FCA Second Annual Public Meeting

Wednesday 22 July 2015

The QEII Conference Centre, London

Question and answer session

John Griffith-Jones: Okay, if I could now ask my colleagues to join me up here and we will start with the question and answer session.

Ladies and gentlemen, if I can just start by introducing the panel this morning. Essentially you have got the key members of the executive to my left, and the key non-executives to my right. By name, David Godfrey on the end, in charge of finance and operations; Georgina Philippou, in charge of enforcement; Christopher Woolard, strategy and competition; Linda Woodall, retail supervision; Tracey McDermott, wholesale supervision, and to-be acting CEO; of course Martin, and myself; Brian Pomeroy, who chairs the audit committee; Amanda Davidson, who chairs the remuneration committee; and Mick McAteer, who chairs the external risk and strategy committee. I will endeavour to get the right person to answer the questions, assuming all goes to plan.

Now, I have actually already received more questions than we have time for, notwithstanding the fact that we have extended the length of the Q&A session after last year by another half an hour, but we will do our best. You will help me enormously, please, if you are asking a question, by keeping it succinct, and I will likewise ask my colleagues to be as succinct as possible, consistent with answering the question, if that can be done.

Now, how I plan to work this – and I need a bit of cooperation here – is that if I broadcast where I want to go three questions ahead, to give you the chance to be prepared if you wish to ask your question yourself, and also for the microphone to find you. I would ask you please to wait for the microphone before you start. I have arranged it so that as well as taking some of the pre-submitted questions, there are spaces for impromptu questions from the floor as well. If you want to ask one of those, when I come to what I will describe as the impromptu question session, you need to wave vigorously and hopefully a member of staff with a microphone will come to you as fast as we can.

So, let us see how that goes. If by any chance we do not answer your question, because frankly your question is sufficiently technical that it does not lend itself to a verbal instant answer, you will get a written answer or there will be a written answer on the website in due course. So those are the ground rules. The aim of the game here is to answer as many and any questions that you care to throw at us. This is our accountability session to you.

For the first three questions, there is a question from Mr Laurent Chauvet, there is a question from Mr Chris Clarke, and there is a question from Mr Roland Baker. I would like to try and take those in that order. Is Mr Chauvet in the room? I will read his question out. It is about the pensions market.

'The pace of reforms in the pensions area is very slow, however pension charges are very high and highly inflexible. This is primarily due to the actuarial profession having a virtual monopoly on pension-related work and related advice. Often, actuarial firms pay themselves handsomely at the expense of beneficiaries and do not provide any value. The issue is very similar to that of fat-cat salaries that bankers used to award themselves a few years ago: high reward for poor performance, as well as closed shop. When will you be reforming the pensions market to open it up to a wider range of other professions, such as, for example, accountants? Note that in many other countries, pension funds are run by accountants.'

That is the question; I am reading these trying to put myself in the position of Mr Chauvet, who I hope would admire the way I have asked his question for him. But the answer comes from Martin.

Martin Wheatley: Well, I think the first point I would make is that whilst the pension reforms in the pension area may have historically been slow, I do not think anybody would argue that today it is slow. So we saw the previous year's Budget, the announcement of the introduction of flexibility in the annuity market; that is a significant change for the industry. The government have announced in the most recent Budget allowing a little bit longer for the resale of annuities in the secondary annuity market. So clearly there are changes coming through very fast. There are concerns, and I appreciate that there are concerns, about the costs of pensions, and particularly that relatively small percentages taken out each year will have the effect of eroding the power of pensions over time. We have seen already the introduction of a fee cap on workplace pensions. We have done our own significant work on the sale of annuities to look at whether people are getting good value. The government have announced that they will be doing further work to look at whether further caps are required on pensions in the accumulation phase, not just the de-cumulation phase of pensions. So there is significant work being done in those areas.

In terms of opening up the market to other players, the rules are Department of Work and Pensions (DWP) rules on the use of actuaries in valuations, and so clearly that is a part of the whole value chain that is not within our direct control, but it is something for DWP to look at. But I would argue that, notwithstanding the question, I think we are seeing significant change. I do not think the pace of change is slow. I think there is more work too, but this part, of all financial services, this is the part that is undergoing the most radical transformation, and focus on fees is going to be a key part of that transformation.

John Griffith-Jones: Thank you. Mr Clarke, on crowdfunding, is me. Mr Clarke asks as follows: 'Loan-based crowdfunding, also known as P2P lending or marketplace lending, is increasingly attracting institutional money. Some commentators have suggested this might relegate individual consumers to second-tier members on the platforms, as the marketplaces become more reliant on institutional funds. In light of its operational objective of promoting effective competition in the interests of consumers, is the FCA concerned about this development, and does it have any plans to help promote further competition in this sector for ordinary consumers?' And I think the best person to answer this is Chris Woolard.

Christopher Woolard: Thanks John. The emergence of institutional investors in the crowdfunding space is an interesting development in itself. It gives a sense that crowdfunding is becoming more mainstream, it is becoming more mature as a market. This is obviously an area where we have had to really strike a balance between how far we foster competition, how far we encourage new business models to grow, whilst also having protections in place for individual consumers who might be investing. What we have observed so far is a pretty positive overall picture, I think. So we have seen growth in the industry since it became regulated by us. There is a choice of credit facilities to particularly small businesses, but also ordinary consumers, and albeit with a different risk mix we are also seeing a choice of somewhat higher returns for investors than maybe more mainstream products that they could choose. Like every sector that we regulate though, we have to keep our rules under review, specifically in this area of, 'Are there conflicts of interests?' Our conflict rules already apply in crowdfunding, so if there was a case that one group of investors was being favoured over the interests of another that is obviously something that we would be concerned about.

From a supervision point of view, there are a relatively small number of investment-based crowdfunding firms at the moment. They do get some additional attention from us, so we look at them about every six months or so and look at how their business models are operating. At the moment I think generally in the crowdfunding space we're seeing developments, and what we're trying to do is keep a watching brief there rather than planning to immediately move on any of our rules.

John Griffith-Jones: Thank you. I am about to go to Mr Baker, but Mr Baker, just before I do that, after that I am going to take two questions from the floor, so if whilst Mr Baker is asking his question those of you who want to ask questions signal, and after that I am going to have a section on interest rate hedging products, and there are many people who want to ask questions, or want to ask questions on that, so if you could not put your hand up for the general questions, I promise you we are coming to a session on that after we have taken the two unprepared questions from the floor. But first of all, Mr Baker.

Roland Baker: Thank you, Mr Chairman. My name is Roland Baker, I am a member of the public from Luton, and I declare my interest as a member of the Yorkshire Building Society. With regard to the fines on the Yorkshire Building Society, these were paid by the members. How is regulatory oversight improved by fining members, or indeed shareholders, for the misconduct of the management, as opposed to fining the management?

John Griffith-Jones: A question which, of course, has general application beyond the Yorkshire Building Society. Georgina.

Georgina Philippou: Thank you. That is a very fair question that raises all sorts of interesting issues, some of them philosophical, some of them practical. The way that it works in reality is quite simple. I think everyone knows that we can take action against firms and action against individuals, and essentially who pays the fine is the person that we found guilty of the misconduct. So if we have investigated a firm and found it guilty of misconduct, it pays the fine. We do not expect the managers to put their hands in their pockets to pay that fine. If we take an action against individuals, they pay the fine, and we do not expect the firm to stump up for their financial penalty. So in essence, in real life, it is that simple.

When it comes to cases against Yorkshire, we have taken a couple of cases, so there is a four million pound fine for the way it treated its mortgage customers. There was also a £1.4 million fine for breaches in its financial promotions. In both of those cases, it was the firm that we

found had committed the misconduct, rather than any particular individual or groups of individuals. So it was the firm that paid the financial penalty. In order for individuals to pay the financial penalty, we have to investigate them and find that they committed misconduct, and essentially what that means for individuals is that either individually they are responsible for the misconduct, or that they are knowingly concerned in the misconduct. We did not make any such findings in terms of Yorkshire. I think we have been honest in the past about saying that cases against individuals are very challenging, and there are a couple of things that will make life easier in terms of at least starting cases against individuals in future, and they are tied up with the Senior Managers Regime, which Martin mentioned in his opening remarks. So the Senior Managers Regime will give us statements of responsibilities, it will give us responsibilities maps. So some of the things that we have been struggling with in terms of finding out who is responsible for what, the Senior Managers Regime will help. The remuneration code will also align senior manager awards with the risks run by firms. So things will be different in those respects in the future.

John Griffith-Jones: Thank you Georgina. Now I am looking for questions from the floor, and there is somebody waving his pamphlet here, and a lady in the second row, also waving a pamphlet. This is going to become a trend, I fear. I have caught the eye of the gentleman there for the next time we open up.

Michael Mason-Mahon: Good morning, ladies and gentlemen. Please allow me to introduce myself: I am Michael Mason-Mahon.

I have introduced you before as the Financial Comedy Act, and a bad act at that. This year you have exceeded yourself with scandal after scandal. Is it now the Financial Crime Academy, one has to ask? Because the way that you behave to information supply concerning board of directors is atrocious. We came to you, when you first started, like we went to the FSA, questioning, 'What does it take to turn around and get rid of a director who is a complete failure and does not adhere to the rules and regulations?' We have HSBC Bank that laundered drug cartel money for over ten years. What have you done about the board of directors? Absolutely nothing.

We have now a situation where Mr Wheatley has decided he would cross swords, and the City does not want him and the Chancellor does not want him. But I have just written to him this week, turning round and showing the negligence of the board of directors of Lloyds, who have manipulated the situation. You fined them £4.25 million two years ago for failure to adhere to customers and address their complaints, yet two years later you expect the shareholders to pick up a £1.65 million fine because these boards of directors have refused not only to act within the Principles, where they are supposed to act with integrity, with due care and diligence. Mr Wheatley cannot even use the decency to respond.

Are you the worst joke that has ever happened to the financial sector in the UK? My concern is: how can the public have any faith in an organisation where we fetch complaints to you and you ignore us? You are so secretive; MI6 looks more open. Your directors – sorry, you like to be executives, not directors – half of you cannot even go into each other's meetings, because it is a conflict of interest.

Can you possibly answer me one simple question? Why should we have any faith in you? Would it not be better for the Chancellor to go to Belmarsh Prison and see if anybody wants the vacancy? But the people in Belmarsh have a bit more integrity. With that in mind, will you turn around and tell this audience, and tell the public, what does it take to turn around and

strip a director if they are laundering drug cartel money, if they are cheating costumers? What does it actually take, gentlemen?

John Griffith-Jones: Thank you, Mr. Mason. Martin, can you answer?

Martin Wheatley: I will answer one simple part of the question. What does it take? It takes evidence. I think one of the points I made earlier about the Senior Managers Regime is to place clear accountability with individuals. We have not had that regime across all parts of organisations in the past. You made a number of other comments on why we do not listen to information brought to us. We do. We take it very seriously. We use that as a source of information. We are secretive about it because we have to be secretive about it. There is an important piece of legislation about the protection of whistle-blowers. People who come forward with information have to have their identity and the information they bring forward protected; therefore, we will not go back and disclose information about how information is brought to us. What you describe as secrecy is actually us managing the protection of the individuals that bring information to us. I am sorry, I am finding it quite hard to work out how I would answer a lot of your questions.

Michael Mason-Mahon: In this document you produced, there is [inaudible] to protect and enhance the integrity of the UK financial system. Does this belong in the BBC's fiction department? If you are protecting the consumers, God help us! And if you are enhancing the integrity of the UK financial system, when you have so many directors that are being paid millions of pounds for failure, and these organisations turn around and not only are willing to commit criminal acts around the world, but they are able to cheat their own costumers. And please, you cannot turn around and tell us that we have to put up with your behaviour. You are supposed to protect us. Well, who is going to protect us from you?

Martin Wheatley: It is a convenient argument, but you are ignoring the facts. We have over the last few years had over £20 billion worth of redress returned to investors on their behalf, because of PPI misselling. We have achieved £457 million returned to investors because of credit card protection missales, £2 billion returned to small businesses because of interest rate hedging product sales, 53% reduction in complaints on payday loans because of the activities that we have taken there, a 50% reduction in the number of complaints on credits broking because of the work that we have taken there. You are ignoring the facts.

Michael Mason-Mahon: I am not ignoring the facts. The fact is you have never prosecuted or removed the board of directors from HSBC, where they not only turned around and laundered drug cartel money for over ten years, but they also give financial assistance to Iran for helping terrorists into the financial system. [Inaudible] the information we supplied you are lies [inaudible]. You did nothing.

John Griffith-Jones: Sir, I think we have heard your points. I fear we are not going to persuade you in this open session, but you have made your point. I think it is time we take the lady's question.

Rebecca Collings: Hi. My name is Rebecca Collings and I am speaking on behalf of Connaught Series 1 Income Fund Liquidation Committee. There is quite a few of us here, so you will probably hear a bit more.

I was here a year ago to ask if the FCA will work towards getting redress for investors in that fund. Since then you hosted negotiations with Capita, but we feel they were doomed from the start because the FCA intimated you were unlikely to issue a restitution order. Unfortunately,

they have ended in failure, as we understand it, but there are not absolute facts available to us. The FCA walked away from the deal. Three years have passed since the Connaught fund was suspended and an investigation is now proposed. It will take two years allegedly, something we suggested back in October 2012. Can you now make any undertakings to the fact that I can come to next year's meeting and thank you for making some steps towards getting our money back?

John Griffith-Jones: Thank you. Georgina.

Georgina Philippou: I think what has happened in Connaught has caused serious distress to lots of investors, and I am sure there are some of them in this room today. Which is why we have put considerable resources, considerable time and effort, into trying to get to what we think might be the right consumer outcome. That is why we engaged in discussions. We thought that those discussions would end up with something that was good for investors, but the discussions became very prolonged, they were put back more than once and we had to come to the conclusion that those discussions would not achieve what we thought they might achieve.

Having tried that, our options are limited, and as you rightly noted we have announced investigations into two of the operators of the Connaught Scheme, into Capita and Blue Gates. It is difficult to say how long investigations will take. We start this one knowing a bit more than we often do at the very beginning of an investigation. So we will do our investigation. If appropriate, we will use our enforcement powers, and if appropriate our restitution powers. But it is relatively early days yet to make any promises, but we continue to pursue this as seriously as we did when we were in discussions with the firms.

John Griffith-Jones: Okay. I am now going to take interest rates hedging products. The best thing for me to do is just to give you a flavour. I have got questions A through H from various people here, some quite short, some quite long. If I just give you a selection and also the names of the people so they know their question has been considered.

I have one from Jackie Roberts: 'I would like to ask about the regulation of sales of IRHPs, and the review into misselling of IRHPs to SMEs. I am an affected business owner.' From John Gary: 'Why, why, why did the FCA collude with the banks to dismiss the claims of address by small businessmen in respect of IRHP misselling?' I have a long letter from a man called Keith Bates, who feels that he was sold an inappropriate product. I have a comment from a Mr James Richardson: 'What is being done to insure the victims of wrongdoings are being compensated?' From Fleur Conway: 'The shortcomings of the FCA review with particular regard to the missale of hidden swaps.' And a comment from Mr Bob Hamlin: 'How does the FCA insure that the independent reviewer undertakes his role in protecting the public interest in achieving fair outcomes for victims of IRHP misselling?'

The best way that we can handle this is if I ask Martin to give an overview of this, and then I will open it up to the questions specifically of IRHP.

Martin Wheatley: Thank you. I realise this is a difficult topic and I know the strength of feeling for many people who feel that they were inappropriately sold, misled, mis-sold products. We launched the review over two years ago now following on from a number of complaints that have been coming in over a reasonably long period of time from people who had taken out loans in a period typically around 2007/2008, and alongside those loans had taken some form of interest rate protection. At the time, that interest rate protection was taken. We were looking at interest rates at 5%, 5.5% and going upwards. Clearly what we

have seen subsequently is an unprecedentedly low level of interest which has meant that those protection products have looked like very poor value, and in some cases significant cost to the individuals. We asked the banks to review the 30,000 sales of these products, and we entered into an agreement that they would conduct that review under the oversight of a skilled person; each bank would appoint a skilled person. The role of the skilled person was to insure, to our satisfaction, that the banks exercised proper skilled care and attention in carrying out that review.

That process has now been ongoing for two years. In terms of total amounts paid out, close to £2 billion pounds has now been paid out. All of the nine banks' part of the review have completed their sales reviews, and they delivered redress letters to the vast majority of customers. The banks have sent 17,000 redress determinations; 14,000 of these include a cash redress, 3,000 confirmed that the IRHP sale complied with our rules in the first place. So today, over 12,000 customers have accepted the redress offer. I am aware, however, that there are a number of people who consistently feel that the process has not worked well for them. Some of those have written to MPs, some of those letters have come to us. In each case, we have looked again as whether we feel the process failed and we have concluded that the process has not failed, the process worked as expected. I appreciate that is not a message that some people would like, but those are the facts as they stand, from our perspective.

John Griffith-Jones: Okay. That is the background. Does anyone wish to either challenge or further wish to talk about these? Let's take the first of you.

Bob Hamlin: Mr Chairman, my name is Bob Hamlin; I asked one of those questions. I am a small company; I was missold an interest rate hedging product by RBS bank. I went to the redress meeting, and it was determined that because of the telephone conversation that the RBS bank had, I would have bought this interest rate product anyway; 'Therefore, Mr. Hamlin, you are not going to get any redress.' Fine. We went through the bill procedure and, as I suspected and the bank conceded, the telephone conversation was fabricated. I brought this to the attention of our independent reviewer, KPMG, and I expressed my dissatisfaction having them make a decision based on this telephone conversation that was plainly false. Nothing happened.

I have since drawn it to the attention of the FCA, and to paraphrase you, you have written back to me and said, 'I do not know what you are winging about Mr. Hamlin. The good people of KPMG have been reviewing your case and have found everything hunky dory, so we do not know what you are on about.' My question to you is: what is it that I have to do, or that anybody else has to do, to insure that you scrutinise the role of independent reviewer? I understand why you put an independent reviewer in, because you cannot do everything, but I am not happy how it performed in my case. You, or they, have not addressed anything to my satisfaction, and I am not an unreasonable guy. If it helps, I can come to your offices on my expense to explain in vivid detail what has happened. I think Linda is going to be the person who answers: simply, what is it that I have to do to convince you to look at the role of the independent reviewer in my case and anybody else's case?

Tracey McDermott: Martin gave the broad explanation of what the scheme was set up to do, and the independent reviewers played an incredibly important part in that scheme. It is an enhancement to the way in which complaints are normally dealt with, because normally, our rules require that complaints are dealt with by firms and if you are unhappy with the outcome from the firm's determination you can take it to the Financial Ombudsman Service or to the courts.

In the case of interest rate hedging products, we introduce the skilled persons. We have set out in detail what they are required to do and we do regularly engage with them in terms of ensuring their independence. We cannot comment here on the individual specifics of your case. However, we absolutely expect the independent review as to look at the facts and to test the conclusions being reached by the banks. I am afraid, and I am sorry: if you are unhappy with the way the independent reviews have come out, then you have the right to take your case to the courts or to the Financial Ombudsman Service.

Bob Hamlin: You are not protecting my interests as a member of the public with that, and I am asking you to intervene because I have been done a misservice by the independent reviewer. Something has gone badly wrong, and I have only asked you to look at it. Let me come and see you. It will only take 20 minutes of my time with you. Take me up on it, please.

Tracey McDermott: The process, if you are unhappy with the outcome of the review, we are unable to change the outcome of the review.

Bob Hamlin: Oh, come on. Come on. Come on.

Tracey McDermott: The process is to take it through to the courts.

Bob Hamlin: You guys regulate these guys.

Tracey McDermott: We have looked at your complaint, we have written to your MP and I cannot talk about your complaint any further in a public forum.

Bob Hamlin: No, I am willing to meet you.

Tracey McDermott: You have written to us and we have responded to you.

Bob Hamlin: But you have not addressed my fundamental complaint. You have just fobbed me off saying the good guys at KPMG must know what they are doing.

Tracey McDermott: No, I have said that we are satisfied with the independent review scheme is appropriate and that if you are unhappy with the outcome then the way to take it forward is to take it through the courts.

Bob Hamlin: I will pass. I am not going to get an answer, so I will just pass it on to someone else.

John Griffith-Jones: Okay, can I take another. So, Mr Roe.

Jeremy Roe: My name is Jeremy Roe. I am the Chairman of a company called Ordinary People in Business, and we are the corporate identity of a campaign group called Bully Banks. I think what you have just seen is a vivid demonstration of the problem that our members encounter in quite large numbers. We have a member who has clear evidence of a fraudulent act; the response of the FCA is to stand back and wash their hands of it and push that member to try and deal with his bank, one of the largest corporations in the world, and with KPMG, and it is up to him to deal with his problem. That is not the function of a regulator.

What I wanted to say was that there is something quite special about interest rate hedging products, and that is that their value to the bank depends upon the risk which the customer is prepared to accept. The banks put the sale of these products into the hands of highly incentivised salespeople, and they sold them to people who knew nothing about them. The less the customer knows, the greater value to the sales person. In order to achieve the sale, the salespeople deliberately, systematically, repeatedly broke regulations which had been put in

place to protect the customers. The banks deliberately, systematically missold product, breaching a significant number of regulations.

We as a campaign group have taken advice from a criminal silk, which is that criminal offences were committed. The FCA is not interested; it is up to us as a campaign group. And I tell you, there are several hundred bank personnel who will face prosecution as a result of their activities.

Every member of the board should be aware of the great dissatisfaction that thousands of small business people have with the performance of the FCA redress scheme. In essence, the redress scheme allows the person who missold the product to decide whether it was missold and then to decide what compensation should be paid in the event of a sale. The FCA promised us – because this issue was raised back in June 2012 with the FCA, our concern about that fundamental flaw – that they would then put in place a skilled person who would participate in the decision process. That did not happen.

It was intended to happen; as of 17 January, the FCA put in place a scheme. As of 29 January 2013, that scheme was fundamentally altered and the role of the skilled person changed. We did not know about that until quite recently, and it changed that the skilled person is relegated to an observer of the bank's process.

The process is fundamentally flawed, and this is just a few items because there are so many I could talk for hours. The banks do not disclose the documents which they rely on to make their decision. We, the customer, have to disclose everything; the banks do not disclose anything. They do not even tell you the reasons they made the decision. When you appeal, you do not know what documents the banks relied on. You do not know what reasons they had for their decision.

The skilled person is remote from the process to the extent that if you appeal, the majority of the appeals take place with a skilled person sitting in the room who will not talk to you and who knows nothing about your case. The skilled person, if there was a skilled person involved in your review in your decision, does not even attend the appeal meeting.

Advice for the customer is discouraged by the FCA. In other words, they do not want you to have professional advice in the meetings, though many of the meetings are conducted by solicitors, by accountants, acting on the behalf of the banks.

I have got questions – that was an introductory statement. They are very simple questions. Can someone please tell me what is the aggregate value of the fines levied on the banks in respect of their deliberate, systematic breach of regulations in connection with the missale of interest rate hedging products? Can someone please tell me how many sales personnel guilty of multiple missale have had their status as approved people removed or cancelled? Can someone please tell me how many people have been prosecuted for the clear criminality, the criminal offences of many of the sales people involved in these actions?

Now, I have been to meetings with the Chairman and I have been to meetings with the Chief Executive of the FCA. They know my feeling. They know my argument. They know we are out there collecting evidence. Nobody has even bothered to pick up a phone and talk to us about what evidence we are gathering. They have that evidence; the questions are, 'What have you done about it in connection with those three items?'

Martin Wheatley: Clearly, we have different views about how this process has worked. You know the answers to your questions are that there are no fines and no individuals that have lost their licence as a result of this.

Jeremy Roe: Yes, no one has lost their licence.

Martin Wheatley: You also know that £2 billion has been paid out in redress.

Jeremy Roe: I have a £20 billion liability that is sitting there.

Martin Wheatley: The differences between us on this are such that many of those differences are being tested in the court. The courts heard a claim about the use of our sophistication test, and that was one of the very early claims that was taken against us. That ruled in our favour that we were appropriately using sophistication. There are a current number of active court cases where individuals are taking on the banks and us in terms of the role of the expert person. The court therefore is the appropriate place to finally determine whether your view or my view is the correct one.

Jeremy Roe: The court is the last opportunity businesses have. The FCA is a regulator. It should be there protecting these business. It should not be saying, 'It is for the court to decide.' It cost a £1 million, or the risk of £1 million, to bring a high court action in this country. How many small businesses can do that? Okay. That is what the court involves. The FCA's function is to regulate and to protect the consumer. It is failing in that function.

John Griffith-Jones: Okay. Mr Roe. Thank you. There is a big difference of opinion between this. I believe it is honourably held. I think you have had the opportunity to express your views, Martin has expressed the views of the FCA, and I think in all honesty we should move on.

I have a question from Francis McGee who I hope is in the room.

Speaker: Can I just do one quick that relates to that sort of discussion?

John Griffith-Jones: Very quickly please.

Speaker: It is only a short one. In your Handbook, you have [inaudible] rules obviously, brought in the European Director of MiFID in 2007 and yet the HM Treasury have not brought these into the law. What do you intend to do about closing the loophole commonly exploited by the banks, and these MiFID rules obviously relate to the selling of these products?

Martin Wheatley: I am very happy to have in writing specifically where you do not believe. We think MiFID has been properly implemented in law, that the UK legislation is compatible with financial services regulation.

Speaker: So has the government?

John Griffith-Jones: Excuse me: I think this is a question better answered in writing but if you point us to precisely which clauses and then we can give you a reasoned answer, that would be helpful.

Yes, is Francis McGee here?

Speaker: Mr Chairman, before we move on…

John Griffith-Jones: I am going to move on now actually, I think, with respect. If you are on interest rate hedging products, I think we have heard that subject pretty fully. I have a great many other people seeking to ask questions on other matters in the room.

Speaker: This would just actually show how the process involved in the FCA, regardless of the subject – it could apply to anything else – you are failing us. You are failing us, sir.

John Griffith-Jones: Look, I understand. Are you on interest rates hedging products?

Speaker: Well, the example comes from interest rates hedging products, yes.

John Griffith-Jones: Okay, but I think we have laid out our case. We feel we have helped many, many other people and there are a disaffected group of people – of which Mr Roe is a spokesman – and I think you have had the opportunity to share your views with the rest.

Speaker: If I may sir, you appear to not be addressing the issues regardless of the subject. I have evidence here and here which Dominic Grieve, the former Attorney-General, put to you, and said even he could not believe the decision that you had overseen. You need to revisit these things for everybody, regardless of the area in which they are in. So many of us are dissatisfied.

John Griffith-Jones: Okay. I hear you.

Speaker: Well please do something about it, sir.

John Griffith-Jones: We will see.

Speaker: [Inaudible].

John Griffith-Jones: Okay. Can we move on?

Francis MacGee: I really cannot follow any of that I am afraid. This is a complete change of direction from the discussion so far. My question is about consumer credit and consumer debt. What is the FCA's view of official projections for household debt in the UK? For context, the Office for Budget Responsibility shows that household debt-to-income ratios will reach their pre-crisis levels by the end of this parliament. Within that, unsecured lending is already growing at its fastest rates since 2006. My questions are: are those levels or those projections for household debt sustainable in your view? If not, do you need more powers? Finally, can you confirm that the apparent dependency of the UK on debt to deliver economic growth will not influence your agenda for consumer protection in that space?

Martin Wheatley: Okay, if I could answer that, and there are really two ways of looking at this. In terms of individual indebtedness, we have both in the Mortgage Market Review, the MMR, and in our work on credit introduced new rules on affordability to manage down the continual upward increase in debt and people taking on debt that they cannot afford. I mentioned earlier that we are also doing a study on the use of credit cards and our concerns about 0% transfers.

So absolutely yes: the micro, the individual consumer level, we are very, very concerned about the taking on of debt, the sale of unsustainable products, and the responsibility of firms is always to do that affordability checking to ensure that people are not building up unsustainable debt. However, your broader question is the country: should we be concerned as a country, so not just the individuals, and with household debt reaching 167% by 2020, that is more properly a concern of the banks' Financial Policy Committee, which looks at systemic issues across the UK. If the Financial Policy Committee, which I sit on, is concerned that the aggregate level of debt, of consumer debt in the UK, has reached this unsustainable level, then that is where the decision would be taken as to what else needs to be done, and it would be for the FPC to write to the Chancellor to seek additional powers if it wished to constrain the ongoing growth of consumer debt.

That very much sits with the Bank of England at the aggregate level. At the individual consumer level it sits with us, and our rules have intended to stop people taking on unsustainable, unsupportable debt.

John Griffith-Jones: Now, the gentleman there, who I acknowledged earlier on, I am very happy to take your question. You dropped your question; sir, you had a question and then there is a lady in the second row here who also had a question. I will take you if I may after this gentleman.

Keith Bates: Thank you very much. My name is Keith Bates, revisiting interest rate hedging products. This is a question for Martin Wheatley. In the Treasury Select Committee February 2015, in response to questions from Andrew Tyrie, discussing the fairness of the redress scheme, you stated: 'Typically the skilled person would take representations from the small business as well.' In answer to the specific question from Mr Tyrie, 'Are they' – and that is the skilled person – 'contacting the firms in order to obtain the firm's view?' you stated, 'As I say, we would expect them to. We would not validate on every case, but if we had complaints that they were not doing that, we would go back to the bank and the skilled person to check on that.'

I then wrote to you, Mr Wheatley, and I asked the question, encouraged by those statements, would you ensure that in my case. I am a Barclays customer, I have not been allowed access to the independent person, so I wrote to you. I received a response, and it was, 'Martin Wheatley has asked me to respond to your letter,' and it included the statement, 'We do not expect independent reviewers to engage directly with the customers.' Simple question, Mr Wheatley: will you agree that those two statements are contradictory?

Martin Wheatley: Thank you, because you notified us in advance, so I went back and looked at the official transcripts of my Treasury Select Committee appearance. I realised that the words I used were not as clear as they should have been. My apologies for that.

Keith Bates: My words are from the official transcript.

Martin Wheatley: Yes, that is right, and which I am looking at now. What I was saying to the Treasury Select Committee is that the skilled person would see everything that the individual business brought to the bank. It would be the requirement of the bank to share that with them. What I did not say was that the individual business would have direct access themselves and independently to the skilled person. That is not the role of the skilled person.

Keith Bates: If you look at the transcript, it is very specific what you were saying. Perhaps your words were not the words you meant to say, but on the basis that they are totally different to what is in the transcript, would you like to issue an apology to the Treasury Select Committee that you have – and I think Andrew Tyrie would probably agree – have misled them?

Martin Wheatley: I can certainly clarify what the words were meant to say at the Treasury Select Committee – I am very happy to do that – but I did not intend to then, and the same is true now, to suggest that the independent businesses would have independent access to a skilled reviewer. The skilled reviewer would attend the meetings, would have access to all information that you brought forward, and would have had a responsibility to review that to ensure that a fair and reasonable outcome was reached, and I am very happy to clarify that.

Keith Bates: I am sure Mr Tyrie will be pleased to receive clarification.

John Griffith-Jones: Okay, thank you Mr Bates. Yes.

Fleur Conway: Hello, my name is Fleur Conway, small SME. I know that it relates to the interest rate hedging product and I am also now a member of Bully Banks. I just wanted to let everyone here know that the independent reviewer that attended the meeting that was held two and a half years ago turned up 25 minutes late, in a pair of jeans, a creased t-shirt, long hair that needed a wash, and I had absolutely no confidence whatsoever with what transpired, and somebody who never knew what an interest rate hedging product was after having my company for 25 years was sold the product and given two days before completion of 12 properties that were purchased in auction. So I feel that I have been failed by the FCA. Thank you very much.

John Griffith-Jones: Right, I am going to go back onto the list, and I have questions on investment management, one from Francis Lunn and the second one from Masazumi Tanaka. I do not know whether either of them are in the room, and if you are, if you would like to ask your question?

No? Let me read them out. Francis Lunn asks, 'What are the priorities for regulation of the investment management sector in the year ahead?' Mr Tanaka asks, 'It seems there is no explanation of why and when thematic reviews were introduced. It would be wonderful if you could touch on this, and also an overview of supervisory tools and their relationship to each other.'

If I could ask Chris to deal with investment management and then perhaps Tracy to deal with the supervision question.

Christopher Woolard: Okay, thanks John. So our priorities for investment management set out in our annual business plan. There are two main areas we are looking at with overarching sort of piece of context behind them.

The overarching context is that our focus is very much on asset managers in particular acting as good agents for their clients and ensuring that they represent and carry out that role properly. We have two key pieces of work, the first a supervisory piece of work which looks at the post-authorisation review of funds. What we are looking at there in that work is whether UK-authorised investment funds are operating in line with investors' expectations, and that as I said is ongoing at the moment.

Secondly, later this year we are going to conduct a market study that will look quite broadly at the asset management sector, and we expect to publish terms of reference for that later in the year.

Finally, it is worth noting there is quite a wide body of European legislation that still has to flow through, particularly UCITS V and also European Long-Term Investment Funds Regulation. Again, we would expect to be saying more about those later in the year as well.

Tracey McDermott: The question was when and how we use thematic reviews and when they were introduced. So, thematic reviews, for those who are not familiar with them are supervisory work where we will go and visit a number of firms across a particular sector, looking at a particular issue or product that we look at in a common way across the sector. They were something we used as a tool in the days of the FSA, and they have continued with increased intensity in the FCA. The aim of doing such a review is to identify good and bad practice across the sector which we can also then publish and give guidance to firms on how they can improve, learning from what their competitors do well as well as what they do badly.

We use this in a wide range of areas. So in the last year we have done thematic reviews into how firms handle complaints. We have done thematic reviews into information flows within investment banks. We have done thematic reviews in relation to how the insurance companies handle claims via SME businesses. We looked at financial crime controls, and so on and so forth.

So we use them in a wide range of areas. We use them partly to look at where we think there might be areas of weakness and historic poor practice; we also use them to look forward as to how we improve and drive up standards.

The question also asked about what other supervisory tools we have and how they all fit together. We have a very wide range of tools that we use, some of which are statutory tools, some of which are practice and techniques. They range from the sort of systematic assessment we do of individual firms on an ongoing basis, our reaction to events, such as IRHP, but also the use of tools such as skilled persons reports and section 166s; attestations, where we would ask an individual to take responsibility for a piece of action that we require from the firm and to attest that it has been completed; we obviously visit firms; we can acquire information on an ad hoc basis as well as having routine data collection; and we have the power to vary the permissions of firms or impose requirements on them if that needs to be done to achieve our objectives. We also have powers to temporarily intervene in relation to sales of particular products.

Those are tools which sit in supervision. Alongside of those, of course, we have a range of other regulatory tools from the authorisation process at the gateway to assure firms are fit and proper, through to the work we do in competition, rule-making and obviously, ultimately, enforcement. In each case, what we try to do is select the most appropriate tool for the particular issue or problem that is facing us.

John Griffith-Jones: Thank you, Tracey.

So if I could just do a bit of signposting, because we are making quite good progress down the list. I have got two questions on cost and resources which I think get asked together because they link. Then I would like Mr Meadowcroft, if he's here, to ask his HBOS question. Then I will go back to the floor and I have some questions on culture that we will take after that.

If I could first do the cost and resources question; these come from a Mr Richard Arnold and a Mr Mark Burton, and I have been asked to read them out. So the first one is from Mr Arnold: 'Given the economic environment that we all live in and a focus on reducing operational budgets, public sector workers, private sector workers, local government, emergency services, charities, government bodies and departments, private firms, hospitals, doctors surgeries – all of the above are managed and run by your consumers. How singularly can the FCA propose an increase in its fees to regulated firms which ultimately increases cost to consumers and removes their capacity to seek affordable advice?'

The question from Mr Burton says: 'Given the explanation in the FCA's scope following the inclusion of payday lending in its remit, is the FCA sufficiently resourced to cope with its growing workload?'

So I have an up and a down question, shall I say. But you know, the FCA costs a considerable amount to run. Martin, perhaps your initial comment?

Martin Wheatley: Well, I think those questions are really just looking at the two sides of the same coin. Since the financial crisis there has been a lot of change in regulation, a lot of

change that impacts us directly and impacts regulated entities, changes to introduce the Senior Managers Regime, which I mentioned, will come next year. Changes to increase more activities within the scope of regulation, so we have seen benchmarks brought within the scope of regulation, consumer credit brought within the scope of regulation, payment systems been brought within the scope of regulation, and it is has not yet been the case that we have been asked to stop doing things. So all of the requests to us, all of the responsibilities, are additive responsibilities to the existing FCA responsibilities. We try, and I try, as hard as possible to manage the organisation in a way that does not push those costs directly back to the industry, but inevitably we can't absorb all of that change without there being some knock-on impact.

So last year, we signalled as part of our business plan that there would be some increase in costs. We hope those increase in costs are managed well, so I make sure that we manage well from our end, but ultimately it is right from the first question, it is a cost to the industry, and we just have to make sure that we are responsible in the way that we build up the additional resources we need to take on the additional tasks. For the avoidance of doubt, it has all been additive; we have had any responsibilities that we have been asked to stop doing things.

John Griffith-Jones: Can I then ask Mr Meadowcroft if he's in the room? He is.

Philip Meadowcroft: Good morning chairman. At each of the last three public meetings I have asked when the FSA, or the FCA now, will publish its inquiry into the failure of HBOS. At 2014's APM we relied on Sir Brian Pomeroy's solid assurance, given to me and everyone else in the room, that the HBOS report will be published by 31 December last year. That assurance chairman, as you now know, was not delivered by your Deputy Chairman and Senior Non-Executive Director – another 2004 failure for the FCA.

2013, Andrew Bailey blamed Maxwellisation for the delay in publication thought it was later discovered by the *Times* newspaper that Maxwellisation would not even commence for at least another ten months. In 2012, the year before, Tracey McDermott sheltered behind an ongoing court dispute with an HBOS director as the reason for delaying publication. What possible credence, Chairman, in asking for the fourth time, can we put on whoever delivers the FCA's reply this year? I assume you cannot deliver it, Chairman, because you have recused yourself from HBOS issues, given your admitted conflict of interest which of course you share with some other FCA directors, including the interim Chief Executive.

Before hearing your reply to my question, I want to point out that in the Annual Report we have received today, it states that Maxwellisation is a process required by law. The FCA is guilty of being economical with the actuality. Let's be clear about this: Maxwellisation is not backed by statutory law, which has been debated in the past by Parliament. It is merely unwritten law. It is a procedure which has become a convention applicable only to inquiries by public institutions generated by comments made in the High Court in 1969 during the case brought by the Department of Trade and Industry against the 'bouncing Czech', Robert Maxwell.

So Chairman, for the fourth time, and for the fourth year, when please will the FCA publish the HBOS report and, looking at an article in one of the national newspapers today, will it be before the next banking crisis?

John Griffith-Jones: Mr Meadowcroft, the appropriate person to answer your question is again Sir Brian Pomeroy, sat to my right. You will have seen the article in today's paper. I hope you've seen the release of his and Andrew Bailey's letter to Andrew Tyrie which was

published yesterday, but I think, rather than me talking about this – as you say, I am recused – it would be appropriate that Sir Brian address your concerns.

Sir Brian Pomeroy: Thank you for your question, which is not too unexpected. The first thing I want to say is that we – by which I mean the FCA and the PRA together, because we are jointly preparing this report – fully understand the importance of this report, and frankly want to see it out as quickly as possible, in the same way as you and others do. But we have consistently cautioned I think at every annual meeting that there are some stages in the process which are not strictly within our control because they depend on third parties, and whose timing is inherently uncertain. You did mention the exchange we had at our last Annual Public Meeting; I hope you also recall that I did specifically mention that caveat, that it is inherent and unavoidable uncertainty over Maxwellisation, when I gave you the answer that I did give you.

I know that you questioned the need for Maxwellisation, and I would like to come back to that in a moment. First I will point out, as you probably are aware, that recently we wrote to the Treasury Committee with effectively a general update on the progress of this report, but specifically referred to Maxwellisation and some of the reasons why it has taken longer than expected – and I completely concede it has, which is why we did not meet the last year end date. You will see in there that we refer to the high volume of responses that we got of representation, all of which had to be looked at carefully, thoroughly and dispassionately, as well as some other factors.

You said towards the end of your question, that you did not believe Maxwellisation was a legal requirement. We do not think that's correct. You said that because it is not a statutory requirement, which I think it is not, but as a public body, we have to follow not just statute law but also case law decided by the higher court where it applies to the functions that we exercise. Maxwellisation, in fact, comes from a Court of Appeal decision in 1970 that we should do exactly what we do in Maxwellisation, and we do have to follow it. So, it may be that we would rather the law was different, but the law is as it is and we have to abide by it.

I should also mention – and you will see this in the letter that we wrote to the Treasury Committee – there is another process we have to go through, also required by law, to gain consent to publish confidential information protected under Section 348 of the Financial Services and Markets Act. That again relies on other people over whom we have no direct control. The timing of that is uncertain, it is yet to come, and again, that is a legal requirement. We might wish the law was different, but it is not, and we have to do it. Because of these uncertainties, again, you will see in the letter we wrote to the Treasury Committee, we have said – I should say regrettably, and I mean genuinely regrettably – that we cannot give a precise date. If you want a precise, actual, irrevocable date at this point in time – we understand why you would like it – we cannot give it because of those uncertainties. They are uncertainties beyond our control.

What I can do is assure you – again, I hope you will take this with the sincerity with which it is intended – we have a team of people working very hard on this who are determined to get through whatever is left to get through as soon as possible and we are committed, we and the PRA together, to get the report out and publish it as soon as is practicable. And we shall.

Philip Meadowcroft: Thank you, Sir Brian. Chairman, what steps, having heard what the Deputy Chairman has just said, have been taken by the FCA Board to register its concern with the Treasury, or elsewhere in Whitehall? The publication of the report is monumentally delayed

because of Maxwellisation because it's been roundly abused, because it grants those criticised an unlimited time to raise queries and objections. Maxwellisation is unintentionally immortalising one of Britain's most notorious fraudsters and is not subject to statutory regulation. Isn't the absurdity of this situation so evident to the FCA that its concern about the delay that it is causing you in publishing this enquiry needs to be registered with your Parliamentary masters?

John Griffith-Jones: I am recused from the detail, but I can add to Sir Brian's view: nothing would give us or the PRA greater pleasure than to hand you a bound copy of this document today, because we are as interested in getting this particular episode out in the open and behind us as is the Treasury Select Committee. Everybody is unhappy at the amount of time it is taking, including yourself, and you are absolutely right to raise it. When the dust has settled and the report has come out, Mr Tyrie, I think, has indicated – at least, I've only read the newspaper, I haven't been in personal correspondence – he intends to look at why it took so long. We will obviously cooperate with him fully. I would hope we are not in the process or in the business of writing these reports too regularly, but I also greatly hope that the next one takes a good deal less time than that one, if there ever has to be one.

Philip Meadowcroft: People in the room will be unfamiliar with the correspondence you've referred to, since it was only released at 17.54 last night –

John Griffith-Jones: That's true.

Philip Meadowcroft: – and has not had full attention in the media for obvious copy reasons. It was, for everyone that is in the room, a letter of the 2 July from, jointly, on headed notepaper of both the PRA and the FCA, so we have the joyous benefit of two regulators playing around with the HBOS report. That information was presented to the media last night along with the Treasury Select Committee's reply, and that was published from Andrew Tyrie, who did say at the end, as the Chairman has just pointed out, that he will be looking into the problems caused by the delay through this Maxwellisation procedure.

Could I finally finish then, Chairman, by asking you to confirm whether or not the Treasury – or any other Whitehall department, given the Treasury's newfound preference for a softer regulatory approach to banks and bankers – has indicated to you formally or informally, a nudge or a wink or an email, to delay or postpone or even cancel, for whatever reason, the publication of the inquiry into the failure of HBOS, given the length of time that it has now been sat in some safe, some drawer, some cupboard?

John Griffith-Jones: I have been totally – and totally means totally – recused from the whole process, so I am able to say that no such wink, nudge, email or direction has ever existed.

Philip Meadowcroft: Thank you.

John Griffith-Jones: Questions from the floor, and I am just looking at the clock because I have got two people in particular who have submitted questions. I will take one from the floor, then I ought to take the two submitted, which is Mr Fitzsimmons and Steven Gore. Anybody from the floor – please, not an IRHP question, if I may be so bold as to ask that.

Speaker: Hi, my name is Hussein, I am from [inaudible], I am the co-founder. I am in the equity investment-based crowdfunding for property space, and looking forward now to asking a question regarding the competition that is going on in the market, that is quite a growing industry with a lot of money being poured into it, and obviously the digital space is growing exponentially. I found that the market is not completely regulated; there are a lot of

companies that are not regulated, there is a lot of slow process in the regulation of these firms. The size of the firms is obviously growing as well. What does the FCA intend to do about monitoring the space and also the processing of applications, because the firms actually want to be more regulated?

Also a question related to the space, but a bit unrelated. Digital currency obviously is also coming in; as we go forward, the processing of money is not only going to be through existent money, but through digital currency such as Bitcoin. Will that ever be regulated as we look towards processing and making things as user-friendly as possible for our consumers?

Christopher Woolard: There is quite a lot in that question so I will try and split it out into different parts. Around the question of the different kinds of crowdfunding we're seeing, obviously we are interested in the regulation of both equity-based and loan-based crowdfunding. There are certain types that sit outside of our regulatory perimeter. On the whole, I think we are seeing an industry, as your question suggested, that does want to be regulated. I think regulation is, in many ways, making that particular market work at this moment in time, particularly in terms of investor confidence. We, collectively as an organisation, try and process applications as swiftly as we can. We certainly try and do all we can around the crowdfunding space for people who are not familiar with regulations to try and help them through that to some extent.

More broadly, we have something called Project Innovate, which we set up around seven months ago, Martin mentioned on his slides looking at the year. The purpose of that is to look at innovative funding models, innovative business models that might not quite fit with our rulebook at the moment, but we can see that there is a consumer benefit there. So far, we have taken around 200 firms though that process. 90 of them have had some sort of assistance from them, and there are around 20 in the final stages of authorisation. We get a fair few enquiries about digital currencies as part of that. At the moment, I think we are largely in a watch-and-learn type space where digital currencies are concerned. They obviously come in all sorts of shapes and sizes. Some of those propositions are around Bitcoins or virtual currencies, some are about the tokenisation of existing fiat currencies, and again, we work with people around those models. At the moment though, we have not gone as far as saying there is a space there around virtual currencies that we think ought to be regulated at this point in time.

Speaker: So will you be increasing speed of processing applications as the market continues to grow?

Christopher Woolard: Yes, as the market continues to grow – and I don't know if Linda wants to say a few words about authorisations generally – obviously we try and be as swift as we can, and part of that is about helping people get themselves in the right place to apply in the first place so it is as smooth as possible when they are going through that application process. Also it is about the speed with which we understand sometimes, quite novel business models that might be coming in, and we obviously have some resource but not unlimited resource dedicated to try and do that.

Speaker: Just a comment on that: it has been said that [inaudible] spend a lot of resources and technology to get to a place [inaudible] in the market, and if it takes so long to process the application, a lot of things change, technology changes, new market entrants – all these things become high barriers from the FCA as opposed to the high barriers in the first place

which existed, which is why the firms were set up. So how do you intend to speed up that process for firms such as us to get processed and regulated as quickly as possible?

Christopher Woolard: Linda, do you want to say a word about that?

Linda Woodall: I think there are lessons to be learnt from the consumer credit regime in this space which for us was extremely novel, not obviously for the Office of Fair Trading. The key to it, as we have operated here, is first of all to make sure that there is proper information out there, and in the case of consumer credit in a scaled-up way to ensure that people know what they are facing and so they are prepared for the authorisations process. The second element is to distinguish between the more straightforward applications and the more complex ones. Therefore the straightforward applications, where the business model is pretty simple, you can get to a position as we have done with straight-through processing. For more complex cases then it can take a bit longer and you need a bit more attention to be paid. Through that process we can get to a position whereby, whilst we have statutory requirements of six month and 12 months, in actual fact, it takes weeks and not months.

So we have some experience of this, and with the growth of markets such as the one that you are talking about today, we can leverage those lessons.

John Griffith-Jones: Thank you. I am now going to go to Steven Gore, if he is here – thank you Steven.

Steven Gore: Steven Gore from ILAG. FCA have said much about the culture prevailing in regulated firms. Could they be more specific about what they are expecting the [inaudible] office and senior management to do to inculcate and demonstrate the right culture, and has the bar recently been raised?

I say this because I get the feeling of impatience with the FCA about slow progress on this. You get these comments about the firms just have not got it, and I think it has been rightly said this morning that it all comes down to senior management. But if you are a chief executive, what is he supposed to do? Does he have notices all over the place saying, 'We will have a good culture,' or does he have mission statements? And, really, it is not so much what people say as what people think when the regulator is not nearby. I wonder how FCA thinks that this compliance culture they say so much about can be proven.

Tracey McDermott: I think you are right that there is a sense of impatience in some of our comments about the speed of change and the consistency of change within organisations. I think it is now very widely accepted, not just within the regulator but across the industry, that a number of the problems we have had in the past were caused by cultures which were not really driven by the provision of a service to customers, which is what financial services is supposed to be about. We are not driven by thinking about good customer outcomes. We are not driven by thinking about the integrity of the market and competition. I think what we have seen over the past few years is a genuine recognition that this needs to change, and that if it does not change we will not have a long-term sustainable industry that people trust. So in that sense, to your question about whether the bar has been raised: yes it has been raised.

In terms of what we look for, you are absolutely right to point to mission statements. Most firms have mission statements and most firms have had mission statements for the last 10 to 20 years that would meet what you would think were good quality. But the real question is not just about what people say, it is about actually what they do. Where we have seen significant progress is from what we talk about as the team from the top, so Senior Management, Board,

Executive, really understanding that this is something which is a key organisational priority. We have seen a real focus on that down through the organisation, but ultimately the challenge is how you embed that in everything you do. What we look at when we are measuring this, and what we would expect senior management and compliance to be looking at, is how do the outcomes that happen on the ground match those statements of intent. What happens in terms of the people that get promoted? What happens in terms of remuneration? How do you treat whistle-blowers? How do you treat people who come forward with information? What are your product governance processes? What is the sort of challenge mechanism? It is not somewhere where you get a whole set of easy metrics that you can tick a series of boxes, but you can look at the outcomes and look at how the decisions are reached to test whether they are meeting that requirement.

I think the other key part of it is that we look to see whether this is seen as something that is owned by compliance or whether actually it is something which is seen as owned by the business, because if it is owned by compliance it will never work. It has to be owned by the business and they have to really buy into it as part of their overall process. We are not looking for a prescription one-size-fits-all culture, but those are some of the areas that we focus on.

John Griffith-Jones: Thank you Tracey. I am going to take Ashley Fitzsimmons, who has got a prepared question. Depending on how long his question is, we have probably got time for one or two more before we hit the bell.

Ashley Fitzsimmons: Thank you. A couple of months ago Andrew Bailey remarked, 'It's rare to find a problem in finance or business models in the financial sector that does not originate in governance,' in other words from Board level. In fact, that observation is absolutely borne out by research into corporate failures elsewhere, and that includes failures at regulators. So against that background, I have got a question in two parts.

The first is to what extent, how and to what standard does the FCA ensure and test how effective its own Board is? Secondly, to what extent does the FCA apply to itself the criteria for Board effectiveness that it actually applies to people it supervises. In other words, to what extent do you eat your own cooking?

John Griffith-Jones: We aim to hold ourselves to the standards both of the FRC and the public-listed company regime and to the standards of public life that the government lays down for all government bodies, and I am happy to say that publicly. I suspect you would expect nothing less. How do we measure it? We conducted, just over a year ago now, a Board Effectiveness Review which is a standard procedure for getting to the bottom of such things, and we are conducting a second such one, actually, as I speak at the moment, which seemed the appropriate thing to do in the light of the Davis Enquiry, essentially to ensure that the lessons from that have first of all been heard, and then hopefully we will have implemented them properly.

On the eating your own cooking, I couldn't agree more that what is good for the goose is good for the gander. Very pertinent at the moment with the introduction of the Senior Managers Regime and some very interesting antecedents of that, shall we say, in the sense of holding people appropriately accountable for the things that they do. Alongside the Bank of England we are proposing to, broadly speaking, adopt a similar policy for ourselves which we think is only fair in the light of what we are expecting from the firms. We will obviously have to tailor it to what we do as opposed to the commercial environment, but I do not believe that to be beyond the wit of man, and I certainly don't believe it that difficult to write down what the role

and responsibility of myself, starting with me as Chairman, as indeed it is already written down. But we can revisit it to make sure it is to the standard we expect of others.

Okay, so number five.

Tony Williams: Thank you. My name is Tony Williams and I am an INED. The introduction of the Senior Managers Regime seems to me, in the City, to be creating a climate of fear amongst many existing INEDs and NEDs. How will people of integrity and skill be attracted to these important roles in the years ahead?

John Griffith-Jones: If I may, I will talk about this and my colleagues might wish to chip in. As I am sure everyone in the room is aware, the genesis of the Senior Managers Regime was actually the failure of RBS and HBOS in particular, and the feeling of dissatisfaction that individuals, for whatever reason, did not seem to be held to account for major things that went wrong. But actually, as the PCBS Parliamentary Commission looked at this in more detail – and obviously none of us served on it – I think it is fair to say that they reflected on what was then the Approved Persons Regime and the whole history and actually came up with some pretty compelling arguments. The idea that senior managers were responsible for everything that went on in their organisation, that is quite difficult to argue against, and that it is not unreasonable to have job descriptions or what are called Maps of Responsibility to show who is responsible for what, the tendency unfortunately in the past having been that good things were the preserve of everybody and bad things were the preserve of nobody. So in good faith and in good heart they introduced the arrangements which we have had the obligation to turn into rules, and that has gone pretty well.

The thing that has caused some difficulties is around what is called the Presumption of Responsibility, which applies only to banks, which is where there is an obligation on someone to show that they – the phraseology, which is not entirely legally correct, is Reverse Burden of Proof. But that is certainly the fear that has taken hold, to which you refer. And that arises from it being banks and the banks having been the people who caused the problem in the crisis. But that is the way the law has been written. I think we have been at great pains both to explain what we understand by that, and I think – Andrew Bailey is sitting in the front row here – that we have given as clear a guidance as it is possible to do without precedent to try to reassure people like yourselves that if you do a reasonable job and you understand what you are doing and take your responsibilities seriously, that it is not the case that every time something goes wrong that this stick is going to be wheeled out and it is going to be impossible to essentially prove yourself innocent, which is the fear.

I believe it relies very significantly on the regulator – which will be both of us, but probably particularly us in bad conduct cases – to use this tool with consummate skill and fairness. And we will say that and you will hear us, and not altogether probably believe us on day one, but will judge us more by what we do at this point than what we say. But, for the avoidance of doubt – and we have said it repeatedly – that this is to be used with great care and skill and only where it is appropriate to involve individuals. But where it is appropriate to do so, the previous regime, as you have heard from various questions and answers this morning, has not been completely effective.

At this moment the gong goes, it is 12.00. I would like to thank you all very much for coming this morning. I very sincerely would like to thank those of you who asked questions, both difficult and easy. The whole purpose of having this meeting is to make it abundantly clear to us, and to the world at large, that we are accountable to the public, and that is what this

meeting is for. I hope we have done our very best to answer the questions as we can. Clearly some people are not always going to be satisfied with their answers, but it is in the spirit of openness and transparency that we are all gathered here this morning. So once more, thank you for your attendance.