

FCA Annual Public Meeting 2020

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Charles Randell: Good morning and welcome to the Financial Conduct Authority's Annual Public Meeting. My name is Charles Randell, I'm Chair of the FCA and I'll be chairing this morning's event. The Annual Public Meeting is an important part of our public accountability, so I'm delighted that so many of you could join us online for this virtual meeting. Although this year's meeting will be different from the physical meeting we've had in past years, I hope this format will benefit from being more accessible, in particular in that it allows for more people from across the UK's nations and regions to attend and ask questions more easily.

This year's event will also differ in other ways from our previous Annual Public Meetings. I'll make a very short opening statement, as will our Interim Chief Executive, Chris Woolard and that's because we want there to be as much time as possible for your questions before the meeting has to end at 12 o'clock, so please do submit them as soon as possible. Any questions that we don't have time for today will be answered on our website and where questions are similar, we'll be grouping them together to ensure we can cover as much ground as possible in the time we have available.

The coronavirus pandemic has posed unprecedented challenges for consumers, for businesses and for regulators. From the start of this pandemic, we've been working with financial services firms, with other regulators and with the government and voluntary sector to keep the financial system operating. We've tried to give consumers breathing space, with more than 1.8 million consumers having taken advantage of a mortgage payment deferral and 1.6 million consumers having taken credit card and personal loan payment deferrals. For business interruption insurance policy holders, we launched a legal case to gain clarity on whether their insurers should pay out. The High Court has ruled in policy

holders' favour on the majority of the key issues and we're waiting to see if the judgment is appealed.

I'm proud of what we've achieved since the start of the pandemic. We've shown in the first six months of this crisis that we can act with agility and speed, despite a challenging working environment. But we can't yet be proud of every aspect of our work, which is why we're determined to transform the FCA. It's frustrating to me that many of the resources we had planned to devote to this change program have had to be diverted to the coronavirus response and to preparing for the uncertainties of the end of the EU transition period and there are more challenges to come.

So in the year ahead, we'll continue to implement our data strategy, to use data and advanced analytics to become a more responsive regulator across the 60,000 firms we supervise and we're enhancing our approach to how we gather, share and act on the information and intelligence we receive across the organisation, so that we're faster to identify harm and able to intervene more quickly.

We expect the findings of the independent reviews into London Capital & Finance, the Connaught Income Fund Series 1 and interest rate hedging rate products to be published in the coming months and these will help to inform our future development as a regulator.

Nikhil Rathi, our incoming Chief Executive, will lead the transformation of the FCA when he joins us on 1 October. I'd like to thank Chris Woolard for his contribution to the FCA, particularly over the last six months. Now I'll hand over to him to say a few introductory words.

Chris Woolard: Thanks Charles. I became Interim Chief Executive on 16 March, the day on which the government said all unnecessary social contact should stop. Within a week that guidance had been upgraded and people were told they must stay at home. So my time at the helm has been dominated by the pandemic and our response to its economic impact. I'll say a bit more about that in a

moment, but first I'll highlight a few key achievements from the 2019-2020 financial year.

We've extended the senior management and certification regime to drive change in the culture of financial services firms. Where we've found misconduct in the industry, we've acted, imposing financial penalties on firms totalling over £224 million. Our focus on vulnerable consumers has continued to inform our policy interventions. We've introduced a price cap on rent-to-own products and we've helped ensure £116 million was reimbursed to victims of push payment fraud, up from 40% in 2018.

Our intervention on overdrafts will mean the 30% of current account holders who live in the most deprived neighbourhoods in the UK could see a reduction in overdraft charges of over £101 million a year. The ongoing environment of low interest rates continues to cause many consumers to look for higher returns, so we've invested in our ScamSmart campaign to raise public awareness of risk and fraud. We've also temporarily banned the marketing of some high-risk investments, like minibonds, to ordinary consumers and we're consulting on making this ban permanent.

Looking ahead, the Brexit transition period comes to an end on 31 December. We've been working closely with the Treasury and the Bank of England to onshore EU legislation that has been brought into force during the transition period and we've amended our own handbook accordingly. The Treasury has confirmed that the temporary permissions regime and the temporary marketing permissions regime for EEA based firms, will be available from 31 December and we expect more than 1600 firms to make use of these. While we cannot completely eliminate the risk of potential disruption at the end of the transition period, our work aims to reduce the risk of harm and promotes continuity of open and stable markets.

Returning to the coronavirus, Charles has mentioned a number of the measures we've introduced. Those have been vital in ensuring that consumers have been supported by firms over the past six

months. But there are significant challenges ahead and we're now entering arguably a more challenging phase and many consumers will be facing increased financial pressure. We'll continue to ensure that firms give tailored support to consumers.

The financial pressures will also hit parts of the finance industry. Among the small and medium sized firms which we regulate for prudential standards, we expect to see a number of firm failures. We'll be focused on ensuring that where firms fail, it happens in an orderly manner, avoiding or minimising losses to consumers and investors. That will be a very significant challenge for the organisation in what will continue to be a difficult and demanding year. I've been proud, incredibly proud, to lead a talented and committed team over the past six months and I know they'll be ready to meet the challenges ahead. Charles.

Charles Randell: Thank you Chris. So as you've heard, there are many challenges in the year ahead of us, but we are determined to transform the FCA to meet them and to build on the progress we've already made. Now it's time for the most important part of the meeting, your questions. We're joined remotely by members of our executive committee, who will help Chris and me answer some of your questions over the next couple of hours. Joining us, we have Megan Butler, Director of Wholesale Supervision.

Megan Butler: Good morning.

Charles Randell: Jonathan Davidson, Director of Retail Supervision.

Jonathan Davidson: Good morning.

Charles Randell: Nausicaa Delfas, our International Director.

Nausicaa Delfas: Good morning.

Charles Randell: Sheree Howard, Director of Risk and Compliance Oversight.

Sheree Howard: Good morning.

Charles Randell: Sheldon Mills, Interim Director of Strategy and Competition.

Sheldon Mills: Good morning.

Charles Randell: Georgina Philippou, our Chief Operating Officer.

Georgina Philippou: Good morning.

Charles Randell: And Mark Steward, Director of Environment and Market Oversight.

Mark Steward: Good morning.

Charles Randell: And we're also joined by the chairs of some of our board committees, Liam Coleman, Chair of our Audit Committee.

Liam Coleman: Good morning.

Charles Randell: Baroness Sarah Hogg, Chair of our Remuneration Committee.

Baroness Hogg: Good morning.

Charles Randell: And Richard Lloyd, Chair of our Risk Committee.

Richard Lloyd: Good morning.

Charles Randell: So we'll move to the questions now and I'm going to start with a question from Keith Webb. The format is that I'll read out the question and then I'll direct the question to the appropriate member of the team to be answered. So Keith's question is: How well has organisational resilience strengthened the industry's responses to COVID-19? I'm going to pass that question to Chris, but I'd like to just reemphasise some of the comments we made at the beginning.

This global pandemic is not over and the economic consequences of it are certainly not over and I think it would be foolish to imagine that the relatively strong response we've seen from both the financial services firms and markets in the past six months will continue for the future without some disruptions. We need to be very vigilant for that and that will be an important part of our work over the coming year. Chris.

Chris Woolard: Thanks Charles. First thing to say really is just to reinforce that. I think it's been an absolutely unprecedented time for the financial services industry. I think one of the things that's been remarkable is the degree to which frontline services in banks or in call centres, in banking and in insurance have been able to stay open and functioning largely during this time. Clearly resilience measures have helped in this, although I think it's also fair to say no-one

really had a scenario that would see many of their workforce working at home for many, many months.

There of course have been disruptions and part of our work has been to try and coordinate and help make those disruptions as small as is possible. Resilience is clearly still a very important part of the future as well and one of the reasons why we're consulting jointly with the bank at the moment is we think there's still more that can be done to improve operational resilience. The stress testing that's been done particularly by colleagues at the Bank of England has been incredibly important about preparing the market for the kind of shock that we've seen, even though it's very difficult to predict.

I think the overall story here is one of operational resilience being an incredibly important part of the preparations that have gone on before the crisis. It certainly sustained services to consumers throughout the crisis, but it's something that we will continue to have as a very important part of our ongoing work.

Charles Randell: Thanks Chris. So now coming to the next question from Anne Pounds: Does the FCA have any anticipated plans for post-COVID focus on services and debt collectors in order to continue the existing strong policies of consumer protection during and after the COVID recovery period? So that's a question about a number of people operating around the consumer debt space and what our plans are. Chris, I'm going to ask you to address this question as well.

Chris Woolard: Thanks Charles. First thing to say is obviously in terms of bailiffs and other debt collectors like that, they're actually not regulated by the FCA. What we do regulate are the collections policies of banks, building societies, other lenders and one of the things we've made clear as part of the ongoing support we expect those lenders to offer their clients throughout the COVID process, is we do expect a responsible attitude to be taken.

Clearly there are still, in certain cases, so for example around mortgages, currently a ban on repossessions that runs until 31 October, it runs longer in the case of mortgage prisoners as well.

But what we have seen, I think, across the industry at the moment, is a responsible attitude being taken and that's very much baked into the approach we would hope is taken in the longer term as the economy works through the next phase of this crisis.

Charles Randell: Thanks Chris. I'd just like to mention that as he steps down as our Interim Chief Executive, Chris will be taking on further work for us in looking at the way that the consumer credit market is working, particularly taking account of the challenges of the coronavirus and I'm very pleased about that.

The next question comes from Eran Noam: How does the FCA see the new risks resulting from working from home in financial services? I'm going to pass that question over to Megan Butler, who is our Director of Wholesale Supervision. Megan.

Megan Butler: Thank you Charles. As we look at the risks around COVID and we think about those as the risks around the financial resilience of firms, the risks to their operational resilience, how they need to keep treating customers appropriately, whether that's as simple as how do you answer the phone, how do you keep branches open, how do you handle complaints, how do you maintain an effective control environment, particular in conditions of high volatility and markets, how do you keep your arrangements hostile to fraud, scams or cyberattack. All of those issues are made harder by the dispersed working that firms have had to move to through this period, every single one of them.

These are issues they've never had to think about in terms of dispersed working. They've had to come up with new answers, new solutions to some of those things. Now I think both Chris and Charles have made the point that firms have broadly managed these issues pretty well so far and that's true. There have been a few problems in particular sectors, there've been problems with individual firms, but across financial services, firms have found ways to manage those risks in a dispersed working environment. But there are risks or issues around how this environment is going to continue.

Particularly if we think about how you maintain and enhance appropriate cultures within your business, how do you oversee the activity of your people, how do you train and develop your people, how do you assess their performance and make sure they're behaving in the way that you would want them to do? These are all difficult questions that get harder over time and it does look like no one is going to be back in the office any time soon. So although industry has coped pretty well so far, we're now going to be looking to them to find perhaps some more resilient, creative solutions for some of these issues, than perhaps some of the ones that have worked so well so far. Back to you, Charles.

Charles Randell: Thank you, Megan. I'm now going to take two questions together that relate to London Capital & Finance. One comes from Kashmiro Hawker: London Capital & Finance was previously known to the FCA for mis-selling financial products. Why did you allow them to continue without imposing strict sanctions and close monitoring and surveillance? A section question, which comes from Jacky Bennett: why didn't you check out London Capital & Finance after my call in July 2017 asking if they were a scam, after I'd invested half of my pension pot in this company? Later, ISA status was then used fraudulently by LCF to scam more with the FCA's blessing. Are you ashamed?

First I'd like to say that the huge distress felt by investors in London Capital & Finance is something that I try as hard as I can to understand, but I know that you will feel that I can't fully understand the distress you're suffering and what you want from me is not sympathy, you want action. That's why, while we were still establishing the facts of the London Capital & Finance case, I asked the Treasury to take the necessary steps to put in motion an independent review of what had happened in London Capital & Finance and to appoint a very senior and experienced retired judge to find the facts and make recommendations to us.

Dame Elizabeth Gloster's review is nearing its end and I have no doubt that when we receive it, it will give us a great deal of very difficult food for thought and we will react to it. But in the

meantime, I would encourage those who've suffered through the failure of London Capital & Finance to continue to make contact with Dame Elizabeth Gloster and her team and the facts as she finds them, we will study and we will act upon. That is, I'm afraid, all I can say about that today.

I'll now come to a question from Stephen Gore: To what extent are senior management diversity, gender discrimination and security in the office the concern of a financial regulator? Would you not prefer a highly competent board with a firm compliance culture, even though the composition may not accord with the FCA's view of diversity?

I'm going to pass that question to Jonathan Davidson. Jonathan has been leading a good deal of our work around culture. So Jonathan, over to you.

Jonathan Davidson: Thank you very much, Charles. I think that we have been doing a lot of work on what makes healthy cultures in financial services and one of the things that we've learnt and there has been a general consensus across the industry, is that healthy cultures are ones that are purposeful and they are also safe. They're safe to speak up, in fact the healthiest cultures are the ones where there is a listening up, where diversity of perspective, experience, background are seen as very important and an important source of innovation, but also management of risk.

So we have been doing a lot to assess cultures, to feed back to firms where we believe that their culture could be improved and ideally have firms which have considerable diversity, but also inclusion. In other words, it's safe for those from diverse backgrounds to speak up and be involved.

Charles Randell: Thank you very much Jonathan and I think it's really important to note that this is not just an issue for the firms we supervise, it's a very important issue for us at the FCA. We need to ensure that we have an environment which encourages speaking up and listening and that we have diversity of thought at the senior levels of the organisation and I take it personally very seriously indeed.

I'll now come to a question from Loukia Gyftopoulou. A lot of FCA reviews have faced severe or indefinite delays, has the FCA initiated more probes than it can handle? That's a very good question which I will try to answer myself. We are currently cooperating with three independent reviews into past actions either of the FCA or the FSA before that. The independent review into our handling of interest rate hedging products, the failure of the Connaught Fund and London Capital & Finance. I've been very clear that we are disappointed with our own ability to respond to these reviews. There have been delays in the production of documents largely caused by the current state of our own technology systems.

We are investing an enormous amount of money in a multi-year programme to address the shortcomings of the legacy systems we have to enable us to produce documents more quickly, but more importantly, to enable us to handle information and intelligence across the organisation much more efficiently and to be a better active regulator in preventing harm. So I'm not satisfied with the way that we have managed to respond to these reviews and I have made that very clear. But the reviews are reaching their conclusion and I think they will give us extremely valuable information as we move to transform the FCA.

The difficulties that we've faced on the technical side with the reviews have, of course, been compounded by the coronavirus, which has made it very difficult to coordinate document production, but it's also made it quite difficult to schedule interviews for the reviewers and all of these things have contributed to some delays. But the delays are not indefinite. There are expected time scales for the production of the reports and by early next year, I believe we will have had all three of them.

Now I will come to a question from Emma Berwick: Will the FCA encourage fund managers to publish data on the ethnic diversity of their boards from 2021 or in the near future, given the current state of homogeneity in the industry and the use of technical barriers to prevent progress in this area? I'm going to pass this question over to Megan Butler. I would highlight that we at the FCA have been trying to set the right example in this area. We published, along with our annual report this year, extensive information about the ethnic diversity of our organisation and about pay gaps, both

gender pay gaps and ethnicity pay gaps. Megan, I'll now pass over to you.

Megan Butler: Thank you Charles. I think this is an industry, the asset management industry, that recognises that it is not diverse enough at the moment, whether that be around gender or ethnicity or indeed other features of diversity as well. We would fully believe in the value of transparency, I think. We've all seen the benefits that the publications of the gender pay gap have brought and organisations are now moving, for example, to publish their own pay gap. Charles has just outlined the steps we're taking in that area.

So I think, yes, we will be encouraging firms to think about what transparency they can give to these issues. Events I think more recently have shown how far we still have to come as a society, but also as an industry and asset management has to play its part in that.

Charles Randell: Thank you Megan. Now to a question from Nina Cherry. When are the findings from the open finance call for input likely to be published? Sheldon Mills, our Director of Strategy & Competition, Sheldon I can ask you please to answer this question.

Sheldon Mills: Thank you Charles. We're keen to complete our work on open finance. As people will know, we published a call for input on open finance in December 2019. Due to pressures to respond to the pandemic, we had to suspend our response to that consultation until October of this year. So the consultation will close in October and we're hoping to set out a feedback statement in quarter one of next year.

Charles Randell: Okay, thank you Sheldon. I'll now come to a question from Gina Miller which is: Why is the FCA not suspending CP20/11 - now that's a consultation paper we have put out together with the Bank of England about our complaints scheme. Why is the FCA not suspending CP20/11 until after the three major independent reviews due to be published over the next two months? Not to do so is a kick in the teeth to the millions of ordinary investors who lost their life savings.

So we have announced this consultation and we've recently extended it for a further four weeks. The consultation responds to longstanding criticisms from our complaints commissioner that although we applied policies in the determination of ex gratia payments under our complaint scheme, these policies were not sufficiently transparent to complainants. We took that criticism very seriously and believe that we should move to respond to those criticisms without delay.

The consultation proposals that we've published largely seek to codify the very longstanding practices of the FCA and the FSA before it in making ex gratia payments in respect of complaints. The consultation is open for another four weeks, if you want to submit comments on the consultation, I encourage you to do so. The board will then review the consultation responses carefully before making its final decision on the complaint scheme.

Next I come to a question from Vaughan Edwards. There has been no material disciplinary action in relation to the Senior Managers Regime in four-and-a-half years. Does this reflect a problem in enforcing it in practice or something else? So this is a question about enforcement of the Senior Managers Regime. Mark Steward is our Director of Enforcement and Market Oversight. Mark, please answer this question.

Mark Steward: Thank you Charles. It's a question that often gets asked. I think because when the Senior Managers Regime was first mooted, it was seen very much as a big enforcement stick and of course at that time, there was also a reverse onus that was part of the proposition which then got taken out of the Senior Managers Regime. I think the enforcement stick part of the Senior Managers Regime has never really left its popular reputation.

In practice, though, I think it's been quite different in that it has led to firms really remediating their internal systems and controls to ensure that senior managers have much greater line of sight and much greater traction over what is happening in their business, to the extent that it's had the effect that you'd want a new regime to

have, it's actually improved the quality of management oversight in most firms.

That doesn't mean that we don't think it's enforceable. We think it is enforceable and we have a number of cases on foot where we're looking at that. We've also been able to take action against individuals on other bases as well, under the conduct rules and there's been several examples of that and we have several other matters in the pipeline where I think that will be the case as well. I don't think there is a problem with the enforcement of the Senior Managers Regime, I think in effect the absence of cases that the questioner has asked about is actually a consequence of the regime doing exactly what we wanted it to do in improving and raising standards of management in firms.

Charles Randell: Thank you Mark. I've now got two questions about pension freedoms and pension scams, which I'm going to take together and ask Sheldon Mills to answer. So the first comes from James Fitzgerald: Was the introduction of pension freedoms a mistake and has it led to poor outcomes for clients, including more opportunities to scammers? The second question, which comes from Sandra Wolf is: How will you regulate to effectively reduce pension scams? Sheldon, over to you.

Sheldon Mills: Thank you Charles. We're evidently concerned that some consumers may seek to access their pension savings early when it's not in their long-term best interests. Early in the COVID-19 outbreak we issued guidance to firms to support them in having meaningful conversations with their customers about the risks and implications of actions that consumers might be considering. While industry data has shown less pension activity than a year ago, we're still carefully watching this space for a possible spike as government support schemes come to an end.

In terms of the actual question, have pension freedoms been a mistake or not, this is a matter for government, not a matter for the FCA. Our focus remains on ensuring that consumers are protected as far as possible and they're supported by firms in making the

right choices in relation to their pension, regardless of how the legislation sits now. Thank you.

Charles Randell: Okay Sheldon, thanks very much. As Sheldon says, the question of whether the introduction of pension freedoms was a mistake is really a policy question that we would direct to the government, rather than seek to answer ourselves. However, as Chair, I have gone on record to say that I think the manner in which the pension freedoms were introduced leaves a number of lessons to be learnt, including about the importance of coordinating changes in government policy with regulatory and industry preparedness and the speed with which major changes are introduced.

We have seen through, in particular, the Rookes report addressing some of those issues and issues of regulatory and governmental coordination that, bluntly, I think, things could have been done differently and better.

I'll now come on to a question from Gemma Cooper: With high profile, high cost short term lenders exiting the market, seemingly due to FCA pressure, where do you think this leaves consumers with a legitimate need for the services which these lenders offer? Do you think this pushes them into unregulated lending and credit, further risking these customers? Surely the FCA should have worked with the lenders with the financial backing and power to rectify their mistakes, rather than leave customers more vulnerable by having these lenders exit.

Chris, you're going to be conducting a review and reporting to the board on the future regulation of unsecured consumer credit and so I'll ask you to address Gemma's question please.

Chris Woolard: Thanks Charles. I'll also possibly bring in Jonathan in a moment as well, who has been dealing with a lot of these firms in these particular situations. But I think there's a few things worth saying. I mean the first is clearly we have seen a lot of activity by the FCA in this space. There's been historically significant misconduct and that's needed to be rectified, whether that's through issues like payday capping. Whether there's issues around the cap that we've introduced around buy now, pay later firms as well in order

to address economic harm. Added to that we've clearly seen a range of findings by the financial ombudsman which very much relate to the kind of misconduct part of that question as well. So there have been significant pressures on this part of the industry.

There's often a proposition advanced that says if some of those lenders will exit the market then what we'll see is unregulated lending and by that people often mean backstreet operations, illegal moneylending. On the whole we don't see huge evidence of that happening despite that contraction in the market. We work very, very closely with Trading Standards and their illegal money lending team.

What we do see is in some other parts of the market there are innovations and these are largely outside of the regulated area at the moment. So for example, in either the retail space or in lending schemes that work alongside employers as part of people's wage packets. Part of the reason for having the review is to take stock of that landscape and how it's developing.

But certainly in terms of the second part of the question we certainly have worked closely with firms where we can and Jonathan will say a bit more about in a moment. But it is worth saying, at the heart of this is, is there a sustainable and a compliant business model when you rectify those problems, when you take away those harms to consumers, are those businesses capable of staying in the market.

Unfortunately, in many cases, the answer has been, no. So there are significant shifts in the market here and that's very much around taking the balance of how best to protect consumers. But I'll pass over to Jonathan, now, if there's anything you wanted to add to that answer.

Jonathan Davidson: Thank you very much, Chris. I don't want to add a lot. I just want to say that it has been a priority to focus on affordability. This is absolutely the priority. The biggest damage to consumers, particularly vulnerable consumers, comes from lending which is irresponsible or even predatory where you can have a business model where if you lend to people that can't afford to fully repay

you then end up with very profitable business model, where there is a clear divergence of interest between harm to consumers and the profitability of firms.

In supervision we have been closely supervising firms, initially through the authorisations process which led to many of them changing their affordability practices and also providing significant amounts of redress for unaffordable lending that they had done in the past. The industry, as a result of all these affordability tests, has reduced in size very considerably.

The issue that is paramount on my mind at the moment is the phenomenon of an individual affordability test maybe on an individual consumer's application for a loan becoming – being technically affordable but the consumer taking out a whole chain of those loans which starts to indicate a question of whether the loan is, in fact, affordable because they have to keep taking it out month after month after month.

We have for some time along with FOS been clamping down on this which has raised the issue that Chris has highlighted which is a question of how big can an industry be or a sector be of high cost lenders which is not inflicting this sort of harm and non-compliance processes. It is something that we need to think about and I'm very much looking forward to Chris' work over the next few months to give us some thoughts to that.

But, in the meantime, we aren't lightening up. We're not lessening up in the pressure to make sure that firms are doing lending in a compliant way in this space.

Charles Randell: Thank you very much, Jonathan. I think it's really important that – through Chris' work we examine the question of what is a sustainable model for lending to consumers in this market that avoids some of the risks, Gemma, that you're highlighting of consumers being driven to an illegal moneylending solution.

But I really would want to push back against the suggestion that where firms have fallen seriously short of our expectations in their lending practices and in affordability and have been subject to very

significant levels of findings by the Financial Ombudsman Service that we – that it's our role to give them a second roll of the dice. I really don't think that is the way that the financial system should operate.

I will now come on to a question from Willie Crockett which I'm going to put to Sheldon Mills. The costs of the compensation levy and professional indemnity insurance are beginning to bring in to question the viability of businesses should these levels of increase continue. What needs to happen to ensure that consumers have sufficient access to advice? Sheldon?

Sheldon Mills:

Thank you, Charles. We're aware that many firms have seen an increase in their regulatory costs driven by increases in FSCS compensation costs and this is in particular in the investment sector. So in May the FSCS announced that compensation cost levy for the life distribution investment intermediation class would total £229 million for 2020/21 and that was in comparison to the £189 million raised in 2019/2021.

We recognise that that's a significant increase. The FSCS has explained that increase was due to a number of factors. The increasing numbers of pensions with selling claims and claims against the failed firm, London Capital & Finance. We've heard – I've certainly heard personally, firms in the intermediary class have told us that the increase is unfair since good advisory firms are being made to pay for the bad advice given by failed firms.

We need to counterbalance this in terms of what's the voice of consumers here. Ultimately, when firms fail consumers are harmed and one of the considerations that we have here is that that perhaps needs to be tackled. So those bad actors in the system we need to focus on and find ways to ensure that we reduce the number of bad actors in the regime.

It's important also to note that the FSCS is an essential part of the regulatory framework. It provides this safety net for consumers when regulated firms go out of business and therefore it's important to have it there and there is a cost to that. So what are we doing in this space?

Our business plan for 2021 highlights consumer investment as a key priority area over the next one to three years. We're seeking three targeted outcomes in that business priority. First, investment products are appropriate for consumer needs. Second, consumers can make effective decisions about their investment and that relates to the advice point which I'll come on to.

Third, firms and individuals operate under high regulatory standards and act in consumer's interests. So that is tackling this issue of bad actors. We recently published a CFI on the consumer investment markets and the consultation on that will close in December.

On the supervisory side we're doing significant work assessing the suitability of defined benefit to defined contribution pension transfer advice and assessing the suitability of pensions to accumulation advice. So there's a lot of work. We're also ensuring SIPP operators undertake appropriate due diligence and trying to lead to a reduction in their holdings of non-standard assets.

We've made interventions to restrict marketing of speculative illiquid securities to sophisticated and high net worth retail investors only because we can see that that's a major potential source of harm. We're seeking to tackle shortfalls in professional indemnity insurance for personal investment firms.

So I hope that sets out the range of activity that we have in this area to try and tackle this issue. I know also the FSCS itself under its prevent work stream which it set out in its strategy for the 2020s is also seeking to respond to this issue. Turning briefly to the advice gap, we're quite conscious and we sought to provide some clarity on how firms in the investment space could provide advice during the COVID-19 crisis.

We're quite conscious that we need to get to a position where firms can support consumers with effective advice. We're evaluating the retail distribution review and the financial advice market review. Our results of that consultation should come out by the end of this year. Thank you.

Charles Randell: Thank you, Sheldon. Now, a question from Paul Scott which I'm going to, first of all, pass over to Chris relating to the FCA's data strategy. So the question from Paul is, ensuring the effective use of data is critical to ensure effective and efficient supervision. How successful do you think the FCA has been in implementing its data strategy to drive proactive supervision and what more should the industry expect?

Chris Woolard Thanks, Charles. In terms of our data strategy it encompasses the whole lifecycle of data. So not only how do we collect it but how do we store it, how do we search it, how do we gain insight from it. It's something we've been rolling out over the last 18 months or so. In particular, intensely just before the coronavirus crisis struck us where we've had small data science units embedded in every part of the organisation. As well as a central team driving this particular strategy.

What we're hoping to get from it is far greater insight from the information we already collect and also being far smarter about the information that we need to collect in the future. To allow us, which we've already started to do in certain parts of our activity, so for example, around some of the work we do around financial crime, with very few people actually – to be able to take very substantial views across a market and use computing technology, use large datasets to be able to get insights that historically we just could not have done even if we had many, many people to throw at the problem.

So what firms can expect from us is, firstly, in our supervisory approach increasing levels of sophistication in terms of what we're asking for and making sure that we're asking for the right information. Not too much. Not too little. But exactly the right amount of information to do our roles effectively.

What you can see and some firms will already be seeing in certain parts of the markets is when supervisors are then having conversations with those firms they're bringing with them a real whole of market picture and they're able to pick out, in particular,

outlier facts about the particular firm in question that they're talking to.

We also aim, by using this data, we are in a position to act far more quickly when problems are occurring in markets because we can see them earlier. Now, that's not a completely journey. As Charles mentioned at the start and so did I, one of the things that's really important is we are then enhancing our intelligence functions and how we task intelligence issues within the building.

So all of those things sit hand in hand. But the aim certainly over the coming next year or so is firms should be seeing a significantly faster set of interactions with the FCA. Actually, consumers should be seeing us moving towards problems in the market sooner too.

Charles Randell: Thanks, Chris. My own view is that the implementation of our data strategy to get to the place that I want to be to enable the FCA to be a more agile and proactive regulator to be out there preventing harms at a much earlier stage is a programme that will take a number of years.

Although we have made progress and as I mentioned at the beginning, there are frustrations about the many events that we have had to deal with, particularly in the last six months, that sometimes accelerate our progress but sometimes set it back.

Although we have made progress we've still got a huge – a long way to go. Both on the handling of specific items of intelligence and the broad lake of data we have more generally. So it will be a number of years before we get to where I want the organisation to be. But progress is underway.

Could I now take a question from Nicholas May which I'm going to pass to Chris Woolard, initially, but he may want also to get Sheldon Mills to contribute? What is the current situation of the FCA's look at the new widely used and very unpopular for some 40% approximately per annum overdraft rates notwithstanding the removal of overdraft charges. Chris?

Chris Woolard Thanks, Charles. What I'll do is I'll start with a reminder of how do we get here and then I'll pass over to Sheldon in a moment just to

talk about the future of it. So it's worth reminding ourselves of how did we arrive at this situation which is the overdraft market in the UK was dysfunctional.

It was exceptionally difficult for anyone as a normal consumer to understand what they were really paying for their overdraft. By the time you took headline APR, you took a whole series of charges, and you added all of that together. There's also a longstanding problem between arranged and unarranged overdrafts.

Bearing in mind that actually most payments in the modern era are authorised electronically in real time by your bank or your building society. So in other words, the unarranged element is, in fact, a floor limit set by your lender that you just simply don't know how far they're prepared to go. But nevertheless, it's very much authorised even though it's not described as such.

That gave us two really big problems. The first is the cost of that unarranged element of the market was very, very high indeed. In some cases we were seeing rates that were several times higher than payday lending. But absolutely not called out as such to anyone. Those costs also disproportionately fell on poorer consumers and on consumers that often were – had less ability to be organised about how they managed some of their finances.

The other problem is for normal arranged overdraft users it was very difficult to actually see what you were paying. So for example, there is one firm, one very large bank in the market, who currently is operating at a 39.9% overdraft rate which is seen by many as being an increase on their past advertised rates but the effective rate they'd been charging before these reforms was actually 86%.

So what the reform programme, we've done is to put in place is to end the problems associated with those very high unarranged costs and to make transparent the true cost of using an overdraft. For most consumers whether they are very occasional users or whether they were users of unarranged overdrafts, our reforms have led to a significant drop in the costs that they have had to pay for using an overdraft.

There is a group of consumers for whom this could be more expensive but on the whole one of the things we've highlighted there is actually having a term loan rather than using an overdraft on a very regular basis could be a cheaper option for those consumers in particular.

So overall, there's a package here to bring transparency to this market but also to ensure that actually some of the real harms that we were seeing there were ended historically. I'm going to pass over to Sheldon just to talk a little bit about how we're then taking a view of this market on an ongoing basis.

Sheldon Mills: Thank you, Chris. There's two points to mention here. The first relates to competition. So one of the key elements of this package of overdraft measures was to get the firms to start being transparent about their pricing and seeking competition on overdraft pricing. We haven't seen as much competition on overdraft pricing as we would have liked so we'll continue to monitor how that plays out in the market in the next year or so. We'll see what action we need to take in response to that.

The second point is in relation in particular to a point that Chris made there. Our repeat user rules will be in force and they will allow and enhance firms' ability, or ask firms to respond to, some of the issues that a minority of consumers have who have particular high overdrafts and should be on different types of products. So those are the things that we will be looking at in the future. We'll be monitoring the rates and seeing how the market develops and ensuring that firms have consumers on the right sorts of borrowing.

Charles Randell: Thanks very much, Sheldon. If I could just underline, the FCA does not set overdraft charges. What we set is our expectations of how firms treat their consumers. Firms have chosen the levels of overdraft charge that you outline, Mr May. Some are competing in this market and we would encourage consumers to look very hard at the available rates and to be aware of their ability to move banks.

What we require, however, is that firms do not impose charges on consumers which are unjustifiable. They should be risk reflective and those are essentially the principles we've put forward and it's now for a competitive market to develop an offering for this type of credit which is as keen as possible.

So I'll now come to two questions that relate to the independent review of the Connaught Income Fund. I'm going to take them both together. One is from Mark Bishop, when will the FCA announce the results of outstanding enforcement investigations relating to the Connaught Income Fund series. I'll pass that over in a minute to Mark Steward.

When will it publish Raj Parker's external review into its handling of the case up to March 2015? So that's the first question. Secondly, a question from John Rawicz-Szczerbo: When is the Connaught Income Fund review going to be published.

So the timing of the publication of the Connaught Income Fund review will depend on when Mr Parker delivers his report to the FCA. We would plan to publish it as soon as possible after we receive it. My current expectation is that we will receive it quite shortly and during the course of the autumn and that we'll be able to publish it quickly thereafter.

I have, Mr Bishop, from you, I think, five emails that you've sent me in the last two weeks which I will be responding to in the course of the next day and a half and that will give you the further information you've sought about the timing. I will then come on to pass the question about the outstanding enforcement investigations to Mark Steward. Mark.

Mark Steward: Thank you, Charles. Let me deal with this in two parts. The first part is to explain that the bulk of the investigation into what happened with this fund was completed some time ago and led to the first operator of the fund, Capita, agreeing to pay £66 million in redress. All of which has been distributed to the investors in that fund.

There is a remaining part of the investigation that is still outstanding. If I can place in brackets the next part, generally speaking when we investigate, the investigation can be complete but if we're taking action and the subject of the investigation is not prepared to agree to the outcome through a settlement or a resolution the matter goes into a decision-making process that's governed by the legislation that we administer.

That decision-making process is a form of procedural fairness that allows parties to be heard. A little bit like what happens in a courtroom but much less formal than that. But it's a process that we need to go through. The decision-makers are people other than me, obviously, the investigations, anyone connected with the investigation work.

So coming back to the nub of the question, when will we see an outcome to the remaining part of – around enforcement work here, the investigation work is complete. The matter is still ongoing. I expect an outcome will be very, very soon. Charles.

Charles Randell: Thank you very much, Mark. Now, a question from Desmond Chin which relates to the regulatory perimeter of the FCA. I'll start by giving you some observations of my own but then I'll pass the question to Chris and Sheldon. Given the problems you have explaining the contents of the perimeter, how do you intend to rectify this in the future especially as your publications do not suggest any solutions?

So just to clarify, the perimeter is how sometimes we describe the boundary between the activities that we regulate and those that we don't. It's a very complicated picture. It's clear to me that quite often consumers don't understand that they may be investing in a product that we don't regulate. It's particularly difficult where we are dealing with a firm that we authorise for some activities but we don't regulate for all of its activities.

If I can take perhaps, say, what may be a silly example, the John Lewis Group which runs department stores is authorised by us for some of its consumer credit activity but no one would seriously expect that we are responsible for the quality of the goods that

they sell. That case is easy. There are a lot of cases that are much more difficult.

The matter is complicated by the fact that other bodies around the financial services regulatory sector also have this perimeter but it's not always in the same place as us. So which products will and won't attract protection through the Financial Services Compensation Scheme is a very complex question as well.

So we have a real challenge in trying to ensure that consumers understand when they have protection and when they don't and when they can expect the FCA to be on the case and when they are on their own. So that's just an explanation of this very important question which I will now pass to Chris.

Chris Woolard

Thanks, Charles. I think just a couple of things to add to that.

Firstly, wherever you set a perimeter there will always be something the other side of it. That's the nature of the beast that we're dealing with. So wherever Parliament decides to set our perimeter than I suspect we will always encounter these issues.

The question though I think for me is, are there places where we can improve upon it, where we can make it better, where we can make it clearer? That doesn't necessarily always mean extending it. It could mean in some places pulling back very slightly to try and get clarity.

One of the things we have now is a new tool largely suggested by the Treasury Select Committee and adopted by the Treasury, is we do publish an annual perimeter report. We'll publish ours very, very shortly. That's the basis on which the FCA and Treasury Ministers can then examine at least once a year other particular points where improvements could be made around the perimeter.

But it is something that I think when we look – for example, in the call for inputs that we've made on consumer investments, it is absolutely an issue that comes front and centre. But there are no easy answers here either. You could have a very tightly drawn, very narrow perimeter that might be very clear to people what is and isn't in but that would probably leave an awful lot of products

that people have become used to feeling are regulated or protected in some ways actually outside of that perimeter.

On the other hand, simply extending further and further, will just push back out what sits on the other side there. So this isn't an easy question in the way that your comments imply but it is one that I think we really do need to keep paying attention to and, indeed, we would hope Parliament and Treasury continue to pay attention to. I don't know if, Sheldon, you've got anything to add after that. You may not but perhaps you'd like to come in.

Sheldon Mills: No, I do, Chris, actually. I mean, I think one aspect of the question was your reports don't seem to suggest any solutions and also how do you intend to rectify this in the future. I do think that the perimeter report is a positive development and it does lead to a good discussion between us and Treasury who are generally responsible for legislation in this area or changes which will make the perimeter clearer.

I just wanted to point out that – from our last perimeter report it did highlight issues in relation to prepaid funeral plans, investment consultants, and misleading financial promotions, et cetera. Also crypto assets. You will have seen some work coming through in relation to all of those areas. So I just want to point out that there is work ongoing.

I agree with Charles and Chris that the perimeter still has issues around it which cause consumers confusion. But we are working very hard to try and solve some of those issues. I will point back to our CFI on consumer investments which raises a whole host of issues around our perimeter which we want to work closely with Her Majesty's Government on. Thank you.

Charles Randell: Thanks, Sheldon. So we are currently calling for views on the regulation of the consumer investments market. It's one of the markets where this issue of the perimeter causes us the most difficulty and seems to cause some of the greatest harm to consumers. We are thinking about very concrete steps that we can take in that area. Some of them we are taking already.

So for example, we've made some very major revisions to the way we publish our register to try to ensure that consumers understand better. But as in the example I gave about John Lewis, the fact that we authorise a firm for a specific type of activity doesn't mean that we are standing behind everything it does.

Similarly, we have spent a very significant amount of money on advertising on Google AdWords so trying to compete with some of the worst scam advertisements that still appear on that site so that people are aware that the things they are seeing are not protected by us. They sit outside the perimeter. As the law currently stands there's not much we can do directly to prevent those things being advertised.

So we are taking concrete steps to try and make the perimeter much clearer to investors. But we also think that there are other steps we can take in the future in the way of consumer information that will further clarify to consumers when they can expect protection and when they can't.

Personally, given the difficulties that this has caused us and the great tragedy it's caused to large numbers of consumers I'm very committed to making progress in this, admittedly, really difficult area.

Now, I will come to a couple of questions about the UK's withdrawal from the European Union which I will pass to Nausicaa Delfas. One is from Ropa Ushe. It says, financial firms have faced difficulties of preparing for Brexit due to COVID-19 and increased volatility in March. Is the FCA willing to extend the deadline for compliance with the new regimes at the end of the transition period?

The second question which comes from Dan Waters is the European Commission and the European Supervisory Authorities are moving to restrict access to European markets by UK based businesses. Will the FCA engage with these authorities to help ensure that Fortress Europe for financial services does not become a reality?

So Nausicaa, there are two questions for you there. One is are we willing to extend the deadline for compliance. The second is, what are we doing in response to moves in Europe to restrict access to European markets by UK businesses?

Nausicaa Delfas: Thank you, Charles. I'll take those questions in order. So on the first one about the end of the transition period and difficulties faced by firms, we completely appreciate the difficulties that firms have faced with the COVID pandemic and, indeed, we've been engaging closely with firms on this.

As you know, the FCA over the past period has been taking steps to ensure a smooth a transition as possible at the end of the transition period. We've been preparing for all scenarios. So one of the things that we've done is to onshore the European Rulebook into our Rulebook which means that for the most part the rules for firms will remain the same.

But for where there are changes we have – we're using the temporary transitional power that the government has given us to allow firms for most part to have longer to adapt to any of those changes caused by onshored legislation. We have given firms until 31 March 2022. But there will, of course, be some aspects which firms have to comply with by the end of the transition period.

We have set that out already and that's because there were certain reporting requirements and so forth that need to continue in order for us to be able to effectively supervise. But we will be publishing more on this on the temporary transitional power and also publishing a handbook which will incorporate all the changes caused by the onshoring shortly. So we will hope that that will be easier for firms to follow and more accessible.

On the second question about the EU restricting access to UK business. Well, as you know, we've taken whatever steps we can in the UK to make sure that we remain open for business. There are certain aspects on current passporting and so forth that would require reciprocal action by the EU.

But what firms need to do is to make sure that they look at local requirements and local restrictions to ensure that they comply with those. From the FCA's perspective, as I say, we support open markets and we have a very strong relationship and cooperation with the European Supervisory Authorities and with the National Competent Authorities.

We expect this to continue as we do have a lot of cross border business. There are also many global challenges that are facing us now which require a global response. This has been very well demonstrated through the work we've done internationally on COVID where we've come together both with our European partners and with others across the world to address common issues.

So we very much expect through the Memorandum of Understanding that we've already agreed with ESMA and others that will shortly be discussed concerning EIOPA and EBA to continue to work with the European Supervisory Authorities and, indeed, with the National Competent Authorities to face all the challenges ahead. Thank you.

Charles Randell: Thank you, Nausicaa. I'll now come to a question from Andy Agathangelou which is, is the Financial Services Consumer Panel working as intended? I'll try to answer that myself because as Chair I have regular interactions with all of our panels. The FCA has a number of different specialist panels which provide us with support and challenge as we go about our business of making regulations and supervising.

The Financial Services Consumer Panel is a key player in this. It provides very welcome challenge to our role of consumer protection, one of our core objectives. I would summarise the views that we get from the consumer panel as briefly as I can but broadly speaking I think the message is, "you're not doing enough to protect consumers". I agree.

We want to be a more preventative regulator. We want to do more to protect consumers. Before the coronavirus pandemic struck we were working hard on a possible new consumer principle,

consumer duty, if you like, which would help to transform the way in which firms approach the interests of their consumers.

We had some very constructive conversations with the panel about that. One of the frustrations of this coronavirus and the need for us to prioritise very hard to get people through the immediate consequences of the crisis is that some of that work has had to be deferred. But it has not been abandoned and I'm absolutely clear on that.

We will return as quickly as we can to these issues and making progress on our regulatory framework for consumer protection; that is my firm intention. I would also like to call out the contribution that the panels have been making during this pandemic because we've had to move at great speed. We've often had to consult for extraordinarily short periods of time on measures that we're planning to take. I'm talking here about days rather than weeks.

The great strength of the panel system is that it gives us a group of extremely informed and engaged expert practitioners who can give us valuable feedback and help to add to the wisdom available to us even though the public consultations during the coronavirus may have been much shorter than we're used to.

So yes, the answer in short to your question, Andy, is that the Financial Services Consumer Panel is working as intended. There have been some pretty major events in the last six months that have thrown us a little off course in achieving our ambition of transforming the consumer protection environment but as soon as we can get back on track I intend that we do so.

Now, I'll come to a question from Karen Williamson. Are there plans to release a consultation paper to match or be in line with the European consultations on the sustainable finance disclosure regulation and are there plans to have deadline dates to be in line with this regulation? Sheldon Mills, I'm going to pass this question to you.

Sheldon Mills: Thank you, Charles. Essentially the answer to this is, is that this is a matter for government. The government is considering how to

take forward the commitment in the Green Finance Strategy to match the ambition of the EU's Sustainable Finance Action Plan and the SF disclosure regulation is a key element of this.

From our perspective, if the government decides to implement a UK version of the SFDR then we would need to consult on any changes to our handbook. If that does happen we will give industry sufficient time to prepare for that. I'd say from a wider perspective for the FCA, climate change and sustainable finances are critical component of our work.

We see benefits, both the UK economy but also for firms and consumers about investment in this space and work in this space. We are leading with – well, co-chairing in IOSCO - work on disclosures to try and bring together some form of international consistency in relation to the taxonomies and work that we have for sustainable finance disclosures.

We're also working with government in the preparation for COP26. We've been working with the bank as part of the Climate Risk Financial Forum. So a lot of work is ongoing in this space. But in answer to your question, that really is a matter for government.

Charles Randell: Thanks, Sheldon. I'm now going to come to a question that I'll try and answer myself to start with but then pass over to Chris from Ahmed M Bility. The question is without doubt the pandemic has disrupted processes across the world, does the FCA envisage any change in its guidelines to help banks and insurance companies conduct themselves as regards risk management in future pandemics.

We are only partway through this enormous challenge to all of our institutions and our society. I have no doubt that when we look back on it we will consider this to have been as significant an event as the financial crisis of 2008. Discussions about what we had learned from the financial crisis and what we should do to change in response to the financial crisis went on for a number of years.

It was really only possible to reach mature conclusions about the changes necessary with some perspective of time. I think this is

going to be the same. I think we are currently in the first stage of crisis response. Over the next couple of years increasingly the learnings of this episode will inform a broad debate about the way regulation should expect the unexpected. Chris, over to you.

Chris Woolard

Thanks, Charles. I think there's a number of things you can observe already within this crisis. So if you look at the approach we've taken even in the first few days of it becoming apparent how serious this situation was, there's a wide range of rules where we've given temporary forbearance or other temporary guidance to allow firms to cope with the immediate shock of the pandemic.

I think it's also far to say, and it's a bit of a cliché, but many people would observe the crisis has brought the future forward. So if you take one small example, how a financial advisor records the advice that they've given to a client, increasingly that's about keeping a copy of an interaction over video, remotely, rather than copious written records of something that perhaps occurred face to face or a recording of something that's occurred face to face.

Making sure that our approach moves with that both in terms of helping cope with the effects of the pandemic but also thinking about how a whole series of interactions might change between businesses and consumers over time is going to be a really important part of how we face forward and how we ensure those longer term changes.

There's also, as I mentioned at the start of this I think in relation to the first question that we had and so I won't repeat it, but there's a very significant part here about how do we think about the integration of operational resilience into every aspect of what a firm may do in relation to their consumers.

So I think the short answer here is undoubtedly there will need to be a change about how we think about risks and risk management in relation to firms and their consumers that not only reflects the current situation around the immediate crisis and the longer term effects that we might see from COVID but actually also takes into account what other behavioural changes and expectations are driven in society more widely.

Charles Randell: Thank you very much, Chris. The next question I have comes from Mr A Cummings: Recently you've been short of resources and very slow to deal with authorisations having introduced last year a holding email advising that there would be a 60 day period to appoint a case officer. Your own rulebook on SYSC systems and outsourcing, requires firms to have adequate resources.

Is the FCA setting a rule for firms that it doesn't meet itself?

Jonathan Davidson is the Director for Retail Supervisions but also for the Authorisations functions. I'm going to pass that question to you, Jonathan, do we set a rule for firms that we don't meet ourselves.

Jonathan Davidson: No. I am very conscious because not only am I running the Authorisations, I'm also running the Supervision of firms. I thought what I could do is share with you how we approach the systems and controls around resourcing and authorisations. It's very important, our ultimate objective is to make sure that we meet statutory deadlines which are set in the legislation or approval of firms and individuals.

To give you some sense as to where we are we have several thousand applications by firms for new permissions each year. Last year I think we met the statutory deadlines in 99.7% of applications. Now, you referred to assignment of a case officer. What we are trying to do, of course, is to do a lot better than the statutory deadline particularly when it's approving a new firm in order – the firm that's going to bring more competition and innovation to the market.

So a statutory deadline of six months or 12 months if the application is complex and not complete on delivery is not the standard we're setting ourselves. So we are setting a standard to go much faster than that and we are resourcing accordingly. We have had increases in volumes. This year we've added 20 people to our authorisations functions in anticipation of increased volumes.

We have experienced challenges recently. The number of challenges to do with dispersed working. All of our authorisations

colleagues successfully redeployed to work from home. But nevertheless, like firms we've faced some of those challenges. We've also encountered the challenges of unforeseen levels of volumes in one particular area with senior managers from firms coming in – into the senior managers' regime.

In response to that, not just recruiting we've been putting in place significant overtime. We have taken on contractors who are being brought up to speed to address it. So I certainly believe that we have strong controls on the resourcing but like everybody in the current environment there are challenges but I don't anticipate a very significant fall off in us meeting statutory deadlines. Thank you.

Charles Randell: Thank you, Jonathan. Next a question from Maria Ruiz de Velasco which is: How important is your completion mandate to address the challenges from the COVID-19 crisis. Sheldon Mills, our Director of Strategy and Competition.

Sheldon Mills: Thank you. So competition is one of our statutory objectives and it remains a critical component of our response to COVID-19. Most importantly our responses we hopefully passage through this pandemic into normal times. I'm not going to give a lecture on competition but it's critical in a sense to drive down costs in business, to lower prices for consumers, and to support that healthy innovation into markets so that we can get the innovative products and services through to consumers for the future.

That's especially important given the new capabilities that we have through technology, digital advancement and the use of data and getting the balance right between competition opening up those markets and consumer protection is something that we will be looking at critically. In terms of the pandemic itself we know that some of our interventions in this space can have an impact on competition.

We've sought to carefully balance the extent of those interventions to support consumers with the impact on firms and the impacts on competition and will continue to monitor that. We've worked especially closely with the FinTech sector in order to ensure that

they have the right levels of support. Our digital sandbox is up and running and seeking submissions which might respond to the COVID-19 pandemic or provide the products and services of the future.

So it's been an important objective and actually it's been quite useful to have at this time of crisis, to have the right set of balancing mechanisms as we seek to respond. Thank you.

Charles Randell: Thank you, Sheldon. Now, a question which I'll pass to Chris from Kate Hudson. Which regulatory measures on forbearance will be made in relation to those retail and wholesale customers bankrupted by COVID?

Chris Woolard Thanks, Charles. I'll also bring in Sheldon and Megan Butler on this. There's a range of issues here. So the first is what measures are there and in place for people who are customers who are in financial difficulty. So they won't be at the point of bankruptcy yet but they will be at the point where they need some additional help. Clearly, an awful lot of what we've doing in this crisis has been geared around how do we ensure, particularly retail customers but this is also small business customers, have the appropriate assistance in place where they need it. For retail customers that's often been around mortgage payment breaks, payment breaks on credit cards, those kinds of issues.

If they find themselves in a position where actually they find it very difficult to pay then there's a range of additional help that's available there which follows many of our normal forbearance procedures. So in other words there are the possibilities of rescheduling payments, no payment being taken at all, or referral on to specialist debt help and advice so either a payment plan or an individual bankruptcy plan can be put in place.

Clearly, on the commercial side of the house for larger more wholesale customers there are arrangements that are generally taken forward at that point either in agreement between the business customer and their bank or through the courts if it starts to get more formal. But what we've been trying to do in as far as

we possibly can is build a bridge across some of the most uncertain parts of this crisis for consumers so that they can get from one side of the problem to the other.

Now, clearly, finishing that bridge off when we don't know where the end in sight is going to be in terms of the medical part of this crisis and therefore the lengthy economic part of the crisis is incredibly tricky. But it's about trying to have those packages and measures in place.

On the firm's lending side of this so particularly the government schemes around BBLs and CBILs, we've obviously been working very closely with government, with people like the British Business Bank to try and ensure that there's real clarity about what happens at the point at which those loans begin to fall due and what would happen if a firm couldn't afford to meet those commitments.

That's work that's still ongoing in order to make that as robust as possible but that's very much the territory that we're in. I'll just pass briefly to Sheldon, just see if there's anything he would like to add from the perspective of talking around how those schemes work and how our general approach works here towards helping consumers that are in difficulty.

But then also Megan who has particular responsibility for the resolution of firms that do, unfortunately, find themselves bankrupt might want to add a few words as well. So to Sheldon first.

Sheldon Mills:

Thank you, Chris. I won't have very much actually. I think you've covered the ground sufficiently. Just one point to add in terms of how we move forward. So we will be shortly consulting, we have already consulted on the mortgages guidance, and the aim of – or what we're proposing for moving forward is that firms use the existing forbearance measures in a way which specifically meets the needs of individuals facing into this COVID-19 pandemic.

So we believe that the rules that we have in place and the guidance that we have in place should allow firms to support consumers as they face into this pandemic. So there's that point. As Chris as noted we are working closely with government in

relation to Business Bank Loan Scheme, Coronavirus Business Interruption Loan Scheme.

What we are seeking to do there is to ensure that there is some sensible approach in relation to recovery of the loans when they fall due. Most of that is a matter for government but some of that will be responsibility for us as we seek to ensure that firms are treating customers fairly and SMEs where we have regulatory activity there in – as that process moves forward. Thank you.

Charles Randell: So I think, Chris, you were suggesting we also go to Megan.

Chris Woolard Yeah, Megan might want to just add something on this as well.

Megan Butler: Thank you, Chris. I just wanted to pick up on the issues that come when the firms themselves that we regulate get into financial difficulty here and how they can expect us to respond around that issue. The most important intervention we've done there is, of course, to survey 14,000 of our firms on their own financial resilience.

We've targeted that at firms and sectors that we think are likely to be exposed particularly at the moment to financial pressures through COVID. With the data from those 14,000 firms we are prioritising connection with those that are most proximate to failure and those that we see as have the potential to cause most harm in failure.

We're working very closely with them. If we can we'll work with them to avoid the failure in the first instance but if we can't we'll work very closely with the firm to make sure that we minimise any harm that will flow from a failure. So this is front and centre as a supervisory priority right now.

Charles Randell: Thanks very much, Megan. I'll now come to a question from Joanne Ellis-Clarke. It relates to the recently published leaks about suspicious activity reports. The so called FinCEN leaks. I'm going to pass it to Chris and to Mark Steward. The question is, the recent FinCEN leaks are shocking. The most reputed banks of the world were being used to launder money by organised crime groups,

drug dealers, and fraudulent companies. Does the FCA plan to investigate and to take action? Chris.

Chris Woolard

Thanks, Charles. I want to start just by saying that this is an issue that the FCA takes incredibly seriously. We devote a significant amount of resource to try to make sure that London as a market in particular is a hostile environment for money laundering. It's something that considerable effort across the organisation goes in to dealing with.

I'm not going to comment on any of the individual banks or institutions that were mentioned in the particular reports from *Panorama* and more widely in the press but what I would say is, in a number of the cases that we're talking about – and bearing in mind these were leaks of papers that came from the US Treasury's Financial Crime unit so very much angled from a US end.

These are issues that stretch back over a number of years. In a number of cases, actually, action has been taken and I will let Mark talk about that in a moment. But the overarching message here is financial crime, money laundering, this wider piece about how do you stop the proceeds of many, many different kinds of offences being laundered into the international system is something that we put greater priority on both here in the UK and also the work that we do with international colleagues to try and prevent it.

As well as working alongside other agencies in the UK like the NCA and the police more broadly. But I'll pass over to Mark to say a little about the action that we have taken and indeed the action that we've got on foot.

Mark Steward:

Thanks, Chris. Yes, I mean, the programme really highlighted a lot of issues that we are already aware and working very hard on to try and address. I don't think there is a major banking institution in this country that hasn't been the subject or isn't the subject of some ongoing probe right now. We have a large volume of work in the pipeline dealing with the sufficiency of anti-money laundering systems and controls in UK institutions.

There is a challenge here. We know that firms also take this seriously and they spend a lot of money on systems and controls. The challenge is those systems and controls are still in many cases not yet good enough to actually do the job and something really needs to happen.

I think there is a disconnect between what is needed to really implement good controls within institutions as well as good judgement about what is picked up by those controls and what the purpose of anti-money laundering controls really is which is all about preventing some very serious underlying predicate criminal activity and terrorist activity. The *Panorama* programme highlighted that as well.

So many of the matters spoken about on the programme are the subject of work – they're subject to further work and we have a number of cases in the pipeline. I think the track record of very serious fines that we've imposed on firms is under-scoring how seriously we take it and we think the community takes it as well. So I think that's where we are right now. I'll and back to Charles.

Charles Randell: Thank you very much, Mark. I come now to question from Nigel Cairns. Again, I will try and add my own observations on this and then pass it over to Chris. Does the FCA think that the Financial Ombudsman Service and the FCA should work together in a more transparent and coherent way in their joint objective of protecting consumers?

If I may, Mr Cairns, I will enlarge the question a little bit not just to include the Financial Ombudsman Service but also other members of what we call the regulatory family who include the Financial Services Compensation Scheme, the Money and Pensions Service, and the Pensions Regulator because we have this group of five institutions who all share a lot of objectives in delivering better protection to consumers and where we need to ensure that we coordinate as well as we possibly can.

I'll just add that from my point of view as Chair of the FCA I've instituted very regular coordination meetings with the Chairs of these other institutions. We talk to each other much more

frequently now about the way our strategies fit together. At executive level, Chris, perhaps you can comment.

Chris Woolard

Thanks, Charles. That pattern of cooperation actually continues I think very much at executive level in a variety of different ways. I think there are more things we can do together. For example, earlier this year between the Financial Services Compensation Scheme and the FCA we've looked very carefully at, is there an additional piece of intelligence we can put together to try and spot firms that are phoenixing.

So this is the practice of essentially going bankrupt, leaving behind a trail of compensation, and then trying to resurface in an authorised firm somewhere else and we've made some real progress there. So I think there is always more we can do to join up. We also do, though, have to respect the fact that the ombudsman's judgements in particular are independent of the FCA.

That's a really important part of how the system is organised in the UK and the difference between the work that they do and the work that we do. But clearly, I think where there are large issues of common interest of particularly common policy that come up then it's right that we work in close coordination where that's appropriate and that we try across that entire regulatory family and also including colleagues at the Pensions Regulator, for example, to make that as joined up as we possibly can be.

Charles Randell:

Thanks, Chris. Now, a question from [Justine Kong] which I will pass to Sheldon Mills. What is the status of the LIBOR guidelines and the June proposal to redefine them? Sheldon.

Sheldon Mills:

Thank you, Charles. LIBOR remains a critical issue in the coming year so I'm glad we've had this question. The transition away from LIBOR by the end of 2021 is something that we want firms to form part of a critical transition plan for them. We understand that some firms' transition plans have been delayed by COVID but we hope regardless of what is happening in the pandemic that they can turn quite quickly to moving forward in relation to this as it is a big risk for the financial system.

In terms of the June proposals we welcomed the government's announcement on 23 June on its intention to legislate. This will provide us with powers to help manage an orderly exit and wind down of critical benchmarks such as LIBOR. We'll be publishing statements on our policy approach to the potential use of those powers in due course. So that's what will happen next.

But while legislation provides a helpful safety net for those contracts it is still important that firms move forward and ensuring that there's contractual continuity and control over those terms. I mean, there's an overarching concern for us that firms take reasonable steps to treat customers fairly when replacing LIBOR. Thank you.

Charles Randell: Thanks, Sheldon. I now come to a question, second question, from Gina Miller. Please could you explain why your investigation into the Woodford scandal which cost retail investors more than £1 billion – why your investigation has taken more than a year so far and more importantly does not cover the FCA's own conduct in this major scandal.

I will come to Mark Steward, our Director of Enforcement and Market Oversight who is more directly involved in our investigation but I'll make a few comments at the beginning if I may? So unusually after the suspension of the Woodford funds the FCA took the step of publishing a lot of information about the events leading up to the suspension.

This isn't something we normally do but we felt it was really important that people understood how this situation has come about and we answered a lot of questions at the Treasury committee about it. At the same time we do have an investigation on foot which will consider whether there is serious misconduct which should lead to enforcement action against either firms or individuals.

I think it's really important that I don't say anything about that investigation which could prejudice the outcome. There is wider work underway as well to look at the broader problem of liquidity in funds. We've taken action ourselves to deal with some of the

issues in open ended property funds and we're considering the fitness of that regime at the moment.

But we're also working with the Bank of England to look more generally at the structure of funds and the liquidity issues that arise when there's a mismatch between investor expectations of liquidity and the underlying asset. So there's a lot of work going on in this space.

The Board regularly looks at cases which have been significant to decide whether further action is required. Either a change to the way that we regulate or supervise, further reviews internally or externally. The Woodford fund is no exception. We will, of course, continue to follow closely the facts that arise from the investigation that's ongoing and will take our decisions in due course. So can I pass over to Mark to talk more specifically about the investigation?

Mark Steward: Thanks, Charles. We have confirmed that we're investigating the circumstances that led up to the suspension. We haven't said anything publicly about exactly who is under investigation although Link has confirmed publicly that it is a subject. This is a priority investigation for us. We have a team working on it continuously and it will be a complex matter without doubt.

I don't think it has taken too long at this stage. It is a difficult and challenging investigation. But for all the obvious reasons I'm not able to provide any further details of exactly where we are. But I should – but I can confirm that it's a priority matter. There's a strong team working on it full time and we're looking to complete it as soon as we possibly can.

Charles Randell: Thank you, Mark. Now come to a second question, I think, from Jackie Bennett. Why can't Mark Taber give a hand to the FCA when trying to police fraudsters on Google as he seems to understand the scammers boiler room tactics whereas the FCA seem to be behind the curve every time. I will pass some of this to Mark but I'd like to make a couple of comments myself.

Mark Taber, for those people watching who don't know, has been in very regular contact with the FCA about the problems of scam

advertisements on Google. I, myself, am deeply concerned about scam advertisements on Google and long before Mark Taber started writing to us I had also been raising this issue in a number of different ways. I would just like to explain two particular things that give me personally a lot of concern.

The first is that consumer understanding that Google search results including search results for sponsored advertisements from which Google earns money, Google AdWords results, consumer understanding that these may be fraudulent seems to be very, very low. I think consumers need to be aware that if you purchase a financial product having clicked on to a link as a result of a Google search without any further interaction with an authorised financial services firm you stand to lose money and you should not invest in that way any money that you are not prepared to lose.

The reason why you need that warning is that currently what we can do about Google scam ads is rather limited. European legislation gives Google widespread immunities from a number of liabilities that it would otherwise face by publishing these scam advertisements. That's an incredibly unsatisfactory situation.

You can imagine how deeply frustrating I find it that Google is not only earning money from these scam advertisements but it's also earning money from us because we then have to try and post our own advertisements on Google warning consumers about the consequences of following up these leads. So it's an area that needs urgent change. Change by Google and, if necessary, change through legislation. That's all I'll say on that subject. I'll now pass it over to Mark.

Mark Steward:

Thanks, Charles. Firstly, Mark Taber is already providing significant assistance to us. I think we receive comment and email from him on a daily basis and we take what he says to us very seriously and we act on it. The challenge here – Charles has talked about some of the challenge. From forensic enforcement perspective the challenge is significant.

We're dealing with something that is quite new and, certainly in my experience of 30 years of dealing with fraud, an unprecedented

way of facilitating or proliferating fraud through online media exists right now. We are seeing – it's not boiler rooms. Boiler rooms, I think – the FSA and the FCA before it took significant action that has beaten most boiler rooms out of the system.

Online scams and frauds is a differently thing entirely. It's provided fraudsters with a very easy percentage game. They can place ads that contain unrealistic offers to consumers, can be distributed cheaply to the entire online population, and effectively their identities, their true identities can be hidden from both the regulator and from the consumer. Sometimes these identities are very difficult to identify. It's not the names on the ad.

It's not the people at the addresses. It's not the people who answer the phone. It's somewhere else. Often it is overseas or somewhere else. Making the enforcement challenge a really difficult one. Which is why we invest so much in ScamSmart as well. We're not stopping enforcement. We are pursuing many cases right now which I obviously can't talk about.

But we are urging consumers to really pay attention to what we're putting on our ScamSmart site which is full of information about how these scammers are actually operating, how to avoid being scammed, how to avoid being duped, and what checks consumers can make for themselves in order to protect themselves.

It's really important that we pursue a twin strategy of both enforcement where we can but also reducing the number of victims. But I echo Charles' concerns around Google. It's a platform – and various other social media, it's a platform that allows fraudsters to disseminate scam marketing without revealing their true identity in a very cheap way and something needs to be done about that. Charles.

Charles Randell: Yes, I think in fairness I should say that other platforms are also involved. We see these scam ads on Twitter. We see these scam ads on Instagram. We see increasingly so called social media influencers involved with scams on Instagram. Very often crypto currencies are involved. The message to consumers is simple. Don't do it.

Can I have then come on to a couple of questions? I think we'll have time for two more. We have four minutes remaining now. Firstly, Chris Davis. A few years into the twin peaks model of financial regulation, the creation of the Financial Conduct Authority and the Prudential Regulation Authority, do you have concerns over the efficacy of dual regulation?

Each regulator may be more focused but how do you best use your limited resources given the wider remit of the FCA. Great question. I'll get Chris' views in a minute. Just quickly from me. I've had the privilege of sitting both on the Prudential Regulation Authority Board and on the Board of the FCA. I think the twin peaks model is the right one to give the right focus to prudential issues in major firms without losing focus on conduct issues.

My quick answer would be, I think each regulator can do a bit more of each other's work. I think it's good for the FCA to focus on the prudential regulation of its enormous catalogue of firms to a greater extent. I think it will be important in the future that the PRA continues to focus on the conduct issues that can affect their mandate of prudential supervision and operational resilience

Because what can bring a firm down nowadays, a big bank down nowadays, is more than just a loss of value in its assets. There are all sorts of cyber and other risks to which they're exposed. But I'll pass over to Chris.

Chris Woolard

Thanks, Charles. Just very quickly given time. I think there's a few points to make. Firstly, how you cut the regulatory landscape. So in some companies internationally it's a single regulator. In others, if we look at the US, there's about seven different federal agencies covering the ground that we do and that the PRA does. So I don't think there's any magic formula that you can have.

I think twin peaks has worked well for us. It absolutely relies upon the people within it. Certainly in the last few months in the crisis the fact that Andrew Bailey and Sam Woods and I have worked together for a number of years, I think, has been really important in helping certainly me do my job in that time.

The institutions we have around it so the Financial Policy Committee and cross membership of our Boards, I think also help. Then, finally it's about having the right models for what you're doing. So we talked a lot earlier about how we think about data, how we think about better use of intelligence. Certainly from a FCA perspective we are covering 60,000 firms.

The programs we've had as well about improving how we supervise that Jonathan and Megan have led over the last couple of years, all of that is directed towards how do you deal with that very, very large population of the FCA and how do we, frankly, work in lockstep where there are big issues.

So if you take something like the Business Interruption Insurance cases we've obviously been very much focused upon the policyholders and getting certainty for policyholders and insurers alike. The PRA has been very much focused on ensuring that the insurance firms themselves have got adequate capital to meet their liabilities and remain strong and stable throughout this period.

Charles Randell: Thanks very much, Chris. Time has marched on. It's now past 11:59 so I don't think we have time for any more questions. The questions that have come up on my monitor have been a mixture of some very searching questions about the FCA's performance but also some very technical questions about regulation and financial markets. I've tried to favour the more challenging questions for us.

Obviously, the other questions, technical questions about financial regulation, we will all answer – we will answer them all on our website. So I'm afraid that's all we have time for today. Thank you, all of you, for joining us. Thank you for all your questions. I'm sorry we've had more questions than there's been time to answer but go to the website and you will see that we will post answers to all questions. Thank you very much for joining our public meeting this year.

END OF TRANSCRIPT