



# **Mission**

# **Press Conference**

Tuesday, 18 April 2017

## Welcome and Agenda

Andrew Whyte  
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### Introduction

My name is Andrew Whyte, I am Director of Communications here at the FCA and I will be steering you through and chairing this morning's session. Let me introduce our panel members, first of all. Andrew Bailey, Chief Executive, will be known to most of you I am sure and then, going from right to left, along the members of our Executive Committee: Megan Butler, who is the Executive Director of our Wholesale Supervision area; Chris Woolard, who is Executive Director of Strategy and Competition; Mark Steward, who is Executive Director of Enforcement and Market Oversight; Nausicaa Delfas, who is our Chief Operating Officer; and, at the end, Jonathan Davidson, who is Executive Director of Supervision for Retail.

Just a few ground rules before we start: this is an on-the-record press conference so of course anything that is said this morning can be reported. As is our normal practice, the whole press conference will be recorded and in the interests of transparency we will publish a full transcript later today. So it does mean anything you say or ask will be recorded and will be published later today. And, of course, you are welcome to live tweet as we go on.

We have about an hour. In a moment I am going to ask Andrew to say a few words for about ten minutes or so and then we will have about 45 minutes for questions. You will be pleased to know that Andrew's opening statement will be published in full at the end of the press conference so you can give your shorthand a rest for the time being at least.

So, without further ado, I am going to hand over to Andrew Bailey to say a few words.

### Chief Executive's Remarks

Andrew Bailey  
*Chief Executive, FCA*

#### Overview of the five publications

Thank you and good morning; thanks for coming in immediately after Easter. This morning we are publishing five documents: the mission statement, sector views, our business plan, our annual consultation on fees and then the fifth one is online-only, a feedback statement to the consultation that we carried out on the mission from the paper that we issued last autumn.

So, if you take all of these together, we think that it represents a big step forward in explaining how we see the role of the FCA and thus in transparency, and that is important because the focus, particularly of the mission, is on why we regulate financial conduct in this country and to what end. Our view of the issues and the challenges in the sectors we regulate, that is obviously the sector views paper focus. Our plan for the period ahead and the priorities we identify, and that is obviously the focus of the business plan, and then the budget that we are setting, which is obviously the focus of the fees paper.

#### Mission statement

Let me start with the mission statement. Our mission is to serve the public interest and to add public value through our contribution to society. That sounds like a pretty obvious statement to make, I am sure, but the lesson, I think, of history is that we cannot take it for granted that these things just happen. Moreover, we are, in the FCA, still a pretty young institution – we

have just had our fourth birthday – so we have a lot of work to do, I think, to ensure that our role is well understood, and that is really the backdrop to the mission statement.

Another important piece of backdrop and context is the FCA operates on a very big landscape. One indicator of that is that we have 56,000 firms under regulation here. Parliament has given us an overall objective to ensure that the markets we regulate function well. To advance this overall strategic objective, we also have three operational objectives in the legislation: to secure an appropriate degree of protection for consumers, that is number one; to protect and enhance the integrity of the UK financial system, that is number two; and to promote effective competition and the interests of consumers. There is no rank order, of course, in terms of priority.

To pursue these objectives we have a range of powers and tools, but with such broad objectives and tools there needs to be clear explanation of what we are about; that is the mission, in our view.

So we have said what we are setting out as a framework which underpins our decision-making, including decisions on how we prioritise within and across the different sectors that we regulate; how we respond to specific issues as they come up within markets and firms; and the decisions on how our individual functions, such as Policy, Competition, Authorisation, Supervision and Enforcement all operate together. And the size of the landscape that we operate on means that we have to take many such decisions; we have to take decisions on prioritisation and we need to be as transparent as we possibly can be on how we do this.

So, to assist this transparency in the mission statement we set out the key stages of our processes. We start with the identification of harm, potential harm or that markets are not working as well as they could. The diagnostic tools we employ is the second stage. The third stage is the remedies at our disposal and then we move on, finally, to how we evaluate the effectiveness of the remedies that we use.

At each of these stages there are important judgements to be made. Our judgements mean that some providers of financial services will get more attention from us than others and that some types of harm are reduced before others; that is an inevitability of having to make these decisions on priorities. So, again, it puts an emphasis on us being clear in our explanations and transparent.

We cannot remove all harm from markets or operate a zero-failure regime; we need to be very clear on this. We recognise that different groups of consumers will have different needs and we consider both consumer capability and vulnerability when making decisions. And it is understanding vulnerability and thus susceptibility to harm which is central to how we make decisions. We will prioritise consumers who are unable to exercise choice or have restricted access to the financial services they need over those who can exercise such choices, whether or not they choose to do so.

We recognise that vulnerability itself changes during any individual's life and is determined by more than one factor, so it is not a straightforward concept; it is easier to say it than actually put it into practice. Wholesale market needs are often quite different from consumer needs; our aim is to ensure that wholesale markets are fair and effective and work well for their users. We want to ensure that they demonstrate clear, proportionate and consistent standards of market practice, transparency, open access, integrity and competition.

In the next year we are going to publish a number of further documents that will give a clearer explanation of how we carry out our main activities and the approach set out in this mission. And those further approach documents will cover our approach to authorising firms, our approach to supervising firms, our approach to enforcement and likewise how we carry out our competition role.

### **Sector views**

So let me move on next to sector views. These give us a view of how each sector is performing, the issues and developments we are seeing and where we need to know more in order to reach a view on our statutory objectives. They help to determine our priorities, our resourcing decisions and thus our plans, and once we have identified an area as a priority we will use the intervention framework described in the mission to establish what is causing the harm and we analyse the scale and impact and assess how effective different remedies could be.

Publishing the sector views is a big step forward. If you know of one I would be very interested to hear; I do not know of many, if any, other regulators who do this, in a sense set out their views on the sectors that they regulate. But we think it is important, again, because of the size of the landscape and because of the importance of transparency that we do this. And we will evolve and update the sector views, obviously, as time goes by and obviously as the world moves on, so to speak.

### **Business plan**

So then we move on to the business plan; this explains how we intend to achieve our statutory objectives. It starts with the risk outlook, which sets the context for our plan and thus how we decide on our priorities. These priorities reflect the speed and variety of changes affecting both wider society and financial services. Firms are being challenged by rapidly-evolving user needs, as well as heightened uncertainty in the economic and political outlook. They need to adapt and compete to meet these challenges successfully. Both they and consumers require markets that are stable, demonstrating integrity and are regulated effectively and proportionately.

The decision to leave the European Union creates uncertainty for both the UK's financial services industry and us at the FCA. Both we and the government are keen to ensure that the financial services industry remains resilient and can make the most of the opportunities in a post-Brexit world. Withdrawal from the European Union will have important implications for us at the FCA over the coming years. We are liaising and working closely with the Treasury and the Bank of England to ensure a smooth transfer of EU rules and legislation into the domestic framework so that there is continuity on day one, and we are providing the government with impartial technical support and will continue doing so throughout the withdrawal process. Obviously it is not for us to conduct the negotiations but we will support the government in its work to do so. Finally, as we have said before, we are continuing to implement EU legislation that will come into force before the UK leaves the EU; that is an important commitment.

Consumer vulnerability and access to financial services is a theme of the business plan. This priority runs across financial sectors, is an important part of our mission and will also be a key focus of our forthcoming consumer approach document – so that is a further document that we intend to release in the coming year.

This strategy will reflect consumers' growing responsibility for their own financial choices at a time when these choices are becoming more complex. The social and economic implications of an ageing population, together with factors like continuing low interest rates and a rise in less

secure forms of employment are likely to have major implications for the pensions and retirement income sector. The business plan explains how we will encourage firms to address this growing need and ensure they provide consumers with the information they need to make suitable choices.

Firms themselves will always have the most important role to play in ensuring continuing trust and confidence in the UK's financial services. As well as embedding the senior managers and certification regime, we will also consult on our proposals to extend the accountability regime to all firms under the Financial Services and Markets Act. Our aim is to ensure firms are well-prepared for implementation in 2018 – next year, that is – and that we deliver a regime which is simple, proportionate and clear.

Similarly, implementing the Markets and Financial Instruments Directive II, or MIFID II, as it is popularly known, or unpopularity known, allows us to introduce major reforms to improve resilience and strengthen integrity and competition in wholesale markets, and that again demonstrates the commitment that we have to implement EU legislation that is in train.

### **Budget**

Finally, I want to turn briefly to the budget for the year ahead. We are setting an annual funding requirement for the year ahead of £5.26 million. This represents a 1% increase to reflect higher inflation over the last year, as well as a specific allocation of £2.5 million for EU withdrawal costs.

Just on that point, wherever possible, we have sought to absorb the cost of EU withdrawal within our continuing funding requirement, but we have judged that this specific allocation is an unavoidable additional cost and it is mainly to do with the large amount of work that we are doing to help the government transfer the existing body of EU legislation into UK legislation; that is sometimes known as the Great Repeal legislation.

The vast majority of our resources will always be used for our core business: authorising firms and individuals, maintaining oversight of firm's activities, conduct and behaviour, supporting effective competition and implementing and enforcing policy and rules are the bedrock of what we do as regulators. We look forward to working with our growing number of stakeholders in the year ahead to deliver financial regulation that serves the public interest in respect of the activities of firms, the experiences of consumers and the resilience of the economy in the UK.

### **Concluding remarks**

I can say with personal experience that the FCA is an exciting place to be. The challenges, as you know, as well as we do, come thick and fast. What I hope and we hope these publications show is that we are determined to be a leader in fair, effective and transparent regulation. Today's body of documents is a very important step forward in that respect and one that I am very pleased we are taking as we meet the commitment to explain what the FCA does and how we interpret our responsibilities. Thank you.

### **Q&A**

**Andrew Whyte:** Thank you, Andrew. So we now have about 45 minutes for questions. Just before I open up to question, a reminder that our usual ground rules will apply: you indicate in the normal way that you want to ask a question, stick your hand up and then wait for the mic to arrive and then please say your name and your publication. I will then pass your question to the most relevant Executive Director. I will get to everyone eventually but to be fair I am going

to take one question at a time from one person, so everyone should have a chance to ask the first question, although I will try and be flexible on relevant follow-ups; emphasis on the relevant there.

Just one word of warning: please be aware – you are all aware of this but I am going to repeat it anyway – we do not comment on individual firms or indeed individuals. So please be aware of that in your questions and I will be keeping an eye out for those cleverly constructed hypothetical questions. If you do have any detailed follow-up questions, for example about a specific aspect of the business plan or if there is some data you want that we do not have immediately to hand, then please follow up with the Press Office. Some of my colleagues in the Press Office are here so you can follow up immediately afterwards, or call us later on during the day.

And finally, a reminder of what I said at the beginning, that we are recording everything, so everything you say will be recorded and we will be issuing a transcript later on today. Okay first question.

**Simon Jack (BBC):** Thanks very much. Andrew, you said that in each area you have to have judgements on priorities. Could you give us a sense of how big a priority whistleblowing is for the FCA and how important a test case you think the recent events at Barclays are?

**Andrew Bailey:** Whistleblowing is a very important issue for the FCA. Obviously, in the spirit and letter of what Andrew has just said, I am not going to comment on the particular case involving Barclays because, as you know, we have announced that we, along with the PRA, are undertaking an enforcement investigation in that respect. But it is a very important question in a more general sense and it is important for two reasons, I think. One is because we, as a regulator, rely on an open channel from whistleblowers because obviously they are very well placed to give us information that we might not necessarily get otherwise.

I would also say, just to be clear, that I think the scope of who is a whistleblower, obviously there is an important focus on staff and those people who work in the institutions, but it can also be customers who feel that they want the protection of whistleblowing status because they have a contractual relationship and an ongoing relationship with the firm, so that is important too.

So it is very important in that respect. I think the second reason I would give is slightly broader which is that I think it is very important as a society that we have a system in which people can feel that they can actually be open and transparent when they see things going on that are contrary to what they think are the appropriate standards and they can feel that they have an open line of contact with the authorities and that it will be acted upon. So it is very important. We take it very seriously, we have quite an extensive flow of whistleblowing coming our way; we have been open about the numbers. The numbers go up and down. I do not put any particular emphasis on that but I would absolutely reinforce and it is very important that whatever we see and is reported on in the outside world that that does not damage the importance and the protections that whistleblowers feel they have.

**James Burton (Daily Mail):** Hi, I was just wondering if I could ask you about consumer credit growth; it is sort of flagged up as one of the big risks in your report. How concerned are you about consumer credit growth and the sort of long interest-free periods that card providers are offering? And could you also say a word about car finance as well, because I know that has come up too.

**Andrew Bailey:** Good question. I think there are two, in a sense, ways into this, both of which are relevant to the FCA, one of which I also, obviously, as a member of FPC also have. I think understanding the pace and scale of growth of consumer credit and what it means for the overall debt servicing capacity and the impact on economic conditions is very much, obviously, an FPC focus but also an FCA focus. If I can give you sort of a sense of the FPC way into this, you may remember, if you go back to the work we did in the FPC on mortgage borrowing, two to three years ago now, three years probably, one of the things we were most focussed on there was in the event of a rise in debt servicing costs what would be the effect of an increase in people's mortgage costs on overall consumption in the economy, given the pattern of behaviour that has been seen in the past where people, quite rightly of course, prioritise what they call the roof over your head and paying for that over other forms of consumption and what would that do in the economy.

History would give us a slightly different view on unsecured credit, which is more: if they do not prioritise that, what are the impacts? For their own credit-worthiness, obviously, going forwards and that is very important from an FCA point of view but also obviously from the point of view of the industry and its exposure to it.

There is no question that we have seen, I think, some pretty important structural changes in consumer credit, which is why we are, for instance, going to look at the structure of motor financing because you cannot help but think it is changing in a structural sense, would be my conclusion, and drawing out the implications for that.

On the FCA front – and my colleagues will come in on this – there is then the really other very big issue for us which is that part of consumer credit, which is the high-cost credit sector and as you know, we are looking across the board at that. We have already taken some actions and announced them very recently, obviously, on the credit card side. We have the review of the payday cap but we are now reviewing the whole sector, if you like, of high-cost credit. That follows also from the fact that we are now taking on consumer credit in all its various forms in this country.

And it strikes me as important that we do that work across the board. I do not think it makes sense for us to pick pieces off bit by bit here; I think we have to look at the whole sector. And the last thing I would say I think is we do not only have to look at the question of the terms of high-cost credit but also what is the sustainable supply of credit? Because it is important to, I think, also have in mind that there is a role for credit and if anything there is probably a bigger role for credit that is sort of sustainable and sensible. In a world – as mentioned in my opening remarks, briefly – where, for instance, you have a greater part of the population that may be on a less predictable employment contract, for instance, that makes credit important because credit is about smoothing expenditure.

**Andrew Whyte:** Jonathan, do you want to add anything to that?

**Jonathan Davidson:** Yes, just a couple of quick points to build on that. First of all, it is not just the overall amount of consumer credit, it is those who are most vulnerable to unaffordable consumer credit that we are very concerned about and that includes customers who are still trapped, if you like, in products that they would not be able to get now, for example mortgages that they took out prior to the crisis. Under current affordability tests they could not necessarily get those mortgages again; therefore, to some degree, they are trapped and we are very concerned about that. Which brings me to the second point: we are looking at affordability

given that many consumers have a portfolio of debt and we have concerns that some consumers will have stuff that looks affordable in the sense that they are servicing it, it looks creditworthy, they have very low arrears but in other parts of their portfolio they may have very expensive debt that they may end up defaulting on and that comes out of a credit card market study. There are, I think it is, 2.5 million customers who have long-term outstanding debts on which they are paying very high levels of interest, which finally brings me onto the final point that is a concern for us which is, if you like, the business models where there is a huge incentive – and there are several business models that we would consider high risk – where there is an incentive for the firm to provide credit which is intrinsically unaffordable, it is very hard for them to repay but nevertheless they can be a very profitable customer.

So those are the things that I would say.

**Justin Cash (Money Marketing):** Just wanted to quickly pick up on the sector view on retail investments, particularly the reference to the importance of getting financial advice and also to making sure that that advice is suitable with respect to charges and disclosure. By what standard do you suggest advisors judge whether or not their charges are suitable?

**Christopher Woolard:** We have had a range of work that has been going on, so obviously starting back with the RDR. More recently, we have had the first phase of the asset management market study work that we are doing and in this business plan we talk about a further market study that we will do around platforms. And I think if you look for, if you like, a common theme amongst those pieces of work it is about how do we ensure that when someone is being charged for a service that the cost of those services is clear and transparent to those individuals, so that you can be clear on what you are paying for and the quality of the service that you are getting is also clear.

So, for example, around asset management one of the questions we had there was: as an individual are you clear you are being invested in either a passive-type product or a more active one and actually can you, as a customer, be clear on those things? If we take that across for a second into thinking about how does that principle work in a charging arena, it is about are you clear on what you are being charged for and the service that you are getting in relation to those charges? So there is not a magic number at which the number is right or the number is wrong; it is about the clarity of the quality of the service you are getting in relation to what you are being charged.

The final thing I would say is obviously we had the Financial Advice Market Review published last year. We have just published the update on that work and one of the things in there is the fact that quite quickly after FAMR we launched something we call the Advice Unit, that is about how do we encourage and foster firms to have greater use of so-called robo-advice and other sort of forms of using technology to reduce the overall cost that people might pay for the more basic kinds of advice. So what we are trying to see here is the development of a market in which there are a number of different price points where people can get different services that suit their needs.

**Chris Spink (Thomson Reuters IFR):** I just wanted to learn a little bit more about your approach to conducting cross-border investigations. Obviously, one often sees that the FCA or PRO is reported as investigating an event and then regulators in New York and other financial centres do so as well. Could you explain a little bit more how that is coordinated?

**Mark Steward:** Our relationships with our colleagues overseas, not just in North America but across Europe and in Asia and Australia are extremely important and necessary ones and they are ones that we place a lot of resource and effort into maintaining. We are virtually unique around the world and I think this reflects London's particular international character, global character, that we are an enormous exporter of assistance to regulators around the world. We are also an importer of assistance as well but I think we are a net exporter. What that means is the relationships that other regulators and law enforcement agencies have around the world with us is also important to them for them to be able to do their job effectively. We have a range of fora and platforms where we get together and share with one another the work that we are doing and we aim to try and ensure as best as we can that we are working in a coordinated way, particularly where we have common investigations or common issues, or common lines of enquiry.

And I think you have seen, over the years, the FCA has actually been very successful in coordinating with particularly our colleagues in North America for outcomes that are concurrent and take into account the interests of a number of other bodies at the same time. So I think this is an area that we are continuing to devote a lot of time and energy into to ensure that we are effective and to ensure that we are helping others be effective as well.

**Damian Fantato (FT Adviser):** Hi. You mentioned in the mission statement that you are going to be looking at the authorisation process and there are lots of people in the advice market who have concerns about phoenixing and I was wondering if that is going to be something that you are going to be looking at.

**Andrew Bailey:** Well, we look at all aspects of the authorisation process so where we see concerns in it the answer is yes. Jonathan, do you want to...

**Jonathan Davidson:** What we are looking at in the authorisation process is two things. One is to establish a level of operational efficiency because what we want to do is to try to make sure that authorisations are not just, if you like, defending the perimeter against bad actors coming in but it is also helping to fulfil our operational objective to promote competition that is in the interests of consumers. So what we are looking at is ways that we can not only identify firms that do not meet threshold conditions but we will also help firms to identify what they need to do to meet threshold conditions so that we can actually drive that objective.

I think on the issue of phoenixing and indeed other things that we would like to pick up, we are also looking at how we can improve our MI to really try to pick up on those forms of intelligence about what is going on in order to make sure that we deal with those issues.

**Andrew Whyte:** Megan, did you want to add something?

**Megan Butler:** Just on the context, it is a concern that we know industry has but it is a concern we very much share around the risk of phoenixing. And indeed individuals within firms who can move around, firm to firm, particularly smaller firms, and it is one where, as Jonathan said, we are gathering the best data we can and working with industry to do that. It is very important that we keep some of those individuals and firms out of business.

**Andrew Bailey:** I mentioned in the introduction the work that we are going to be doing to extend what is called the Senior Managers Regime obviously in the banking world into the accountability regime for the whole of our population. And this will help because it embeds the whole principle of responsibility and so where people have not shown responsibility then it will

make it clearer on what basis we judge fitness and properness going forwards. We have also done a lot of work in the banking area, which we are going to extend into the so-called concept of regulatory references, which is another issue which sometimes gets caught under the term rolling bad apples as well now. So that this whole question about how people can move around and not leave a trail behind, as it were, will get tackled, or should get tackled and I believe will get tackled through the extension of the accountability regime.

**Paul Peachey (MoneyLaundering.com):** The report highlights a significant number of banks that continue to have poor controls over high-risk customers. Can you go into a bit more detail about what you mean by that, particularly in the light of new and emerging threats that you are identifying? And if it is a continuing threat, as you say, why have you not got a grip on it yet?

**Megan Butler:** I think we set out in our business plan the fact that tackling some of these issues is one of our major priorities; it was one of the things we called out last year, it is in our plan again this year. I cannot believe that is not going to be a central plank of the work that we do with industry for quite a long time to come. We have done an extensive amount of work here across the 56,000 firms to try and improve their standards in working with them. There is more to do but we are making real progress around the supervision of some of these issues and the know-your-customer and anti-money-laundering arrangements within firms.

**Andrew Bailey:** I thought I would just add one point on that front, I completely agree with what Megan said. There is an interesting point: we talk a lot and quite rightly about being a proportionate regulator in areas. You have to use judgement there as to what it means and one of the things that we have done quite a lot of in the last year or two is actually, of course, proportionality in a money laundering world means something different because it is perfectly possible, of course, to switch from using big institutions to using small institutions because if you are a money launderer you are just looking for the biggest point of vulnerability, you do not much mind where it is. And that is one area we have changed because our view of proportionality is quite different in the area of money laundering than it would be in a different area, where we are very focussed on proportionality and not trying to put the same burden on a small firm as a large firm; but it has to be different in the area that you are referring to.

**Megan Butler:** The key point here is that we need to know where to target our resources, where in that multitude of firms do we target our resources to make sure that we are focussed on the right firms. And last year we did launch a new data return that will help us focus our attention on the firms that are most likely to pose risk to us in this area and that is rolling out through the course of this year.

**Peter Elstob (Thomson Reuters Regulatory Intelligence):** My audience is compliance guys at wholesale banks, Megan. There was a period, before all of you were here, where the FSA made, I thought, the rather uncomfortable sort of line that everyone is a consumer, there is not much difference and so on and so forth. It was uncomfortable because actually the wholesale people could game that; it is not because they could get away with anything. Do I detect a little bit of *caveat emptor* coming in at the wholesale end, which I think would be a good thing, actually? So my question is about proportionality, it is also about fixed standards and industry responsibility, so I am not being provocative with *caveat emptor*, I think that is not actually necessarily a bad thing. Is there a movement away from the rather unrealistic idea that there is just a great, straight, stream? And yes, consumers have detriment here and yes it is a bit different but I think it is better to have a demarcation of some kind; I do not know if you agree.

**Andrew Bailey:** I think you raise a really interesting point and we also come at this from another angle which of course is that in the world you are talking about, Peter, some of the world is covered by our Regulated Activities Order and some of it is not. So, historically, LIBOR – it is different today because we are the benchmark regulator today – but historically, of course, that was not the case.

Now, it still remains the case that the Regulated Activities Order covers a certain set of activity; it is much more, in a sense, extensive in the retail area than it is in the wholesale area. What I think is very interesting – and you refer to the fixed standards, let us come back to that – which is the market is developing standards. Some of those are coming out of the more official world, such as the global FX code, some of them are coming out of the fixed standards board.

The history of this, of course, in this country – and this country is probably not unique in this respect – is that, let us be honest, these standards and codes tended to get developed largely, usually in the wake of some crisis or other with a great wave of enthusiasm and then unfortunately they got put on the shelf and you next heard about them when something else went wrong. I think the really interesting thing today – and this is something we are thinking a lot about – again, let me come back to the Senior Managers Regime for a moment because the interesting thing about the Senior Managers Regime is that it goes across the whole scope of an institution, whether or the not the Regulated Activities Order is in play. However, our tools are still constrained by the Regulated Activities Order. But there is a really interesting question in here – I use this term a bit loosely – if we think the market is developing robust standards, if we can hook them up to the Senior Managers Regime and say, 'Look' – let me use the vernacular – 'there is a stick in here,' then, I think consistent with your point, that offers an option that has not been there in the past.

**Megan Butler:** Absolutely. Without commenting on the past, in fact, I think we call out expressly in the business plan again – and indeed it comes through in the other documents we are producing here – that our focus on wholesale conduct is acute, important and it will remain so. What we do recognise, though, is the participants have different needs and so our responses need to be different. But it is a key part of the role of the FCA to ensure that wholesale markets are fair and effective and working in the best interests of users. And you have seen interventions, whether they be supervisory or indeed on the competition side, expressly across that, so it is central to our work here.

**Christopher Woolard:** I think it is just worth adding I think your question was largely based around what about, if you like, the conduct relationships between wholesale participants. The other angle we need to think about very carefully is the impact to the wholesale market that then flows through into the retail market and that is what we do in our competition work.

**Caroline Binham (Financial Times):** Andrew, you spoke about a big priority being the work that the FCA is doing with the government around Brexit and specifically continuity. Earlier this month the Bank of England put financial firms on notice to improve their planning around a no-deal Brexit. I was just wondering how you think the government itself is planning towards a no-deal Brexit, particularly with financial services firms in mind?

**Andrew Bailey:** Let me start with the principle: the way to think about what the Bank of England and the PRA sent out was, of course, this is contingency planning and as I always say, we are arch contingency planners for every known risk you can think of and a few more, so it would be inconsistent not to have that one in the mix. And that I would say very

much – and they can obviously speak for themselves – I think the spirit in which you should interpret that.

I hope – and I take the government to have a clear commitment here because they have said it many times – that actually what we are aiming for here is an outcome that preserves and if anything enhances open markets and free trade; that must be where we should be. It is, I have to say, somewhat dismaying that there is a second debate which is going on in this whole thing which is not about free trade and open markets, it is about how we can sort of carve Europe up differently and put barriers to trade up and financial services and that seems to me to be the wrong way to go about it. The right way to go about it is how can we build open markets and free trade and of course do that globally; it is not just about Europe, actually.

Now, from our perspective, we are not, as I said earlier, the negotiators but free trade and financial services and open markets of course, because it is a service, depends upon regulatory standards; it is going to depend on regulatory equivalence and we recognise that we will have an important part to play in that. We have very good relationships with other European regulatory bodies and we have said very clearly to them we want this to be the case, that we continue to have good relationships with them. And in so far as, therefore, us maintaining and developing open markets should depend on strong regulatory cooperation, we are committed to making that work.

**Ed Moisson (Ignites Europe):** In the sector views on retail investments there is a reference to vertically-integrated firms discussing the fact that RDR removed a cause of conflict of interest but vertical integration has the potential to increase some of those risks. So my question is what is the FCA planning to do about it and what should vertically-integrated firms be doing as well?

**Christopher Woolard:** Megan or Jonathan might want to say a word about this as well. This is one where, essentially, the RDR set out a very clear set of expectations around how, essentially, charges should be separated for the consumer. I do not think there is anything specifically we need to do in terms of further policy initiatives or further competition work at this stage to look at those vertical integrations. It is more about how, in our day-to-day supervision, there is real clarity about what those firms are doing with those consumers. So I think it is fair to say that is a potential risk that exists, clearly, in a vertically integrated situation, where you can allocate your costs pretty much how you choose to as a firm and it is making sure that the same outcome is received for the consumer as if they were dealing with a firm that was separated.

**Megan Butler:** I think the only thing to add to that is there are no particulars. As Chris said, there is no reason at this stage we think that there is a new policy initiative of anything of that sort. It forms part of our ongoing supervision task that we do with the relevant firms.

**Paul Davies (Wall Street Journal):** On competition, how interventionist is it your duty to be? As an example, in retail banking, retail products, there is a lot of inertia, you make the point in the sector view, I think, that no challenger has yet got 5% of the market. Do you stop at satisfying yourself that conditions exist where competition can take place or is it your job to keep prodding people and the industry until the landscape actually changes in any given area?

**Andrew Bailey:** Perhaps I can start and then hand over to Chris. Retail banking is obviously a very good example to give. This is why we have taken up the work that CMA has done and are going to take it forward and I think we have to get to what I call the root causes. That is not

easy to do but I think we have to get to the root causes of what promotes and what restricts competition.

To do that and particularly in the area of retail banking, I think we have to understand cross subsidies, both across products and across customers within its firms. That is not easy but I think it is absolutely essential. And let me be clear, we are not trying to abolish cross subsidies; they are a fact of life to a degree but I think you have to reach important judgements about where those are inhibiting competition and whether their effect is limited and therefore you can, in a sense, look at them and not go further. And that is why we are doing a very big piece of work which we have picked up from the CMA in that area.

**Christopher Woolard:** More broadly, our duty is about promoting competition in the interests of consumers, that gives us quite a wide remit to think about what is the best way to do that. A lot of our work, for example, in market studies is absolutely about setting conditions in the way you have just described but then we also have a range of other things we are doing, for example, around promoting innovation, where we are seeking to make it as easy as possible for firms that are thinking about entering the market to deal with us, whether that is through the new bank unit that is run jointly with the PRA or whether that is through our own authorisations process.

So there are ways in which we seek to positively encourage people to enter the market; we seek to look at sort of new technologies and new ways for customers to engage and come forward but at the same time, as Andrew said, an awful lot of our work is about really getting under the skin of markets and trying to understand what are the drivers here and where we think there are incentives in place for firms or for consumers that are not working well, then we will try and change them. And the work that Jonathan mentioned earlier about credit cards is a classic example of that, where we are taking what is, in theory, the most profitable group of consumers, who are this group of people who are not paying more off their bills than they are in interest and charges, and we are trying to make sure that there are real incentives in place that firms have to help those consumers much earlier than they might otherwise have done.

**Tom Ellis (Professional Adviser):** In the business plan there is a note that says advisers may give insufficient attention to the total cost of investment products and of advice. So does that imply that advisors can often charge too much for advice or if they are not charging excessively that they do not give value for their advice?

**Christopher Woolard:** Where that stems from is a piece of work that came off the back of our asset management market study piece, where, if we look at the total cost of owning a product for a retail consumer across the value chain, so we take the asset management costs, we take the platform cost sometimes that will be in there and we take the adviser cost, what we have to look at there is in terms of what is the value that the consumer is receiving: is that being thought about in the round rather than being thought of in sort of discrete chunks? Because I think when you begin to add up that total cost, from a consumer's perspective, that can often be quite a large amount that is being paid for, if you like, the vehicle to get to the ownership of the asset and to have advice on that asset versus the actual cost of owning the asset itself.

Megan, do you want to say a bit more?

**Megan Butler:** Actually, I am not sure there is anything much to add to that from a supervision perspective.

**Harry Wilson (The Times):** Hello, a question on Brexit: how concerned are you by the possibility that Brexit may lead to risk and jobs being separated from one another. And at the moment you obviously have London as a mega-hub but there is obviously talk about relocation but relocation could involve people's supervisors moving to different places but the risk remaining in London; is that a concern for you?

And just allied with that, just your £2.5 million that you have budgeted, that seems a very low figure for Brexit; are you expecting Brexit costs to rise over the period?

**Andrew Bailey:** I will take them in reverse order because that is fair. What we have tried to do is absorb the costs of Brexit by reallocating our sort of business as usual resources where we can. So it is an absolutely fair point that if you asked the question which underlay your point, which is: what is the total cost of Brexit to you? It would be higher than £2.5 million. But what we have tried to do to, in a sense, manage the fee impact of it is to say we will only add on to the overall budget those pieces which we regard as so additive because we just cannot do them out of our existing resources. So that is how we arrive at that number; it is not the total cost of Brexit. And the main element – in fact, the element of that really – is we are having to do a very large amount of work in the context of the thing that often gets called the Great Repeal legislation, this what you might call lift and shift of European legislation into UK legislation. And the government has asked us to assist on this for that body of European legislation that is within our ambit, as it were and there is a lot, we are having to have lawyers go through page by page to say, to use a technical phrase, which elements of that, as they are currently written in European legislation, would be inoperable if you just lifted them and dumped them into a UK piece of legislation because obviously they relate to a different institutional organisational structure? So that is what we are having to do and that obviously is additive work; we would not normally do that, obviously. So that is what it relates to.

So we have tried to keep the £2.5 million as low as we can. We are going to target that £2.5 million in fees at those firms that are internationally active because we think that is the right thing to do, so the small domestic firms will not get charged for that because I think that would be the wrong way to approach it.

Just to take your first point, you are right, obviously, in one sense, there is a risk of this. I start from the principle that firms, on the whole, do not want to move operations out of London, in the sense that, of course, if they wanted to do that, they could have done it and they could do it any day and it ought to be their choice. And coming back to, I think, my response to Caroline's question, we ought to set up a system of open markets where firms make these choices not regulators and governments.

There is, of course, you say, 'Yeah, but what will really happen?' Yes, there is a potential world in which firms seek to move activities only as a sort of minimum level of movement necessary to, in a sense, satisfy the requirements and that they would much prefer to keep a sort of hub of operations here. And then you get these questions around booking models and risk management. And of course, as you have probably seen, at the ECB Sabine Lautenschläger has said quite a bit about this in a number of speeches. We are very focussed on it too. Megan and I in our previous lives at the PRA did a lot of work post-crisis to sort out what I politely called opportunist booking models, where stuff was being booked around a world according to what suited a different objective than risk management often. And we have done a lot, I think, to simplify that and that obviously was important also in terms of the resolution planning work that was done.

We do not want to go back to the bad old world because the bad old world was part of the crisis story of opaque booking models where firms themselves actually really did not know where stuff was being booked. And you rightly point out that that affects risk management. Where it will come out, I do not know. I actually think thought that it is a not a binary world. By making the structures more transparent then I think there are standards that you can expect of firms and say you cannot have opaque opportunist booking models but obviously you do book stuff; these are global companies with legal entities around the world and you will book stuff around the world – that is inevitable. But it has to be transparent and, absolutely to your point, it has to be risk managed. And we are not going to compromise on that for the sake of getting some outcome on Brexit; we cannot do that. I would agree with Sabine on that point. We cannot go back to that bad old world; it has to be transparent, it has to be risk-managed.

**Huw Jones (Reuters):** On your review of the banking business model for retail banks, the TSE was deeply unhappy with the CMA report. How forensic and radical are you going to be with your work and is free banking at risk?

**Andrew Bailey:** I have said many times, I do not think there is any such thing as free banking. Very few things are free in life. We just do not know what we are paying for it and how we are paying for it and of course that means that the costs then get, potentially, distributed very unevenly and that lies at the back of a lot of our work on high-cost credit. Because if you think about the issues that Chris was talking about on credit cards and if you think about the issues around overdrafts, a lot of commentary, obviously, about unauthorised overdrafts, that gets you back to the question of how are the returns on retail banking distributed. It gets you back to my point about cross subsidies and very big judgements about fairness and business models.

And the work that we are doing is designed to get under the skin of that issue. I think you have put a very good point. I do not think we should underestimate the challenge of doing that; I mean these are not simple business models, by any means. The question of how products and customers, in a sense, map into cost recovery is not simple because obviously customers use different mixes of products. They are all different in some sense. But I think we have to do it.

We are at too early a stage, frankly, of that work to give you any sort of definitive opinion on how easy that will be and where we will get to but I think this whole question has been sort of just lurking in the system for too long now. But to your precise point: is it the end of free banking? I do not start in that place because I do not regard what we have as free banking; I think it is a great misnomer as a term. What it really is about is that different customers pay for different sets of products in different ways and we do not really know what the distribution of costs and payments are, frankly.

**Andrew Whyte:** Chris, Jonathan, anything to add to that?

**Christopher Woolard:** No.

**Jonathan Davidson:** I think in the interest of time, there are other questions; I can take it offline if you like.

**Lucy McNulty (Financial News):** You have mentioned a few times your plans to extend the SMCR to the whole of your population of regulated firms. The consultation on that was originally expected in Q1 and your website now says it will begin in Q2, so I wonder whether you could tell me more about when you plan to start that?

**Jonathan Davidson:** We are going to be launching the initial consultation later this year. The consultation, what we are trying to do is recognise that we are now extending it from just between 1,500 firms now to something like 54,000 firms. Many of those firms are very, very small; they will be sole operator, they will be an orthodontist that provides the work on our children's teeth with consumer credit, they will be a consumer credit firm. So what we are working on is how to make that very proportionate, the call for action that they have to take, and we are spending a lot of time and effort to really deliver it in a very simple way. So it will be later this year that we will be launching the consultation.

**Andrew Bailey:** We have not changed the plan for when we will introduce it; I think that is the important point to note because I said that in my opening remarks – implementation next year.

**Suzi Ring (Bloomberg):** In the five principles that you have set out that are going to be your guide for your advice to the government on Brexit you talk about having a cooperation agreement of some sort to provide a robust framework between regulators in Europe. Could you just provide a bit more detail about how you think that would look?

**Andrew Bailey:** That is a very good question because I think any of the detail of that does depend upon the way in which the negotiations go. And as I said, we are not doing that so in a sense, we have to prepare for a series of eventualities in that world. I think I said earlier in response to Caroline it is going to be based on equivalence; it is not a passporting regime. I think we are all pretty clear on that. It is going to be based on regulatory equivalence. My own view is, as I think I said in a speech I gave earlier this year in Germany, I think it ought to be based on global standards where those are appropriate, so I think that is particularly true in areas of prudential regulation but it is also true in areas of wholesale conduct regulation where it is appropriate to have global standards because they are global markets.

When you get down to retail conduct, actually I think that if you want to do retail business in people's local markets, where the products will tend to be very market-specific, you are going to be subject to the conduct standards of the market; that is what we would expect and I think that is perfectly reasonable. But it does not obstruct trade; it means everybody is trading on the same regulatory standards. And I am very happy to then put together regulatory cooperation and coordination based on that. I think it is more based on starting with principles and then having rules than going straight to rules because, on the whole, going straight to rules tends to take you down the hard wiring route to a level of detail which, certainly at the sort of global level, I do not think is sensible. I think it is important to start, as many of the global agreements do, with principles rather than rules but the rules then follow from those principles; they are very clearly consistent.

**Dan Jones (Investment Adviser):** Hi, just another question on timing. The investment platforms market study, is that going to follow on, broadly speaking, straight from asset management? Are we looking more Q4, Q1 next year?

**Christopher Woolard:** As we say in the business plan, it is sort of back end of this calendar year you can see us saying some more about that.

**Jill Treanor:** Andrew, you mentioned that you are the benchmark regulator. I wondered whether or not you thought perceptions that LIBOR is now a clean index would be enhanced if there was a public inquiry into the Bank of England's role into the LIBOR situation during the crisis?

**Andrew Bailey:** No, I think those two are completely separate. LIBOR was not a regulated activity in the past; it is now. So I do not think that whatever, in a sense, is said about the past has a bearing on what is there today. Today there are issues around benchmarks which we tackle as a benchmark regulator but I think that the impact of the past on today is quite limited in that respect, frankly.

**Hugo Coelho (MLEX) :** Hello, I have a question on duty of care. You have mentioned in one of the documents, you had a question about it in your consultation, you have some responses from the industry, some of them were not very supportive, so what is your latest thinking on this? And you also refer – I think it is in the mission document – that you are going to publish a discussion paper to look into this but you referred to another page where you said we will do this in the context of something that we mentioned in another page, so is this the post-Brexit work?

**Andrew Bailey:** The duty of care issue has come up; obviously our own consumer panel has raised it. You are right. There are two things we referred to so let me take the other one first. So we floated in the consultation document the handbook rewrite. We want to do the handbook rewrite and I think I said at the time when we had a previous press conference that if you leave handbooks and rulebooks on their own, they only get bigger. And it is time to, in a sense, strip it down, do the engine strip down and rebuild it. But we have concluded on that front that it would not be sensible to do that prior to doing the work on the Great Repeal legislation and the transfer of European legislation into domestic legislation for the reason, quite simply, that if we did it before then, we would have to redo the handbook review because clearly this transfer of legislation is going to complicate the wiring diagram. And so we have concluded it is better to do one handbook review. And although we are going to start the preparation for it and one of the things that colleagues are working on quite actively, frankly, because this would be a great boon to us and I hope to industry would be if we can harness reg tech to help us in terms of the handbook. That would be brilliant, frankly, so there's a request to all reg tech entrepreneurs: can you please help us on this one?

But on the duty of care, what we have therefore said is we will come back to this in the context of the handbook review. We will issue a discussion paper on it and the reason we want to do this is because we do not think it is as straightforward as is sometimes said. We think there is an issue around is it a duty of care, is it a fiduciary duty, how do those two map and we will also come back to the question that we raised in the consultation document, which is: is there really a separate thing called a duty of care or do we actually already have it in our principles and rules? So we think the most sensible thing to do is to come back to that issue. Frankly, I have to say also – and this is a prioritisation issue that we have had to do – in the light of all the work we have had to do on Brexit, we just do not have the bandwidth to do that sort of thing at the moment; we have had to make hard decisions like this. But it makes sense, both from that point of view and from the sequencing point of view, to come back to it when we do the handbook review.

**Andrew Whyte:** Thank you, Andrew. Thank you to our Executive Committee members. Thank you all for your questions. As I mentioned, if you have any follow-up questions or anything, do talk to a member of the Press Office, either immediately afterwards or give us a call later on during the day, and thank you once again, all of you, for joining us this morning.

[END OF TRANSCRIPT]