

Minutes

Meeting:	FCA Board	
Date of Meeting:	21 and 22 June 2017	
Venue:	25 The North Colonnade, Canary Wharf, London E14 5HS	
Present:	John Griffith-Jones (Chair)	
	Andrew Bailey	Ruth Kelly (in part)
	Catherine Bradley	Jane Platt
	Amelia Fletcher	Nick Stace
	Bradley Fried	Sam Woods (in part)
	Sarah Hogg	Christopher Woolard†
In attendance:	Set out in Annex A	
Apologies:	Ruth Kelly (<i>for 21 June only</i>)	
	Sam Woods (<i>for 21 June only</i>)	

† *Participated by telephone on 22 June*

1 Quorum and Declaration of Interests

- 1.1 The meeting noted there was a quorum present and proceeded to business.
- 1.2 There were no interests declared by Board members in respect of matters to be considered at the meeting.

Business conducted on 21 June 2017

2 Asset Management Market Study – Final Findings and Remedy Consultation

- 2.1 The Board noted that the asset management market study interim report had been published in November 2016. The findings had shown weak price competition in some areas of the market and so engagement had been taking place on a proposed package of remedies to make competition work better and protect those unable to engage with their asset manager.
- 2.2 The final findings of the study would be published alongside an overview of the remedies package and, in particular, consultations on policies to improve fund manager governance and a provisional view to reject the undertakings offered by investment consultants in lieu of a market investigation reference. Remaining remedies would be consulted on at a later stage, where necessary.
- 2.3 The findings of the study had shown that outcomes for investors were not as good as they should be and had identified some governance failures. It was suggested that more

transparency and greater control around fees and charges would provide for more discipline and also evidence what the FCA was doing on behalf of the consumer.

- 2.4 It was noted that European regulations provided greater clarity of what investors need and testing was being undertaken to ensure implementation would be as effective as possible in the UK.
- 2.5 It was suggested that there needed to be some protection against systematic under estimation of transaction costs which could give firms a competitive advantage. It was felt that this was a supervision task and that monitoring patterns of underestimation would expose such practices.
- 2.6 The Board was advised of the timeline for publication of the final report, consultation and subsequent actions in respect of Undertakings in Lieu (UIL) of making a Market Investigation Reference (MIR) and any remaining remedies.
- 2.7 The Board **noted** the report.

3 Enterprise wide risk management report

- 3.1 The circulated report showed an amalgamated picture of risks across the organisation and had been developed using a range of resources such as internal audit reports, information from the Financial Ombudsman Service, whistle blower and complaints data, and information from external sources in order to give a holistic view of the key risks (and interdependencies) of the organisation. Some of the top risks facing the organisation outlined by the team included cyber resilience in firms; harm to the financial system caused by financial crime; risks arising from the impact of Brexit on both firms and the FCA; and readiness for MiFID II.
- 3.2 The Board noted that the top risks were arrived at based on evidence and that the interdependencies of these risks had been explored. The Board was pleased to learn that all lines of defence were broadly in agreement regarding what the top risks are and that they are being managed. The report also indicated potential blind spots.
- 3.3 Considering the governance implications of the top risks it was stressed that it was an essential piece of the bigger picture and that there should be consistency with what was published in the annual report and how cross cutting priorities mapped with the risks. It was felt that there was good alignment and that it was important to ensure the risks highlighted in this report are fed into the overall business planning round so that they will be appropriately resourced through the prioritisation process.
- 3.4 The Board was advised that the format of the report would evolve and would be more reflective of the Mission and 'harm' in due course. It was pointed out that the organisation was still dealing with legacy risks from the FSA and assurance was given that these risks remained high on the agenda.
- 3.5 The Board said that it was good to see all the risks together with a schedule of mitigations in support of them and queried how ExCo used the information operationally. The Chief Executive pointed out that the Executive Directors were very supportive of the risk management framework and the EWRM narrative, and that all the high risks were recognisable. In relation to dealing with unexpected risks, the Board was assured that management was agile and able to respond robustly when required.
- 3.6 The Board queried why reputational risk did not appear in the list of top risks and the presenting team explained that public confidence/reputation was a sub element of all the risks. It was also noted that public confidence was due to be discussed at the July Board meeting.
- 3.7 The Board **agreed** the enterprise wide risk portfolio.

4 Decisions of the Board

4.1 The Board approved:

- the re-appointment of Michelle McGregor Smith as a member of the Listing Authority Advisory Panel (LAAP) for one year from 1 July 2017 to 30 June 2018;
- the re-appointments of Tim Waddell and Luke Chappell as members of LAAP for three years from 1 August 2017 to 31 July 2020; and
- the appointment of Simon Ricketts as a non-executive director of the Payment Systems Regulator Limited (PSR) for an initial term of three years at a start date to be agreed with Mr Ricketts, probably 1 July 2017.
- the re-appointment of Caroline Gardner as an employer-nominated director of FCA Pension Plan Trustee Limited for a three year term from 5 June 2017 to 4 June 2020

5 Minutes of the FCA Board meeting

5.1 The Board **approved** the minutes of the FCA Board meeting held on 24 and 25 May 2017.

6 Matters arising

6.1 The Board noted the progress with the matters arising at previous meetings.

6.2 The outstanding action on cost benefit analysis summaries being included in papers relating to rules presented to the Board for approval was discussed. It was noted that the cost benefit analysis documentation contained both quantifiable and unquantifiable data and were too detailed to be circulated to the Board. In conclusion it was agreed that future policy Board papers should include a summary of the cost benefit analysis.

6.3 The Board was advised of progress in relation to the planned external evaluation of the FCA and PSR Boards. Further discussion had taken place including with an alternative provider. The Board noted the outcome of those discussions and agreed with the recommendation to invite the alternative choice of supplier to conduct the review.

7 Minutes of the Payment Systems Regulator Board meeting

7.1 The Board noted the draft minutes of the PSR Board meeting held on 17 May 2017.

8 Updates on other meetings

8.1 The Board received a summary from Mr Griffith-Jones of the meeting of the PSR Board held on 21 June 2017.

Business conducted on 22 June 2017

9 Report from the Chief Executive

9.1 The Board discussed Mr Bailey's presentation of developments since the last meeting including the work being undertaken on challenges faced by firms in the provision of travel insurance for current or previous cancer patients, including issues around differences in premiums.

9.2 It was noted that the Staff Consultation Committee (SCC) consultation on the impact of the move to the office in Stratford was nearing completion and was going well. The

Executive Committee (ExCo) would be discussing the responses in July with the aim of a management response to staff at the end of the summer and a report back to Board in Q4 2017.

9.3 The Board **noted** the Chief Executive's report, including current and planned consultations.

10 Report from the PRA

10.1 Mr Woods presented a summary of the key issues on the PRA agenda of relevance to the FCA.

11 Reports from the Panels

11.1 The Board reviewed and discussed the reports from the Consumer Panel, the Practitioner Panel, the Smaller Business Practitioner Panel, the Markets Practitioner Panel, and the Listing Authority Advisory Panel.

11.2 It was noted that the issues raised by the panels this month included Brexit, the FCA's Financial Lives survey, MiFID II and the credit card market study. The Chief Executive suggested that consideration be given to whether more information could be provided to the industry on Brexit. The Board asked to receive a presentation on the Financial Lives Survey.

11.3 The Board **noted** the monthly reports from the independent panels.

12 FCA Final Annual Report & Accounts 2016/2017

12.1 The Board received an update on actions taken since the annual report and accounts were reviewed at the May Board and a further draft being issued to Board members for comment on 2 June. The Chair of the Audit Committee had also received specific feedback regarding the issues raised by the committee at its meeting on 23 May. All comments received had been addressed and the report had been fact checked. The report had also been updated to reflect the Chairman's decision not to seek re-appointment at the end of his term in March 2018. It was noted that both the General Counsel's Division and the Secretariat had confirmed that the report met all statutory requirements.

12.2 In respect of the Diversity report, the Board received assurance that the necessary internal checks had been made and that ExCo had signed it off. It was also confirmed that the Enforcement, Competition, and Anti money laundering reports for the past year had also been through the appropriate internal governance processes. The Board noted that management would explore the possibility of amalgamating these reports for next year.

12.3 The Board noted that the Enterprise Annual Report approved at its May meeting had not been published as planned due to purdah. The report was due to be published the following day.

12.4 The Board **approved**:

- the Annual Report and Accounts 2016/17; and
- the Annual Diversity Report 2016/17

13 PSR Final Annual Report and Accounts 2016/2017

13.1 The Board noted that the PSR Board had approved its report and accounts at a meeting the previous day subject to some changes which had been dealt with.

13.2 It was noted that the report mentioned that the PSR shared premises with the FCA but that there was no reference to the PSR moving to Stratford. It was agreed that this should be reflected in the report.

13.3 The Board **noted** the PSR Final Annual Report and Accounts.

14 High Cost Credit Review Update

14.1 The Board received an update on the priorities and approach recently agreed by ExCo in respect of the high-cost credit review. A feedback statement was due to be published in July which would cover review of the high-cost short term credit (HCSTC) price cap, overdrafts and other high-cost credit products (e.g. rent-to-own, catalogue credit, home-collected credit).

14.2 The streams of work being considered were noted and the Board confirmed its broad support but stressed that cognisance should be taken of any unintended consequences on consumers and wider social policy.

15 Independent Panels Annual Reports

15.1 Representatives of the Independent panels were welcomed to the meeting and the Board acknowledged the work of each of the panels over the past year, and the areas on which the panels would focus their attention in the coming year. Having heard from each representative in turn, the Board discussed the various issues raised.

15.2 The Board was pleased to hear the panels' positive reflections of interaction with the FCA which had been beneficial to all parties. There was also acknowledgment of common themes between the panels and the potential of closer working between them.

15.3 Concluding, the Board asked that its thanks be extended to members of all the panels for their continued commitment and hard work over the year.

16 Joint FCA and Practitioner Panel Survey

16.1 The Board noted that this was the first joint survey between the FCA and the Practitioner Panel, which had proved to be more cost-effective and efficient than the two separate surveys carried out in previous years. The following points were made:

- There had been response rate of 21% which was lower than in recent years. The Panel, the Board and the Chief Executive were all keen to explore the reasons for this
- The results showed that the industry's satisfaction with its relationship with the FCA and its rating for the FCA's effectiveness had both increased. Firms also reported increased confidence in the FCA's ability to deliver against all three of its operational objectives, although the score for the competition objective was still lower than that for the other objectives. The results had shown that the issues of importance to firms included communication of the FCA's remit, and support for firms during change, including Brexit. Other key areas of interest included visibility and capability of FCA staff and confidence in the FCA achieving its objectives
- In terms of the FCA's communications with firms there was evidence that most firms would use Regulation Roundup and the FCA website to access information rather than the trade associations even though the latter were a focus for the FCA. The Board agreed to consider other innovative ways of communicating with firms and also discussed limiting both the number and length of publications.
- It was felt that the views of fixed and small firms were very different and might be separated out in future.

- 16.2 In conclusion, the Chairman noted the importance of the survey and the improvement in this year's results.
- 16.3 The Board **noted** the report.

17 Complaints Commissioner's annual report

- 17.1 The Board welcomed the Complaints Commissioner and thanked him for his report on the handling of complaints by the financial services regulators (including the FCA) during the 2016/17 financial year. It was noted that the Board had also seen Andrew Bailey's letter to the Complaints Commissioner which provided some context to the FCA's approach to handling complaints over the past year.
- 17.2 The Commissioner acknowledged the efforts which the FCA had taken in the past year to deal with the backlog of complaints, and using complaints to improve working practices within the organisation. He thanked staff for their efforts and their co-operation with his office.
- 17.3 The Commissioner noted that sometimes things could have been handled differently and that the FCA was making progress in dealing with the psychology and dynamics of complaints handling.
- 17.4 It was noted that the report was due to be published in July and would be laid before Parliament together with the FCA response to the report.

18 FCA response to Complaints Commissioner's annual report

- 18.1 The Board noted the on-going work within the Complaints team to deal with the backlog of complaints and to improve handling of them generally. It was acknowledged that the measures were already evident but would take time to embed fully. Steps were being taken to challenge organisational defensiveness and inject more empathy into the process.
- 18.2 The Board was advised that there were some complex complaints and noted the potential of certain categories of staff to suffer personal reputational damage. The Board stressed the importance of having mechanisms to protect staff who in the course of doing their jobs, were subjected to harassment.
- 18.3 It was noted that the FCA policy on whistleblowing was currently being revised and the Board suggested that the new process be reviewed by Internal Audit.
- 18.4 The Board felt that the FCA was currently improving its complaints handling but acknowledged that there remained further work to be done. The Complaints team was working with colleagues in Risk and Compliance Oversight to ensure that the lessons learned from complaints were shared with the wider organisation and used to improve services to all stakeholders.
- 18.5 The Board approved the FCA response to the Complaints Commissioner's annual report, subject to any final comments being sent to the Company Secretary.

19 MiFID II Policy Statement II to Board

- 19.1 The presenting team reminded the Board that at its May 2017 meeting, the key policy choices for the final MiFID II policy had been approved, subject to a series of revisions to the policy statement. The revisions had been made in consultation with the General Counsel's Division.
- 19.2 There remained some concerns about the application of taping rules for Article 3 firms and corporate finance business and the Board sought to understand scenarios when taping

would come into play. It was confirmed that there is a mandatory requirement for recording certain conversations and communications linked to corporate finance business in MiFID II and that the draft Handbook rules and policy statement were not intended to go beyond these requirements. It was agreed that the final drafting of both documents would more clearly reflect this. The Board was advised that there had been extensive consultation and that industry's concerns had been noted and taken into account.

19.3 The next steps were for the policy statement to be published on 3 July, subject to Treasury legislation being laid before Parliament which would give the FCA powers to make certain of the rules required for the implementation of MiFID II. The rules would be made by written procedure on 30 June.

19.4 The Board thanked all those involved in the work over the years and approved publication of the final MiFID II policy statement on 3 July and the making of the rules by written procedure on 30 June.

20 MiFID II/ MAR Programme Update

20.1 The Board received the update on the Markets in Financial Instruments Directive (MiFID II)/MAR programme, noting and discussing the following points.

- the Programme continues to have a target implementation cost of £47.8m, with an upper limit of £60.3m;
- significant progress has been made on delivery since the December 2016 update, though challenges remain;
- The Market Data Processor (MDP) functionality for transaction reporting, instrument reference data, transparency and double volume cap has been built and final preparations are underway to launch an Industry Test Environment in early July which will enable firms to begin testing, with functionality gradually released in the following weeks;
- external dependencies continued to be a risk.

20.2 The Board queried when there would be confirmation that the IT was working and noted that testing would be phased with plans in place for the close management of the supplier. The importance of instilling confidence in firms during the roll out was stressed.

20.3 The Board **noted** the update and requested that the team return if significant issues are encountered with delivery of the programme.

21 Rules & Guidance to be determined

21.1 The Board **passed** the resolutions set out in Annex B.

22 Minutes of Executive Committee meetings

22.1 The Board noted the minutes of the Executive Committee meetings held on 24 April 2017, 2, 5, 8 & 10 May 2017.

23 Forward Agenda

23.1 The Board noted the forward agenda.

24 Any other business

There were no items of other business.

John Griffith-Jones
Chairman

ANNEX A: Attendees

Attending all, or substantially all, of the meeting:

Angela Attah	Deputy Company Secretary
Megan Butler	Director, Supervision, Investment, Wholesale & Specialists
Vickiesha Chabra	Manager, Chairman's Office
Jonathan Davidson	Director, Supervision, Retail and Authorisations
Nausicaa Delfas	Chief Operating Officer
Sean Martin	General Counsel
Simon Pearce	Company Secretary
Mark Steward	Director, Enforcement & Market Oversight

Also attending for the following items:

2	Mary Starks	Director, Competition and Economics
	Robin Finer	Head of Department, Wholesale & Investments Competition
	Becky Young	Manager, Wholesale & Investments Competition
	David Geale	Director, Policy
	Richard Johnson	Head of Department, Prudential Protection Governance & Investments
	Karen Northey	Manager, Consumer Information & Cross-Cutting team
3	Barbara Frohn	Director, Risk & Compliance Oversight
	Jose Morago	Head of Department, Risk & Compliance Oversight
	Julia Tennant	Manager, Regulatory Risk Advisors
	Emma Davies	Manager, Operational Risk Advisors
	Jamie Bell	Manager, Strategy, Sector & Markets Supervision
12	David Godfrey	Director, Finance
	Stephen Humphreys	Head of Department, Corporate Communications
	Alex Nicoll	Manager, Financial Accounting/P2P
13	David Godfrey	Director, Finance
	Grahame Tinsley	Manager, Payment Systems Regulator Operations
	Alex Nicoll	Manager, Financial Accounting/P2P
14	Graeme Mclean	Head of Department, Banking, Lending & Distribution
	Neil Marshall	Manager, Policy Consumer Credit
15	Sue Lewis	Chair, Consumer Panel
	Graham Collett	Manager, Consumer Panel Secretariat
	David Bellamy	Chair, Practitioner Panel

	Craig Errington	Chair, Smaller Business Practitioner Panel
	Bernard Mensah	Chair, Markets Practitioner Panel
	Mark Austin	Chair, Listing Authority Advisory Panel
	Heather Kempton	Manager, Practitioner Panel Secretariat
16	Sue Lewis	Chair, Consumer Panel
	David Bellamy	Chair, Practitioner Panel
	Craig Errington	Chair, Smaller Business Practitioner Panel
	Heather Kempton	Manager, Practitioner Panel Secretariat
17	Antony Townsend	Complaints Commissioner
18	Simon Pearce	Company Secretary
	Dean Harwood	Manager, Complaints Team
19	Stephen Hanks	Manager, MiFID Coordination
20	Mark Steward	Director, Enforcement and Market Oversight
	Marc Teasdale	Director, Investment Management & Wholesale Markets
	Jennifer Long	Head of Department, Investment Management & Wholesale Markets
	Hilary Bourne	Head of Department, Wholesale Authorisation

Relevant Technical Specialists and Associates also attended the meeting.

ANNEX B: Resolution

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

Periodic Fees (2017/18) and Other Fees Instrument 2017 (FCA 2017/32)

Future Service Restrictions Instrument 2017 (FCA 2017/33)

Market Conduct Sourcebook (Commodity Derivatives Inside Information) Instrument 2017 (FCA 2017/34)

Supervision Manual (Reporting No 5) Instrument 2017 (FCA 2017/35)

The Board approved in principle the making of the following instruments and to agree that they be made at a future date by way of written resolution:

Prospectus Rules (Miscellaneous Amendments) Instrument 2017

Glossary (MiFID 2) Instrument 2017

Conduct, Perimeter Guidance and Miscellaneous Provisions Instrument 2017