

# **Annual Public Meeting**

Tuesday, 18<sup>th</sup> July 2017

## Welcome and Chairman's Comments

John Griffith-Jones

*Chairman, FCA*

### Welcome and opening remarks

Well good morning everybody, and thank you for attending this fourth Annual Public Meeting. This is, of course, an opportunity to reflect on the year that was, and to take stock of how the FCA has performed against its objectives. But most importantly, it is your opportunity to tell us how you think we have done, rather than for us to tell you.

Now, I should start by saying that we are conscious that this particular period has been a very uncertain one for some parts of the financial sector that we regulate, dominated of course by the as-yet-unknown consequences of the Brexit vote. But that said, this time last year I reflected that, notwithstanding Brexit, we had a significant amount of work to deliver to fulfil our ongoing and unchanged domestic objectives, and I am pleased to be able to stand here and report that this has happened. We have emerged, over the last 12 months, in my opinion at least, as a stronger and more mature organisation. We have developed a powerful organising philosophy through the FCA mission, focused on reducing harm. We have introduced more transparency about our view of the sectors that we regulate, and we have tried to provide more clarity over our intervention framework. And of course, we have fulfilled an extensive programme of work in areas such as investment management and pensions, industries that are central to the daily lives of millions of UK households. We have also implemented the first part of the Senior Managers and Certification Regime, an achievement that I like to believe will possibly be the most single significant issue that we have dealt with in the last 4 years. Why? Because the FCA has worked tirelessly to put conduct firmly on the map since its inception, and the regime not only recognises the importance of this objective, it will also, I sincerely hope, cement it into a permanent place.

Now these are positive changes at the FCA, but change is of course not only taking place here, there is also change in the industry. And I am pleased to report that we see continued efforts by firms to align their business models and culture with our, and indeed society's, evolving requirements. That said, I think it is important to stress that although we have seen solid progress, we know that certain challenges remain much the same and not yet fully resolved. We need to be realistic about the fact that there will always be a small minority of people who try to abuse the financial system. And last year we completed a significant amount of enforcement action, including issuing 155 final notices against firms and 25 more against individuals. But it is worth reminding ourselves that we still face these significant long-run challenges in the sector, and to name but a few: the problem of over-indebtedness; the pace of change in technology, accompanied of course by cyber-exposure; a continued lack of competition in some areas of the industry; the so-called advice gap, particularly as it relates to pensions; and consumer vulnerability. These and other key risks will stay with us for the foreseeable future, possibly forever, as will the need for us to intervene when we see consumers suffering harm.

Last year, we performed this intervening role in a variety of important areas, including working general insurance renewals, the treatment of customers in arrears for unsecured lending products, the capping of pension exit charges and, of course, our credit-card market study. Our emphasis has remained on avoiding harm in the first place, organising our efforts on the basis

that prevention is better than cure. We see this as a non-zero-sum game. Prevention not only protects consumers, prevention also protects industry from costly remediation work and reputational harm, and we will continue to press forward very much along these lines.

### **Financial Ombudsman Service**

Whilst we make progress on these issues, I do also need to recognise the importance of securing redress for individuals, families or businesses that have somehow been harmed. The Financial Ombudsman Service, backed up by the Financial Services Compensation Scheme, provides such redress for individuals. The Financial Ombudsman Service received almost 1.4 million enquiries last year, and resolved more than 336,000 disputes, interestingly upholding just under half of the complaints that were made to them. But we are all too well aware that there do remain some high-profile historical disputes, especially involving smaller businesses, not covered by the Financial Ombudsman Service, which we will continue to work hard to resolve.

### **Annual report**

Now I hope you have all seen, if not read from cover to cover, our recently published annual report, within which we set out our inputs and our outputs, but it is of some mild frustration to me that we cannot accurately measure, on an annual basis, what we really want to measure, which is of course outcomes. We do not know how much harm was prevented if it never happened, nor can we quantify the extent to which a harm was reduced by our stepping in early. Over time statistical trends will manifest themselves more clearly; in the short-term we have endeavoured to provide the evidence that we have on our effectiveness as a regulator. We are also very conscious that regulation is not cost free. It is not cost free for firms and nor, indirectly of course, is it cost free to customers, who eventually bear it in the price. Our responsibility is to act efficiently and cost effectively in a way that delivers the greatest value to the public.

### **Looking ahead**

So much for the past, the year under review. What of the future? We know already that this year is going to be, indeed already is, extremely busy. We published our business plan in April, which outlined our major priorities and workstreams, many of which are now in hand. And we have already committed to increase our transparency and accountability by publishing further documents over the coming months that explains the FCA's approach to its main functions. This will include our approach to supervision, our approach to enforcement and our approach to authorisations, as well as our consumer strategy work.

And finally, I think it is self-evident that we still have a very big task ahead of us to prepare for Brexit. You can take it from me that we are deeply engaged in the essential, if somewhat unglamorous, work of preparing amendments to our rulebooks, working alongside the repeal bill to give legal and regulatory continuity post-March 2019. And furthermore, we stand ready to advise and support the government as it now starts the negotiation process on the future trading relationship for financial services.

I must stress to you in the audience that none of these achievements that I have listed today would have been possible without the people who work at the FCA. For all our strategies and structures and policies and procedures, we, like all of your organisations, can only ever be as good as the people who work for us on a daily basis to achieve our objectives. There is a very

strong public service ethos in our workforce, and a growing level of expertise and confidence, as we continue to refine the way we operate.

I have taken great personal pleasure in observing this growth in confidence over the last four years. As you will probably know, my own term comes to an end next March and without knowing what may happen in the next nine months – and be sure nine months is a long time in regulation – I can safely say at this point that it has been a huge privilege to have been the first chair of the FCA. We have had our challenging moments and there will always be the need for continuous improvement but I like to think that I leave the organisation in good shape to regulate well for the future. Thank you.

And I am now going to ask Andrew Bailey, our Chief Executive, to come up on the stage and give you his detailed account of what we have done in the last 12 months.

## **2016/2017 Review**

Andrew Bailey

*Chief Executive Officer, FCA*

### **The past year in review**

Well thank you. And can I add my welcome to that of John, and can I thank you all for coming today; we really do appreciate you taking the time to do so and to do this. We regard accountability as very important. At the FCA we do it in a number of ways: we do it to Parliament, but it is direct accountability like this to the public that matters, it matters a lot to us, so thank you from all of us.

A year ago, when we had this meeting, I was in my third week in the role, it was also the fourth week following the referendum, so quite a bit has happened since then, as we have all observed. But if I can start with a personal reflection on the last year, the year we have just had, the FCA is a truly fascinating place to be part of. I am open to the accusation of being biased, but hard public policy issues of the sort that we deal with, to which the questions are not always obvious, is a real privilege to be involved in. And that is made more so by the support I get from John and from the other members of the board and from my colleagues and by the very broad public interest in what we do and engagement with it. So once again, thank you from us, and thank you from me.

### *Brexit*

I want to start, in looking at the last year, with a slightly broader context, a reflection really on some of the broad influences and I want to pick out four things that really stand out for me as broad influences that reflect what we do. It is impossible, of course, to start, first of all, without Brexit. The FCA, to be clear, does not take a position on whether or not Brexit should happen; that has been decided by the people in a referendum. But as John said, we are very involved in thinking about how it can be put into place. As John also said, it is a lot of work. For us, the largest part of that work lies around the so-called repeal legislation because it does involve the detailed assessment of the legislation and the rulebook so that this translation from the European context to the UK context can be done to achieve seamless regulation on the first day that Brexit happens.

*Prolonged low interest rates*

The second broad influence that I would point to – and here I tend to say, rather heroically, if we could put Brexit to one side, this would be the thing that I would say is the biggest influence – it is, put broadly, the consequence of prolonged low real interest rates and the impact that has on the pattern of debt and the pattern of saving and society and the economy, the influence it has on the real cost of home ownership and retirement. And these effects are very profound. They are very profound inter-generationally in this country, and they affect big things that the FCA is involved in in terms of conduct: saving, borrowing, accumulation of retirement saving. These obviously are some of the big foundation blocks of what we do.

*Societal changes*

The third broad thing I would point to really follows naturally from that, and it is what I call broad societal changes that affect us and the first one is a natural follow-on, which is the impact of an ageing population. And we do see it very much in what we do, which is why at the FCA we are focusing a lot of work on the impact of an ageing population for financial conduct.

A second broad societal development that I would also point to that affects us is the long-run shift from jobs for life to more unpredictable forms of income and the need that has, for instance, for the use of credit as a smoothing mechanism.

*Technological change*

And finally, the fourth one I would pick out is technological change, which is of course a great opportunity. I will talk a little bit more about it later; very much our philosophy at the FCA is to encourage and to enable it to happen within a sensible approach that abides by our public policy objectives.

But we have to recognise that there can be risks. The greater availability and use of data is both a huge opportunity, and in some cases a risk in some areas. And likewise access to financial services: there are huge opportunities and some risks.

**Objectives**

So those four broad influences are the sort of things that underline much of what we do. And you cannot help but notice it when you work in the FCA, we operate in a very big landscape and that means we have to make many choices about what we do and what we do not do, and it is imperative, in my view, that we explain those choices. We explain how we put into effect the objectives that Parliament has given to us, how we choose the tools that we use from that set of tools that we have, and transparency is really crucial to accountability. And our mission starts to do that; that is what we have worked on over the last year. And in doing that work, we came across what I would regard as some very hard questions: going back to what I said at the beginning, these are hard challenges and public policies on this are so fascinating. Let me give you an example of one of them.

*Consumer*

We have a consumer objective. Actually, in our overall framework there is also a duty on consumers, so we have to balance those two. How do we think about that? I sometimes say, broadly, do we see our duty is to protect all consumers, broadly, equally, broadly all of the time, or do we have a greater responsibility towards the more vulnerable? Notwithstanding the fact that we have responsibility towards all consumers, is there some differential there? That is not an easy question in itself, but when you come to then address the question of how we

define vulnerability, if we go down that road, then you realise it becomes a lot more challenging but nonetheless a question that I think we have to take on. So we published our mission statement in April and I will come back to it and pick up some of the themes that John developed about what we are doing next on that front later.

In April, I want to say, we also published, for the first time, our sector views, which is what we think about each of the sectors in this big landscape that we operate in. I think this is first amongst financial regulators around the world to do something like that, and I think it is an excellent innovation. And both of those two things, the mission and the sector views, backed up then the publication at the same time of our annual business plan. And it is that business plan that sets out the choices we make, how we use our resources, and in doing that and putting the mission and the sector views behind it we have, I think, become more systematic in terms of the choices we make in our business plan and that is welcome for me.

### *Engagements*

Now, if I come onto the engagements we have done during the year, we consulted on the mission document back in the autumn through the winter for publication with the statement. We had over 200, or just under 200 responses, of a very high quality and let me once again thank everybody who responded, it is very welcome.

As CEO, I have also put in place a much more systematic engagement with consumer groups, which I think is very important for us. Our panels have continued to make a very valuable contribution. We welcome the high-quality engagement we have with all our panels, and I appreciate the time spent by all the members and the commitment that they show to the work of the FCA.

I have also done two things as part of our enhanced engagement and regional visits, which John has also been leading, through our live and local sessions. I have also done regional visits and we have done new things in regional engagement this year. And one of the things that I have done around the regions as part of that is to visit debt charities involved in debt management advice to those experiencing debt problems. And I can tell you from being in those centres, talking to the people who do it, listening to some of the calls that they have, this gives you a very sharp reflection on some of the big issues that the FCA faces.

So the mission puts really at the centre of what we do serving the public interest; that is what we are about, it emphasises the interpretation of our statutory objectives. And in doing that, we developed the whole approach that our focus is on harm, it is on the harm of misconduct, if you like, through the lens of our statutory objectives. And there is, therefore, an imperative on us to be clear about what we mean by that and to keep refining this concept of harm, as of course the world develops around us.

### **Finances**

So by way of backdrop, then, what have we done in the last year? Let me start with the running of the FCA and let me start with the finances. In the last year, our operating costs fell by 6%. Now, in good part, that was due to the ending of setup costs that we have had over recent years to take on the regulation of consumer credit, which has been a very big thing for the FCA, so that was expected. We also saw a surplus against our budget of around £18 million. That surplus has been used principally to make an additional payment to reduce the accumulated deficit on the closed defined benefit pension scheme; like all institutions with such schemes, I am afraid the deficit has risen due to the fall, largely, in the discount rate and it is

also being used to meet our relocation costs to our new offices in Stratford, which we will move to in around about a year's time.

Looking forward to this year, we have adopted as a budget discipline that our costs should be flat in real terms, that is after allowing for inflation. What we actually set for this year was a 1.5% increase in our overall financing. About 1% of that was an increase in our regular budget, and we also have provided an additional special provision of £2.5m, that is about 0.5% of our budget, for the incremental costs of Brexit. Those incremental costs I showed in terms of fees are being charged to large, internationally active institutions, which we think is appropriate given the nature of the issue we are dealing with.

### **Longstanding issues**

I now want to turn to the work we are doing this year, and I am going to take this in two parts. I am going to start with some of the longstanding issues and what you might call the challenging legacy that we have and then move onto the major initiatives that we are taking, some of the newer things that we are doing.

#### *Interest rate hedging products (IRHPs)*

So let me start with some of the longstanding issues and let me start with interest rate hedging products. The review work is nearly completed, a small number of cases are outstanding. As you may know, a case called Holmcroft has been granted leave to appeal to the Court of Appeal; that hearing, I believe, is scheduled for December. And once the redress scheme cases are finished and relevant legal proceedings are concluded, we will carry out a lessons-learned exercise, and we will be transparent in how that exercise is put together.

#### *Royal Bank of Scotland (RBS)*

And we now move on to RBS and the review of the global restructuring group. In November of last year, we produced a high-level summary of the main findings and the key conclusions of the report that was produced for us under section 166 of our legislation. We will publish a very extensive summary of that report. In the meantime, however, prior to doing that, we are undertaking an investigation on issues contained in the report. Once that investigation is completed, again, we should expect to be in a position where we can publish. I should say that the fact of carrying out that investigation – and this is very much a point in a general sense we developed in the mission – it does not mean, it should not be used to infer, that we are pointing to specific misconduct by any individuals or the firm but there was evidence that needs to be investigated and that is the appropriate start to any exercise of that nature. So those are the things that will need to be done and then we expect to publish a very extensive summary of the report.

#### *Halifax Bank of Scotland (HBOS)*

Let me move on to HBOS. We published the HBOS review into why HBOS failed in November 2015, and that concluded an ultimate responsibility for the failure of HBOS rests with the board and senior management. At that time, in November 2015, we stated that the two regulators, the PRA and ourselves, would conclude a review as to whether further enforcement action should be taken and we would do that as early as possible the following year, that was last year. And in January of last year, we did that and decided to start investigations into certain former HBOS senior managers, and those investigations are ongoing. Now, one reason why those investigations are ongoing, as you may well have seen, is that we are also investigating events surrounding the recent, in a sense, conclusion of the criminal case

involving misconduct within the Reading-based and paired assets team of HBOS. This actually resumes an investigation that was placed on hold by the FCA early in 2013 and that was done at the request of Thames Valley Police pending the outcome of their criminal investigation. So we are taking that up again and joining it with the investigation that we announced in January of last year.

#### *Connaught*

Let me finally pick up Connaught. We believe that we are in the later stages of the assessment and analysis phase of our investigation. I want to assure you that we are pressing ahead, we are bringing these investigations to a conclusion as quickly as we can. We have significant resources on all of these investigations that we are involved in and that applies equally to Connaught. We will appoint a third party to review the past regulation of firms connected with the Connaught fund. That review will start once the investigation against Connaught has finished and we will publish the outcome of that review to the extent that is legally possible.

### **Consumer protection**

So let me now move on to our current work, our current objectives, if you like. I am going to organise these by our statutory objectives, so our operational objectives and statutes, so that is protecting consumers, market integrity, competition. Let me start with protecting consumers and let me start with pensions, as I said earlier, a very big issue in the broader societal sense.

#### *Pensions*

For those who use the new pension freedoms, we have capped early exit charges for over 55s at 1% to the value of existing pensions. We have also worked on a retirement outcomes review on which we published a report last week and the aim there is to ensure that the operation of the pension freedoms are on a good footing. And one thing I would emphasise there that is very apparent in this world is the demand for advice for consumers and support for consumers now operates both in the accumulation phase of pensions, which of course has been true for some time, and in the decumulation phase, and that is in many ways the new thing. Alongside that sits the advice review, Financial Advice Market Review (FAMR) as it is often known, we are continuing work on the approach towards advice and that applies, of course, to pensions particularly as well and it applies particularly to the point I made about accumulation and decumulation. And as part of FAMR we are introducing new rules and guidance this year, most notably on streamlined advice services and on personal recommendations, which we hope and believe will help to ensure more cost-effective investment advice.

#### *High-cost credit*

Moving on, a second major area of work for us is high-cost credit. We have issued a call for input. We will be publishing, I hope, soon some of the results of that, including the review of the payday cap, something we said we would do after two years – it is good public policy to do that sort of review – but also the broader work that we are now undertaking on the broader sweep of high-cost credit.

#### *General insurance*

In terms of general insurance, an important step that we made this spring was to conclude and introduce requirements for the publication of what we have concluded from behavioural work is the most important information that consumers seem to value in terms of when they take out



or review a policy. And that really is, quite simply, can you please tell us what we paid last year when you propose to us what we should pay the next year? And that has been introduced.

#### *Life insurance*

Turning to life insurance firms, a particular focus for us has been the fair treatment of closed book customers. And this is obviously quite a large number of people, when you use the term 'closed book' it sometimes seems like a bit of a, 'it is a legacy, is it?' but it is a big legacy. And in December of last year we published guidance providing firms with detailed information on the actions they should be taking in order to treat these closed book customers fairly. It is very important in the world of financial conduct – this is a sort of loose phrase that sometimes gets used - the treatment of back-book customers and front-book customers, new and sort of if you like, established customers is compared with an appropriate test of fairness.

#### *Retail banking*

And finally, on retail banking, two things. We are undertaking a broad review of retail banking, following work started by the Competition and Markets Authority, to assess the distribution of charging in the retail banking model between products and therefore between groups of customers. And of course, issues like overdraft charges naturally come into this and there is a natural crossover with the high-cost credit work.

The second big piece of work we are doing, with the PRA, is the implementation of ringfencing, which is now well underway.

### **Market integrity**

#### *Primary market review*

So let me move on to the second objective that we have: market integrity. We issued earlier this year a primary market review, we issued discussion papers and we have now moved on to some consultations. And the whole point behind this – and it is something that, given the dynamic nature of primary markets – we need to do from time to time, is to look at the UK regime, to look at the listing regime, and to look at the effectiveness of primary market structures in this country and say: are they supporting the needs of investors and companies that use these markets? And that is the aim of the work.

#### *Initial public offerings (IPOs)*

The second piece of work has been around the market for initial public offerings, the IPO market. We issued a CP, a consultation paper, which seeks to improve the range and quality of information available to investors in the IPO process.

#### *Markets in Financial Instruments Directive (MiFID) II*

Now, the third thing is the biggest implementation of new rules that we are doing at the moment, and that is MiFID II. It is sometimes said to me, and I get this when I go to meetings in the EU these days, 'well are you really implementing this thing in the UK, given Brexit?' And the answer is we really are implementing it. And of course, one obvious reason we are implementing it is that MiFID II comes into effect at the beginning of January next year, and the UK remains a member of the EU at that point so we have to implement EU legislation. Whatever comes out of the negotiation, while we are a member of the EU, we implement EU legislation. It is a lot of work but we are doing it and we are now open for applications for new authorisations in that field.

*Illiquid funds*

Finally, we have issued a discussion paper on illiquid funds. A year ago when we had this meeting, this was very much the live issue because it was the post-Brexit issue. This was the impact particularly on property funds, open-ended property funds, of the news from Brexit. And as you may remember, a number of those firms had to suspend redemptions. That is actually a process that is built into their operating framework, it was not an extraordinary thing to do, it was very much part of the rules of engagement. Looking back on it, actually, it operated broadly as planned, as intended, but there are lessons to learn from it and that is what our discussion paper is about, and we will be taking that forward.

**Competition**

Let me turn then to the third objective, and that is promoting competition. Let me put a small amount of context around this for a moment. When we do surveys of groups, seeking to gain information about what they understand about our work, I have to say that when we ask the question, 'Which one of these three objectives do you understand best and put them in a rank order?' unfortunately competition does not usually come out on top; it usually comes out third. That tells us we have work to do in this field. In one sense it is not surprising because it is the newest of our objectives but it tells us we have work to do, and I will come back to that in a moment.

*Asset management*

In terms of what we are doing, a big piece of work which has had quite a lot of coverage recently is the Asset Management Market Study. This is a very important piece of work, it is about the fairness of charging, it is about governance in asset management and how it should be structured in the interests of investors, it is about suitable transparency and a particular issue about the role of so-called consultants in the asset management world.

*Credit cards*

A second market study has been on credit cards. The conclusion is that for most users of credit cards, competition is working and leading to acceptable outcomes. But we found concerns in those users that have persistent credit card debt, that are using credit cards as a means of financing over the long term. And we have proposed remedies which are in consultation which involve earlier intervention by issuers of credit cards before problem debts grow.

*Innovation*

Finally, here let me move on to the work that we do on innovation and come back to the technological theme that I touched on in the broad outline. The two headings that we have are Project Innovate and our sandbox. I think this has been a great success, it is a great success for the FCA, I do not mind saying that. We are commonly talked about around the world for the work that we have done, and if imitation is the sincerest form of flattery then quite a lot of other countries are copying what we do.

I just want to talk, though, for a moment about what lies behind this. It is about enabling change; it is not about picking winners; it would be quite wrong if we were in the business of picking winners. Our job is to enable change, our job is to ask questions, hard questions of ourselves. Does our rulebook sufficiently support innovation which is consistent with our statutory objectives? And it is no surprise that sometimes it does not, because the rulebook was designed in a previous era, if you like and we need to address those questions when they come up. And it also illustrates, I think, an important change of philosophy. I would say it is a

parody of a financial regulator to say that we spend our time saying no to things, 'Do not do that, certainly do not do that, and we will do something if you do that.' Of course, no parody exists without there being some truth behind it, they do not get invented out of nowhere, but the important thing for the FCA and for conduct is that if that were the case, we would leave gaps in the supply of financial services and that would be a bad outcome. So a lot of work we do in this area of innovation is about how can we – going back to my earlier point – enable change to happen that addresses gaps in financial services.

### **Tackling financial crime**

Now, having posed the question where did the parody come from, well it did obviously come from tackling financial crime because that is where we tell people what they certainly should not do and take action on it. So if this parody originated anywhere, it is in the very real issue of financial crime and let me pick out three things that we have done on that as illustrations of the work that we do.

So let me start with insider trading, going back to primary markets and market integrity, a very serious issue. We are pretty much at the end now of one of the highest-profile cases, it started with the FSA, that has gone on in recent years: the so-called Operation Tabernula case, a very complicated case but one that has now led to a number of convictions and a number of custodial sentences. It illustrates the complexity of these cases but in my view also the great importance of them and we are fully committed to tackling these cases.

The second area is anti-money laundering. During the course of the last year we issued the largest fine in this area against Deutsche Bank for activities in so-called mirror trading.

And the third one is in corporate market abuse. This is the first time the FCA had taken action in this field. The action was in respect to Tesco and we expect that around £85m in redress will be paid to investors who purchased shares during a period when the information given to the market was inaccurate.

### **Outlook**

#### *Brexit*

Let me now turn to looking forwards for a moment, towards the end. You cannot avoid starting with Brexit, and John has already touched on this and I did a little bit earlier. As I said, the repeal legislation is the largest undertaking we are having to do. We have had to hire extra staff, extra legal staff, to go through thousands of pages of EU legislation and rules to work out how they can operate in the future in a UK context, and that is something that we are very actively involved in, the deadlines are obviously tight, and the work is well underway and it is work that we do closely with government. We do not take a position on whether to Brexit, but we do take a position on how we think it can be put into effect, and I did make a speech a couple of weeks ago in which I emphasised that in our view Brexit should not compromise the strong commitment to open financial markets and free trade.

The third point I would make in this field – and this is going to be a point for the year ahead and probably the year after at least – it is going to require us when we do the next business plan – and we are about to start work on that actually – to do some even more rigorous prioritisation, because there is no question that Brexit will be a major effect for the FCA, as it will be for many other public bodies. So we will have to do that, and I hope and expect that the mission framework will give us a framework in which we can make those decisions, but we are

going to have to make tough decisions, there is no question about that. We always make tough decisions, we have to make tougher decisions.

The last point I would make on Brexit is one that we determined very much immediately after the referendum: that it is absolutely critical that the FCA remains internationally engaged. It would be a big mistake if we became isolationist and we are not doing that. So we are engaged in global fora, principally in our case International Organization of Securities Commission (IOSCO) and we remain engaged in EU fora, principally European Securities and Markets Authority (ESMA), obviously until such time as we know the outcome of the negotiation.

#### *Moving to Stratford*

Let me move on now to some of the major issues that lie ahead of us more domestically. The largest thing we are going to do in the next year is move ourselves to Stratford. Our new building is well underway, construction is nearly complete, this time next year we will be moving, and I do believe that the new building will help us to be more efficient in what we do. All our London-based staff will be in one building for the first time in a long time. I should say, of course, we also have an office in Edinburgh, that will continue, very important.

#### *Claims management companies*

The same thing that we are underway is that the Government has announced, the legislation has now been debated in Parliament, it is the so-called Financial Guidance and Claims Bill which will give us responsibility for regulating claims management companies and that includes introducing a cap on fees. So, we are well underway in the work to put that into effect and design it.

#### *Anti-money laundering*

A third thing is that we have been asked by the government to take on the role of overseer of the supervision of 22 non-statutory anti money laundering supervisors in this country. These are mainly professional bodies for lawyers and accountants for instance, and the aim here is to ensure that the standard of UK supervision is both consistent and to a high enough standard to meet our obligations internationally, so we will be putting that into effect.

#### *Payment Protection Insurance (PPI)*

Finally, I expect that in the early autumn we will launch our consumer campaign on PPI. That is designed to heighten awareness on how people should make claims for those who still need to do so, as we move, as we hope and expect, into the last two years of the PPI process.

John mentioned that having done the mission statement, which I regard very much as the why and the what of the FCA, we are moving on to what I describe as the how. We have work going on, on how we are going to approach supervision, enforcement, the competition objective, bearing in mind the points I made earlier about ensuring it is properly understood, and about authorisations and about our approach to consumers. These are important. It is not about ripping the script up completely, but it is about being transparent, setting out what we do and ensuring that it all meshes together.

Let me end my remarks with thanks to John. As he said, this is his last annual public meeting. As well as his stewardship of the FCA, he is, as he said, the first chairman. That continues and I have no doubts that John will continue to be actively involved until next March. I want, personally, to thank him for his support for me and my colleagues over the last year,

particularly for the changes we have brought in for the mission. John has been a great supporter to that work and we very much thank him for that.

To sum up, thank you for coming and now, really the most important part of the morning: the question and answer session. Thank you.

## Q&A

**John Griffith-Jones:** Okay. Thank you, Andrew, very much.

I think probably, if I may, the best place to start, certainly by the pre-submitted questions, is on Brexit, where we have had a deluge of questions, to be perfectly honest. Let me read out a couple that we have had. We will get the answers to them and then I will take more questions from the floor on Brexit, if there are any.

The first one comes from John Boyle, who says as follows. 'The EU will continue to release directives which have implementation dates in the future. When will the FCA decide at what stage during Brexit that the financial services industry should not implement them and focus on UK new regulations? Will this happen, or are we likely to continue adopting their regulations after Brexit to ensure that we can deal across the EU?'

I think it is a great question from John Boyle and probably several million people in the country are asking the same one.

Anna-Marie Heritier de la Roche[?] also asks, 'How is the FCA planning for Brexit? Does it understand the challenges that firms really face?'

Andrew?

**Andrew Bailey:** Both are very good questions and ones, as John said, that we get asked a lot and have to talk about. Let me start with John Boyle's question and really pick up on what I said in my remarks. It is a requirement, obviously, for us to implement all EU law and regulations that come into effect prior to the date on which the UK leaves the EU.

What happens thereafter is going to be shaped by the outcome of the Brexit negotiation. It is not something that the FCA can decide on its own. It is clearly going to be subject to the overall stance that the Government takes and the outcome of the negotiation. I have to say that, as yet, we do not know the answer to that question.

However, I would add one important qualifier to that, which is that it is important that in quite large areas that we do and, particularly also in the wholesale market regulation, what comes out of the EU is often, and in my view, sensibly shaped by global standards. That is where the work of IOSCO, in our case, it is important to the Basel Committee, and obviously in another dimension more the PRA's concern than ours.

Of course, that global work will continue. As I said, we are very active in that role. I am very clear that we are not going to become isolationists, so that work will continue. Subject to the outcome of the Government's negotiation, I suspect that there will continue to be a strong international input into what is put into effect. Today, however, I cannot go further than that.

On the second question, which is also a very good question, we talk a lot to firms. We are very conscious of the issues that firms face. If I can just draw out one because it is very important and it gets a lot of attention at the moment. I spoke about it a couple of weeks ago, and it is this: we and the PRA have asked firms to produce a contingency plan for those firms affected

by Brexit. That is sensible. We ask for contingency planning for all sorts of risks and Brexit is no different from that sense.

The big issue that we face, and this is where the transition issue really comes into play in our world, is there is a risk for firms. Many firms say this. We recognise this, that firms may be put into positions where they have to put their contingency plans into effect before they know the outcome of the negotiation and the final outcome. That is a difficult situation to be in.

That is why, of course, an agreement on a transition period and a transition period which bridged that gap would be helpful. We are very aware, as I should say is the Government, that is big issue for firms at the moment. That is an example of an issue we are very close to. We understand it well and we are part of working with government to ensure it is well-understood. Thank you.

**Roland Guenther:** My question is with regards to the recent paper from ESMA Delegation. Will the FCA also publish something, particularly for us in management?

**Andrew Bailey:** We are very aware these are the opinions published by ESMA last week which we are aware of. I have to say that we do not agree with some important aspects of those opinions. I do not believe – and I will give you an example. Actually, I will give you an example of something which is directly applicable to your case, that ESMA or, indeed, the EU, has demonstrated why there should be a different approach to the UK than any other third country, a point I made very clearly to them, made very clear in the speech I gave.

We will not be publishing our own opinions because those are opinions on EU law and an effective interpretation of EU law; it is not for us to do that. However, I can tell you that we are obviously actively engaged in that field and we are commenting on them, as I just have.

**Question:** You mentioned MIFID, but you have not mentioned the Second Payment Services Directive (PSD2). I just wanted to know if Brexit does happen, is the FCA going to carry on in that direction?

**Andrew Bailey:** Yes. No, that is a very good point and thank you for making that. PSD 2 is the second big implementation that we have on our hands in the period ahead. I mentioned MIFID because it has a slightly more immediate effect. However, you are absolutely right that PSD 2 is the second one. PSD2 falls into the same category. We will have to and we are implementing PSD2 because it is a legal requirement upon us to do so.

**Craig Rimmer:** Hello. I want to ask about the passporting-in regime post-Brexit, and if we have an opportunity there as well to actually develop a different system that means there is less regulatory arbitrage going on and consumers are protected.

**Andrew Bailey:** You are right. Of course, the UK has far more scope to develop its own regime in terms of inward passporting into the UK. You are also right to point out that while much of the discussion in the public is about the future of outward passporting, inward passporting is very important because London is a very important centre for that activity. It is an issue that is very much on our mind.

I should say – and here I give a personal view, if you do not mind. I said it in the speech, I think it is very important that out of this we preserve open markets. I think open financial markets, which are effectively regulated in the public interest, operate for the benefit of everybody. It follows from that, I think, that we should do what we can to maintain inward

activity into the UK. The word may change from passporting because that is obviously an EU legal phrase. However, in my view, it is very important that we preserve that.

**John Griffith-Jones:** Very good. Thank you, Andrew. Now, what I suggest we do next is take some questions on the so-called legacy issues, which Andrew highlighted earlier – IRH, PGRG, HBOS, Connaught and the like. I have a couple here.

Richard Condon asks, 'When are we going to see the release of the 166 Report into the GRG incident at RBS?' Andrew, I know you said something on this already, but perhaps you can answer?

**Andrew Bailey:** Yes. I think I have covered most of it. We will publish a very extensive summary of it as soon as we can. Now, what does that mean when I say that? As I said, there is currently a bit of investigative work being undertaken. We have been quite open about the fact that is going on. We will draw that to a conclusion, subject to the conclusion of that work as to which way it goes. I do not make any judgements or predictions on that. At the moment, I expect and want us to be in a position to publish. That is where we are.

**Mr Meadowcroft:** Thank you. Good morning, Chairman. I am a pension fund trustee and investment advisor. Over 18 months ago, in November 2015, Mr Bailey appeared before the Treasury Select Committee, following the publication of the FCA's report into the collapse of HBOS, and the special report by Andrew Green QC on the FCA's handling of the HBOS investigation. As you all now know, and has been admitted in both reports, that lax regulation contributed to the collapse of HBOS and subsequent £20 billion tax payer bailout.

At the end of the hearing, the TSC Chairman insisted that the FCA immediately set about a fresh probe into the culpability of the entire top brass of HBOS since only one director, Peter Cummings, has been censured and banned from any senior role in a financial institution and fined £500,000.

18 months on, and I want to know please, rather more than Mr Bailey revealed in his speech, what has happened to the further investigation which he was quoted as saying at that time, would be a rapid review of the evidence and likely to be concluded early in 2016? We need to know far more than is this merely ongoing, 18 months after it was started. However, nothing material has been forthcoming from the FCA.

Has the rapid review been kicked into the long grass? I wonder. Who or what influence has been brought to bear, if that is the case? Merging your task, Mr Bailey, set by the TSC with HBOS Reading, which was already office scandal, appears to be possibly a convenient way of excusing the delay in completing the task set for you by the TSC in a timely way.

It is not only the HBOS directors who are roundly condemned in the FCA and QC reports, so is the FSA and some of its key executives and so is KPMG as HBOS' auditor, which is why you, Chairman, as a former KPMG partner, recuse yourself from FCA Board meetings should HBOS crop up in the agenda. Financial Reporting Council is separately tasked by the TSC to deal with KPMG. The Business Secretary is tasked with the responsibility of deciding whether HBOS Directors, in addition to Mr Cummings, should be banned from serving as directors of British companies.

Chairman, this APM this morning is I feel an ideal moment for the FCA to make it crystal clear, no smoke, no mirrors, an unequivocal statement of what is happening to the task specifically set for the FCA by the Treasury Select Committee to investigate the culpability of the HBOS top

brass. Justice appears, to me, to have been delayed, Mr Chairman, by the FCA's lack of apparent public action. However, is the FCA now denying justice as well? Ignoring the will of Parliament which is, after all, the highest court in the land is a tad dangerous, is it not?

**Andrew Bailey:** Let me tell you that, so that John recuses himself on this for reasons that you gave, Mr Meadowcroft. Can I just go back to what I said? The rapid review was to answer the question – this is exactly what I said to the Treasury Select Committee at the time – ‘Is there a case to be brought against individuals?’ That is what we did.

As I said, in January, 2 months later, we concluded that for certain individuals, we cannot name those individuals for legal reasons - there was a case to be investigated. We did exactly what we said we would do. We determined very rapidly that there was a case to be investigated. It is that investigation that is taking place.

Now, I do not regard Reading as a fig leaf. We have obviously known about Reading for a long time. We knew Reading all the way through the process of producing the report on the failure of HBOS. Reading had to be carved out of that process for the reason as we know that there was a criminal proceeding going on. It would be an abuse of that criminal proceeding were we to have commented on it separately, so we did not.

However, the conclusion of that criminal proceeding – and we had a pretty good steer from Thames Valley Police what they thought the timetable for doing that would be, and it turned out to be a pretty good steer in terms of the timetable, it always seemed to us to make sense, and I think a lot of the public commentary since has illustrated that, that we had to bring these two things together. We had to bring together the investigation that we had announced would take place as a result of taking the points that Andrew Green made in his report, which you said. We had to bring that together and put into that what evidence comes out of the Reading case.

Now, Thames Valley Police have now provided us or are providing us with their evidence. We had not seen that evidence because it was part of the criminal case. That evidence is now being assessed. That is what we are doing.

I am afraid I do not agree that we have failed in the task that we said we would do, because we did undertake the rapid review. However, that was to ask a very precise question: is there a case to be investigated? The answer to that was yes. That is what we did. We are now involved in that investigation. It will be completed as soon as possible. I cannot put a date on it at the moment, not the least because we are still going through and, in a sense, assimilating and absorbing the Reading evidence. That is where we are.

**John Griffith-Jones:** Can I just add one thing? I am, indeed, recused. Mr Meadowcroft, I can absolutely assure you as far as I am aware, that there is no intention of putting any of these issues in the long grass. Indeed, it is the will of the Board collectively to get these issues dealt with as expeditiously as possible, but consistent with justice, as opposed to a sort of predetermined and, unfortunately, fast time scale.

**Mr Mason-Mahon:** Mr Chairman, I have to wish you well, now that you are leaving. Some might say I have had a change of heart today and I am going to be extremely gentle. Please do not believe that.

I am sitting before a lot of people within the financial industry and with the Financial Conduct Authority. I speak for a lot of individuals who are customers, and without our customers, you people in this room would not exist and you should never forget that. We are about fed up



because we have seen integrity and honesty of our regulators be demised by the behaviour of certain people. 'Gamekeepers who turn poachers', I believe it was labelled at Tracey McDermott for going off and crossing the other side.

We have seen many people from the FSA to the FCA leave and go to big business. That is fine. That is up to them. However, I do think you have an obligation to the people of Great Britain and to the world to turn around and say, 'Right. Are you coming to work for us? Fine. However, you cannot come back into the financial industry for 2 years afterwards.' Set the timeframe please, then people might give you respect.

Now, Mr Bailey, the FCA logo. £60,000 for the FCA logo? Just for the design of a coloured box around C? Conduct. Really? Let us look at the conduct, shall we? You have accepted a £65,000 bonus this year. Is that correct, sir? Mr Bailey?

**Andrew Bailey:** I was going to answer all your questions. Do you want me to answer now?

**Mr Mason-Mahon:** You want to answer them all together then? Okay.

**Andrew Bailey:** I thought that might be sensible.

**Mr Mason- Mahon:** What I do not understand, you are paid £300,000. Yet, you are a regulator. What entitles you to a bonus? You did not do what the Treasury Select Committee asked you to do. You say you did. The Treasury Select Committee says you did not, so give up your £65,000 bonus. The FCA publishes that it paid 93% of their staff an incentive of a bonus this year. Press does not like it. The general public does not like it.

Now, let us move to the companies that you regulate. First of all, let us look at Jes Staley, CEO of Barclays Bank and Mr Ashok Vaswani with Barclays Bank UK. Now, I am not interested in Jes Staley and his whistle-blowing bit. What I am concerned is his legal responsibilities to the customers of Barclays Bank UK. The staff there are continually breaching the FCA Regulations 2.1 – the principles in 2.1, 2.2, 2.16, 2.17 and more importantly 2.11, where they should be informing you. As much as we try to get Barclays Bank to do that, it is their decision. Their arrogance is abounding. How do you turn around and tell people that Jes Staley is a fit and proper person like Ashok Vaswani to run Barclays? You only have to look at the behaviour of the FCA.

Will anybody on the Board explain why no Board of Director has been prosecuted of HSBC Holdings for turning around and laundering drug cartel money for over 10 years? You did a deal, but the directors walk away happy.

Are you aware that HSBC is still committing illegal and criminal acts around the world today? Why are you supporting the cover-up or the withholding of the Monitor's Report so that the public can see exactly how bad this organisation is?

**John Griffith-Jones:** Mr Mason, I must ask –

**Mr Mason-Mahon:** I once turned around and classed the FCA –

**John Griffith-Jones:** Mr Mason?

**Mr Mason-Mahon:** Yes?

**John Griffith-Jones:** I wonder if we could give everyone else a chance? You have asked about eight questions now.

**Mr Mason-Mahon:** I will finish quite quickly.

**John Griffith-Jones:** If you could? Thank you.

**Mr Mason-Mahon:** I once classed the FCA as the Financial Comedy Act. Last year, I turned around and classed you as the Financial Criminal Alliance. I do apologise because this year, you have gone better. It is now the Fools, Clowns, Associates. Who will protect us against the regulators? No decent member of our society can have any respect for these regulators. Congratulations to you all, the Fools, Clowns and Associates. Thank you, Mr Chairman.

**John Griffith-Jones:** Andrew, there are some important points in there, maybe we will try and pick them up.

**Andrew Bailey:** I think we will split them up.

**John Griffith-Jones:** Yes.

**Andrew Bailey:** What I suggest we do is I will answer a number of your questions. I think any question on my bonus should go to the Board members, not to me.

**John Griffith-Jones:** Yes.

**Andrew Bailey:** On the question of the logo, I will ask Nausicaa to answer. Let me do a number of them and I will leave those over for others.

Can I start by saying, Mr Mason, the Treasury Select Committee has never said that we do not do what they asked us to do. I think that my answer to Mr Meadowcroft covered that. We actually did what they asked us to do in the case that he was referring to.

**Mr Mason-Mahon:** Mr Tyrie disagrees with that.

**Andrew Bailey:** No. Mr Tyrie does not disagree. Mr Tyrie has never said that. I am afraid that is not true.

Let me turn now to the question of the institutions that you raised. We do not comment on individual institutions, but let me tell you what is in the public domain. We are, as you know, I am sure, investigating the issues that have arisen in respect to whistle-blowing and with respect to Barclays. We have announced that publicly. No secret about that. That is underway.

Let me now turn to HSBC. There is, as you know – because this was a US action to which you are referring, there is a deferred prosecution arrangements in place in the US conducted by the US Department of Justice. We are, with the Department of Justice, the joint signatory to the monitor arrangement. The question of whether the Monitor's Report should be released in public is subject to the jurisdiction of the US Court. That US Court has just actually issued a ruling on that. It is not subject to us as a regulator. It is subject to the jurisdiction of a judge in the US and that is where it appropriately should be.

**Mr Mason-Mahon:** Have you signed up to the agreement?

**Andrew Bailey:** Sorry. Without a microphone, I cannot hear you, Mr Mason. Sorry?

**Mr Mason-Mahon:** You signed up to the deferred prosecution agreement, yes?

**Andrew Bailey:** It is the Department of Justice deferred prosecution.

**Mr Mason-Mahon:** Yes, but you agreed with the DoJ?

**Andrew Bailey:** We are signatory to the monitor parts of it.

**Mr Mason-Mahon:** You have agreed with the DoJ? If you have the DPA, it is so one-sided that it is only up to the DoJ. No other court in the world or organisation can go after the prosecution. It is the DoJ to decide. No matter how much criminality the HSBC commits, it is down to the DoJ if they want to prosecute. It is their decision.

**Andrew Bailey:** That is a question for the Attorney-General in the US, not for us.

**Mr Mason-Mahon:** No, it is not. In fact, it is –

**Andrew Bailey:** No, I am afraid that is, Mr Mason. It is a question for the Attorney-General. Let us go on to the logo question. I will ask Nausicaa to answer it.

**Nausicaa Delfas:** Yes. Thank you. We have indeed changed the logo. This was because it was necessary to do this because it was difficult for visually-impaired people to recognise the FCA logo as it was. This is very important because, as you know, we are preparing to launch a consumer communications campaign on the PPI deadline and other communications to consumers. Therefore, we did very thorough testing to see what would be better recognised and that is why we changed the logo.

**John Griffith-Jones:** Okay. On Andrew's pay, perhaps a few words from Sarah?

**Sarah Hogg:** Thank you. Yes. You wanted confirmation of Mr Bailey's bonus. It is indeed in the Annual Report account published. If you would care to turn to page 97, you will see that Andrew received a bonus of performance-rated pay of £65,000, of which £26,000 was paid in March and the remainder, at his request, was deferred for a year.

**Mr Mason-Mahon:** Why did he deserve a bonus?

**Sarah Hogg:** Because in the view of the Remuneration Committee reported to the Board, Andrew had done an exceptional job beyond reasonable expectations in his first year at the FCA in laying out its vision in regrouping the Executive Team and placing it on a confident footing for the future.

**Mr Mason-Mahon:** With the greatest of respect, madam, [inaudible]. Surely, your expectations of what he does must be of the highest standard. He does not deserve a bonus for doing his job to the best of his abilities. You are a regulator. It does not become you. Thank you.

**John Griffith-Jones:** Okay. Mr Mason, thank you. You are obviously entitled to your views, and I think you have had a robust response from this side of the house.

I am going to go now to a question from Nick Seddon. Nick Seddon's question is, 'I am interested to learn more about the FCA's plans for extending the Senior Managers Regime to insurance intermediaries. My interest also encompasses any corresponding changes to the CF 8 Regime that applies to secondary intermediaries.' Chris?

**Chris Woolard:** I am afraid this is going to be a relatively short answer. We will very shortly publish some proposals about the extension of the Senior Managers Regime, which applies not just to the insurance firms, but also to other firms more widely in the industry. We will publish that fairly soon. There will be a wide consultation with not only firms, but obviously consumer groups and others who are interested in that.

In the autumn as well, we plan to have a series of firm briefings about the extension and we would expect, through the course of 2018, for that extension to then come into force.

**Jamie Audsley (ShareAction):** Thank you. We are a charity campaigning for responsible investment. I am asking a question about pensions and contract-based pensions. Many of us will remember the contract-based scheme. The FCA put in place independent governance committees to make sure that our contract scheme provide value for money to members like myself and others in the room. I would like to understand why the FCA has changed its mind about doing a formal review of these reports from this year, given that the report last year found that some of the IGCs may have been compromised.

Secondly, given that the management of long-term risks impacts on the value of money that we all get to savers, are you concerned only two IGC reports refer to environmental, social and governance factors in their reports of this year? Thank you very much.

**Chris Woolard:** Yes. There are a few things to say on that. Firstly, in terms of the review of IGCs, that is something that we have basically on the slate to do. We decided not to actually pursue with it this year because of a combination of resources that were in front of us, but also the fact that we had had some evidence about the operation of IGCs which, so far, suggested a positive effect of what is going on there. It is not something that we have said we are putting to one side. It is just something that we are going to do slightly later than originally thought of.

In terms of this wider question about sustainability and what IGCs are there to do, clearly, they have a statutory duty which is towards essentially members of contract-based schemes and to look after essentially the value for money that they are receiving from those schemes. One or two have decided to look more broadly about sustainability of schemes and to think about things like environmental factors. That is a decision of those independent governance committees need to make for themselves at this moment in time.

It is obviously something that we have had conversations in the past about, including with your organisation, about whether there is a wider range of factors that IGCs might think about in the future. However, at the moment, those duties are very clear and, as I said, we will come to a review in due course. So far, however, the indicators we have are basically positive.

**Robert Arnold:** My name is Robert Arnold. Dr Bailey, Mr Davidson, it is to do with harm. In December 2014, there was a thematic review of TR14/19 entitled '*Wealth Management Firms and Private Banks – Conflicts of Interest: In-house Investment Products*,' followed in December 2015 with TR15/12, '*Wealth Management Firms and Private Banks: Suitability of Investment Portfolios*,' for which I read there was a follow-up with a regulator assessment in November 2016.

Last year, this AGM, the FCA said that strengthening consumer protection was a priority. Since that time, I raise my deep misgivings about the treatment of an elderly client by a particular wealth manager, which has been riding a rough shot over the FCA's rules and where my experience and further investigations has led further me to believe: One, its culture ran contrary to the expectations and observations in both of those thematic reviews. Two, the company clearly failed to understand the limits and the duties of its authority as a DFA specifically by the use of in-house managed Cayman Islands-based users in which they appear to place some or all of their customers, however inappropriate, for their individual needs. Three, it had not adequately investigated a complaint that was submitted to it. Four, it failed to monitor and review the ongoing suitability of its recommended solutions.

What assurances can the FCA give that it will actually investigate clear cases of mistreatment of vulnerable customers, and the failures of firms to comply with fundamental FCA requirements

such as proper complaint handling and the provision of redress where the evidence is clear there has been regulatory failure, particularly for the evidence of mistreatment of elderly and vulnerable customers? How can the public have faith in the regulator? The compliance director of this wealth management firm is laughing at the FCA, is laughing at you. What are you going to do about it? Thank you.

**John Griffith-Jones:** Thanks. Can I ask Megan to answer your question?

**Megan Butler:** I cannot comment on any individual firm. If you have information relating to an individual firm, please feel free to bring that to my attention. I am very happy to follow that up after this, if we can. More broadly, if there is evidence of serious misconduct of the sort that are describing, we will investigate and we will undoubtedly take action. If the evidence is there, we will do it.

**Robert Arnold:** I have that evidence for over a year.

**Megan Butler:** If you have an individual case, I am very happy for you to bring that personally to my direct attention and I will look straight into what has happened on the particular case.

**Robert Arnold:** Mr Davidson has all the information. He is on your left.

**John Griffith-Jones:** Very good. We will make sure we put things together and we will follow that up. Yes, sir?

**Andy Agathangelou (Transparency Task Force):** Good morning. I am the founding chair of the Transparency Task Force. I have two quick comments and one quick question regarding the asset management market study.

First comment, congratulations on approaching the study in such an engaging and consultative way. I think most of the industry really appreciated that. Secondly, congratulations in not succumbing to what must have been mountains of pressure by industry lobbyists trying to prevent change and, thankfully, failing to do so.

My question is this: the global asset management industry would potentially benefit the work by the UK's regulator here. What can the FCA do to share their ideas, knowledge, insight and analysis you have created over the last couple of years so that those countries that do not have a sophisticated regulatory regime can derive better value for money for their pension savers and their investors as well?

**Andrew Bailey:** First, I could start and I think Chris may want to come in because he really takes all the credit for the work. Thank you very much. It is very kind of you to say that. Obviously, all the work is published, so it is freely available. We have had quite a bit of interest, actually, from other authorities. I know in my own experience of talking to them, that it has been quite widely read. We are obviously happy to engage with any other authorities who want to discuss how we went about the work, what conclusions we drew. Obviously, the UK market, as you said, there are some similarities, but a bit different. We are very much open to other people who are interested in the work because in that way, we could learn things as well from discussions with them. Chris, would you like to answer it?

**Chris Woolard:** Yes. Again, Andy, thank you for that. I know you have spoken to the team directly as well who sort of run this day-to-day and said the same thing. It is fair to say, I think, we worked closely with a number of different authorities during the course of this study itself, particularly the US authorities, where we look to a number of developments there quite closely.

As Andrew said, the work that is out there is publicly available. There are a number of occasions, I think, where Megan and I will be talking to international sort of audiences over the next few months as well. I know Richard possibly is sitting behind the question, you have asked us about whether there are a couple of conferences we could support, particularly by having speakers there. I know someone is coming back to you on that at the moment.

**John Griffith-Jones:** Okay. Let me go jump to a question from Margie Lindsey which is also on asset managers, as we are on that topic. She asks, 'What is the FCA doing to ensure asset managers are fit for purpose and how exactly does the FCA define the purpose of asset management?' Chris and perhaps Megan as well?

**Chris Woolard:** Yes. Perhaps I will start and then Megan will follow up. In its broadest sense, when we think about the asset management industry, and we said this at the start of our report, it plays a vital role in the UK economy. Asset managers are managing money for around three-quarters of the households in the UK, mainly through pensions, but also through other savings vehicles. The key purpose of asset management is to provide the vehicle for those individuals and for companies that have pension schemes and make sure that clients essentially get a good return on the money that they invest. That is sort of the bottom line that we are looking at there.

In terms of the next question around fit for purpose, as Andrew said in the introduction, the market study really focussed on a number of things. Firstly, how do the clients – whether they are institutional or whether they are retail – of asset managers really know what they are buying into and how do they ensure they are getting value in the products that they are buying?

How do we have some clearer governance around how asset management funds are run? Then, also, how do we look at the wider landscape around asset management, particularly investment consultants, which we do in some detail in our report. That is, if you like, kind of the founding piece of how do we try and think about this market. Obviously, however, the really important piece is we actually supervise it day-to-day as well.

**Megan Butler:** Absolutely. Picking up from a lot of the work that was done by Chris and his team, central to the supervision agenda here will be a real focus on ensuring the strongest possible governance and oversight and personal accountability is taken within the asset management industry for the decisions that they take on behalf of all of their clients. Again, mentioning the extension of the SMCR, which Chris has already mentioned earlier, that will absolutely be central to the work we do in this sector through the course of the next year.

**John Griffith-Jones:** If I may just take one that I have in front of me also from Margie Lindsey. 'Is the increase in the number of FCA employees proportionate to its workload, and will the FCA be looking at smarter regulation to ensure the number of staff does not need to continue to increase?' Nausicaa, that is probably for you.

**Nausicaa Delfas:** Yes. Good question. Thank you. Yes, the increase in the number of FCA resources is proportionate to its workload, given that we have taken on new areas of regulation and we have ever a demand for specialist skills.

In terms of the increase itself, in the last year, there was an increase of 145. However, this was partly offset by 80 who were short-term resource, so the net increase is actually 65. That was broadly driven by new areas such as PSR, Competition and also filling vacancies in which there

is a very challenging recruitment market such as legal expertise and cyber resilience and some of the wholesale supervision areas.

In terms of smarter regulation, our overarching value-for-money strategy is to maximise the impact of delivering our objectives and outcomes whilst minimising our costs. We are committed to driving year-on-year value for money in accordance with the NAO's feedback and approach, looking at effectiveness, efficiency and economy.

**Lesley Kenny (Virgin Media):** Thank you. As a firm that has a diverse range of products, we find ourselves interfacing with multiple regulators. What is your approach at the FCA to creating that kind of partnership environment with other regulators to a) implement your strategy and then, b) to kind of support businesses and ensure there are no inefficiencies or duplications for companies?

**Andrew Bailey:** Yes. That is a good question. We work with many of the regulators, I should say, and I really divide them into two groups. I will give an example, and it is particularly in the second. In one group, we work very closely with what I call the other financial regulators. That obviously is the Bank of England, Financial Regulation Party, Financial Systems Regulatory, which is a subsidiary of the FCA, Money Advice Service, Pensions Ombudsman and those are in the financial services compensation field. All of those are very close working relationships.

There is also a second group, which I think you are more alluding to, which is the other economic regulators and particularly competition regulators, Ofcom and the others. We work close on those, particularly on competition issues. There is something called the Regulators Network that is run, where we do work closely. I think you might have alluded to a particular issue which is coming up and which is very important. We were talking earlier about EU regulation in the pipeline and we talked about MIFID II. A gentleman over there asked about the Payments Services Directive.

Another very big one is the Data Protection Directives which is often known as the GDPR. This, of course, is notable because it is not limited to financial services regulation, it goes right across the board and your business, obviously, will be very much seeing that. The leader for it in the UK will be the Information Commission and the Government or Parliament, which they are associated. It is due to come into effect prior to the UK departing from the EU, as we understand it.

It is very significant piece of regulation. It is something that Nausicaa is leading our work on it. It has within it, I think I might have said, the so-called right to hide. This is an important issue for us because if we think about many of the things that we have put in place, how we run that in the sense of that regime alongside some of the other regimes that we have, particularly something John alluded to earlier is the Senior Managers Regime, where we have actually instituted what we call regulatory references which is the references on people's past.

We recognise that we have some pretty challenging issues. We are not the only regulator in this position. The so-called GDPR does raise some very challenging issues and issues that are becoming now pressing and I think pressing for the public sector as a whole in this country and in the rest of the EU. We are part of that picture. We are in that scenario where it is, by no means, solely focussed on us. Obviously, you rightly say it and rightly suggested, that it is important that we coordinate it.

**Roland Baker:** Thank you, Mr Chairman. I have a piece of paper in front of me repeating the questions of this morning of which there are two paragraphs, the bottom of which was given to the Chief Executive for regulatory purposes. The question is in the first paragraph. You might prefer to not to publish the second paragraph on your website.

The question is that the *FCA Annual Report 2016/17* contains very little about cybersecurity except for working with partners, given the risk of fraud in the financial services. Even blockchain, once thought to be a valid audit trail, now seems capable of retrospective amendment. Is the main threat to IGC Security the complacency in management services or the greater complacency and the lack of will of the Financial Conduct Authority?

**Andrew Bailey:** Thank you, Mr Baker. I am going to start, and then I am going to hand over to Nausicaa who leads our work. Thank you for raising cyber. I say often if I have to rank risks, and those risks that have increased in the last year or two, and frankly in the last year, in terms of their significance and the materiality of what we are facing, I would put cyber at the top. That is for my reasons. We all know. We read it regularly. The reality of cyber risk, I am afraid, is growing around us. It affects us as much as it affects others. It is a very important subject for us and we take it very seriously. I will get Nausicaa to talk about what we are doing and answer your very valid question about responsibility.

**Nausicaa Delfas:** Thank you. Cyber does indeed remain one of our key priorities for us internally as well as in our regulation of the industry. Along with other UK financial authorities, we have developed the CBEST Testing Framework to help identify types of cyber-attack that could undermine the UK financial stability. We have been doing that particularly with clearly the Bank of England.

We have also created dedicated specialist teams within the FCA and contributed to international thinking on cyber resilience. Andrew has mentioned IOSCO and other fora. We have also launched a cyber coordination group initiative that crosses various sectors, bringing together a large number of firms to discuss cybersecurity issues and improve our overall resilience. We are continuing to engage with firms where outages and cyber-attacks occur. Obviously, we are raising the profile of the issue with the industry through speaking engagements and so forth.

In terms of responsibility, obviously, as the FCA, we are interested in cyber because of the impact on consumers – the fact that consumer data or assets could be lost, so we are interested in this from a consumer protection perspective and also from a market integrity perspective, because obviously, we would not want data to be compromised or market abuse to occur in the interest of competition so that services are available and people can access the market.

Whenever a cyber incident occurs, very often we are the first responder. However, we do work with other agencies like the Bank of England on overall financial stability and obviously the National Cybersecurity Centre and their expertise.

**Question (ShareAction):** This is a question regarding the TCFD recommendations which just came out. As you may well know, the Financial Stability Board's Task Force for climate-led financial disclosures came out with the recommendations on 29 June 2017. In line with the emerging mantra of the FCA of 'prevention is better than cure', what specific action is the FCA going to take to ensure that these recommendations are worked upon by asset managers and banks. Let us not forget that 100 corporate signatories representing approximately \$25tr in market capitalisation have endorsed these recommendations.



**Andrew Bailey:** Thank you. Yes, I am very aware of the recommendations because I have had some involvement in my former life at the PRA. They are, as you say, important. I think it is important that the Financial Stability Board has endorsed them because that is obviously a much more global endorsement.

They are important recommendations, and it is an important public policy issue. Where I would draw the line, and I admit this may be where we differ in our views, is that I do not think it would be appropriate for us to adopt a rule which forces people to invest in certain assets. I think that the principles that are being adopted by the FSB, and of course, getting in a sense a much wider publicity and wider acceptance should be adopted as a manner of good public policy.

I think, this is actually a very important issue for us as a regulator. I think that is more an issue for Government for them to make a view on because I do not think that our statutory objectives can naturally be interpreted as requiring people to invest in certain things, albeit like many people, I think and like you do, I think it is good that this work has been done. I think it is good that the FSB has done it. I hope we are gaining traction.

**Megan Clay (ClientEarth):** My question actually touches slightly on the previous question in relation to climate change, and very much the financial impacts of climate change. Around the world, we have seen regulators making comments, taking action, on the financial risks associated with climate change. That obviously includes the PRA in the UK, as you mentioned, Andrew, and the Pensions Regulator as well has looked at issuing guidance for trustees which touches on the long-term financial risks associated with climate change and the impact of that for pension fund trustees.

This is an area in which the FCA has so far been very quiet. I was wondering the extent to which the FCA was going to look to perhaps issue its own guidance in this area or at least look at its own objectives, at protecting consumers and at regulating markets and analyse this in terms of what climate risk does mean for its objectives.

**Andrew Bailey:** It is not an area that we have undermined at the moment to take that action. As you say, the PRA has very much addressed it from the point of view of the embedded climate change risk in the asset portfolios of long-term investors, notably life insurers. Of course, those are a dual regulated between the FCA and the PRA. I do not think we both need to do that.

That is an action that the PRA have taken. As a matter of regulatory coordination, that is an appropriate thing. Of course, the Pensions Regulator, likewise, is doing so on the basis of the long-term assets, as I defined, pension benefit schemes. You pose an interesting question about the scope of our guidance in respect to the area that we are interested in, which would be defined contribution schemes. That is, of course, these days, as we were saying it earlier, with the freedom, it is a matter of individual choice. Again, I would say that that is a matter that we would want to discuss closely with the Government because I think that goes beyond our agreement in terms of our objectives. PRA's agreement is much more in terms of financial risk to the extent there is embedded financial risk in long-term asset ownership, it is directly relevant.

**John Griffith-Jones:** I am going to take a few more pre-submitted ones now. Firstly, from Kavita Joshi. 'Was the FCA satisfied with the number of applications received for the MIFID II authorisation deadline?' Jonathan, I think that is you.

**Jonathan Davidson:** Yes. Thank you for the question. The short answer is yes, we were satisfied. As you know, the deadline of January next year for the submission of applications has just passed. We got roughly the number of applications we expected. If there are other applications pending out there, we urge you to get them in as quickly as possible and as fully and high quality to give you the best opportunity to get them processed and approved before the deadline in January.

**John Griffith-Jones:** Okay. Then, from Zaccheus Gilpin. 'Does the FCA have indemnity insurance relating to its own work? Can people or organisations who make a complaint to the FCA take legal action for negligence relating to the FCA's work?' Andrew?

**Andrew Bailey:** The short answer is that as a public authority and under the act of Parliament, we operate under the Financial Services Markets Act, and we are protected from claims for damages for negligence. That is a pretty longstanding statute in this country and is by no means unique to the FCA.

**John Griffith-Jones:** That, crisply, is the situation. From Jimmy Hinchcliff: 'It is now a few years since the FCA adopted its fixed and flexible supervision model focusing most of its proactive resource and relationship management on the 20 or so firms posing the most risk to its objectives. Has the approach worked or is there any plan to recalibrate the focus?'

I do not know which. Probably you both may wish to say something. Jonathan first.

**Jonathan Davidson:** Thank you for the question. We have now been working for 2 years with a fixed and flexible apportionment of the firms that we supervise. Approximately, the actual numbers are 166 firms that we supervise on a fixed basis with essentially ongoing relationship management. Those firms are selected on the basis of their potential impact.

That way, by covering those 166 firms, especially in certain sectors where they are quite concentrated, the risk to consumers, to markets and competition are largely captured in vast majority by those firms. Of course, there are another 54,000-odd that sit in the flexible portfolio, and we are continually reviewing how we approach those to make sure that they have a good understanding of what we expect of them and what consumers expect of them.

We will be laying out in detail later this year, in our approach to supervision document that we will follow on from the mission, exactly how we propose to continue going about it.

**John Griffith-Jones:** The next one is from Damask Smith: 'How is the FCA keeping up with innovation in fintech and regtech? What potential risks if any, have been identified as the industry explores artificial intelligence technology for some of its services?' Chris?

**Chris Woolard:** As Andrew was saying earlier, we spend a lot of effort on thinking about innovation and understanding innovation in the market, so we have worked through Project Innovate with well over 360 firms now, we have got 55 in the different cohorts of our regulatory sandbox which is where we take the most cutting-edge firms. That is important to us because it helps us really understand what are the technologies that are being deployed or being proposed to be deployed in the market at any one point in time, that is really a valuable way that we stay up to date with things.

We have also got a number of other initiatives that fit underneath our Innovate scheme. One of those includes an advice unit that is looking specifically at the application of automated or so called robo-advice in different business models now, a whole range of different business models starting with pensions and life, and now looking elsewhere.

Then finally, we hold a series of events, we call them tech sprints, but they are about how do we think about using technology to solve regulatory problems, so called regtech. That brings together a whole range of people who are experts in the field, leading academics. In some cases, we will have some very diverse people in the room, like for example, clinical psychologists talking about how technology can help people with mental health issues, perhaps manage their money better.

When it comes to the question of artificial intelligence, it depends on what is the form of that artificial intelligence. Clearly, the most common is sort of machine learning that we see out there at the moment, and its application into things like robo-advice or trading algorithms or things of that kind. Quite often, I think we were looking at the biggest sort of risk and opportunities are, it offers a chance to get things exactly right all the time, but it also offers us a chance to get things exactly wrong. That is one of the reasons when we have the advice unit, why we want to work closely with people exploring those models. Generally speaking, certainly through our day to day supervision work, encountering firms who want to use this for the first time, is where we actually look individually at what the individual risks may or may not be.

**John Muldoon:** My question is about claims management companies, which I am delighted to see will be coming under your remit. My concern is about the relationship between claims management companies and intermediaries. I am thinking in particular of intermediaries who are formally members of the large direct sales forces, now bringing in wholesale complaints from their clients against mis-selling that they undertook 10 to 15 years ago.

Not only did they get large upfront commission 10 to 15 years ago, they have now introduced, as a referrer, to claims management companies, their clients are getting 25% knocked off their compensation model claims management company, which is now paying 15% to the introducers. The intermediary is getting large upfront commission, and the unexpected tail-end commission. Is this treating customers fairly?

**Andrew Bailey:** Well, thank you for raising that point. As I said in my comment, we are currently in the process of undertaking the scoping on what our future regulation of claims management company should look like, once the legislation is passed by Parliament, and therefore, it will come in to effect.

Could I ask that we make contact? We really love to hear more from your observations about the past because this is exactly the sort of thing we would like to learn more about as we build our picture of the industry. Thank you.

**John Griffith-Jones:** When do we expect to start?

**Andrew Bailey:** Well, it is subject to the outcome of parliamentary proceedings. I mean I think it will not be full, probably, yes, but at least.

**Chris Woolard:** I think April 2019 or thereabout is when we will probably formally take over, but it is subject to a number of legislative requirements.

**Andrew Bailey:** Yes. Frankly, all the evidence and information we can get on is very welcome.

**Oliver Lodge:** We have heard a mention of the consultation paper on the Senior Managers Review on widening out the scope of it. It was, that consultation paper, due out in the second quarter. Without any apparent announcement Q2 has been airbrushed out, and very shortly put in place today by Chris Woolard. Thank you for that bit of information, but your website now says summer; we do wonder when.

Is it clear that there is going to be plenty of time for implementation? Because is it not the case that the FCA is now actually biting into the industries' implementation time, particularly since as I understand it, implementation date is a government matter?

**Chris Woolard:** Yes, I mean I think the words I used earlier were, 'very shortly'. That does mean very shortly; that is not applied euphemism. We will have it out there, and as I said, the process we want to go through is one of trying to consult as widely as we can at that point, and indeed running a number of events in the autumn where we get out and about, and we actually explain in terms of what we think the requirements are.

It is worth saying that one of the approaches we are taking here is not that one size fits all, and we want the regime to be proportionate, we want to be effective in terms of the size and scale of firms. That is one of the important things that we do talk to people about.

Hopefully, when you pull that together, there will still be a sufficient time there for implementation, and indeed a process of getting out and about and talking to people about what we think our requirements should be.

**Question:** My question goes back to Brexit. Has the FCA considered or might have considered seconding a few members of the staff to the Commission so that any proposals coming from the Commission would take into account the greater range, scope and complexity of financial services in the UK, London in particular?

**Andrew Bailey:** That is a very good question. We have had a long history of seconding staff to the European Commission, and that has been very important because obviously it is built on our involvement in the legislation that has been passed.

I have to tell you that there is something of a hiatus taking place at the moment in that process, which is, I think, a natural product of the uncertainty caused by the Brexit prices. The number of secondments to the European Commission at the moment is falling as secondments come to an end and new ones are not taken up. That is a general approach towards the UK.

What comes after that? I think you posed a very important question. So what should the new world look like post-Brexit? If I could go back to the point I made about the importance of open markets, and as I said in my speech a couple of weeks ago, for open markets and financial services to work, they have got to be supported by regulatory standards and they have got to be supported by regulatory corporation, and we are willing and ready to do that, and we have a lot of experience working with all the regulatory bodies in Europe and that includes the European Commission, it includes ESMA, it includes national authorities.

In that world, we would be happy to consider once again supporting a process of secondments, but it will have to, I think, emerge after the general settlement of the Brexit question, unfortunately. We are in a bit of a hiatus at the moment, and I think that is the reality of the world that the UK is in.

**John Griffith-Jones:** The next one is from Natalie Rapalo. 'I am interested how the FCA has performed against its objectives to increase individual accountability for market abuse and increase confidence in fixed market integrity. Why has the FCA not taken more enforcement actions algorithmic trading abuses (in contrast to the US regulators?)' Megan?

**Megan Butler:** I think that the work we do around the investigation and, where the evidence merits it, the prosecution of market abuse is one of the most important, but also one of the hardest things that we have to do.

We have had and continue to have some very strong outcomes around enforcement outcomes that is. I think Andrew mentioned a couple of them with Tabernula in the context of individuals, and indeed Tesco in the context a corporate action for market abuse. But we have to think about this in the broader context of what we do to ensure that we have the highest standards of market conduct amongst the participants we have in our wholesale markets, whether that is the FIC markets or indeed any markets at all. That is a key supervision priority that we have where we continue to drive those standards to make sure that our wholesale markets are as hostile as possible to abuse by those who seek to attack them.

It is not an area where we can ever declare success. The people who seek to abuse our markets develop a highly sophisticated and change their strategies and keep developing. We need to keep responding to those, as well as maintaining a very strong supervision agenda with the firms that they seek to use for that abuse.

Yes, we continue to make progress, but there will always be progress that we need to make, I think, is how I would think about that.

In terms of algo trading, where we see abuse, we do take action to stop that abuse, and we did a really interesting piece of work last year on dark pools and the work of algos in dark pools. But one thing I think I would point out that might distinguish us from US markets is we have a very different regulatory regime that drives different behaviours and different structures. Some of the abuses you see through algo use in the US just do not arise here in quite the same way. So you are not really comparing apples with apples when you look at abuses in the US market as opposed to things you might see in the UK.

**John Griffith-Jones:** There is a question from Jamie Patel. 'Does the FCA feel that the price cap regulations imposed upon high-cost short-term credit firms have been a success? As the industry feels all the FCA has achieved is a curve in supply, the demand never went away. Are the FCA now concerned that hardworking consumers, who on occasions need help in the form of short-term lending, have been forced to use alternative legal means to source funds instead?' Chris, possibly?

**Chris Woolard:** Okay, good question. I think it is probably worth saying that there is a number of sort of presuppositions in that question that we will not necessarily agree with. In terms of where we are now, when we introduced the cap on high-cost short-term credit, we committed to reviewing it basically this year. We are close to publication of the findings of that review, and indeed the wider work that we said we will look into around the high-cost credit market that Andrew referred to in his introduction.

That feedback statement is coming shortly. I would not say any more about that until we published that.

**Matthew Doyle:** My question is what is the FCA doing to support firms with the implementation of the Insurance Distribution Directive, particularly in light of the challenging timescales for implementation?

**Speaker:** We are about to publish on that very subject.

**Andrew Bailey:** Yes, we are. Literally, imminently, we have a document coming forward which is about how we intend to approach implementation of the IDD. Watch this space.

**Jasthi Alom (FCA):** My question is – I think this in regards to our approach to authorisations. What more can the FCA do to educate and enhance the firms out there, particularly the smaller

firms in regards to the remit and the fact that we are the financial services watchdog, the regulator, and not a compliance service. So when it does come to giving guidance to firms out there, and even consumers, and even handbook rules, the fact that we cannot give an interpretation of the interpretation basically, so how can we enhance the understanding of our remit?

**Jonathan Davidson:** Thank you, Jashti. Excellent question. This goes to the challenge I pointed out earlier. There are approximately 55,000 quite small firms, many of them very small firms, perhaps one individual each. For them, a lot of them, financial services is not their primary business. They may be a credit broker providing some form of credit at point of sale. Helping them to understand our rulebook which actually amounts to 13,000 pages, is a very high priority for both Megan and myself as supervisors, and we are looking into right now the best ways to help firms to understand what they have to get right.

Our thematic reviews are very important, and I know a number of people have pointed to saying why there are so many thematic reviews coming out. The reason is to really understand what practices are out there and to publish so that people know what good looks like. We also use regulatory round up and which we know is very widely read by small firms to provide a relatively informal review of what is really important. The third thing I would sort of point to is, we are taking each of the, if you like, subsectors of very small firms and trying to think about what their business models are, and therefore the issues that are of most concern to them to develop plans to communicate to them and see how they are doing.

**John Griffith-Jones:** Very good. I am going to take one more which is pre-submitted but it is on a very fundamental issue that we actually have not touched on so much. It comes from Greg Stevens and probably Andrew, it would be a good place to close in some ways. Has the FCA further developed its thinking on leadership tone and culture, and how to measure it?

**Andrew Bailey:** Well, that is a good question, and the answer is yes, it is something that we worked on and continue to work on very actively. I regard culture as very much the outcome of many other inputs that go on in firms. It is central to what we do with supervisors.

When we look at culture and firms, we are looking at what I call behaviours and the incentives and influences.

Let me give you two examples. One really comes straight out the governance field, and it has already been mentioned, that is the implementation of the senior manager's regime. And of course, as the earlier question was pointing out, we are about to extend that from the banks to the rest of the population. The key points about this regime, the idea – the credit for the idea goes to the Parliamentary Commission on Banking Standards chaired by Andrew Tyrie. The key principle of this is individual responsibility. If we go back to some of the legacy cases, some of the questions we have discussed early on, about some these old cases, one of the things that you conclude from those old cases is that the regime did not have individual responsibility of senior managers at the heart of it. That is key, and it is the key cultural influence.

The same thing I would note is remuneration. Structure of remuneration, something we, again, as supervisors are highly interested in. Getting the structure of remuneration aligned with proper incentives, which is why we put so much work into appropriate deferral of remuneration, appropriate withdrawal of invested remuneration where misconduct subsequently comes to light. That is now sadly, has in recent years, been a very regular thing to have done, it is very

important because it has to create the right incentives and all of that comes together in a sense, in a summary view of the culture.

The answer to the question, it is very important. I know this was sort of question mark about this in respect to the FCA a couple of years ago, but really if you come inside our building and see what we do, I think you would conclude that actually we take it very seriously, and I can assure you, we do.

**John Griffith-Jones:** Very good. We have hit the bewitching hour, and so I think I need to draw this meeting to a close.

I would like, if I may, first of all, to thank my financially competent associates sitting alongside me for their answers to your questions.

I would like to thank you for turning up, and particularly those of you who submitted questions in advance. As I said, those of you who have not had your questions read out in real time, will receive an answer on the website.

I continue to believe that this is a truly a very important session. It is accountability truly at work, and I hope you will appreciate the openness with which my colleagues have tried to answer the comments and questions that have been raised.

Thank you again all for turning up.

[END OF TRANSCRIPT]