Minutes

Meeting: FCA Board
Date of Meeting: 25 and 26 May 2016
Venue: 25 The North Colonnade, Canary Wharf, London E14 5HS

Present:
Andrew Bailey  Sarah Hogg
Catherine Bradley  Ruth Kelly
Amelia Fletcher  Tracey McDermott
Bradley Fried  Jane Platt
John Griffith-Jones (Chair)  Christopher Woolard

In attendance: Set out in Annex A

Quorum and Conflicts
The meeting noted there was a quorum present and proceeded to business.

1 Specific items of business

1.1 House View – Investment Management
The Board received the paper and discussed the findings.
The Board noted the risks to the FCA’s objectives presented in the document and considered that the prioritisation of the risks and interventions was appropriate.

1.2 FCA Quarterly Performance Report
The Board received the paper and noted the changes to the report. It also noted that in July the executive would be considering a proposal to improve the effectiveness of operational and outcomes reporting. The Board noted the following key points:

- the use of the watchlist by both the retail and wholesale supervision areas and the trends in each area;
- the Intact system was providing management with better oversight of the three pillars of supervision work and improvements to the system were under review;
- the contact centre was showing signs of stretch with very high call volumes but was maintaining a good satisfaction rating;
there were some delays in the determination of consumer credit authorisation applications as volumes were higher than expected and some complicated business models needed to be analysed during the authorisation process. During the period, 99.6% of cases had been completed within the statutory deadlines but, as the remaining 0.4% still represented 400 firms, the Executive was taking steps to improve capacity and reduce the backlog with the assistance of specialists in supervision teams;

the Executive had noted concerns expressed by the Smaller Business Practitioner Panel about the communication of delays in consumer credit authorisation applications. It would be seeking improvements including acknowledgment of applications on receipt, earlier requests for information if incomplete and explanations of issues and potential delays;

the number of enforcement cases closed during the period and the balance of ongoing enforcement cases in respect of individuals and firms;

the decreasing number of whistleblowing cases and the continuing internal awareness work to ensure that cases were appropriately recognised;

the rate of external acceptance of job offers was 91% and external turnover was stable at 11.2%. Certain HR initiatives were currently being trialled in relation to people risk; and

the audit of the annual accounts was almost complete. It was also expected that there would be an underspend on the 2015/16 budget and the Finance Director continued to recommend that this be held as reserves due to future uncertainties. This recommendation continued to be supported by the Board. The Executive had noted that budgeting accuracy needed some improvement and was reviewing lessons learned for the future.

1.3 Running the FCA day-to-day

The Board received the paper and considered the presentation provided from the Executive which intended to give the Board a high level overview of the organisation’s decision making processes. The Board noted:

- the decisions that were taken on a day-to-day basis and the amount of discretion the organisation was able to apply in different areas;
- the House Views and prioritisation work would provide a framework within which decisions (such as choice of regulatory tools and the focus of risk mitigation) could be made in each sector; this work was continuing to evolve; and
- the extent to which risk tolerance levels were formalised in the different divisions and the difficulty in making these easily comparable across divisions to assist in the allocation of resources against the risks.

The Board thanked the Executive for the useful presentation and agreed that it was important to develop the next steps of the strategy and consider how risk and resource allocation interacted at the next strategy day in November.

The meeting closed at 7.00pm on 25 May 2016 and reconvened at 9.45am on 26 May 2016.

Mr Fried joined the meeting. Mr Bailey and Ms Fletcher left the meeting.

2 Minutes and meetings

2.1 Minutes of the FCA Board meeting
The Board approved the minutes of the FCA Board meetings held on 20 and 21 April 2016.

2.2 Draft minutes of the PSR Board meeting

The Board noted the draft minutes of the PSR Board meeting held on 11 May 2016.

2.3 Draft minutes of the External Risk and Strategy Committee

Ms Platt provided an oral update of the meeting on 13 May 2016, she highlighted some of the key items considered, which included:

- a review of the terms of reference of the Committee, which might require a minor amendment;
- a regular report from Risk and Compliance Oversight which highlighted the need to review the effectiveness of risk mitigation for the top risks and to develop a common understanding and comparison of organisational risk;
- two papers requested by the Committee which focused on two areas of identified risk relating to zero interest rates and debt management firms authorisations and the mitigations in place to manage them;
- the reports from the Independent Panels on the risks to FCA objectives which had been helpful; and
- the work the Executive was carrying out on cross cutting risks and common themes in the first line of defence, which would be checked by Risk and Compliance.

2.4 Update on the Audit Committee meeting

Ms Kelly provided an oral update of the meeting on 25 May and highlighted some of the key items considered, which included:

- a detailed review of the annual report and accounts;
- the level of assurance that could be provided on the internal control environment; and
- the need to understand further the reasons why the FCA’s contribution to the Pension Protection Fund levy was expected to rise despite the FCA’s statutory fee raising powers.

Mr Bailey and Ms Fletcher re-joined the meeting.

2.5 Monthly reports from the Independent Panels

The Board reviewed the Panel reports and in particular the following points were discussed:

- the Practitioner Panel had completed its survey and the results would be presented to the Board in June;
- the Smaller Business Practitioner Panel’s concerns regarding (i) the difference in charges model widely used in the car finance market, and (ii) issues relating to FOS judgements concerning credit provision for solar panels;
- the views of the Consumer Panel in relation to transparency; the Board did not believe that the set of circumstances that led to publishing the names of firms being investigated in relation to the treatment of long-standing customers in life assurance was a precedent; and the Chair’s discussions with the chair of the Consumer Panel in relation to the Consumer Panel’s communications.
2.6 Matters arising

The Board noted the progress with the matters arising.

3 Report from the Chief Executive

The Board received the report from Ms McDermott and noted the following points:

- the preparation for communications, to firms and consumers, in the event of a result of a vote in the EU Referendum for the U.K. to leave the EU, which had been discussed with PRA;
- the response to correspondence on the Bank of England Bill relating to the FCA’s proposed role of adjudicator in cases related to PEPs;
- the follow up work being carried out following the FEMR recommendations, in particular, how to implement a market abuse regime for spot foreign exchange trading;
- the next stage of the scam smart campaign had been launched;
- the FCA would be signing up to the Women in Finance Charter;
- the early engagement with the Panels in relation to the application of conduct rules to NEDs to gauge early thinking;
- an update on the outcome of the Tabernula case;
- the results of the thematic review of dark pools and the potential next steps; and
- the position in relation to GABRIEL and other operational issues.

4 Report from the PRA

The Board received an oral update from Mr Bailey and noted the following key areas of focus:

- the preparations underway for the result of the EU referendum;
- work that had been carried out on ring fencing; and
- oversight of operational risk in firms and the clarification of the interaction between the responsibilities of FCA, PRA and PSR.

5 Specific items of business (cont’d)

5.1 a) Draft FCA Annual Report & Accounts

The Board received the paper and discussed the following points:

- the feedback from the Audit Committee meeting held the previous day;
- drafting suggestions on the narrative and data provided, including year-on-year comparisons; and
- the need to consider the result of the EU referendum.

The Board agreed to provide detailed drafting comments to the team and would receive a further copy on 10 June for final comments before being asked to agree final version on 22 June.
b) FCA Annual Competition Report

The Board received the paper and discussed the following points:

- the report would cover the timeframe 2013-16, and would draw on existing material;
- minor drafting comments from the Board, including to highlight the importance of the FCA’s behavioural economics work, and to clarify the definition of competition; and
- the need to ensure consistency across the Annual Report and the Competition report.

The Board approved the report in principle subject to data validation and finalisation of the forewords. The report would be provided to the June Board for final approval.

5.2 Peer to Peer Lending regulation

The Board received the paper and noted the background to the regulation of Peer to Peer lending since 2014, the developments in the market and the challenges for the current regulatory approach and how it compared to regulation for other activities.

The Board discussed the changes in the market and the possible alternatives to the current disclosure based regime, noting that the Executive were not yet in a position to provide a considered view to the Board on this prior to carrying out a post implementation review.

The Board supported the work to carry out a review. The Board noted the potential benefits to competition and also the need to ensure that consumers continued to be protected appropriately. It encouraged the Executive to communicate that the FCA was looking closely at this area.

5.3 External Stakeholder Engagement Research

The Board received a presentation on the annual stakeholder research carried out by external consultants. The Board noted the following points:

- this was the third survey which had been designed to track stakeholder perceptions of the FCA’s overarching reputation, communications and engagement and explore any changes over the past year;
- there was a slight drop in the rating of the FCA’s reputation over the last year. For some groups the work that had been done on personal relationships and stakeholder engagement in the work of the FCA appeared to have generated positive feedback;
- there had been some concerns raised about the effects of resource stretch and staff turnover on general expertise and stakeholder relationships; and
- a number of stakeholders were looking for clarity about the FCA’s strategy under new leadership.

The Board noted that the communications strategy for 2016/17 had taken account of the findings of the research.

6 Decisions reserved to the Board

6.1 Rules & Guidance to be determined

The Board passed the resolutions set out in Annex B.

6.2 Decisions of the Board
The Board considered the proposed NED Code of Conduct and NED conflicts policy and agreed the Secretary should review certain definitions and the arrangements relating to political activity prior to proposing final versions to the Board.

The Board considered the revised Procurement Policy and approved it in principle subject to certain amendments being made and agreed by the Chair of Audit Committee.

The Board considered and agreed:

- the appointment of Sheila Wheeler as the new UK Debt Advice Director and member of the Board of Money Advice Service from July 2016 (exact date to be confirmed) until 31 March 2018;
- the review of the effectiveness of the Memorandum of Understanding between the FCA, PRA and PSR and to publish a summary of the findings from the review;
- the contracts for AD and Test services. The Board delegated authority for the Chief Operating Officer to sign these contracts on behalf of the Board;
- the appointment of Ian Hart, Aileen Taylor and Amanda Thomas as a new members of the Listing Authority Advisory Panel (LAAP), for terms of three years from 1 June 2016 to 31 May 2019; and
- to reappoint Craig Errington as a member of the FCA Smaller Business Practitioner Panel for a term of three years from 1 May 2016 to 30 April 2019.

7 Papers for noting

7.1 Minutes of the Executive Committee meetings

The Board noted the minutes of the Executive Committee meetings held on 8, 15 and 22 March and 5 April 2016.

7.2 Forward agenda

The Board noted the forward agenda.

7.3 FCA Communications Strategy outcomes

The Board noted the paper.

8 Any other business

There was none.

Claire Strong
Deputy Company Secretary
ANNEX A: Attendees

Megan Butler   Director, Supervision, Investment, Wholesale & Specialists
Sean Martin   General Counsel
Simon Pearce   Company Secretary
Claire Strong   Deputy Company Secretary
Alison Barker   Head of Department, Infrastructure & Trading Firms (for item 1.1)
Jennifer Dalby   Manager, Business Planning & Prioritisation (for item 5.1)
Jonathan Davidson   Director, Supervision - Retail & Authorisations (for items 1.2, 1.3 and 5.2)
Susanne Gahler   Manager, Investment Management Sector Team (for item 1.1)
David Godfrey   Director, Finance (for items 1.2 and 5.1)
Anthony Hanlon   Manager, Investment Management & Wholesale Markets Director's Office (for item 1.1)
Cordelia Hay   BritainThinks (for item 5.3)
Jo Hill   Director, Markets Intel & Data Analysis (for item 1.1)
Stephen Humphreys   Head of Department, Corporate Communications (for item 5.1)
Gareth Lewis   Director, Business & Technology Solutions (for item 6.2)
Neil Marshall   Manager, Competition Strategy & Pipeline Team (for item 5.1)
Richard Monks   Head of Department, Strategy Development (for items 1.2 and 5.1)
Georgina Philippou   Chief Operating Officer (for items 1.2, 5.1 and 6.2)
Emma Roberts   Manager, Consumer Credit (for item 5.3)
Philip Salter   Head of Department, Supervision – Retail & Authorisations, Retail Lending (for item 5.2)
Ben Shimshon   BritainThinks (for item 5.3)
Mary Starks   Director, Competition (for item 5.1)
Mark Steward   Director, Enforcement & Market Oversight (for item 1.3)
Robert Taylor   Head of Department, Supervision - Investment Management & Specialist Division (for item 1.1)
Andrew Whyte   Director, Communications (for item 5.3)
Beck Young   Manager, Competition Dept 1 - Wholesale / Investment Sector (for item 1.1)

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

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

- Handbook Administration (No 41) Instrument 2016 (FCA 2016/37)
- Controllers Instrument 2016 (FCA 2016/38)
- Consumer Credit (Amendment No 3) Instrument 2016 (FCA 2016/39)

The Board is invited to approve in principle the making of the following instrument and to agree that it be made at a future date by way of written resolution: