Minutes

Meeting: FCA Board
Date of Meeting: 25 September 2014
Venue: 25 The North Colonnade, Canary Wharf, London E14 5HS

Present: Clive Adamson  
Andrew Bailey  
Amanda Davidson  
Amelia Fletcher  
David Harker  
Catherine Bradley

John Griffith-Jones (Chair)  
Mick McAteer  
Tracey McDermott  
Jane Platt  
Sir Brian Pomeroy  
Martin Wheatley

Apologies: Lesley Titcomb

In attendance: Set out in Annex A

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

1.1 Minutes of the FCA Board meeting
The minutes of the FCA Board meeting held on 24 July were approved subject to minor amendments suggested by Board members.

1.2 Draft minutes of the Audit Committee meeting held on 4 September 2014
The Board reviewed the draft minutes and noted that the matters discussed by the committee included:

- further analysis of the disclosures of severance pay in the annual report;
- an update on the resolution of an issue relating to the calculation of employee benefits;
- its regular report from the Director of Internal Audit; and
- a presentation of the current status of the supervision model from Mr Adamson.
1.3 Draft minutes of PSR Board meeting held on 16 September 2014

The Board reviewed the draft minutes and received an oral update from Mr Wheatley, noting in particular the following points:

- the PSR was continuing to recruit permanent staff and there was a challenge to ensure that the organisation retained the knowledge of the contractors used to set it up;
- the initial consultation paper was discussed; it would include both policy issues and operational design (e.g. regulatory decision making) and would be published before the end of the calendar year; and
- the PSR Board had discussed the philosophy of how the PSR would take decisions and conduct regulation (e.g. ex ante or ex post) and how this might be different to the way in which the FCA operated.

1.4 Matters arising

The Board noted the progress in respect of the matters arising. It noted that Mr Adamson would continue the communication of the FCA’s approach to prudential regulation.

1.5 Monthly reports from the Independent Panels

The Board received the reports from the Consumer Panel, Practitioner Panel and Smaller Business Practitioner Panel and discussed a number of issues, noting in particular:

- the Consumer Panel’s report provided updates on its work on cross-subsidies in the personal current account market and on long-term investment costs. It also highlighted the Panel’s concerns about the potential risks relating to Project Innovate and its view of the need for better co-ordination between the FCA and MAS when communicating with consumers; and
- the Board noted the continuing work to improve the interaction between the Practitioner Panel and the FCA. It also noted that the Panel had had a constructive discussion with Mr Adamson on a range of issues including attestations.

2 Specific items

2.1 Sector reports: Analysis of performance against statutory objectives

a. General Insurance and Protection

The Board noted and discussed the following points:

- the wide range of regulated firms in this sector, from the Corporation and Society of Lloyd’s and global intermediaries to high street brokers, and the environmental factors affecting them, with declining interest and investment rates and increased competition leading to lower premiums and pressure on profitability and ancillary earnings boosting income;

Mr Bailey joined the meeting at 10.40am

- the FCA’s work so far in the sector had started to establish the conduct agenda and had used a variety of regulatory tools, including supervision early intervention and enforcement fines (totalling over £59 million). There was a gradual move toward addressing root causes and drivers rather than symptoms with the objective of reducing historic risk build up in firms; and
• the key issues affecting the sector that included the interconnectivity between retail and wholesale markets, the elongation of the distribution chain and the need for all parts of the chain to work effectively for consumer outcomes.

Sir Brian Pomeroy joined the meeting at 10.50am. Sir Brian declared an interest in this matter through his Directorship with QBE. The Board noted this declared conflict and, after due consideration (and noting that a quorum existed) authorised it pursuant to Article 10.2.

• the differences in the claims ratios between the different types of insurance and the concentration in different parts of the market; in particular, the influence of brokers in a buyer’s market; and

• the FCA’s focus was on policy and thematic work with a view to pre-empting issues before they arose and there were several strands of work aiming to ensure consistency of consumer outcomes by raising conduct standards across the sector.

b. Long-term Savings and Pensions

The Board noted and discussed the following points:

• the long-term savings and pensions sector had a large footprint, affecting a broad cross-section of consumers, and due to its long-term nature had a lack of consumer engagement;

• there had been a number of regulatory developments in the sector and various sub-sectors (e.g. pensions);

• different access points to the sector appealed to different segments of the market, potentially leaving gaps for consumers seeking advice. It was this potential gap that some advisers and consumers had highlighted as a risk; and

• the Board discussed the areas of supervisory focus, in particular the concerns and risks regarding whether existing consumers might be treated unfairly when saving and investing, whether consumers would get the right outcome at retirement and how changes in distribution models might lead to poor consumer outcomes. The FCA was carrying out work in each of these areas to assess the position and to reduce the risks in these areas.

2.2 Developing the FCA’s Corporate Documents for 2015/16

The Board received the proposal to produce one corporate document that combined publications, namely the Risk Outlook and Business Plan into a single document and to incorporate the Enforcement Annual Performance Account, the Diversity Report and the Whistleblowing Report within the Annual Report.

The Board agreed with the proposal and reinforced their support for the content substance and development of this, for the Risk Outlook stressing that this remained an organisational priority and should be presented in a useful way. The Board agreed that aligning the nearer term risks identified in the outlook to the business plan would assist in delivering its objectives.

The Board approved the proposals.

2.3 Contingent convertible securities, building society instruments and unregulated assets Consultation Paper

The Board noted that the issue of short term restrictions on Contingent Convertibles (CoCos) had been considered by the Board in July and a temporary product intervention
order had been agreed to restrict the sale of these instruments with effect from the start of October 2014.

The Board now considered the longer term options for these securities and other non-mainstream investments including Core Capital Deferred Shares (CCDS) issued by Building Societies. It noted the similarities between CoCos and CCDS and the risks associated with them if distributed inappropriately to retail consumers, particularly given the limited liquidity of these instruments. The Board discussed reasons why its approach to them may differ in the long term, having regard to its statutory objectives and the need to maintain financial stability.

The Board noted the restrictions it had applied to investing in crowdfunding and the differences in risk to consumers of these products. Its preference was for an overarching framework for product interventions given the risks of applying judgements on consumers’ risk appetites. It acknowledged that there would need to be careful consideration given to the practicalities of supervising any restrictions. Following a wide ranging discussion the Board agreed to propose a restriction on sales of both CCDS of 5% of investable assets, and to add a question in the CP to seek views from the consultation regarding whether CoCos should have the same treatment, or whether the full ban should remain.

The Board agreed that the Consultation Paper should include proposals to introduce rules restricting the retail distribution of CoCos and share capital instruments issued by mutual societies.

2.4 Davis Investigation

The Board received the update from Mr Griffith-Jones.

2.5 Board Effectiveness Review Update

The Board received the schedule of recommendations from the recent Board effectiveness review with proposed actions suggested by the Chair and agreed the approach. It also agreed that the actions should be reviewed at the time of the next Effectiveness review in April 2015.

2.6 Feedback from Treasury Select Committee hearing

The Board received an oral update from Mr Griffith-Jones, noting the areas discussed. The Board supported the position taken by Mr Griffith-Jones in relation to the disclosure of certain documents in order to maintain the operational effectiveness of the organisation.

3 Report from the Chief Executive

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

- the FCA Academy had been launched and there had been 25 applications for the MSc in Financial Regulation;
- the issues the FCA was finding in the consumer credit sector, the poor practice found (including in the credit broking and debt management sectors) and action taken in respect of Wonga following the identification of an issue with its affordability assessment model;
- Mr Wheatley was jointly chairing the fair and effective markets review and the full findings would be published next month, so far there was a consultation on whether an additional seven benchmarks should be brought within the scope of the FCA; and
• the Board requested a discussion to better understand the issues in relation to provision of cloud-based data hosting services.

4 Report from PRA

The Board received an oral update from Mr Bailey and noted the following points:
• the results of recent stress tests would be published in Q4 2014; and
• a consultation had been published in relation to the implementation of the FPC decision on loan-to-income caps.

5 Decisions reserved to the Board

5.1 Rules & Guidance to be determined:

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

5.2 Matters requiring a decision of the Board

The Board considered the paper and approved:
• the re-appointment of Gwyn Burr as a Non-executive Director of the Financial Ombudsman Service for a further three years from the end of her current term to 1 October 2017. It was noted that the FOS Liaison team support this appointment;
• the re-appointment of Charles Clark as a Listing Authority Advisory Panel member, for a second two-year term from 1 August 2014 to 31 July 2016;
• the appointment of Jackie Hunt as a Practitioner Panel member, for a three year term from 1 October 2014; and
• the appointment of Robert Mass as FCA Markets Practitioner Panel Deputy Chairman from 1 October 2014, and as Chairman, subject to the approval of Treasury, for a two year term from 1 April 2015.

6 Papers for noting:

6.1 Minutes of Executive Committee meetings held on 15 and 29 July 2014.

6.2 Forward Agenda.

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

7 Any other business

There was none.

8 HBOS Review update

Mr Griffith-Jones, Ms McDermott and Mr Adamson 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 which included that Parts 1-4 were going through the maxwellisation process.

The meeting closed at 4.50pm.
### Annex A: Attendees

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
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<tbody>
<tr>
<td>Sean Martin</td>
<td>General Counsel</td>
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<tr>
<td>Claire Strong</td>
<td>Deputy Company Secretary</td>
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<tr>
<td>Simon Pearce</td>
<td>Company Secretary</td>
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<tr>
<td>Mark Bethell</td>
<td>Manager, Competition (for item 2.4)</td>
</tr>
<tr>
<td>David Geale</td>
<td>Head of Department, Savings, Investments and Distribution (for item 2.5)</td>
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<tr>
<td>Simon Green</td>
<td>Head of Department, General Insurance and Protection (for item 2.1)</td>
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<tr>
<td>David Godfrey</td>
<td>Director, Finance &amp; Operations (for item 2.2)</td>
</tr>
<tr>
<td>Mark Hunnable</td>
<td>Manager, Finance-Revenue (for item 2.2)</td>
</tr>
<tr>
<td>Deborah Jones</td>
<td>Director, Competition (for item 2.4)</td>
</tr>
<tr>
<td>Zitah McMillan</td>
<td>Director, Comms &amp; International (for item 2.3)</td>
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<tr>
<td>Nick Poyntz-Wright</td>
<td>Director, Long Term Savings &amp; Pensions (for item 2.1)</td>
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<tr>
<td>Alison Walters</td>
<td>Manager, General Insurance Sector (for item 2.1)</td>
</tr>
<tr>
<td>Chris Woolard</td>
<td>Director, Policy Risk &amp; Research (for items 2.3, 2.4 and 2.5)</td>
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ANNEX B: Resolution

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

- Supervision Manual (Amendment No 20) Instrument 2014 [FCA 2014/52]
- Consumer Credit (Amendment) Instrument 2014 [FCA 2014/53]
- Listing Rules (Sponsors) (Amendment No 5) Instrument 2014 [FCA 2014/54]