joining during the Covid pandemic.
- A group of highly skilled individuals across the Board and Executive, with the drive and desire to deliver the Transformation of the Organisation.

Executive

- A New CEO and Executive Team, with the majority of the Executive Committee being new since the CEO's appointment.
- A CEO, Executive Leadership Team and Board with a clear grasp of the issues to be tackled, along with the priorities and sequencing of the challenges.

Board Actions and Progression

- A desire and drive to move through the Transformation period to a more Business as Usual operation.
- A number of Board actions already in progress against the recommendations.
- A realistic recognition that there is a significant amount of change and activity under way, with the Organisation and Board on a continuing journey, with a number of items as Work in Progress.

SUMMARY OF FINDINGS

The Chair has led (with the Treasury) a successful shaping of the Board and supported the new CEO, to drive Organisational change and oversee a significant change across the Executive Leadership Team.

Consequently, this is a strong, experienced and independent Board, with diverse experience and skills. However, while there has been a great deal of remote interactions, between many NEDS as well as Executives outside board meetings, at teach ins and workshops; the Board acknowledges that they will benefit greatly and their cohesion will accelerate further once they are able to meet in person.

BOARD STRUCTURE

In view of the huge agenda and challenges faced by the organisation and the significant NED Committee workload observed during the Review, there is a clear rationale for more NEDs. However, it is recognised this is not in the organisation's gift, but a matter for the Treasury.

Also, additional Committees may well be required to support the operation of the Board and do some more of the 'heavy lifting'. In any event the Committees need to be reviewed, with appropriate working groups considered and the allocation of NEDs to each Committee revisited. This includes ensuring the Terms of Reference are clear and avoid any unproductive duplication.

BOARD PROCESSES

It was recognised that there were a number of Board Processes which were 'Work in Progress' covering Board succession, Executive pipeline development and Executive remuneration etc, but these were going in the right direction

BOARD SUPPORT

The information flow to the Board and nature, content and layout of the papers needs addressing to enable the Board to have even more effective oversight. A more integrated approach will facilitate further challenge and debate and faster decision making. The timing of these papers and when they are provided also needs addressing. This is an area the CEO will work on with his Executive Team.

DIRECTOR INDEPENDENCE

This is a strong Independent Board with diverse experience and skills, which will continue to progress as the more face to face Board dynamics develop.

COLLECTIVE AND INDIVIDUAL BOARD CAPABILITY

This is a key area of strength for the Board with the opportunity to leverage Individual and Collective strengths further and give even more support to the Chair. This Individual and Collective capability can be further developed as the Board continues to form as a group, with more direct face to face contact.

Ongoing Induction and Development Processes will accelerate the Board's Individual and Collective capability.

BOARD DYNAMICS

Board relationships are forming well, the calibre of recruits suggests the dynamic will accelerate as the Board has more face-to-face time and sets aside more NED only time.

This is an extremely hardworking passionate Board, who care about the FCA and its core purpose, are realistic about the challenges and comfortable being critical about themselves, motivated entirely from wishing to continuously develop and improve.

COMMITTEES

The right Committees with predominantly the right people on them exist. There is scope to ensure the terms of reference of the Committees complement each other further and to ensure skills and capabilities of the NEDs are being appropriately deployed and rotated.

Whether expanded remits for the Committees e.g., Remuneration, Nominations or new Committees are required will be the subject of review and is already Work in Progress.

CHAIRMANSHIP

There is widespread acknowledgement of the huge burden the Chair has shouldered whilst the building blocks for this Board and Executive were put in place. The Chair's skill, intellect and capability, along with his ability to engage positively with key stakeholders, was also a key positive feature in this review. There is a recognition that NEDs can now do more to share the workload of things that need to be done.

STRATEGY

Strategy is an area of opportunity, now that the Board and Executive teams are in place, for further clarity and alignment and to develop a clear focus and agreement on the collective Board Strategy.

In this context the Board need to decide what key Strategic Options are open to them within the constraints of the FCA's Statutory Framework.

KEY THEMES ARISING FROM THE REVIEW

This Board Review has made recommendations as the organisation emerges from the Covid constraints to further leverage the Board's Collective Capability across a range of Board Effectiveness characteristics.

The emerging themes from the Review are:

- There has been a significant amount of endeavour and hard work, initially by the Chair to shape the Board, subsequently by the Chair and CEO to rebuild the Executive Team and currently by the Chair, CEO, NEDs and Executive to get the organisation to a more positive basis for the future.
- As the Board seeks to develop its effectiveness it is recognised there continues to be a range of areas for progression.
- This is a well-regarded, diverse and skilled Board poised to develop to the next level.
- This is also a Board that responded extremely well to the immediate priorities and challenges of the Covid crisis.
- The Chair has increasingly taken a pro-active approach to developing the whole Board as a coherent collective group to continue focus on the key issues.
- The Board is emerging from a historical context of external pressure where it has been required to be overly detail focussed.
- The Board is pushing hard to develop further the support and information to carry out its oversight role.

- The Chair is looking to promote further active debate, discussion and challenge across the Board on the key priority issues and to further leverage and facilitate the Experience, Skills and Diversity of the NED's as a group.
- The Chair and the Board are seeking to take an increasingly Strategic perspective and Oversight of the organisation.

All the Board Members wish to support this collective approach and their own development and facilitate and develop their interaction with the Executive team.

This Review should provide the opportunity for the Chair, Board and Executive to further progress beyond a transactional and directive approach, necessitated over the past two years by external pressures, Board changes and the immediacy of the Covid landscape. It should provide a platform to continue to progress a more collective approach to scrutiny and the challenges of the Organisation, coupled with a more Strategic longer-term view of the future.

Action on a number of the recommendations is currently in progress.

BOARD EFFECTIVENESS

Within the overall Review of the Board's Effectiveness, this is a positive Report of a Board and Executive emerging well in a period of intense Organisational Transformation.

The Review considered the Board's Effectiveness across a range of 32 criteria, none of the criteria was seen as deficient.

There were a number of key areas of Effectiveness, with a mature Board recognising there is yet more to do to strive for excellence, namely:

AREAS OF EFFECTIVENESS

- The Board's Current Skills and Experience
- Openness and awareness of Dominance
- Committees and their composition
- Working with the SID
- Inclusiveness of Debate
- Interaction with CEO
- Board Development and Induction
- Independence and Quality of Challenge
- Remuneration Leadership
- Style, Tone and Integrity of the Board
- Executive Succession and Pipeline planning
- Interaction and Cohesion between the Board

EMERGING AREAS OF EFFECTIVENESS

A further twenty emerging areas of Effectiveness were identified as ongoing 'Work in Progress.'

As Board Evaluators we were particularly impressed by the Transparency, Openness and Candour in all the interviews which facilitated an efficient and effective review. The access we were given to information in terms of Terms of Reference, minutes etc also greatly assisted the process.

ADDITIONAL AREAS ARISING FROM THE REVIEW

From the Review and Board Discussions a number of areas were established as requiring additional clarification and definition, namely:

FOCUS OF THE BOARD DISCUSSIONS

How the individuals on the Board wish to spend their individual and collective time in order to further enhance their input and involvement?

BOARD INFORMATION

How to gain real clarity on the information required by the Board?

EXECUTIVE AND BOARD INTERACTION

Further crystallisation of what the Executive wants and needs from the Board?

CLARITY OF ROLES

How to gain real clarity of where responsibility and accountability lies i.e., what falls to the Executive and what resides with the Non-Executive Directors?

BOARD DEVELOPMENT

How to gain Clarity with regard to how to transition from Effective to Excellent for this Board over the next three years?

Themes of Strategic Alignment, Information Flow and consequent further debate were discussed.

BOARD PROGRESSION

At the Board discussion of the Review, it was agreed that further clarity in relation to the What? and the How? would help to take these areas identified in the Review forward. A Board sub-Committee was formed to facilitate this.

