Minutes

Meeting: FCA Board

Date of Meeting: 11 December 2014

Venue: 25 The North Colonnade, Canary Wharf, London E14 5HS

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

In attendance: Set out in Annex A

Apologies: Clive Adamson David Harker

Quorum and Conflicts

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

Members were asked to declare conflicts of interest at the start of any relevant items.

1 Minutes and meetings

1.1 Minutes of the FCA Board meeting.

The Board approved the minutes of the FCA Board meetings held on 17 October and 6 November 2014.

1.2 Draft minutes of the Audit Committee.

The Board noted the minutes of the Audit Committee meeting held on 3 November and 27 November 2014. Sir Brian Pomeroy updated the Board on the discussions at the Audit Committee meeting held on 27 November, which included presentations on the Supervisory Oversight Function, the IS investment programme and a review of external communications. The Board noted that the Executive had been having discussions with the NAO about future information-sharing arrangements.
1.3 Draft minutes of the PSR Board meeting.

The Board noted the draft minutes of the PSR Board meeting held on 13 November 2014. Mr Griffith-Jones explained the items discussed by the PSR Board, in particular the development of the PSR Panel, a presentation on technology developments in the Payment Systems area and the information gateway between the PSR and the FCA.

1.4 Draft minutes of the Oversight Committee meetings.

The Board noted the draft minutes of the Oversight Committee meetings held on 10 November and 12 November 2014. Mr Griffith-Jones updated the Board on the independent report on MAS that had been undertaken by Christine Farnish.

Mr Bailey arrived at 10.10am

1.5 Matters arising

The Board noted the matters arising and discussed a number of the issues. The Board agreed that the Audit Committee would check all actions from the Davis review had been completed by the end of February 2015. The Board confirmed it agreed the policy in relation to oversight of exit costs as set out in the note to the Board that had been discussed previously at the Remuneration Committee.

1.6 Monthly reports from the Independent Panels

The Board noted the reports from the Consumer Panel, Practitioner Panel and Smaller Businesses Practitioner Panel and in particular:

- the Consumer Panel’s research into the costs of asset management; linked to this, the Board requested an update at a future meeting on developments in relation to MiFID; and

- the Practitioner Panel’s comments on how the FCA was approaching its competition mandate and also the discussion at its most recent meeting which considered ways in which the FCA could encourage compliant behavior.

2 Report from the Chief Executive

The Board received the CEO’s report, noting in particular the following points:

- the FCA had recently received the Financial Services Research Award from the Market Research Society for the Consumer Credit Forward Look which involved consumer research around payday loans, log book loans and debt management programmes in connection with its work on the high cost short term lending price cap;

- the strategy and revised organisational structure had been communicated to the organisation earlier in the week;

- Mr Wheatley had spent time the previous day communicating with staff the findings of the Davis report and the way in which the organisation was learning from the shortcomings the report had identified. The Board noted the potential effect on the organisation of the publication of the Davis report and expressed support for the Executive in continuing to focus the organisation’s cultural characteristics on good judgement and decision making;

- the way in which the Executive had developed the approach to the settlements in relation to manipulation of the Foreign Exchange (FX) markets and the process for determining the size of the fines; and
• the way in which the FCA was approaching buy-to-let mortgages for consumers and professionals under EU regulations.

3 Report from the PRA

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

• the results of the stress tests for banks would be released the following week; and

• the effect of the oil price change and economic conditions abroad on the UK economy.

4 Specific items of Business

4.1 Business Plan 2015/16 and FCA 2015/16 Budget

Ms Davidson declared a potential conflict as she was involved in a regulated firm which would be subject to fees to cover any budget set by the FCA. The Board noted the declared conflict and, after due consideration authorised it pursuant to Article 10.2.

The Board received the paper and noted the budget had been prepared on the basis of the current organisational structure. The Board discussed the different elements of the budget and the impact of the strategy recently agreed by the Board.

The Board received an update on the IS Investment programme. It noted that the programme was intended to upgrade old IT systems and ensure appropriate maintenance for the systems in place throughout the FCA. The Board asked the Audit Committee to monitor changes to the programme to ensure there was appropriate oversight of any variations.

4.2 ISIP Sourcing Programme Outline Business Case

The Board noted the Audit Committee had discussed this matter at its meeting on 27 November and recommended its approval to the Board.

Mr Lewis explained the proposal for the programme, which involved the re-tendering of all outsourced contracts in line with EU requirements. He explained that as a result of challenges received from the Audit Committee the Executive was reviewing the timeframes for the programme to reduce project management stretch. In addition Gartner was undertaking some benchmarking to provide independent monitoring of the benefits.

The Board noted the governance for the programme and the way in which the Executive Operations Committee (EOC) provided oversight of the consistency of decisions in relation to managing IT risks.

The Board approved the Sourcing Programme Business Case. It requested the Audit Committee be kept up to date with progress and any risks considered by EOC to achieving the lower end of the range.

4.3 Decisions not to refer cases to Enforcement

The purpose of this item was to provide the Board with more detail of how decisions were made about which cases were referred to enforcement for investigation. Ms McDermott and Ms Phillipou explained that decisions to refer cases to Enforcement for further investigation were made jointly between the referring area (typically Supervision or Markets) and Enforcement. In making those decisions the potential cases were assessed against the published referral criteria in the Enforcement Guide (EG) in the FCA handbook and noted that these would likely be expanded following the recommendations of the HMT review of Enforcement decision making at the financial services regulators. However,
simply meeting the referral criteria was not sufficient. Consideration was also given to whether Enforcement investigation would be the most appropriate regulatory tool to use in the particular circumstances of the individual case. That required consideration not only of the seriousness of the concerns and the evidence supporting them but also the potential impact of the case on other market participants given that the primary purpose of enforcement action was to achieve credible deterrence. There is therefore a considerable amount of judgment involved in deciding which cases should be investigated and which should be subject to other tools e.g. supervisory action; early intervention action; remedial work etc. The Board was particularly interested in understanding the criteria used in deciding that a case should not be pursued, recognising that enforcement was a tool which the FCA sought to use strategically and therefore that the selection of potential cases necessitated careful prioritisation. The Board supported the approach and requested that it be kept informed of decisions not to pursue particularly significant or high-profile cases.

4.4 MAS Budget and Plan for 2015/16

The Board deferred the decision to agree the budget for MAS for 2015/16 noting that it would be appropriate to review this following the response of HM Treasury to Christine Farnish’s independent review. It requested that the Oversight Committee review the budget and provide a recommendation of next steps to the Board.

The Board considered the appointment of a new Director of MAS and the re-appointment of an existing Director and the decision is set out in minute 5.2.

4.5 FSCS Management Expenses Levy Limit 2015/16

The Board noted the elements of the proposed budget for the FSCS and approved a joint consultation with the PRA in January 2015 on an FSCS Management Expenses Levy Limit of £74.43m.

4.6 FOS Budget and Plan for 2015/16 and EU Alternative Dispute Resolution (ADR) Directive

The Board considered the elements of the proposed budget for the Ombudsman Service, particularly the assumptions in relation to new PPI and other cases and potential risks to the plan. The Ombudsman was working with banks in relation to complaints and cases to encourage fair decision making at an early stage.

The Board approved the draft budget for consultation.

The Board also noted that the Government had decided that the FCA should act as competent authority for the FOS under the Alternative Dispute Resolution Directive. The Directive would place requirements on the Ombudsman to complete cases within certain timeframes.

4.7 Approval of Full Business Case for Payment Systems Regulator (PSR)

The Board noted the focus of the work of the PSR over the period since inception on policies, processes and people. It noted that the PSR had recently published an important consultation on its approach to regulation and had been engaging with key stakeholders to ensure they were aware and engaged in providing input.

4.8 RDR Post Implementation Review

The Board considered the findings from the first phase of the post implementation review and noted the reservations voiced by the Practitioner Panel regarding the conclusions. The Executive confirmed it would ensure that any statements of progress made in respect of the Post Implementation Review were carefully checked against the available evidence.
The Board discussed the results of the research, noting it had been carried out by Europe Economics, an independent research company, and the issues arising from the findings. In particular, it noted the perceived effect of the RDR on networks, the unresolved issues in relation to the number of consumers who wanted advice but were unable to access it and how trail commission was potentially decreasing.

The Board agreed to the publication of the findings of the PIR on 16 December alongside details of proposed next steps.

5 Decisions reserved to the Board

5.1 Rules & Guidance to be determined

The Board made the four instruments set out in Annex B.

The Board discussed the near-final rules relating to the requirement on issuers who are active in extractive or logging of primary forest industries to report on payments to governments. The Board noted that it would be asked to make rules by written procedure in relation to this once it had received powers to do so by HM Treasury.

Post-meeting note: The Board approved the instrument by written procedure on 22 December 2014.

5.2 Matters requiring a decision of the Board

The Board approved:

a. updates to the FCA corporate governance document subject to further minor amendments;

b. the re-appointment of Sir Nicholas Montagu as Chairman of the Financial Ombudsman Service for a period of three years from 1 February 2015 to 31 January 2018, subject to approval from HM Treasury;

c. the appointment of Gerard Connell to the Board of the Financial Ombudsman Service for a period of three years, from 11 December 2014 to 11 December 2017;

d. the appointment of Alison Brittain as Chair of the Practitioner Panel for a period of two years from 1 April 2015 to 31 March 2017 and the re-appointment of Graham Beale as a member of the Practitioner Panel for a period of two years from 1 April 2015 to 31 March 2017;

e. the appointment of Clinton Askew as Chair of the Smaller Business Practitioner Panel for a period of two years from 1 April 2015 to 31 March 2017 and the re-appointment of James Bawa as a member of the Smaller Business Practitioner Panel for a second term until 31 August 2017;

f. the appointment of Annemarie Durbin as a member of the Listing Authority Advisory Panel for a period of three years from 1 January 2015 to 31 December 2017;

g. the appointment of Kitty Ussher and Mark Chidley as members of the Consumer Panel for a period of three years from 1 February 2015 to 31 January 2018; and

h. the re-appointment of Robert Skinner as a Non-Executive Director of the Money Advice Service for a further term of three years from 1 February 2015 to 31 January 2018 and the re-appointment of Lesley Robinson as an Executive Director of the Money Advice Service for a further term of three years from 2 January 2015 to 1 January 2018.
6 Papers for noting

6.1 Complaints Commissioner’s report to the FCA Board

The Board received the report and noted the outcome of the five stage 2 investigations. The Board discussed the arrangements in place for providing the Complaints Commissioner with the information relating to Stage 1 investigations and agreed that the existing practice should continue.

6.2 Minutes of Executive Committee meeting.

The Board noted the minutes of the Executive Committee meeting held on 21 October 2014.

6.3 Forward agenda

The Board noted the Forward Agenda.

7 Any other business

There was none.

8 HBOS Review Update

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

The Board received an oral update from Sir Brian Pomeroy.

The meeting closed at 4.30pm

Claire Strong
Deputy Company Secretary
ANNEX A: Attendees

Sean Martin  General Counsel
Simon Pearce  Company Secretary
Claire Strong  Deputy Company Secretary
Andy Briscoe  Chairman, Money Advice Service (for item 4.4)
Julia Cavanagh  Chief Financial Officer, Financial Ombudsman Service (for item 4.6)
Greg Choyce  General Counsel's Division (for item 6.1)
Lawrence Churchill  Chair, Financial Services Compensation Scheme (for item 4.5)
David Geale  Head of Savings, Investments and Distribution Department (for item 4.8)
Gina Gill  Manager, Information Systems Division (for item 4.2)
David Godfrey  Director, Finance & Operations (for item 4.1 and 4.2)
Gareth Lewis  Director, Information Systems Division (for item 4.2)
Hannah Nixon  Managing Director, Payment Systems Regulator (for item 4.7)
Georgina Philippou  Acting Director (elect), Enforcement (for item 4.3)
Caroline Rookes  Chief Executive, Money Advice Service (for item 4.4)
Kathryn Sherratt  Finance Director, Financial Services Compensation Scheme (for item 4.5)
Caroline Wayman  Chief Ombudsman & Chief Executive, Financial Ombudsman Service (for item 4.6)
Chris Woolard  Director of Policy, Risk & Research Division (for items 4.1 to 4.7)

Relevant associates and technical specialists also attended the meeting.
ANNEX B: Resolution

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

- Supervision Manual (Direct and Determination Process) (Amendment) Instrument 2014
- Immigration Regulations Instrument 2014
- Client Assets Sourcebook (Amendments No 7) Instrument 2014
- Handbook Administration (No 36) Instrument 2014