Minutes

Meeting: FCA Board
Date of Meeting: 06 November 2014
Venue: The Manor Hotel, Barnet Lane, Elstree, WD6 3RE

Present:
Clive Adamson
Mick McAteer
Andrew Bailey
Tracey McDermott
Catherine Bradley
Jane Platt
Amanda Davidson
Sir Brian Pomeroy
Amelia Fletcher
Lesley Titcomb
John Griffith-Jones (Chair) Martin Wheatley

Apologies:
David Harker

In attendance:
Set out in Annex A

Quorum and Conflicts

Sir Brian Pomeroy informed the Board that he had been invited to be the President of the newly formed Financial Inclusion Commission and that HM Treasury had approved the position. The Board noted the appointment.

The Meeting noted there was a quorum present and proceeded to business.

1 Business Plan 2015/16

Ms Davidson declared a potential conflict in this discussion as she worked for a regulated firm which would be required to pay fees based on the final budget. The Board noted the declared conflict and authorised it pursuant to Article 10.2, permitting Ms Davidson to participate in the discussion of the matter.

The Board noted that the discussions at the strategy day would have an effect on the way in which the budget would be divided. The Executive had analysed the resource required for potential and actual additional responsibilities, such as supervising benchmarks following the fair and effective markets review and supervising individuals following implementation of the Senior Manager Regime set out in the Banking Reform Act. The bids for additional resource had been challenged to ensure they were kept to a minimum.

The Board noted that the FCA would begin to recover the cost of consumer credit from 2016/17 as per the consumer credit approved business case.
The Board accepted the need to resource the additional activities although was concerned by the increasing cost to regulated firms and asked the Executive to provide a detailed explanation about how this would be broken down.

2 2nd Line of Defence

The Board noted the paper and discussed the FCA’s risk management framework and the proposed restructure of its 2nd Line of Defence. The Board noted the progress to date of the framework, which had been introduced in March 2014, and some of the issues that the Executive hoped to address by re-structuring. These included providing greater clarity of roles and improving the flow of information, co-ordination and coverage of quality assurance functions being carried out across the FCA.

3 Specific actions arising from the Davis Report Recommendations

The Board noted that the Executive had undertaken a number of reviews since 28 March 2014 and implemented remedial actions to address potential issues arising from the Davis report. The Board noted the proposed changes to the categorisation of information and the changes that would be made to the release of information regarding the business plan in future. The Board discussed the arrangements and controls that should be put in place around embargoed press announcements and briefings provided to journalists, noting the different ways this could be done. It agreed that the actions arising from the internal audit reviews and any actions proposed by Mr Davis should be kept under review and discussed by the Audit Committee again in early 2015.

4 Minutes and meetings

4.1 Minutes of the FCA Board meeting

The minutes of the FCA Board meeting held on 25 September were approved.

4.2 Draft minutes of the Risk Committee meeting held on 14 October 2014

The Board reviewed the draft minutes of the Risk Committee and noted the matters discussed by the Committee.

4.3 Draft minutes of the PSR Board meeting held on 15 October 2014

The Board noted the matters discussed by the PSR Board.

4.4 Update on the Remuneration Committee held on 15 October 2014

The Board received an oral update from Ms Davidson, noting in particular that the Committee had discussed succession planning, the remuneration of the Non-Executive Directors of FOS, FSCS and MAS and the interim performance assessments of the Directors under the Committee’s remit.

4.5 Update on an additional Audit Committee meeting held on 3 November 2014

The Board received an oral update from Mr Pomeroy on the meeting that had been held to consider the internal audits in relation to the handling of price sensitive information, the external communications strategy and the FCA’s incident and crisis management capability following the events on 28 March 2014.

4.6 Matters arising

The Board noted the progress in respect of the matters arising. In particular it noted the correspondence with Mr Tyrie on the disclosure of Internal Audit reports and the recently
expressed view of HM Treasury that the reports should not be released as a matter of policy.

4.7 Monthly reports from the Independent Panels

The Board received the reports from the Consumer Panel, Practitioner Panel, Smaller Business Practitioner Panel and Markets Practitioner Panel and noted the issues arising.

5 Specific items of business

5.1 Price Cap on High-Cost Short-Term Credit

The Board noted the proposals consulted upon and the responses received. It discussed the key areas of challenge and the resulting areas where the Executive proposed retaining the position set out in the consultation and where it proposed that changes should be made. The Board noted and discussed the following points:

- the revised supply side analysis had indicated that changes in the market since March had led to a significant decrease in lending volumes, which had changed the analysis of the impact of the cap. The combined effect of the price cap and the changes since March was larger than in the consultation paper, though the impact of the price cap alone was proportionately similar but smaller in absolute terms. It was concluded that the introduction of a price cap would affect profitability more adversely than thought in the consultation although it was believed that the market was still viable; at least two listed lenders had stated publically that they would continue operating in the market under the proposed structure and level of the price cap and both high street and online distribution channels were expected to remain. In the base case scenario there was estimated to be £160m per annum in consumer savings for those with access to consumer credit although it was expected that access to lending would decrease by approximately 7%;

- the Board discussed in depth the feedback on the different components of the cap proposed, including overall issues, structure and level and their effect on consumers and firms. It noted that in general there was strong support for the components although each had some challenge from different stakeholders. The Board in particular considered the level of the Total Cost cap noting there were arguments made by firms for raising it and strong consumer protection arguments for lowering it and that the initial cost cap was the element which had the most impact on firms’ revenues. The Board noted that the Executive proposed to leave the structure of the price cap unchanged from that on which it consulted as having analysed the responses to the consultation, this was still considered to be the most effective and proportionate way to satisfy its duty of securing an appropriate degree of protection for borrowers against excessive charges;

- the Board discussed other aspects of the price cap rules where the Executive recommended changes following the consultation. This included how the cap applied to loans made before 2 January 2015 but modified after this date, amending the rules on the calculation of the cap, clarifying the obligation on consumers in relation to loans which are unenforceable and some other smaller more technical changes; and

- the Executive proposed to do further work to assess the impact of repeat borrowing and whether firms were adequately assessing affordability, and would continue to encourage firms to participate in real time data sharing, where there have been substantial improvements on a voluntary basis recently. The price cap would be reviewed in 2017.
After consideration of all the information, including the information set out in the Board paper, the Board was satisfied with the proposals and agreed accordingly to make the final rules and authorised the publication of the Policy Statement in November.

5.2 Quarterly Performance Report

The Board discussed the report and noted in particular the following points:

- the follow up to the feedback received on Authorisations from the stakeholder survey; and
- the significant amount of recruitment work that had been undertaken during the year, involving making 800 offers. This figure was driven by factors including the increased headcount required as a result of the regulation of consumer credit and the creation of the payment systems regulator, internal moves and external turnover.

5.3 Feedback on Retirement Guidance Guarantee

The Board noted the update in relation to the Guidance Guarantee. The Board considered the role of the FCA in both setting the standards and monitoring compliance. The Board recognised that some risks remain over the delivery of the service.

The Board set some clear expectations in respect of what the standards should cover, the delivery of good customer outcomes (consistent across the three delivery channels) and in what it would expect to see from the delivery partners once the service was up and running. The Board noted that the teams at the FCA and the Treasury had been working closely together on the development of the standards.

5.4 Sector report: Update on Supervisory Approach to Consumer Credit

The Board noted the presentation from Ms Woodall. It discussed a number of issues including the supervisory objectives in relation to consumer credit firms, which focused on the different stages of the customer journey and the ways in which the change was being delivered through the three pillars of supervision.

The Board noted that there had been positive impacts made in effecting behavioural change already and firms had reacted quickly when there were issues. There were still a number of challenges and risks of regulating the consumer credit sector and the Board was interested in updates on the cross-organisational work planned in future to further the consumer credit agenda.

5.5 Proposed Changes to the Approved Persons Regime for Insurers

Sir Brian declared a potential conflict in this discussion as he was a Director of a Company which might be affected by any rules. The Board noted the declared conflict and authorised it pursuant to Article 10.2, permitting Sir Brian to participate in the discussion of the matter.

The Board noted the proposals for the implementation of Solvency II, which included requirements relating to the governance of Solvency II firms, including the fitness and propriety of senior individuals within those firms.

The PRA intended to publish a consultation in November to enable insurance firms to consider the implications of Solvency II and to align the insurance regime more closely to that proposed for banks.

The Board considered that it would be beneficial for the industry to engage with one cohesive package of reforms and that the FCA should make changes to the Approved Persons Regime for Solvency II insurers at the same time.
In the consultation on reforms to the banking regime, which had recently closed, there had been some comment in relation to the inclusion of “generic” NEDs in the banking regime and the presumption of responsibility, which would not apply to non-banks. Whilst the arguments on whether to designate all NEDs in insurers were different, it was important to ensure that there was clear reasoning for all the decisions; there had not been time for the FCA to consider further the position of NEDs in relation to banks.

Mr Bailey suggested that in order to maintain a level of co-ordination, both the PRA and the FCA should proceed with their consultations but carve out the proposals regarding the generic NED roles until there had been further consideration of the position of NEDs in Banks.

The Board agreed that should the PRA Board want to continue with the consultation, the FCA would consult alongside the PRA in mid-November, setting out the FCA’s proposals for transposing the fitness and propriety requirements of Solvency II on the same basis as Bank NEDs but indicating that the FCA was considering responses to Bank NEDs and was likely to align on this point if arguments for/against are similar.

The Board delegated authority to the Director of Policy, Risk and Research to sign-off the Consultation Paper (including draft handbook text).

6 Report from the Chief Executive

The Board received Mr Wheatley’s report and noted and discussed the following points:

- the fair and effective markets review consultation had now been published; the proposals were wide ranging and Mr Wheatley was discussing the issues with international authorities and counterparts about whether there could be a global response to the challenges;
- Project Innovate had launched in the previous week and had received six new ideas immediately, some of which would have significant positive impact on consumers;
- the RDR implementation review was underway and the Board would receive an update in December;
- the position in relation to Payment Protection Insurance (PPI) claims, which are continuing at a higher level than expected;
- the scheme that the FCA had put in place to provide redress for mis-selling of Interest Rate Hedging Products had led to £1.54bn being paid to 9,900 SMEs. There was a small group of 200 firms who remain dissatisfied with the arrangements and have in place a motion to reject the scheme, even though it did not stop firms from going to the FOS or the Courts;
- the discussions in relation to settlement of the manipulation of foreign exchange rates; and
- the Board would receive an update on equity release issues early in the new year.

7 Report from the PRA

The Board received an oral update from Mr Bailey and noted the following points:

- the EBA had published results of the stress tests; the ECB would be taking over as lead supervisor for several major EU banks and the PRA was keen to build a strong relationship with them and with other global regulators;
• the co-ordination that had taken place in relation to US enforcement actions;

• the issues that had arisen from the Bank of England’s payment systems outage which had caused significant disruption, although all payments were settled by the end of the day; Deloitte were undertaking an independent review of what had happened; and

• the PRA/FCA co-ordination meeting had been cancelled although there had been significant co-ordination during the period in relation to the Senior Manager Regime.

8 HM Treasury Review of Enforcement

The Board received an oral update from Ms McDermott noting the likely timing of the publication of the report.

9 Decisions reserved to the Board

9.1 Rules & Guidance to be determined

The Board made the three instruments set out in Annex B (one of which relating to the consumer credit cost cap was discussed and agreed earlier in the meeting).

9.2 Matters requiring a decision of the Board

The Board considered the paper and approved the re-appointment of Martin Hagen as Deputy Chairman of the Regulatory Decisions Committee from 1 January 2015 until the determination of a specific case, expected to be concluded in March 2015.

9.3 PSR Annual Plan and Budget 2014/15

The Board received and approved the Annual Plan and Budget subject to any minor amendments required following feedback from HMT.

10 Papers for noting:

10.1 Minutes of ExCo meeting held on 26 August, 9 and 22 September and 7 October 2014

10.2 Forward agenda

The Board noted the minutes of the Executive Committee meetings and the forward agenda.

11 Any other business

There was none.

12 HBOS Review update

Mr Griffith-Jones, Ms McDermott and Mr Adamson and Ms Titcomb left the meeting having previously declared potential conflicts in this matter.

The Board received an oral update from Sir Brian Pomeroy on the progress of the review.

The meeting closed at 4.45pm.

Claire Strong
Deputy Company Secretary
Annex A: Attendees

Sean Martin  General Counsel
Claire Strong  Deputy Company Secretary
Simon Pearce  Company Secretary
Mikael Down  Head of Department, Cross Cutting and Prudential (for item 5.5)
David Geale  Head of Department, Savings, Investments and Distribution (for items 5.3 and 5.5)
David Godfrey  Director, Finance & Operations (for item 1)
Jo Hill  Head of Department, Data & Analysis (for item 1)
Stefan Hunt  Manager, Chief Economists Department (for item 5.1)
Roma Pearson  Manager, Mortgages & Consumer Lending Sector (for item 5.4)
Richard Sutcliffe  Head of Department, Supervisory Oversight Function (for item 2)
Linda Woodall  Director, Mortgage & Consumer Lending (for item 5.4)
Chris Woolard  Director, Policy Risk & Research (for items 5.1, 5.2, 5.3 and 5.5)
ANNEX B: Resolution

The Board of the Financial Conduct Authority hereby resolves to make the following instruments:

- Consumer Credit (Cost Cap) Instrument 2014 (FCA 2014/55)
- Supervision Manual (Remuneration Reporting No 2) Instrument 2014 (FCA 2014/57)