FCA Business Plan Press Conference

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Opening remarks

Andrew Whyte
Director of Communications

Welcome

Good morning, everyone, and welcome. My name is Andrew Whyte; I'm Director of Communications here at the FCA and I'm delighted to welcome you here for this press conference to mark the launch of our Business Plan for 2018-2019. As last year, we are also publishing a number of other documents today: our sector views, our consultation and fees paper, and the latest in our series of implementation documents about how we are putting our mission that we launched last year into practice, which is a Discussion Paper about our evaluation framework.

Introduction to speakers

In a moment, I'm going to ask our Chief Executive, Andrew Bailey, to introduce the Business Plan. After he has said a few words, there will be a chance for you to ask questions to Andrew and, indeed, other members of our Executive Committee (ExCo). Speaking of which, let me introduce them to you: Georgina Philippou, Chief Operating Officer; Chris Woolard, Executive Director of Strategy and Competition; Nausicaa Delfas, Executive Director of International; Mark Steward, Executive Director of Enforcement and Market Oversight; and Jonathan Davidson, Executive Director of Retail Supervision. That is the not the complete Executive Committee; Megan Butler, who is the Executive Director of Wholesale Supervision, is not able to be with us today, but this perfectly formed team will be able to deal with any questions you may have.

The 2018/19 Business Plan

Andrew Bailey
Chief Executive

Introduction

Thank you, Andrew. Good morning. I was rather conscious, thinking about today, that a year ago when we did the equivalent press conference, we presented the Business Plan that we are currently working to. We also presented our mission statement and sector views for the first time and we were all pretty excited about this. I have to admit that, during the press conference, we rather lost the audience, so to speak, which is a not a criticism by any means, but what happened was that everybody got wind of the fact that the general election was about to be announced within 15 minutes of our press conference and that was it really. We are hoping for a better run this morning. We have no evidence to suggest that anything like that is going to happen this morning, so we hope it will be somewhat quieter and more focused.

As Andrew said, we have colleagues here from the ExCo this morning and I'm going to say a few words at the beginning and then reappear occasionally in a compere-type role.

Sector views

Let me say a few words about sector views before we go on to the Business Plan. The "Sector Views" publication and the work we do on sector views is fairly unique and I'm not aware of another financial regulator that does something like this. It is our view across the landscape that we regulate. We divide it up into sectors, which is important given the size of the landscape and it provides the backdrop to the Business Plan. It also provides the means by which we, in a sense, do the prioritisation in the Business Plan, which I will come on to, and so it is very important. Please feel free to use it for reference and come back to us if you have questions on it. I just wanted to emphasise that it is unique and, for us, it is a very important piece of work that we obviously keep updated on a rolling basis, so you can also see how it changes over time.

Let me turn to the Business Plan. I'm going to say a few words and then introduce colleagues to talk briefly about parts of it.

Business Plan

Brexit

This year's exercise obviously has had the added dimension of how we accommodate the work that is going to be needed on Brexit. There is a lot of work on Brexit, which we will come on to. There is also, of course, a higher level of uncertainty both on the substance of the work and on the timing of the work and that has complicated the creation of a Business Plan this year, no doubt about that. The assumption that we are making is that we are still working towards exit just under a year from now. That is the plan that is being worked to, particularly in terms of the so-called withdrawal legislation, which has been and continues to be the largest single piece of work that we are involved in with the Government. Having said that, we expect a transition or implementation period to take effect. As I have said in the last couple of weeks, we strongly welcome it, but we are having also to plan on the basis that exit from the European Union will happen at the end of March next year.

Alongside the work on Brexit, it is very important, in my view, that we remain outward-looking. It would be a huge error to become insular or isolationist and that is one very important reason why we created a new International division during the course of this year and I'm going to ask Nausicaa to start by saying a few words about what the plan is on that front.

International division

Nausicaa Delfas (Executive Director, International): Thank you, Andrew. As Andrew mentioned, the creation of the International division is an important signal of the importance that we place on our continued and enhanced international engagement and our role in shaping the international regulatory agenda. We support global, open markets and these are underpinned by global standards, so we will continue our engagement within international standard-setting bodies, our strong bilateral relationships and cooperation with regulators around the world and within the EU.

In terms of the work that we are doing on EU withdrawal, our role is to ensure that markets continue to work well throughout the process and that there is a robust regulatory regime when the UK exits the EU. We are doing this in various ways: we are doing this by supporting the Government with technical assistance in its negotiations with the EU. We are working on supporting the work on the EU (Withdrawal) Bill, which onshores EU law into UK law so that there is a robust regulatory framework when we exit. We are supporting the Government with technical assistance on our future relationship with the EU and the rest of the world.

We are also working with firms on their response to EU withdrawal, understanding and mitigating risks to our objectives. Front and centre in our discussions with firms are the impact on markets, customers and firms. We are doing whatever we can to smooth the path of EU withdrawal. For example, last December, with the Treasury and the Bank of England, we announced that we would implement, if necessary, a temporary permissions regime for those firms that currently passport into the UK. We have set up an area on our website and a survey for those firms that wish to take advantage of that regime, should we need to implement it. By that, there is no need for them to seek authorisation and they can continue to operate smoothly post-exit.

We are also looking to the future and considering and preparing for new functions. The Government has indicated that we will take on the regulation of credit rating agencies and trade repositories, so there is preparatory work to be doing there, and the future authorisation and supervision of EEA firms going forward. We are also continuing our work on international cooperation, EU and globally, ensuring ongoing supervisory cooperation and information sharing. Finally, from the FCA's perspective, we are also ensuring that we are operationally ready when exit occurs.

Thank you, Andrew.

Setting priorities

Andrew Bailey: That said, the bedrock of what we do, obviously, is delivering our statutory objectives. It is very important that the work on Brexit doesn't interrupt or obstruct fulfilling our statutory objectives and the Business Plan is very important to us, because it is about setting the priorities that we identify across the landscape. The construction of the Plan this year has been challenging at times, obviously, because there is pressure from accommodating Brexit. The other thing I would say is that the Plan we have been working to this year, deliberately, when we put that together over a year ago now, we adopted more of a multi-year approach and identified thin7gs that would take more than one year to do. I think that is very sensible in terms of the big priorities, so there is a continuing element to it as well.

What we have done, which you will see in the document, is identify 7 cross-sector priority areas, which are linked to the term we use of 'harm'. 'Harm' was the word that we developed in the context of the mission document, as you will see and that is very much connected to where we see our statutory objectives not being fulfilled.

Let me run through the seven cross-sector themes very quickly and then I will ask colleagues to illustrate a few of them. I use the word 'illustrate' because we are not going to talk about all 7 since that would take up too much time, so please do not interpret the ones that we use for illustration as a prioritisation. There is no prioritisation amongst the 7, they are all important.

Cross-sector themes

The 7 are:

1. Firms' culture and governance and how that drives behaviours and produces outcomes likely to benefit consumers and markets.
2. High cost credit, building on the significant impact already made, particularly by the measures taken on payday lending and, more recently, measures we have announced on credit cards and action we have taken also with specific firms.
3. Tackling financial crime, which includes fraud, scams, anti-money laundering and, of course, is designed to make the UK financial sector a hostile place for criminals and a safe place for consumers.
4. Data security – obviously a topical subject – resilience and outsourcing, since technology plays a pivotal role in delivering financial products and services.

5. Innovation, including big data, technology and competition, which are driving changes in markets; something the FCA has taken a world-leading role in, as a regulator.
6. The treatment of existing customers to ensure they do not get less attention or receive poorer outcomes than new customers. This will include taking over the regulation of claims management companies next spring.
7. Long-term savings, pensions and intergenerational differences, which reflect the changing population of the country and their financial needs.

I hope you will agree those are 7 pretty fundamental issues. They illustrate the size of the issues that we have to deal with at the FCA and the importance of the challenges, but also why it is, for us at least, such an exciting Plan to have to take forward.

As I said, let me choose a number of points by way of illustration and I'm going to start by asking Mark to talk a bit about our work on financial crime.

Financial crime

Mark Steward (Executive Director, Enforcement and Market Oversight): Thanks, Andrew. As Andrew said, fighting financial crime and money laundering is a real priority for us this year and there are at least 2 aspects of that. One is, I suppose, making sure that our firms have adequate systems and controls to ensure that they do not become involved in financial crime and money laundering. Secondly, we want to ensure that their markets are not being used to harbour or facilitate financial crime and money laundering. To do those two things we are going to use the full spectrum of our powers, so it is a multilateral approach and, in no particular order, that includes supervision, monitoring and oversight in what our firms are doing. It also includes, this year, our new oversight role for professional bodies, the Office for Professional Body Anti-Money Laundering Supervision (OPBAS), which is a new and important initiative. Particular things include we are going to publish our findings on money laundering in the e-money sector. We are going to continue what has been a very popular and successful initiative, our ScamSmart programme, which uses the media, mainly television, radio and online initiatives to increase the community's tactical awareness about fraud and how to prevent becoming a victim of fraud or scams.

Last but not least, and certainly closer to home for me, will be investigating and taking enforcement action against anyone involved in financial crime or money laundering in our markets. That will include, I should add, looking at the full spectrum of sanctions that exist under the money laundering regulations, which includes a criminal jurisdiction that we haven't yet invoked, so that is something that we will need to be looking at.

Finally, connected will all of that will be our continued collaboration with the NCA, police and HMRC in the establishment of the National Economic Crime Centre this year, which is a very important across-government initiative.

Andrew Bailey: Thanks, Mark. Next, we move on to Jonathan, who is going to illustrate the heading that I mentioned on the treatment of existing customers.

Treatment of existing customers

Jonathan Davidson (Executive Director, Supervision – Retail and Authorisations): One of the issues with treatment of existing customers is that if you are a really engaged customer who goes and shops around every year, say, on your insurance renewal, you can pretty much guarantee that you are going to get a very competitive price, not least because there are lots of price comparison websites out there where you can compare very easily. However, at the same time, in the insurance world there are an awful lot of people who just renew automatically each and every year. We've looked at this market over the last several years and about a year ago we introduced rules that said, on the renewal document, you need to disclose, if you are the insurance company, 'This is the price that you paid last year' and have a message prominently displayed encouraging you to shop around, so that people could make the decision if they saw that their price was creeping up. We've been focused on that and now we are going even deeper and are looking, in the insurance world, at how house insurance pricing is determined. We're looking in detail at the factors, the protocols, the algorithms that are used to price insurance, in order to understand how that phenomenon of the creeping up of renewal prices occurs, what the limits are of it and the implications. Is it a source of concern or is some other kind of remedy required?

That is the story on pricing renewals and, I would point out, this is not only in insurance; in many financial services markets you have this phenomenon that customers who automatically renew or don't shop around very frequently end up paying somewhat higher prices. Therefore, if you like, this is a pilot review into the insurance market.

Andrew Bailey: Thanks, Jonathan. The third and final one of these illustrations concerns 2 things that are linked together by the question of intergenerational challenges in this country and that pulls together long-term savings and high cost credit.

Long-term savings and high cost credit

Christopher Woolard (Executive Director, Strategy and Competition): In many ways, these are 2 ends of a spectrum that we have seen in the work we did this year around Financial Lives and the survey into how consumers operate in the real world. On the one hand, we have pensions and what we're looking at there is a number of things, but particularly a combined strategy with the Pensions Regulator, which we expect to publish later this year. We're also completing work on our retirement outcomes review and that is designed to ensure that those reaching retirement have a range of options that work well for them. At the other end of that spectrum we have our work on high cost credit, which is often associated, but not exclusively, with a younger demographic. We're looking there to deliver a final report that we've had ongoing, around May, and obviously there are a number of things that may flow from that in terms of rent to own, overdrafts, catalogue credit and doorstep lending. Those are the 2 big parts of that particular initiative.

We're also going to be thinking about intergenerational issues that play across the challenges we see in a number of markets. What effect does that have on the development of products and services and how are firms thinking about the conduct issues that are associated with some of those challenges?

Andrew Bailey: Thanks, Chris. I'm going to say a few words, before we wrap up this part of the session, on running the FCA.

Running the FCA

Moving to Stratford

As you probably know, we expect this will be the last Business Plan press conference held here, because we're going to move to Stratford in the early summer. The approximate reason for moving to Stratford is that the 20-year lease on this building, taken out by the FSA in 1998, runs out this year. That has obviously been known about for a long while now and the planning for the move to Stratford has been well underway; we received the keys to the building over Easter and expect the move to happen over the summer months. I'll ask Georgina to say a few words about running the FCA.

Georgina Philippou (Chief Operating Officer): Over the summer, we're going to move a couple of miles up the road and even though it is only a couple of miles up the road, it will keep us busy for June, July and August, moving over 3,500 staff to the new building. As Andrew said, the starting point was that the lease on this building runs out towards the end of the year. We looked at all the options; including refurbishing this building, another Canary Wharf building and so on and we alighted on Stratford for a number of reasons. One is value for money compared to the other options. The other is the chance to have a building built for us, with our needs in mind, which is a unique opportunity. It is a good location, with good infrastructure and facilities and the building is superbly environmentally efficient. Those were all good reasons for choosing Stratford.

The important message for firms is that our costs – or the fees that we recover from firms – do not go up as a result of the move. As part of the 20-year lease that we've just signed, we have a rent-free period. The fit-out costs are going to be funded out of that rent-free period and the short-term costs of running 2 buildings at the same time are being funded out of reserves. That is quite an important message for firms.

A new chapter

From our own point of view, this signals a bit of a new chapter in terms of our history and development. For the first time, we will have all of our London staff and the PSR staff under 1 roof. We're going to take the opportunity to refresh our technology and, at the same time, refresh the way that we work as well. We're going to be less reliant on paper, for example; we are going to have better working across functions, better types of work spaces in the new building and the opportunity for better knowledge sharing as well.

We hope all of this will make us more efficient and effective from a value for money point of view. It will equip us better for the future. It should make us more flexible if our remit continues to change in the future and it gives us some fantastic community engagement opportunities.

I'll stop there, but I'm happy to talk about any of that if anyone has any questions.

Costs of Brexit

Andrew Bailey: Thanks, Georgina. Let me wrap up by saying a bit about costs. If you have the Business Plan in front of you, it is pages 53 and 54. To start with Brexit again, one of the things that we were very keen to do during the business planning process was to seek to calculate and come up with an estimate of the likely costs for the FCA of Brexit over the next year and you will see a small table on page 54, which does that. Let me say a few things on this. It is, as I said earlier, uncertain and that uncertainty really stems from the fact that there is obviously more that we need to know about exactly how the transition or implementation period arrangement, in particular, is going to work and there is more that we need to know about the substance of the final agreement and how financial services will work in a post-Brexit environment.

With those conditions, we put the numbers together and, as you can see, the total number is £30 million. You can view that in a number of ways: you can obviously view it as £30 million on its own; you can also view it as just under 6% of our regular operating budget. As the table indicates and the text below it, it is going to be paid for in several ways. The important principle there is that we take the view that we can't just add Brexit on to everything else we would otherwise do. That isn't feasible for us and it isn't feasible for the industry, so we've sought, where sensible, to effectively accommodate Brexit by reprioritising work and, as you'll see, about half (£14 million of that £30 million) is accommodated within the regular budget. In other words, we have reprioritised to the tune of £14 million. The rest will be paid for by several means. As this year, there will be an additional budget, which is £5 million. We've also identified £5 million of reserves that we could put to this task. The remainder will take the form of special fees, because it is attached to specific scope change involving specific firms, such as, for instance, the taking on of responsibility for regulating trade repositories and credit rating agencies, which we'll have to do, from ESMA.

Setting the budget

That is the way we went about it. If you go to page 53, you will see the full finances. Let me say, on that, we have a commitment to set our budget at no more than flat real; in other words, after taking account of changes in inflation. It has been more complicated this year because we have a number of scope changes and we have Brexit and I have talked about Brexit. We have 2 scope changes. One is the work we'll now do to supervise payments, particularly in the world of open banking and PSD2. The second one is OPBAS, which is our role as the overseer and supervisor of quite a few of the self-regulatory organisations in this country that have money laundering responsibilities. Those 2 things are both scope changes. We've also identified a further £5 million of reserves, which we're using to offset increases.

We're firmly of the view that if you take all these things into account, the base like-for-like budget doesn't increase by more than inflation. We're obviously conscious also that inflation has come down a bit recently, but we still think that our base budget is a bit under that, so we think that we are consistent with that.

Conclusion

Let me finish by saying that the Plan is ambitious. As colleagues have said, it points to some fundamental issues that we are dealing with. The uncertainty around Brexit is a challenge, no question about that and, therefore, because of the nature of the Brexit process, more than ever we're going to have to keep the Plan under close watch during the year and be prepared to adjust and reprioritise as things come up, and we will be transparent about how we do that.

Andrew, back to you now, and we'll take questions and answers.

Andrew Whyte: Thanks, Andrew and thanks to Executive colleagues. Now it is over to you. We have about half an hour for questions. The usual ground rules apply: please indicate in the usual way if you want to ask a question. When I call you, please say your name and your publication. I'm going to take 1 question at a time, so I can get around as many people as possible; I will be keeping my usual beady eye on multiple questions. Just as a reminder, everything you say will be recorded and if you do have any follow up questions, please talk to my colleagues in the Press Office. Finally, as most of you are aware, it isn't our policy to talk about specific firms, individuals or any ongoing investigations and we'll be applying that. While we're absolutely open to any question whatsoever about the breadth of our work, anything in the Business Plan or in the sector views, we'll not respond to any questions about individuals or individual firms.

With that, I'll open the floor to questions.

Q&A

Huw Jones (Reuters): I've a question on Brexit. Last month, you and the PRA came out with a statement saying 'take comfort from the transition deal, carry on with your business as normal from next March'. So far, it's been pretty much radio silence from the EU side, although we had Valdis Dombrovskis today saying, 'Certainty on transition will come only with ratification on both sides of the transition deal'. That is, implying that you can't really rely until October or later. Are you concerned about this and the effect on financial stability, the effect on firms preparing for Brexit?

Andrew Bailey: That's a very good question. We're very aware of the EU's position on this. I was in Brussels last week and talked to the Commissioner about it. Let me say a couple of things on it. Notwithstanding that very clear position – and of course you can see that under the overall heading of nothing is agreed until everything is agreed – as I said in the speech we published when we put our statement out, it's important that we have regulatory engagement and that we have that regulatory engagement now, because we are dealing with practical issues around someone used the term 'cliff edges' and they are symmetric. In other words, they affect both sides and the best solutions to those issues undoubtedly come from coordination. Whatever the agreement on when transition is decided upon formally, we should have the work in place by the point when we reach that, to have planned how we're going to deal with it. There is a very clear answer to that and we need to start the work now. We've done a lot of work, as I hope you are aware, with the Bank of England, the Treasury and the Government on these issues and we're ready to engage.

Let me just pick up the second point, because you rightly mentioned financial stability. Obviously, you'll have seen what the FPC put out in its statement and its map, if you like, of the issues, which again the FCA was very much part of putting together. The best answer for financial stability is to work on these issues intensively so that we are ready to go, as it were. We shouldn't hold the work up, in my view.

James Burton (*Daily Mail*): I wanted to ask about the general approach to investigations. There has been a lot of criticism recently about the length of time it takes for investigations to be completed and, I guess, with the RBS GRG thing we saw that that can have quite a damaging effect on the FCA's credibility. Do you think it is important for your credibility as an organisation that investigations are completed more quickly?

Andrew Bailey: I will hand over to Mark, but I would say, to start with, we recognise the issue. Don't get us wrong, we recognise the challenge here. Let me make 2 observations before I hand over to Mark. I'm not going to name names, but you will observe other institutions that get criticised for, frankly, not always being absolutely thorough in what they do. I don't criticise those institutions. What I use that illustration to do is to point to the challenge that all of us face between what I might call speed of execution and completeness and thoroughness. It is a real challenge and that is because of the second thing that I would just observe before I hand over to Mark. One of the consequences of, particularly, developments in systems and also developments in requirements – and please don't interpret me as criticising this, not at all – is that the volume of information that is retained these days is vastly bigger than what used to be the case. You end up with a very large amount of material and it's evidence and you have to deal with it and, again, that's a challenge and it's one that we recognise. Just to reiterate the point, we recognise the issue and are thinking actively about what we can do about it, but I'll hand over to Mark, who deals with this every day.

Mark Steward: Yes. I definitely endorse what Andrew just said. Do we aim to be more efficient? Yes, we do and that is set out in our 'Approach to Enforcement' document we published last month, so have a look at that. You can see the scale of our ambition to be more efficient in detecting suspected misconduct, investigating it properly and that means fairly, in the sense that Andrew put it, and being thorough and responsive to the expectations not only of the community but of those who are under investigation as well, that they be dealt with appropriately and fairly.

There are some particular challenges in our space and the amount of material that we need to collect and examine in order to convince ourselves that we are acting fairly and properly is a significant challenge. We've seen in other areas, not in our area, where prosecutions have failed because prosecutors haven't had adequate control over all the material that they have collected during the course of the investigation.

The second real difficulty is many of the cases that we have on board – and you mentioned one in the question – relate to events that took place a long time ago. In our *'Approach to Enforcement'* document, we mention that there are significant challenges in investigating events that took place not just in the last year but years ago. Indeed, all of you will know from your own practices how difficult it is to find out things that happened, 7, 8, 9, 10 years or more ago and to be able to get convincing, persuasive evidence that allows you to make a proper decision about what action should then be taken.

In the 'Approach to Enforcement' document, we say that notwithstanding the fact that some of these investigations might relate to events that took place a long time ago and how tempting it might be not to embark on tasks that might be too difficult, we're not going to sway from taking on difficult investigations, notwithstanding the fact that we know that it is going to be tough to get there.

We recognise the challenge. We're ambitious about improving our performance and I guess the challenge is for us to make that good.

Justin Cash (Money Marketing): A quick one on robo-advice. Page 46 says, 'We are carrying out a review of robo-advice models across a number of firms and our Advice Unit is providing individual feedback'. Can I just be very clear on whether this is a distinct review from what you are doing within the Advice Unit? Is it along the lines of, say, what you did with assessing the wider general suitability of advice and, (b), how do you go about assessing the suitability of robo-advice?

Christopher Woolard: Just to be clear, [inaudible – off mic]. This is the bread and butter of what has been going on in the Advice Unit. What we have now is a sufficient volume and scale of these models in the market and it's a chance to have a bit of a step back to look at what the best practices are and that kind of thing. It's very much in tune with the work we've done more broadly around advice.

David Thorpe (FT Adviser): The £30 million budget for Brexit, is that basically a budget assuming that there is an agreement reached? If so, what are the implications for your budget if there is a no deal scenario? Will you require far more resources in that outcome?

Andrew Bailey: No. It's really a budget that tries to start with the baseline that there is an exit next March. It slightly goes back to Huw's point about needing to see more definitive evidence of what the transition and implementation arrangement will look like. Just to be clear, to repeat what I said, we're very strong supporters of having it.

In the spirit of your question, let us take the alternative and let us say that we get the transition period. What that means is that then we've more time, frankly, let us look at that, and that is important. I would say, therefore, it most likely that we would then see some spreading out of this budget element over at least the following year; it would be, frankly, pretty hard to look beyond that. Just how much spreading I honestly couldn't give you a view on at the moment. That depends on a lot of things that we don't know enough about currently to know exactly how that would work, but the best guess and the way we've thought about this Plan is that we might most likely see that happen as a consequence.

Ben Dyson (S&P Global Market Intelligence): I have a quick one on general insurance. In particular, you are looking at claims inflation there, so I was just wondering if you could tell us a bit more about that, what prompted that and what the concerns were.

Jonathan Davidson: Thank you for the question. Claims inflation has been a feature in some of the general insurance markets, for instance in the motor world, whereby premiums have gone up at quite a steep rate for several years in a row. Some of the reasons for that include things like whiplash, but there is also a feature of the insurance industry called the 'farming' of claims, which is the phenomenon whereby insurance companies, in a sense, make profit out of things like repairs and so on. This is an exploratory piece as opposed to a particular concern, just to understand what the practices are in the claims world, how they work, how they are evolving and then we will think about whether there is any harm that comes from them. At this point, though, it is an exploratory piece.

Kevin Peachey (BBC News): Am I allowed 2 short questions to count as 1?

Andrew Whyte: No.

Kevin Peachey: Then I will have 1 on the slate.

Andrew Whyte: Give it a crack and I will see.

Kevin Peachey: Okay, thank you. Can you give us some examples of what has been sacrificed to save £14 million for Brexit? A very quick second one: have you been pedalling a myth on switching knowing full well that vulnerable customers are paying more as a result?

Andrew Bailey: The first one is a short question; I'm not sure the second one is and I might hand that over to Chris. On the first one, it is a good point. As you said, we did a very rigorous prioritisation and I'll just give you a few illustrations of things that we're postponing until some point in the future.

There has been a question raised in the context of the Senior Managers Regime about whether general counsel should be a responsible function. That isn't an easy question, because obviously it raises big issues about the role of legal advice and so on in firms, but it has been raised, including by lawyers, I should say. We were going to do some work on that. We will do some work in the future on that, but it isn't going to happen in the next year.

The second example I would give is that there is a proposal, which we think again has merit, for developing a public company filings digital archive for the UK. Again, a good thing to do no doubt and there would be benefit from it, but we aren't going to do it in the next year.

That gives you a couple of illustrations.

Andrew Whyte: Chris, do you want to pick up the switching issue?

Christopher Woolard: Yes. This is obviously a big topic, so I'm going to try to talk about it in generalities for a second. First, we know that in lots of markets, in lots of places switching can work, so there is no idea of 'pedalling a myth'. We can see that consumers, with the right information in front of them, can achieve significant savings. However, there are a number of things to say. Firstly, it's part of the mission and the approach and it's in the front of this document, we're trying to regulate here for the real world, so not how we might want the theory of the world to be, but how it appears to work for us in practice, and there clearly are groups of vulnerable consumers. One of the things that our Financial Lives work showed is that the potential to be vulnerable is quite widespread in the financial services market and you can get really tough questions to think about, so is there this so-called sense of a poverty premium? Are people who are vulnerable paying more for financial services products versus, on the other hand, the risk of serving some of those harder to serve groups and where does the right balance lie?

There is also a question that runs through a number of topics that we are looking at, which is: what is the relative benefit of making switching and shopping around as easy as possible versus the role of relatively simple defaults that might help a mainstream market where, perhaps, people are less likely to invest the time to switch?

I don't think it is a myth, to use your word, Kevin, but this is a complex set of issues and what we are trying to do here is find some real world answers.

Nick Megaw (*Financial Times*): Earlier, you talked about some of the projects that are going to maybe get delayed for a while, but obviously Brexit isn't going to suddenly stop being an issue next year. I'm just wondering do you have a sense of the longer term impact of this sort of thing, like how long are you going to be catching up for?

Andrew Bailey: A very good question. In one sense, I'm afraid I have to reiterate what I said before, which is we expect, as you rightly say, the Brexit impact to go on for more than next year. Indeed, we would like it to, in the sense that we're strong supporters of having a transition or an implementation period. Just how big an impact it will have in future years, as I said earlier, is, frankly, very hard to tell and too hard to tell at this stage. What impact it will have on priorities looking ahead and how we'll meet that impact, by the way, because, as you can see from the table, we have a number of ways of meeting that impact, some of which involve additional resource, some of which involve reprioritisation, I wouldn't want to say. However, I would agree with you that there is going to be continuing impact, yes.

John Glover (Bloomberg): Andrew, you've been a very vocal supporter of the mutual recognition, the regulatory recognition. Unfortunately, the Europeans don't appear to have taken that on board. It looks rather like a dialogue of the death; that you are pushing for far more than they are ready to concede. Is that a fair summary of the situation and, if so, do you plan to change your approach?

Andrew Bailey: As is well known, the focus over recent months has been around the transition or implementation part of the negotiation. Although, as Huw said, there are still things to be done, but those things are predominantly not in our area, it will move on now, as has been indicated, to what you might call the long-term arrangements are going to be. I have been and remain a very strong advocate of open markets. I think it is in everybody's interests – and I mean everybody – that financial markets and particularly wholesale financial markets are open. What I would say is that we've seen some recognition in recent weeks that the so-called equivalence approach needs work. That is important, because one of the reasons that I have put forward the mutual recognition model is because you could not rely on the equivalence approach as it exists today. A number of people have said that on both sides.

The short answer to your question is that there is still all to play for in this debate. It is entirely sensible that, given the position of the UK and given the position of UK financial markets, it isn't a boilerplate, off the shelf version of something that exists already, and particularly also given the state of the equivalence processes. I haven't changed my view on mutual recognition, but you're right, there is going to be, no doubt, intense engagement on this issue. That is probably hardly surprising; there is more than one view in this debate and we'll see where it gets to.

Max Colchester (*Wall Street Journal*): I have a question about OPBAS and Russia. Given the huge amount of money of dubious origin that flows through this city, how much of a priority is it for the FCA to stem that flow of cash? Can we expect a crackdown on estate agents, CSPs, other fixers who enable these movements of money in the coming year?

Mark Steward: There are a couple of assumptions in your question that I won't comment on, but, quite clearly, tackling financial crime and money laundering is one of our key priorities for the year. That is why it is in the Business Plan and it's what I spoke to earlier. We're determined to tackle financial crime in all its ways and means, particularly financial crime in our markets and the extent to which our markets might be used to harbour or facilitate dirty money is clearly part and parcel of that process.

You asked particularly about the role of OPBAS. OPBAS is oversighting other regulators and so it's concerned to ensure that the approach by those regulators is consistent, meaningful and effective. That is a very important role to play and will increase the amount of traction that have overall on what is happening in our space, particularly where it's happening outside our traditional jurisdiction – you mentioned a couple in your question. I hope that gives you a sense of our determination, at least, anyway.

Siobhan Riding (*Ignites Europe*): Do you intend to retain membership of ESMA post-Brexit, either through full membership or some kind of associate membership? If not, how do you intend to seek to play a role in financial regulation post-Brexit?

Andrew Bailey: Well, it's, of course, not the FCA's choice, ultimately, in the sense that that will emerge from the Brexit negotiation. However, what I'd say, and I'll ask Nausicaa to comment as well, is that whatever the arrangement is that comes out of the Brexit agreement we will, of course, want to work very closely with ESMA. Obviously, we do now, because we are full members of it and fully participate in it and it'll be in everybody's interests that we do so in the future. How that'll work is to be determined.

Nausicaa Delfas: I would support that exactly. Our intention is to remain close to our European counterparts – ESMA, the other ESAs and so forth – and that is what we'll be working on, as Andrew has described, in the coming period.

Elliot Smith (Citywire): The FCA's supervision and enforcement of smaller firms, particularly in the financial advice and investment space, has come under quite public scrutiny through the British Steel saga and events around pension transfers. With multiple cases of connected entities to firms implicated in that springing up and MPs now mentioning that that should be looked at in more detail, what can the FCA realistically do to look at that and is that jeopardised at all by Brexit reprioritisation?

Andrew Bailey: That's a very good question. First of all, let me say absolutely not on Brexit prioritisation. All of that work is something that we put a high priority on, so that's an example of something that we would certainly not sacrifice. You raise a good question. We put it under, sometimes, the tagline of 'phoenixing'; in other words, companies or individual advisors recreating themselves, as it were. It's something that we are looking at. It isn't because there are no rules of engagement on this front at the moment, there certainly are, but we're conscious that the issue has arisen and we're actively working on what we think would be more things that could be done, which might either be within the existing body of rules and so on or require new ones. You'll be hearing more on this, because it is, as you rightly say, a live issue.

Jennifer Gallagher (Waters Technology): My question is about MiFID II. What are you planning on doing in the next year on cracking down on reporting for MiFID II and is there anything specific you'll be looking for?

Andrew Bailey: First of all, MiFID II, as you know, is a huge change in the regulation of wholesale markets. The priority for us over the Christmas period and going into the New Year was to bring MiFID II in without market disruption. That was a very high priority and the evidence suggests that that worked. The priority now for us is to put it into effect, so we will be and are supervising to put MiFID II into effect and that will be going on. You are probably pointing to a particular case that has been made recently and has been covered in the press a couple of times. I'm not going to comment on that in detail, but of course, yes, we do supervise to the intent of MiFID II. Mark may want to add to that.

Mark Steward: I'd just add that clearly we expect firms to be complying with their obligations under MiFID II and, where they aren't, action will be taken. That is consistent across the board; it isn't just a MiFID II problem. What is interesting is when I hear the phrase 'MiFID II' I think of all the good things that we are getting out of it rather than some of the challenges in implementing what is required. We are very conscious, from our own perspective, that MiFID II is a very challenging piece of legislation, but, by the same token, we do expect firms, as well as ourselves, to be in compliance with what is needed. It produces a lot of data for us that is enormously valuable, which helps us do our job better and more efficiently in the future, so it's really important that we make it work.

Richard Partington (*The Guardian*): At this moment in time, we are having a massive increase in consumer credit, in lending, and we are seeing interest rates gradually rising from the Bank of England, so this feels an important area for you to be taking a greater focus on and I just wanted to hear more from you on that. Some things that have been proposed recently include capping credit card fees, charges and interest. Some MPs are looking for that as is the actor Michael Sheen. What would you say to that type of an idea?

Andrew Bailey: It might need a combination of Chris and Jonathan to handle this, from a supervision and a policy point of view.

Christopher Woolard: If we think about the policy landscape for a second, what we are seeing is an uptick in the level of consumer credit. If you look at it across a 20, 30-year period, it is a return to more like average levels rather than immediate post-crisis levels, so we are seeing a relatively sharp recovery in the level of consumer credit. In terms of the work that we have done, from a policy perspective, more generally in this space, obviously you've had capping around payday lending. You've had the interventions we've made in the credit card market around competition, which are largely about how you deal with the problem of those who are in high levels of persistent debt, and how you create incentives so that firms deal with those customers quicker and give them help sooner than they might otherwise have had. As we talked about earlier, we have a piece of work in train at the moment that is very much around this space, which a number of campaigns are looking at, which is around rent to own and other types of debt, like catalogue credit. We haven't reached final conclusions on that yet. What I'd say is that the range of tools we have, as a regulator, are on the table and under consideration, but I'd also point out that simply defaulting to capping every single time isn't necessarily an answer that is particularly practical, especially when you are dealing with so-called revolving credit, so around credit cards. Determining the starting point and where you apply a cap, for example, is very difficult to do and one of the things we need when we're regulating these kinds of areas is to make sure that whatever interventions we've are easily understood by the consumers who are using the credit, because otherwise they will have far, far less effect.

That's what we are doing from a policy perspective, but we've also been active from a supervisory perspective as well.

Jonathan Davidson: I'd say the big theme, from a supervision point of view, is to make sure that all the loans are affordable. There tends to be a misunderstanding that creditworthy equates to affordability and, in most cases, that will be true – if you are good for the credit and you can pay it back, you can afford the loan – but it's not always true. One observation is that credit checks tend to look backwards. They look to see has this person performed and paid back their debt in the past, but if they are taking on a whole load of new debt, that isn't necessarily true.

The second thing about affordability, especially when a loan has been taken for a considerable period of time, is it isn't just the interest rate that might change, the cost of living might change. We've seen changes in the cost of living, so we're very, very concerned that our affordability checks, which we require everybody in consumer credit to do as well as in the mortgage world, are done properly. You'll have seen a number of programmes of redress where high cost credit providers have had to redress customers who they made loans to that those customers couldn't afford to repay.

A final thing to say is we're on the lookout for business models where the business model is still profitable if the customer cannot afford to repay the loan. You might ask how would that be? It would be if the interest rate is high enough or the arrears charges are high enough. In Supervision and in Policy, we spend a lot of time thinking about those business models and looking after them, so affordability is the big thing.

Lindsey Rogerson (Thomson Reuters): Andrew, the Business Plan sticks with the timeline that you originally gave for moving forward with new rules for FOS. I know that timeline was set before the *Dispatches* revelations and I just want to ask are you still determined to bring forward rules before the outcome of the FOS investigation is known?

Andrew Bailey: First of all, it's very important, as you will know that the independent review that the Financial Ombudsman Service board are setting up takes place. That is focused very much on the issues raised in *Dispatches* and that is very important. It's obviously very important also from our point of view, because FOS is a very important part of the overall landscape that we operate in. We need an effective ombudsman service as well as the work that the FCA does, so we strongly support this independent review. We want to see it done and take effect and that's the best way of dealing with that.

The policy proposal on small firm coverage in FOS should, therefore, go on, in a sense, independent of that review. It doesn't deflect us from that, because if you start from the principle that it is very important that we have an effective FOS service, then everybody, FOS included, is committed to that and, therefore, the proposal on small firms should be seen in that context.

Just to finish on this, I've also said on many occasions that there are at least 2 ways of tackling this very important issue to do with small firms and having a small firm complaint resolution service. One is FOS, the other would be to set up a call it a tribunal service. We can only do 1, the former, we cannot do the latter. We need Parliament to do the latter. All along, we have been, frankly, supportive of both and really not fussy in that sense. They are slightly different. You could imagine a world where you have both, but let us have 1 to start with, please. Were Parliament and the Government to decide they want to go down the tribunal route, I would support that as well, just to be clear, as I have said before.

Graham Hiscott (*Daily Mirror*): Can I just go back to the 7 priorities? Have any seen the budget increase significantly? Are you focusing on any within those 7? Specifically, on financial crime, is that one of the priorities within the priority areas, given the particular focus on Russia?

Andrew Bailey: As I said at the beginning, we don't prioritise, there is no league table of the 7. However, you are right that, of course, over time, things move up the league table and we would like to think they move down as we take action. At the risk of, as I say, trying to stick to the rule that we don't prioritise, I would say, in terms of things that have moved up the league table in the last year, yes, obviously financial crime and the issues around Russia at the moment is an issue. The second 1 I would point to is, again, a very topical issue at the moment and there are 2 parts to this, around data. We highlight both, but 1 is the security of personal data, because we have seen quite a few big incidents in the last 12 months of data being lost, effectively. The second is the issues around the use of data, which we highlight in reference to big data. Again, that is a topical issue. We have probably slightly different parts of that debate, but it is obviously an issue that has rightly come up the agenda and is important. What we observe is you can see very good uses of data and you can see areas where you say, 'No, we don't want to go there'.

Those are 2 examples of issues that I would say, yes, have increased in terms of their importance.

Victoria Ibitoye (ML Market Insight): My question is about the Brexit budget and this £5 million that you're raising through fees. Could you give me a broad sense of what type of firms would be affected by this and is it going to be evenly split?

Andrew Bailey: This year, we raised £2.5 million to fund what we regarded as work on Brexit that we couldn't accommodate by reprioritising. A good part of that has been the work on the withdrawal legislation, because we're having to go through all EU legislation and all the technical standards to work out how to translate them into UK legislation and UK standards. We just couldn't have accommodated that work, particularly the demand on our lawyers and so we had to expand. Next year, given Brexit has grown in the last year, it's £5 million not £2.5 million, but the same implementation of that will apply and that cost will be recovered from those firms most affected by Brexit; in other words, the large, internationally active firms. It isn't, I should say, to be clear, and I think I've said this before, something that we're going to spread across the whole population and so if you're a small, domestic firm providing advice, broking, whatever, that isn't your world.

James Burton: Thanks for the follow up. I wanted to ask about the open banking EU reforms that came in recently. My understanding is that they allow data about a customer to be shared in 2 ways; 1 is an API, technical, backdoor way and the other is like a screen scrape thing where you basically give your password to an authorised FCA firm. That strikes me as quite dangerous practice, because although there is going to be a list of FCA approved firms, most people aren't going to go and check, I would have thought. Are you concerned about that legislation and how it'll work in practice?

Christopher Woolard: The way the regulations work at the moment, screen scraping has been possible for years. Indeed, there are many thousands of people in the UK and around the world using services that rely on screen scraping. What open banking does in terms of the regulations that sit behind it and, in particular, what the second Payment Services Directive does is to try to encourage people to move towards a more secure version which, as you've just described, is using open API. In other words, having a system by which, if you want to aggregate all your accounts in one place, you can do that by having a direct connection between the person providing you with that service and your bank, which is a much more secure way of doing it. For a while, screen scraping remains a possibility under that Directive until this time next year. What the Directive envisaged is phasing out screen scraping over time, so trying to get to this higher level of security.

Clearly, when we look at this question, we are trying to encourage the most secure means of proceeding that we can and this is one of those areas where we will need to look at the market quite closely as it develops, where we will try to encourage people to use much safer technical standards wherever we can. However, it is fair to say this is an area where we tend to think of this as being small firms taking up authorisation as payment initiation services or account aggregators. In fact, it could well be larger banks as well that do this for the customers of other banks too, so the institutions that might be playing in this space over the next couple of years might not just be traditional, small fintechs, as people think of them, but it also might be some of the major banks as well.

John Glover: Very briefly, you're raising an extra £30 million. Presumably, you're hiring people as well. If so, how many and in what areas?

Andrew Bailey: This goes back to an earlier question I answered. Last year, we hired about 15 lawyers to do work on withdrawal legislation particularly and we will need to continue that set of people and we envisage having to hire or at least expand and find resources particularly in areas like authorisations. What we envisage and as you may be familiar with, we and the Government have put out proposals, for instance, for using both a temporary authorisations process and then a permanent authorisations process for, in a sense, whatever the replacement for the passport is, to do work on that regime, so that will be another area. We'll do that, but also, to be clear and I'll ask Georgina to come in on this as well, £14 million of our £30 million is reprioritisation, so it wouldn't be hiring.

Georgina Philippou: As Andrew indicates, this doesn't necessitate a huge increase in staff. Apart from the examples Andrew has given, I'd point to trade repositories and credit rating agencies, because whatever the Brexit scenario is that will be something that we'll have to do on a long-term basis. We have looked at the resources, for example, that ESMA gives to that and we're trying to build up a business model that works for us as well.

Andrew Whyte: Thank you, all of you, for coming. Thank you for your time this morning. Do please stay and ask questions to any of my colleagues in the Press Office, if there are specific issues you want to follow up. We look forward to seeing you at our next event. Thank you.

[END OF TRANSCRIPT]