

Transcript of Annual Public Meeting 2022

Richard Lloyd: Good morning everyone and welcome to the Financial Conduct Authority's Annual Public Meeting. I'm Richard Lloyd. I'm the interim chair of the FCA and I'll be hosting this year's event. The main point of today, of course, is for you to be able to ask us your questions and for us to answer them. As usual, any questions that we don't have time to answer in the meeting will be answered in writing after the event.

Now, before I explain the format of the meeting and introduce the people who will be answering your questions, I'd like to begin by reassuring you that our primary focus at this time is ensuring that the FCA does all it can to help people with the cost of living and to maintain market integrity through this economic turbulence. We laid solid groundwork for this before the crisis hit. We've made sure that loyal insurance customers aren't routinely charged more than new customers. We've curbed the most exploitative practices some firms used when giving people credit. And we've established a tailored support regime where we expect firms to do all they can to help customers who have difficulty making repayments.

Now, as more people find it more difficult to pay their bills, many will turn to credit. We're doing all we can to make Buy Now, Pay Later safer for people to use under the very limited powers that we have. We've made firms make their contracts clearer and fairer and warned firms about their financial promotions. But we urgently need parliament to pass legislation that brings Buy Now, Pay Later into regulation.

But in times like these, the risk of scams and financial crime is greater than ever. Criminals are trying to exploit people who need credit through loan fee fraud, where people are tricked into paying for a loan that never materializes. We're warning people that you should never make a payment in order to receive a loan. Tackling fraud by regulated firms is a top priority. We've stepped up our Scam Smart campaign, warning people about the risks of crypto and other high risk investments with promises that are too good to be true.

But it will continue to be the case that we can't stop every fraud that gets reported to us. Parliament has set our remit and we have to prioritize the tasks parliament has given us. So when we get reports of activity that lie outside our remit, like unauthorized firms dealing in unregulated products, we have to work closely with our regulatory partners and law enforcement to help them decide what to do.

But it's a simple fact that the system for tackling fraud is complicated and frankly under-resourced. It's the biggest financial crime in the country. Fraud costs us over 130 billion pounds a year and less than one than 1% of police officers and staff are devoted to it. My appeal today to the home secretary is to make fraud prevention and detection a national priority across the police and law enforcement so that the public can have greater confidence that when they report a fraud, the perpetrators will be caught and stopped.

Alongside that, it's vitally important that the measures to tackle scam adverts and fraud that are included in the online safety bill are enacted as soon as possible. It simply can't be right for massive global online platforms to have no responsibility in law to stop criminals paying for adverts on their sites to defraud innocent people.

Looking back at last year, our annual report shows the FCA continues to change. We know that in the past we haven't always done enough, quickly enough to stop bad actors. We've taken the lessons learned from the independent review into London Capital and Finance extremely seriously, and made significant changes to the way we operate to make markets safer.

We're being very clear to firms that want to operate in the UK that they must meet our standards. Last year, one in five applicants didn't obtain authorization up from one in 14 the previous year. We used anti-money laundering criminal prosecution powers for the first time last year, and are being more proactive at addressing risks to consumers even beyond our jurisdiction. We're now scanning hundreds of thousands of websites every day to identify scams with hundreds of websites

taken down as a result, and we're breaking new ground by introducing the new consumer duty, which will set higher standards and require firms to focus on meeting their customers' needs in everything they do. We think this will be a real game changer for the level of protection consumers receive in the UK.

It should mean people receive communications they can understand, products and services that meet their needs and offer fair value, and they get the customer support they need when they need it. This is hardly controversial, but too often still doesn't happen. For firms, greater clarity about our expectations, including for products not yet on the market will provide more certainty. Fewer detailed rule changes should bring down costs while we'll be able to act more quickly and assertively where we spot practices that don't meet our expectations.

This focus on high standards supports a world leading approach to positive sustainable innovation. To give just one important example, the UK was the first major economy to mandate climate related disclosures. We know there's much more to do, but we are working hard with international partners as they develop their policies to support the global transition to a low carbon economy.

Finally, the government's Financial Services Bill, which is now before parliament, is an opportunity to ensure that as the world around us changes, we maintain a coherent system of regulation that can keep up with emerging risks of harm to consumers and market integrity with independent regulators acting in the public interest.

I'll now hand over to our CEO, Nikhil Rathi, for his remarks before we take questions.

Nikhil Rathi:

Thank you, Richard, and thank you to everyone who has taken the time to watch and submit questions today. I will set out a little of the context that we have been operating in and what we have done over the last year. We continue to live through an exceptionally challenging external environment, bringing into sharp focus the important role played by an independent, assertive and agile regulator. We have been facing once in a hundred year events every few months recently.

We mobilized to support consumers, markets and businesses during the pandemic, and it is fair to say we have not stopped

since, responding rapidly working with domestic and international partners on the implementation of sanctions following the Russian invasion of Ukraine, monitoring extreme movements in energy and commodities markets, and most recently working with the Bank of England pensions regulator and other authorities to monitor the impact of the significant repricing of gilts, particularly on market functioning and defined benefit pension funds.

This unprecedented level of repricing affects market levels of interest rates used to price mortgages and consumer lending, and therefore millions of consumers' household budgets. Such volatility demands vigilance. Market participants can expect us to be talking to them regularly and requesting realtime data as we monitor events closely. While we cannot change economic events, we can influence how financial services firms treat their customers when times get tough.

Richard touched on the new consumer duty, which not only protects consumers, particularly the most vulnerable, but could ultimately lead to fewer new rules for firms. And yesterday we published enhanced guidance on treatment of customers in relation to provision of cash and branches. Our broadening remit encompasses keeping an eye on tech giants and financial promotions, the rise of Buy Now, Pay Later, and an increasing dependency on firms for outsourcing the storage of customer data and housing key financial infrastructure, for example, in the cloud.

Over the last year, we have worked to get better protection for consumers, enhanced market integrity and to strengthen competition. We have frozen assets and levied fines to protect consumers and support market integrity. We have overhauled our listing rules to make the UK a more attractive place to list firms and access growth capital. And we are engaging in an open discussion with market participants about further reforms.

Of course, we can always improve and must continue to do so. We are undergoing an extensive transformation program to do just that. My colleagues across the FCA have worked tirelessly towards this. One example is in the authorizations area or what

we call the gateway. We recognize that a gateway that is both rigorous and efficient is important for the competitiveness of UK financial services. We published an update on our latest operating metrics earlier this week. We recognize that authorizations of approved persons has been particularly challenging following the extension of the senior managers and certification regime in December 2019.

Following the recruitment of nearly a hundred more case officers. The peak of 8,000 cases in July 2021 has now been reduced to 2,400. Overall, our pending caseload is down by 47%, and we will substantially be meeting our metrics by the end of this financial year. We have done this alongside implementing the recommendations of the Gloucester Review with a more rigorous gateway, and we are now looking to speed up our process through automation.

We have also helped more new firms to innovate and grow through our regulatory sandbox, an idea that has been replicated around the world. We are being assertive with firms we don't directly supervise, but whose cooperation is necessary to tackle serious consumer harm. Buy Now, Pay Later firms and platforms like Google have changed their policies following our intervention. We look forward to tech firms such as Meta moving more quickly to block scams on their platforms.

We know scams such as authorized push payment fraud and money mule enticements are on the increase. So we have been holding hackathons and other collaborative events to devise solutions for these new challenges. On crypto, we recognize the potential of blockchain technology to support innovation. We also have sought to rigorously apply new money laundering standards. At the same time, we have continued to warn customers that they must be prepared to lose all their money if they put that money into crypto assets.

We have seen 600,000 people paying less interest because of our work on persistent credit card debt. We have made sure there have been changes to insurance pricing, where customers are no longer penalized for their loyalty. Over 1.5 billion pounds has now been paid in business interruption insurance claims



following our case in the Supreme Court and banks and insurers can expect more contact from us over how they are treating customers who may begin to face challenges in the months ahead.

We are seeing banks and other lenders returning to the market with mortgage products after their temporary withdrawal in previous weeks. Our extensive work on borrowers in financial difficulty gives detailed guidance on what we expect of firms, whether they're offering consumer credit, mortgages or overdrafts. This guidance places strong responsibilities on lenders to engage proactively with their customers and provide tailored options for their situation.

From July, we also started regulating funeral plan companies after having to crack down on rogue firms that took advantage of customers at their most vulnerable. You can be assured that we will continue to strive to protect consumers from harm, ensure market integrity and foster innovation so our economy can grow, even in the face of these expanding responsibilities.

Thank you for your time and, as ever, for your forensically researched questions. Now back to Richard.

Richard Lloyd:

Thanks Nikhil. We'll now move on to the main part of today's meeting, your questions.

We now joins remotely by members of our executive committee who will help Nikhil and me answer some of your questions over the next couple of hours. Joining us, we have Stephen Braviner Roman, our general counsel. Sheree Howard, our Executive Director of Risk and Compliance Oversight. Sheldon Mills, Executive Director for Consumers and Competition. Sarah Pritchard, Executive Director for Markets. Jessica Rusu, Chief Data Intelligence and Information Officer. Emily Shepperd, Chief Operating Officer and Executive Director of Authorizations. And Mark Steward, our Executive Director for Enforcement and Market Oversight.

We also have two non-executive directors who chair board committees and are also available for questions today. First of

all, Liam Coleman, chair of the Audit Committee and Alice Maynard, chair of the People Committee.

Now, thanks to all those who submitted questions in advance to the meeting via our registration site. We've had over 70 questions and thanks also to those who've submitted questions this morning. You'll still be able to ask questions throughout the meeting via the question box. We'll be grouping questions by topic to help us get through as many as possible. I expect we'll have more questions than we can answer today, but any questions we can't answer this morning, will receive a written answer in due course. So let's get started.

First of all, we've got a question from Karen Geraldine for Nikhil. 'Nikhil, how do you intend to address the scale of regulatory failure within the FCA?'

Nikhil Rathi:

Well, thank you, Karen. First and foremost, I'd say, having been in the FCA for two years, how much outstanding work my colleagues at the FCA undertake day in, day out to tackle consumer harm, keep markets functioning and promote competition. And much of that work isn't in the public domain, but supports the effective operation of our financial system day in, day out. We also recognize, as Richard said in his opening remarks, that not everything has gone as well as it should have done in the past. He specifically referenced the Gloster Review and other independent reviews, which indicated where mistakes have been made by the FCA, which we have been working very hard to respond to and implement the recommendations we've received.

We have a widespread transformation program that has been looking at all aspects of the FCA's operation. We have sought to streamline our governance so that we can intervene more quickly. We are bolstering our data capabilities so we can more effectively operate at scale. You heard earlier, Karen, that in our authorizations gateway last year, we've moved from not authorizing one in 14 applicants, now to not authorizing one in five. If we can tackle problem firms at the gateway, that can save many, many problems down the line.

We've also been much more proactive in tackling problematic financial promotions. Last year, there were around 570 interventions. Year to date so far in 2022, that number's over 4,000, to try to track tackle problem areas. So what you can expect from us, I think, is continuing attention to those lessons that have been highlighted to us and that we have learned and a continued focus on the improvement, and publishing our metrics transparently so you can assess for yourselves, our progress.

Richard Lloyd: Thanks, Nikhil. I'm going to move on to a question which I'll ask Sheldon Mills to answer in a second. And this is on a very, very topical and concerning topic of people struggling with their mortgages at a time like this, and it's from Karen Wilkes who says, 'Why is it that vulnerable customers who've fallen into mortgage areas through ill health or disability are not allowed a product transfer to a cheaper fixed rate, especially when there's a threat of repossession? Is there a loyalty penalty? Do the poor pay more?' Sheldon, over to you,

Sheldon Mills: Thank you, Karen. Thank you very much for the question. We know that the current economic environment is having a significant impact on many people, and especially those who are in vulnerable circumstances, and we recognize that those who experience a life event of the type you mentioned such as ill health or disability, that they can struggle, particularly with their mortgage repayments. And that's why in June, we wrote to all mortgage lenders to remind them of the standards that they should meet as consumers across the country are affected by the rising cost of living, and we know that House of Bills expect it to rise in the autumn. It's important that firms act now to make sure borrowers struggling with payments and customers in those vulnerable circumstances can access the help that they need.

What we want to see is that firms are reaching out to those customers, either before they get into financial difficulty or when they are in financial difficulty, and ensuring that they have the right support or adjustment that might help avoid unnecessarily negative outcomes.

Sheldon Mills: That might help avoid unnecessarily negative outcomes. That said, in relation to mortgages, evidently it's a choice for firms as to how they serve their customers and whether they can put customers onto different types of products or services. Generally speaking, if a customer is up to date with payments and meets affordability requirements, then it's easier to move them onto a different type of fixed or other rate for their mortgage. If they're behind in their payments, then that is more difficult for firms given the risks that they're taking in relation to that customer. But that doesn't mean that firms shouldn't be supporting those customers through that journey of difficulty with making those payments.

Richard Lloyd: Thanks, Sheldon. We're going to keep with Sheldon now for another question on debt cycles, and it's from Jamie Patel who says, 'Why isn't the FCA doing more to tackle debt cycles? The cycles that she says high cost short term credit firms create. The cost of living crisis is important for these types of firms, it's an opportunity to take advantage of vulnerable consumers. Not much has been done regarding this sector since the price cap and other measures were introduced over seven years ago. Is it time for a review?' Sheldon, back to you please.

Sheldon Mills: Jamie. Thanks very much for the question. Since taking over responsibly for consumer credit at the FCA, we've taken a significant amount of action against a large number of firms who have lent responsibly to financially vulnerable people or treated them unfairly when they're in difficulty. That includes, as mentioned in your question Jamie, the price caps in payday lending and also rent to own markets. And we've improved how firms in high cost markets can assess affordability. In addition, our price cap for high cost short term credit has already saved consumers around 150 million pounds per annum.

Our objective at the FCA for the high cost credit sector is that financially vulnerable people are able to utilize credit in a way that doesn't cause harm to them. So that lending is affordable and customers are treated fairly if things go wrong. And those are key areas of focus obviously as we move forward into this

cost of living crisis. We know that many consumers will feel the impact in their personal finances as a result of the rising cost of living and increasing numbers of people will find themselves struggling. So what we've asked firms to do, we've been early in relation to this in writing to 3,500 firms across the retail lending sector, including high cost, short term credit firms to remind them how they should support borrowers in financial difficulty. And we have identified 30 of those lenders who are not happy with the way that they're currently supporting borrowers who we're in financial difficulty and we're working with them directly to ensure that they improve.

So, we continue to take regulatory action, including supervisory and enforcement action even if we're not undertaking a major review of the sector. Thank you.

Richard Lloyd: Thanks Sheldon. We'll be moving on now to questions about enforcements, which will largely be taken by Mark Steward. Starting off with a question about Woodford from Neil Taylor who says, 'Can you give an indicative timeframe when the report on Woodford will be made public? Also, can you give an estimated timeframe for the completion of the investigation into Wellesley Group?' Mark Steward, please.

Mark Steward: Thank you for the question. I'll try and be succinct. Both Wellesley and the investigation to the suspension of the Woodford funder are very important priorities for the enforcement team and teams are working full-time on both those cases and we're very conscious of the losses that investors have suffered in both of those instances. We are currently in the process of preparing a survey of investors to gauge information that we need in that particular investigation, which is about to be made public. We need to get the corporation and assistance of as many investors in Wellesley as possible to enable us to take that investigation forward. So, that's something that's about to happen very soon. Obviously our investigation follows the evidence and it's difficult to give a firm public commitment as to when that investigation will finish. But we're working extremely hard and obviously trying to finish it as quickly as we possibly can.

In relation to the investigation into the suspension of the Woodford Fund and matters relating to that, equally a very large team has been working very diligently on that matter. You will have perhaps seen public reports around the process that is in relation to the role that Link Fund Solutions played in relation to the management and operation of the Woodford Fund. We are in discussions with Link in relation to that matter. Those discussions are looking at seeing whether we can agree a resolution of that case involving Link. That is the typical process that we go through before formal proceedings are initiated.

The statute requires us to keep this aspect and this part of the process confidential, so there's not a lot more that we can say, but Link Group has announced to the Australian Stock Exchange where it's listed some details about what is on the table in those discussions. Which includes an assessment of redress that represents the losses that we estimate have been incurred to existing members of the Woodford Fund as a result of various issues relating to the management of liquidity in that fund leading up to the suspension. And that's an amount of redress of 306 million pounds. So we are progressing those discussions with some vigor right now. And there of course there are various other parties to this case and those matters are proceeding at pace as well.

I can't give a formal public indication of time period for all the reasons that you would expect. I should make clear though that the question assumes that whatever the outcome, that there's some report that we publish under the legislation that governs what we are doing. There isn't any report that we're able to publish unless we get an outcome in an enforcement case, unless we take enforcement action and there's an outcome and then there's some documents, some statutory documents that we're able to publish under the Financial Services and Markets Act. We are very conscious of the enormous public interest in this case, so we'll have to think about how we address that public interest when we get to the end of the process, if in fact enforcement action doesn't proceed. But at the moment we're working towards completing the investigation and doing whatever we can to ensure that we fulfill the commitments that

we've made, we fulfill the obligations we have and also the proper purposes of the legislation.

Richard Lloyd: We're going to stay on enforcement cases now with a couple of questions about Blackmore. The first is, what does the FCA think of those FCA registered companies that supported Blackmore Bonds? i.e. insurance companies and marketing companies. And then secondly, and again this is for you Mark, 'Why is the FCA so reluctant to deliver a full independent investigation into Blackmore Bonds similar to that of LCF?' Mark Steward please.

Mark Steward: So thank you again for the question. Quite a lot of things in both of those questions. Firstly, just a little bit of background, Blackmore Bonds were offered to consumers to raise money to develop properties and to pay a return to those bond holders. Those bonds represented unsecured loans from consumers to a company involved in property development. That's effectively what Blackmore was all about. Part of the proposition to consumers involved something called a capital protection scheme. So this is the insurance aspect that I think the question raises. The capital protection scheme offered amounts of up to 75,000 pounds for losses arising from the investment. The insurer is a legitimate insurer, we understand the claims have been made on behalf of Blackmore Bonds against that insurance policy and at the moment the insurer has not accepted those claims. There is clearly more to follow in that process and it wouldn't be appropriate for us to comment on where that might lead to and what might happen. But the insurance component was an important part of what the Blackmore Bond proposition offered to consumers. So between the liquidator and the insurer, there is more to more to play out, but there is nothing untoward about the insurance policy itself.

In addition to the insurer, the way in which the legislation operates. Blackmore Bonds unregulated firm, unable to issue mini bonds without being regulated by the FCA, that's outside our perimeter. But the marketing and promotion of those bonds could only happen through the agency of FCA authorized firms who approved those financial promotions that were issued by Blackmore Bonds. So our attention, has been firmly focused on the way in which those financial promotions really operated. Did

the FCA authorized firms? There were two of them who were involved in those promotions. Did they undertake proper due diligence? Did they check out what was being offered? Did they make sure that what was being provided to consumers, the information that was being provided to consumers in those promotions, did they make sure that information was accurate, was clear, not misleading and didn't contain any material omissions and also properly advised consumers about all the risks that were involved in those promotions.

Now, at this stage our work in relation to this is virtually complete. But at this stage it does look as though those financial promotions were largely accurate in what they set out and contained very relevant risk warnings for consumers. We are doing additional work though because the proposition for Blackmore could not be given to any retail consumer. You had to be a qualifying consumer to be able to buy Blackmore Bonds. Largely that was because of the higher risks involved in dealing with this kind of investments. And you had to be someone who had the necessary financial strength to deal with a loss or you had to be experienced in some particular way in that kind of instrument.

I won't go into the technicalities about the qualifies that you had to have to be invested in Blackmore Bonds, but we are making sure that that process worked well and we've obtained through our investigations, we've obtained call records that enable us to check with some precision what was actually being said to investors on top of what was contained in the financial promotions themselves and we're well on the way to getting on top of that information as well.

So to come back to the question, we are looking at these matters in forensic detail in the same way in which we are looking and we have looked at LCF, in the same way in which the Serious Fraud Office is looking at LCF. And I don't want anyone to have any view that because Blackmore itself was unregulated, because Blackmore Bonds don't need any kind of informed the FCA to be offered to consumers that that means that it's hands off by the FCA. We are looking at this in the same way we'd look at any other matter with the same degree

of for forensic scrutiny, particularly because it's clearly a matter of significant public interest. Around about 2,200 people have lost a lot of money, around about 47 million pounds was invested in Blackmore. Of that 2,200 people, we received about 36 complaints, I think it is 36 complaints. Not a high amount, but there's a lot of public interest in ensuring that what happened with Blackmore, that there's no misconduct or other impropriety that affected what happened with Blackmore.

I should say just one more thing. We've also worked closely with the insolvency service, who has also looked at what happened with Blackmore, their work is complete. They've decided that there is no basis to take any further action. We're still looking at the way in which consumers were spoken to by those involved in the promotion and marketing of Blackmore Bonds to make sure that those promotions themselves are actually conducted in a fair and proper way.

Richard Lloyd: We're going to move us on now to the topic of crypto assets. And I've got two questions that are quite similar. First is, what is the FCA doing to fairly regulate firms, businesses and consumers operating with crypto assets? That's come from a binance.com email address. And secondly, what's the FCA's future strategy surrounding the regulation of crypto assets? That's from Imbar Price. Now Sarah Pritchard, could you take both of those together please?

Sarah Pritchard: Thank you Richard. So let me first start with talking about our current regulatory reach. I just want to say upfront that our current remit is relatively restricted at present. We are responsible for assessing certain types of crypto asset firms, for compliance with money laundering and counter-terrorist financing standards, but our remit is limited to that at present. As Nikhil said in his introductory remarks, we have been rigorously applying standards at the gateway to ensure that those firms under the AML, Anti-Money Laundering regime, meet those standards. And we've seen a significant number that haven't. But equally, we have supported a number of firms and we've had 38 firms now pass through that money laundering registration gateway in respect of crypto.

More broadly, it's helpful I think to think about crypto in three different aspects. Firstly as an investment, secondly as a means of payment, and then thirdly crypto as a technology which can support innovation and development in markets too. I'll talk a little bit about the FCA's role in each of those three areas and the future strategy too.

So firstly in terms of crypto is an investment. Again, you'll have heard Nikhil and his introductory remarks talk about the fact that we've warned consumers regularly that crypto is a high risk investment and you should be prepared to lose all of your money if you invest. We have concerns that people do not understand the extent of those risks and we are seeking to remind consumers. We've also launched a new Invest Smart campaign, which aims to give greater guidance around the risks of investing and how to be a confident investor.

HMT announced earlier this year in intent to bring financial promotions for crypto within the FCA's remit. And when that happens, we will work to confirm the rules that we will apply to make sure that when crypto is promoted to consumers, that care is taken to ensure that consumers know that those investments are high risk, taking a similar type of approach to the high risk investment rules, which we confirmed in the summer.

Secondly, what about crypto in terms of payments? Well, again, you may be familiar that Treasury announced again earlier this year, the intent to introduce stablecoins as a means of payment. And that is an aspect that we are working jointly with Treasury and with the Bank of England in respect of subjects to government confirming to bring that into effect through legislation.

And then thirdly, it's useful to touch on crypto in terms of the technology that it offers. And in that space we recognize that there may well be benefits for users of financial services and we have a well established reputation for supporting innovation through our sandbox and our innovation pathways service. We will continue to do that. We have already supported 56 firms with DLT based innovations so far, and we are also working with

treasury in the development of financial market infrastructure sandbox, which again was announced earlier. Thank you Richard.

Richard Lloyd: Sarah thank you. We're going to take three questions about FCA staffing issues. Starting with one from John Gill, which I'm going to ask Nikhil to answer. And the question is, the FCA has seen huge staff turnover and changes recently, including bad press in the media with threatened action from trade unions. 'What impact do you think this has on the organization and what are you doing to retain staff and knowledge?' Nikhil, over to you.

Nikhil Rathi: Thanks John. We have been through as part of our broader transformation, a very challenging set of reforms to our career pay and grading. I very appreciative to all our colleagues who have worked with us and stuck with us as we have been making changes to deal with a number of long standing issues. We have withdrawn our bonus schemes but moved into a more performance related pay framework. We have simplified our pay ranges to enable greater mobility across our organization. We have tackled some issues with respect to pay for our lowest paid colleagues and we have established a pay framework which we think will be sustainable in the medium term as we expand very significantly on national presence including in Edinburgh and Leeds. The consultation has been challenging and you allude to that in your question.

Specifically on the question of turnover, what we've seen over the last period since the pandemic. In the immediate aftermath of the pandemic in March 2020, staff turnover fell very considerably for obvious reasons. It picked up a little bit in the following year and this year we have been very active both in terms of recruitment for additional responsibilities and for new skills. We have seen vacancies, which we advertise for three reasons. Firstly, for those colleagues that do leave the organization. Secondly, when colleagues move around the organization. And thirdly, for new responsibilities, we're well on track to having over 1,000 new colleagues joining in this calendar year. And I would expect in this financial year our headcount to grow by some 400 to 500 colleagues. Within that, we've seen around 600 promotions within our organization. So

colleagues who are able to progress their career and build new skills. In particular, we've seen mobility into the data technology and innovation division as colleagues look to broaden their professional experience and expertise.

We're also making it possible for colleagues to be more mobile across the country. So, introducing location agnostic recruitment for colleagues who may wish to operate out of a different location than London. We've been encouraged by the breadth of talent that has been joining our organization, be that from partner organizations or third sector organizations, industry, internal promotions, and also from other regulators around the world. Thank you.

Richard Lloyd: Thank you Nikhil, another people question are not going to put this one to Alice Maynard, who's chair of the board's people committee. And it's a question from Deborah Harris who says, 'October is Black History Month. Could you share what impactful allyship systems and processes are in place in the FCA to ensure the staff profile in senior roles better represents the London population, served specifically the Black community with generations in the UK since the Windrush generation?' Alice, over to you.

Alice Maynard: Thanks very much for that question. So, we've have some very strong diversity and inclusion practices and actually if you want to see the outcomes of those, you can look at our diversity strategy that is published alongside... Sorry, not diversity strategy, our annual diversity report, which has been published alongside our annual report and is on our website. That includes a great deal of detail about the things that we have achieved.

The kinds of things that we've got in place are things like mentoring and sponsorship for our Black and minority ethnic colleagues. And we have a very strong internal diversity and inclusion programme and we have a network called Spectrum, which includes work on allyship. So, we know that in this organization you never finish learning how to become more inclusive, and that's what we are doing. One of our values is to act inclusively. We certainly aim to do that and we get as much data as we can to ensure that we can evidence that we are

becoming more inclusive in everything we do. And we do a quality impact assessments both for internal programs and for external policy work. So we do a great deal on this. We will never be perfect and we want to become closer to perfect and we're making sure that we do that. So I hope that's helpful to you.

Richard Lloyd: Thanks Alice. Nikhil, I think you want come in on this one as well.

Nikhil Rathi: I just wanted to add to what Alice talked about, this is also a personal priority for me and I'll be very clear about that since I've arrived at the FCA. It's work that goes all the way through the organization. And specifically for the first time we've set targets for Black senior leaders in our organization. We aspire to have 4% of our senior leadership by 2025 identifying as from a black background, that's part of a broader strategy to have 20% from minority ethnic backgrounds and 50% from female senior leads as well. And we're well on track to meeting all of those ambitions.

We also, through the paying grading reforms that I talked about, spent a lot of time thinking about our pay gaps, which financial services organizations have grappled with I think for a number of years. And we've published the data now, so you can see that in the first year of those reforms. While it's not completely narrowing the gap, we've made meaningful progress to narrowing the pay gap that existed, particularly for Black colleagues in our organization.

Richard Lloyd: Thanks Nikhil. A final people question a capacity question, which we're going to ask Emily Shepperd to respond to. It's from George Patellis. He says, 'What steps, if any, are you taking to address the delays in responding to freedom of information requests? In many cases, it's taking over a year to get a response from the FCA. This is significantly over the 30 day maximum response time as well as the maximum 90 day request response time for complicated requests.' So Emily, could you respond to that question please?

Emily Shepperd: So George, you're right. We did have some challenges and delays, particularly in the FOI team. They hit towards, well mostly in last year. So the actions we took were to increase some capacity in that team a little bit, some of it through a third party. So we've had paralegals brought in order to just help get through that burden. We're investing in some technology there. So some technology particularly around the management information so we know where things are. And as at September, so I can give you the September data, we had just two cases that had breached, which is much better.

Now whilst we aspire to absolutely do it within the 30 and 90 days, there are occasionally some cases where the volume is tens of thousands of pages that have to be read, that we have to ensure just the information that's requested goes through. So I'm not saying that we are going to be 100% on this because I cannot promise that, but we are certainly a lot more on top of it now we have that capacity and we have that focus back again. Thanks.

Richard Lloyd: Thanks Emily. Moving on now to the consumer duty and we've got a question from Julia Kirkland who asks, 'When do the FCA expect to begin checking that implementation plans and consumer duty champions are in place?' Sheldon, over to you for that one, please.

Sheldon Mills: Thank you. So as Nikhil said, the new consumer duty has been proposed so that firms can set a higher standard of consumer protection for the products and services that they provide. And what we want to see is a rebuild of the trust in financial services that we have in the UK and we want to see a great financial services industry in the UK, which is well respected globally in relation to that. One of the things that we put in place in our new consumer duty is that firms have to have implementation plans for it by the end of October 2022. Our supervisors may check those plans to see how firms are doing and scrutinize them. Now we won't check all of those plans, clearly plans across 50,000 plus firms, we won't be checking all of them. But what we want to do is that boards have a consumer duty champion in place that can either be a non-executive director or

it could be the chair if a non-executive director is not seen to be appropriate in that board. And their role is to assure that the plan is in place and that it's something that can be taken forward by the deadline of July next year. So those should be in place by the end of October. And as an organization, we are there to help firms to implement the duty and make this new proposal a success.

Richard Lloyd: Thanks, Sheldon. A question about cost benefit analysis and it comes from Jimmy Hinchcliffe who says, 'How does the FCA determine whether their imperfect regulatory interventions improve upon an imperfect market? Is FCA cost benefit analysis just a tick box exercise? Are there any recent examples where the FCA decided not to proceed with a policy initiative due to the cost benefit analysis?' That's a very broad question, but I was going to ask Sarah Pritchard if she could have a good answering that one please, Sarah.

Sarah Pritchard: Of course. So I thought I would start with trying to explain and answer the question around how do we determine whether our regulatory interventions improve upon the market. Now, as you may have seen, we published a newly three-year strategy, which is first with the organization in that it is a whole organization strategy with 13 priority commitments, which we have committed to acting on for the course of the next three years. And alongside that strategy, there is a specific metrics document which seeks to track the outcomes that we're seeking to deliver through that strategy. And we have said we will be using those metrics to focus and report regularly on how the outcomes are being delivered both against that strategy but also against all of our regulatory interventions too. I hope you'll see through that approach a real commitment to putting in place a framework to help us better measure the impact of the actions that we are taking.

In terms of cost benefit analysis, this is a really important aspect of the policy development process and it's something that we are committed to continue to improve upon. It is one element of assessing the policy development process. And actually we are quite dependent as much on the work that we analysis that we carry out, but also want input from industry.

And so really welcome engagement through our consultation process to provide that meaningful data too.

You may be familiar that under the future regulatory framework that's legislation which is currently going through Parliament, we'll add additional measures to improve upon the cost benefit analysis process with the creation of an NX-anti panel, which we are also committed to support.

Finally finish with examples of where we decide not to proceed with the policy initiative. And I wanted to say that through the consultation process itself, we do really take into account feedback that is provided. There are examples where we have delayed dates for implementation as a result of feedback and ensuring that we've got a good feedback loop that we are actively listening and transparent around our decision making process remains really important for us.

Richard Lloyd: Thank you Sarah. There's a question here about collaboration from Nigel Somerset who says, would you agree that the pandemic demonstrated that when regulators and organizations work closer together, remarkable outcomes can be achieved? And if so, is there an opportunity for greater collaboration and closer relationships to solve the challenges we collectively face that certainly, this is a question close to my heart because I meet with the chairs of the financial Lumberman service, the financial services compensation scheme, and the pensions regulator regularly. We all know that we have a better impact when we work together. I'm going to pass over to Stephen, who is our general counsel to pick up in more detail on that question please, Stephen (SBR).

SBR: Thank you very much Richard. Yes, we all hold how to the agree with the premise behind the question, cooperation collaboration is clearly the way forward, the challenges that Richard and Nikhil outlined at the beginning of the session, clearly beyond the scope of any one regulator acting alone to effectively address.

So I think I'd mentioned three sort of different types of collaboration perhaps to draw out. One is with other regulators, we work incredibly closely as Richard mentions with regulators in the financial space, obviously. We also work with regulators in relation to data and digital challenges through the Data Regulators Cooperation Forum, OFCOM, CMA, the Information Commissioner's Office, doing tremendous collaboration there to address common challenges, but across different regulatory contexts. Those types of reg cooperation tend to be domestic, we obviously cooperate internationally with other regulators across the globe through IOSCO and other mechanisms. We also collaborate tremendously closely with industry and others in the UK.

There's obviously our formal consultation, but we did a tremendous innovation recently with a policy sprint as we referred to it, which was bringing in industry voices, academics into our thinking early on to understand how we could form policy in relation to the crypto space that Sarah was talking about recently. So we are open to collaboration. We recognize that it's necessary to get the job done, and we do it in a whole host of ways.

Richard Lloyd:

Thank you, Stephen. And obviously, the FCA also has its statutory panels, the consumer panel, the markets practitioner panel, the smaller panel and the listings panel. I think it's really important to mention that we meet with those panels, we listen to them. They are very, very central to our thinking. So there are range of ways in which we collaborate across the landscape as Stephen said.

I'm going to bring in some questions about technology. Obviously, our strategy has at its center, the FCA becoming a more digital regulator. I've got a question from Chris Jones, which is, 'How is technology being used to ensure fair outcomes for vulnerable consumers?' And then a second question, which is 'How is the FCA using its influence to mandate embedding technology to offer early warning and support for customers at risk of loan repayment problems?' I'm going to ask Jessica Rusu to start with the answers to those two please.

Jessica Rusu: Thank you very much for those questions. So in terms of how technology is being used to ensure fair outcomes for vulnerable customers, we have seen various positive examples of firms using technology to support customers in these kinds of circumstances. For example, some firms are using current account monitoring to identify problem gambling and then offering support and opting those customers out of credit marketing.

Some are using digital channels such as in-app chat functions to allow customers to solve issues real time. And some are creating smart support tools for customer facing staff, leveraging natural language processing or machine learning to get the right information to customers quickly. But the main areas that we think firms still need to work on improving and delivering fair outcomes for customers, particularly in vulnerable circumstances, are reliant not just on technology but also on data use and culture.

We think firms still need to show improvement in three main areas. The first primarily capturing data and management information to give assurances on outcomes for customers in vulnerable circumstances and using that effectively in the corporate governance processes. The second is around user experience and considering either the financial education level or various needs of customers when designing products and services up front. And the third is around culture.

So senior leaders really need to create the right culture and drive comprehensive strategies that seek to ensure fair outcomes for customers in vulnerable circumstances. And it's worth pointing out that this is a major focus of the work of the FCA innovation team. In September for example, we launched the diversity equity and inclusion event, which invites FinTech and other firms to support fair treatment of consumers to work with our innovation services as well as the authorized push payment fraud tax sprint held jointly with the payment systems regulator, which leveraged synthetic banking transaction data combined with social media data to detect mobile payment fraud and social engineering scams.

So overall leveraging technology with a customer first mentality is really both part of the work of the FCA as well as how we think industry can help tackle some of the complex issues faced by vulnerable customers in the digital world.

And in terms of the second question from Deborah, how is the FCA using its influence? So in terms of what FCA is doing to influence the conversation around embedding technology, we do work with our key partners in the regulatory ecosystem to influence the debate on the role of emerging technology and its wider implications for future regulation, whether that's through GFIN or DRCF or innovation services. And another good example would be the AI discussion paper published yesterday.

So yesterday we published a joint paper together with the Bank of England that considers some of the challenging topics on machine learning and use of artificial intelligence. And through that we seek to recognize that although there are many beneficial and good examples of AI that bring good benefits, there's also examples of novel challenges for both firms and regulators. And there are some aspects of AI that might amplify existing risk to consumers market integrity or financial stability.

So what we seek to understand through the discussion paper is to deepen the dialogue with firms, get feedback from the industry on how they perceive the benefits and risks of AI in financial services, and more importantly whether any additional clarification of the existing regulations are needed in that case. Thank you.

Richard Lloyd:

Thank you, Jessica. We're going to move on to a couple of questions about whistleblowing now, which Mark Steward will take. First of all, from Joanne Russo. She says, 'The FCA has promised to undertake a survey of whistleblowers to obtain feedback on their experiences. The survey was delayed because of COVID. Please can we advise if the said online survey has now been conducted and can the results be made available?'

There's a second question on this topic, which is, 'How robust are the FCA processes for safeguarding whistleblowers? Has the

FCA identified any breaches of its processes in the last year and how it has addressed these?' That's from Calvin Lewis. I'm going to ask Mark Steward please to come in on those two questions together. Mark.

Mark Steward: Thank you Richard, and thank you, Joanne and Calvin. Firstly to Joanne's question around the survey, yes, we have conducted the survey. The results of the survey are in, and we are in the process of evaluating those results to work out what lessons can be learned, what improvements can be made and then how we make that public. It will be no surprise I think to anybody that one of the really large issues that has arisen from the survey are the challenges we face around providing greater transparency over what we do with whistleblowing intelligence when we've received it.

It's probably the biggest issue and challenge that we face because it clashes with some other provisions in the legislation that we have to operate under. I think we dearly love to solve this issue because it is one of the biggest concerns that whistleblowers have and it impacts confidence that whistleblowers have in our process that we're not able to provide a fuller answer to what we've done with the intelligence that we've received when we have acted on that intelligence.

I really want to be able to provide a far more concrete and positive response to that problem when we do come out with the results of that survey. And that's where we are. That's what we are working on right this minute now. On to the second part of the question. We take the obligations we have under the whistleblowing legislation, which is called PIDA extremely seriously. We have a separate whistleblowing team that sits in my intelligence team that does all of the face-to-face dialogue with whistleblowers.

It's the entry point and gateway for whistleblowers and their job is to insulate the identity of the whistleblower from the way in which that intelligence is then assessed by the expert teams within the FCA. And that ensures that the identity of the whistleblower cannot and should not be revealed by the team

when the team is engaging with the firm that might be the object or subject of the intelligence that we've received.

This is easier said than done. Keeping the teams separate, ensuring that whistleblowers are engaging with a fully independent gateway service, I think takes us 99% of the way we need to be. But sometimes the intelligence that is provided by the whistleblower relates very personally to them. So it's quite difficult for the teams that are assessing that intelligence and then acting on it in relation to the firm, very difficult for them to, in effect, camouflage the identity of the whistleblower if what they're talking about relates very specifically to a single individual within the firm.

So we sometimes have to find quite elaborate ways of getting around that problem where the whistleblower really wants to ensure that his or her identity remains absolutely confidential and unknown to the firm. Am I aware of any breaches of that recently or not? Touch wood, if there are any, we can respond in writing as to how we manage and deal with that, but I'm not aware of any at this minute.

Richard Lloyd: Thanks, Mark. We're going to move on to a question that's about a topic both Nikhil and I mentioned at the beginning of the APM, which is from Adrian Cummings who says, 'When does the FCA propose to bring by now pay later firms such as Klarna under regulation before it's too late?' And Sheldon, 'I think that's one for you.'

Sheldon Mills: Thank you. We've seen exponential growth in Buy Now Pay Later over recent years in the digital market through firms such as Klarna and Clearpay and others. It's increasingly used as an alternative to more traditional credit. We do support regulating the sector, but it is up to government and parliament to decide whether or not to introduce legislation which regulates the sector.

Currently regulation of what's described as deferred payment credit, so credit where there is no interest or charges applied to

it is outside of our regulatory remit. So therefore we cannot regulate those firms. I think there's a few points to make.

On balance these products can provide valuable benefits. So consumer research conducted as part of the Woolard Review, which we asked Christopher Woolard to commission, the board asked to commission highlighted how users like having the option to cheaply spread the cost of purchases and the ability to try before you buy.

And if repaid on time, it can be cheaper than alternative forms of regulated credit because there isn't any interest rate. However, we recognise and we've looked at the potential for harm in the way the products can be marketed, the lack of key information, and that consumers might borrow more than they can afford.

So that affordability question, which we were noting earlier in relation to high cost, short term credit, and where we see harm, we have acted where we have powers. So in relation to the terms and conditions under our consumer protection powers, we have acted and we've also reached outside of our regulatory perimeter.

I've met with many of the leading Buy Now Pay Later providers, and we've written to them to say that they also should be ensuring that borrowers who might be in financial difficulty that they have the right support mechanisms in relation to them.

So to go to the actual question, it's not for us to bring buy now pay later providers into regulation. That's a matter for Government, and Government and Parliament are taking that forward.

Richard Lloyd:

Thanks, Sheldon. Stay there because I've got another question on your patch, which is again from Deborah Harris who says. 'The population is still mostly unaware of credit unions. What are the changes in regulatory reporting that recognizes and matches the community rather than multinational financial services,



headcount and systems of other financial services providers? So credit unions?’ Over to you, Sheldon.

Sheldon Mills: Cool. Thank you, Deborah. It's a great question. I mean, I have visited credit unions up and down the country and met with the leaders of credit unions. I've also met with leaders of credit unions in the United States where there's a much broader part credit union provision. And I think credit unions have a lot to offer communities where they are present. And currently they are providing services which really help understand people's needs and are able to make judgments around affordability, which some other traditional lenders and some of the larger financial firms might not be able to make.

Although, systems and data can really help with that also for those firms. So we support the growth of credit unions and we will be working with them in order to support their interaction with the system, whether that is how to understand the regulatory reports that we require or understand the regulatory system as it applies to them.

Richard Lloyd: Thanks, Sheldon. Let's move on now to a question about the boundary between regulated financial advice and guidance, which comes from Graham Simons who asks, 'In terms of the FCAs review of that boundary, what will this mean for organizations working across the protection and health insurance market? What material difference will this make to firms offering unadvised sales process?' And Sarah Pritchard, if you could answer that please.

Sarah Pritchard: So I wanted to address the question in terms of what this will mean right now for those organizations working across protection health insurance market. And right now, I think it's important to say there are no changes. We continue with the rules and the legislation that remain in place, but what we have signaled is a desire to have a look at how that boundary is working in practice. We know we've heard over many years that the boundary does not work well, but equally we know that the boundary is there to protect consumers and that it is really important that consumers have access to good quality advice,

particularly when they're making decisions around investing and particularly in the pensions context.

But we think we need to do more to look and understand the practical examples where it isn't working. And what you've heard us say is that we've already got underway some groups with industry stakeholders to explore practical different difficulties.

And the aim of doing that now is so that when the future regulatory framework is passed into legislation and there is a greater ability to then consider the potential for further change that we have taken forward some initial work to inform those broader discussions at that time.

In the meantime, you may have seen in recent years us introduced guided choice architecture for consumers going through their pensions journey. So investment pathways introduced to help guide consumers when they decided to draw down their pensions in terms of options, in terms of drawdown. You've also seen us confirm in our consumer investment strategy that we published last year that we want to explore simplified advice regime for mainstream stocks and shares ISAs where the risks to consumers are relatively low.

We do think that it's important that the weighting regulation should be commensurate with the level of risk, but equally moving away from a one size fits all approach will be complicated and it will need assistance from both industry and consumer groups team.

Richard Lloyd:

Thanks, Sarah. We mentioned at the beginning the importance of the review into London Capital and Finance, the Gloster review. We've got a question that asks about that and our transformation program from Mahindra Baha. And it's this question, 'What has your transformation program delivered so far and how has it addressed the Gloster recommendations?' We're going to start with Nikhil. Over to you please.

Nikhil Rathi:

Thank you. I'll talk about some of the higher level changes we've made and then some of the more detailed specifics. We've always said our transformation program is a multi-year journey. It's looking at our systems, our processes, our culture, our risk appetite. We have set out earlier this year for the first time, a three-year strategy alongside our business plan with clear outcomes and metrics against which we are looking to be measured and against which we are accountable, which gives clear prioritization also for all of our stakeholders to understand where we are focusing our resources.

One area where we specifically prioritized work was going much harder against those problem firms, which we know are in the system. And I'll say more about those that work in a minute. We have simplified our governance, so we have brought more of the decision-making about authorization and supervisory interventions into the line, empowering our senior leaders to take decisions more quickly rather than operating through a committee structure to the regulatory decisions committee, and we've seen earlier intervention as a result of that.

We've changed our legal risk appetite. We talked earlier about the sharpening of the gateway, which was a key recommendation of the Gloster Review, which is that we should be doing more holistic assessments at the gateway, financial systems and control assessments, including having an eye to any activity of a firm coming through the gateway that is outside the perimeter.

We've gone from one in 14 being authorized to one in five with the additional investments we are making. We also source some important lessons coming from that review and from work that was already underway at the FCA around how data and intelligence is shared across our organization. We're investing very heavily in our data capabilities, both in terms of our technology infrastructure and in our human capability as well. We are seeing that starting to be used very effectively now in different areas.

I expect to see continued progress, progress along those lines. To give you some examples, when it came to ensuring compliance with the sanctions regime we were able to create a file of a hundred thousand entities, which we could test systems in firms again to see if they were implementing sanctions effectively. We talked earlier about how an industrial scale now were able to tackle scam websites. We have rolled out our single viewer firm, which enables our supervisors, our line supervisors, to see information about individual firms through one portal to over 20 of our 38 portfolios.

In the area of appointed representatives, which has been an area where we've seen increasing complaints in consumer harm. We've seen the numbers of appointed representatives come down by around 4,000, so around 10% as we have been tackling some of the legacy issues there as well.

I mentioned earlier the work we did on our pay and grading reform, so we have a more performance based pay grading structure whilst maintaining one of the best paid, if not the best paid public authority or enforcement agency offers in the country, and ensuring fairness within our system as well in terms of diversity and inclusion and pay gaps. So those are all the steps we're taking, but we're by no means finished and you will continue to see us reporting on progress against all of this in the annual report and at other opportunities.

Richard Lloyd: Thank you, Nikhil. I'm going to ask Sheree Howard to come in now on the specific bit of the question about the Gloster review. Sheree, could you say a bit more about how we've used the transformation program to directly address some of the recommendations by the Gloster review? Thanks.

Sheree Howard: Thank you. So the organization has made significant progress in implementing the nine recommendations for the FCA from the Gloster review with many actions undertaken. And some of those you've heard from my colleagues in earlier sessions. For example, some of those been short media and long term. So bringing together information and intelligence across the

organization in the single view of firm which our supervisors are using to act more assertively and innovatively against firms by collating that evidence in one place to enable them to see it.

And that has not only resulted in faster action, it's more efficient and effective. So we're seeing savings, significant savings in time through that as well. We've seen marked action on, for example, financial promotion. Financial promotions where individuals have through the work through transformation, but also implementing the recommendations from the Gloster review. We've seen a mark jump in how we've acted against financial promotions from something like 500 last year to more than 4,000 by August this year. So a very significant increase in how our people are acting against financial promotions that do not meet our requirements.

If we turn to fraud and scams, we obviously have our ScamSmart campaign, which is very well used and leads to significant intervention and helps customers identify potential fraud and scams. But also we spent significant resources training our staff on understanding financial accounts and financial information more effectively so they can undertake a more holistic view of the firm when reviewing information about them. And hence, we've heard that we've seen changes at the gateway in terms of the increase in number of firms that we are rejecting at the gateway as a result of some of those changes, but also that's happening in our supervisory areas as they look at cases that come to them.

So a very significant number of changes as a result of the recommendations in the Gloster review, and all of these are being reviewed and assured by the second line of defense to make sure that not only are they adequate to meet the recommendations, but they've been embedded and are operating effectively with reporting up to our board.

Richard Lloyd:

Thank you, Sheree. And just on that point, I'd like to bring in Liam Coleman who chairs our audit committee to talk a bit about the board oversight of this really important, obviously, response to the Gloster review, but also the transformation program more generally. Liam, over to you.

Liam Coleman: Thanks, Richard. And the oversight has been conducted through two keyboard committees, the audit committee and the risk committee in terms of tracking the actions under the response to the Gloster report. In addition, we've used a joint committee, the joint audit and risk committee, to look at the assurance phase of the work that Sheree outlined. So making sure that the actions that we've implemented are having the impact that we wanted them to have, and that assurance activity is coming towards the end now, but that will then be embedded within our overall risk framework to ensure that the activity is continuing to have the impact that we want it to have.

In terms of the wider transformation program, you spoke about that, Richard, that is actively reviewed in our risk committee. The impact of the transformation program. Again, is it having the impact in the areas that we need it to have? Is it moving at the pace we want it to have? And that is constantly under review in the risk committee agenda.

All of those committees, both the risk committee, the audit committee, and the joint audit of risk committee then feed up into the board by reports from the chairs, either myself or Bernadette Conroy, who unfortunately can't be with us today, but chairs our risk committee. And then that is discussed and challenged at the board as well.

Richard Lloyd: Thank you, Liam. I think it's important that people hear directly from board members about the oversight that we carry out. I'm going to move us on to a different but related issue. And this is a question from Paul Carlier, which is, 'You say the FCA is listening, however, why is the FCA not listening to John Swift QC and his finding is in his investigation of the FCA IRHP review to the effect that the FCA acted unlawfully with introducing the sophistication criteria that excluded 10,700 retail customers from the review.' And I'm going to ask Mark Steward to respond to that one, please. Mark.

Mark Steward: Thank you, Richard, and thanks Paul. John Swift was one of the independent reviewers who did all the work reviewing the handling of the interest rate hedging product remediation

scheme that was set up by the FSA and then continued by the FCA some years ago. And that remediation scheme as John Swift found led to over 20,000 sales to customers being reviewed and examined and 14,000 offers of redress with amounts of... Total redress of over 2.2 billion pounds being paid out by the banks that were part of the scheme.

And yes, that review did exclude sophisticated businesses. Now, I think the question talks about retail customers, the population of people involved in this scheme were small and medium sized enterprises. And the exclusion of the automatic scheme applied to those who were regarded as sophisticated firms who are able nonetheless, to take advantage of each of the banks complaints, handling processes, and take their own action as well. And many of them did.

John, in his review, did criticize the exclusion of those sophisticated firms. He considered that all customers should have been treated in the same way. Now, we disagreed about that. We think that the statutory obligation to ensure that consumers receive an appropriate degree of protection doesn't operate equally to all people at all times in the same way.

Sometimes it does, but in this case, we didn't think it did. He didn't make a finding about what we decided was unlawful or illegal. He just disagreed with it. And in terms of listening, he made a total of 21 recommendations covering issues around how we detect these sorts of issues to begin with, how we manage those issues, decision making, governance, board oversight, as well as remediation.

Of the 21 recommendations he made, we absolutely accepted 19 of them. And the swift reviewers are a great ground breaking piece of work that is compelling and compulsory reading for all of us. And we will continue to learn from John's work, which is an excellent piece of work. But we did disagree around this one issue that everybody should be treated in the same way no matter how sophisticated they might be.

Of course, there are still further issues on foot in relation to this. There's a judicial review application that's on foot. There are also some complaints that are still outstanding, which we are working through. But hopefully that gives you an overview and a response to that question, Paul. Thank you.

Richard Lloyd: Thanks, Mark. I should add that John Swift came and spent time with a full FCA board to go through his findings in detail, and we did listen very, very carefully. I'm going to move on to a question about the appointment of Raj Parker of Matrix Chambers. This is from John who says, 'Does the FCA accept that appointing Raj Parker without the role being advertised, undermine the claim impartiality of his Connaught independent review?' Nikhil, I'm going to ask you to respond to that one please.

Nikhil Rathi: Thanks, John. I wouldn't accept the premise underlying your question. So when I joined the FCA, as Chief Executive in October 2020, there were three independent reviews underway where the conclusions were due to be presented in short order. There was the Dame Elizabeth Gloster review, the Raj Parker review into the Connaught Fund and the John Swift review, which you just heard Mark discussing. I took those reviews incredibly seriously, as did my executive team, and as did the board. We asked all three reviewers to meet our senior leaders and the board to talk about their findings and the lessons we could learn.

In the case of all three reviewers through the work that they did, they learned a huge amount about our organization. They gained a perspective on our organization, which was very valuable to us. Raj gave some quite hard-hitting recommendations, which we have taken forward. A few months into my tenure, there was a change in leadership of the legal, the general counsel's division, and I wanted to make sure we had access, and I had access to the strongest legal expertise that was available to us to take forward the work that we're doing. And clearly, Raj, having had insight into the FCA was in a really strong position to help us move forward. And all discussions with him about his work with us were subsequent to

the delivery of his review and our response to those recommendations.

I hope really it's a sign that to the previous question that we are listing and learning that we can take on board the feedback of those who have given us some quite strong recommendations in the work that we do. In terms of the payments, we don't typically disclose, I think the payments or to our colleagues below the board and executive level. But what I can say is the payments are not out of line with what we would pay for that seniority and caliber of advice and support, particularly in the legal field. Thank you.

Richard Lloyd: Thank you, Nikhil. We're going to move on to a couple of questions about authorisations, which I'll ask Emily Shepperd to respond to. First of all, from Liz Thompson, 'The FCA is way outside the agreed service level agreements for all regulatory submissions, including senior manager functions and connect updates. What plans are in place to bring the backlogs down to meet the SLAs?' And then secondly, Emily, please, 'Will we expect any guidance for firms under the temporary permissions regime applying for UK branches?' And that's from Anna Barnes. So Emily, over to you please.

Emily Shepperd: Thanks. I think we've touched on authorisations in the gateway a few times through this morning already. First thing to recognize is absolutely there are still some delays at gateway, and we know that this has an impact on firms and it's not yet good enough. But I was in the position last year when I said there were cues and I was able to say what I was going to do.

Now, fortunately, I'm in that position where I can say, 'This is what we have done. This is the impact, and this is what we are going to do next.' So in what we have done, we have absolutely increased capacity. We have hired. There's only a hundred additional people. So there were brand new roles into the system, and that has helped, that capacity has helped get through some of that backlog. We've also augmented that with some help from third parties. Again, temporary help...

... with that, with some help from third parties. Again, temporary help on specific challenges that we had. And together those have had significant effect. We have moved from about 12,500 cases in the queue from the end of December last year. And as at the end of September, we're at 6,600. Which is below where normal used to be. But at the same time, we are doing more of the gateway. So we are doing more assessment, which means I'm pushing and we are pushing to reduce that number even lower.

So in parallel to adding more capacity, we've been working on some technology changes in the background. One of those is on the forms. We consulted last October to take the forms out of our handbook, which means that we can change the contents of those forms very, very quickly and really focus on the information that we need. So we've taken that change and we are now automating the forms and making them available online, so we can get them filled in online and we can only accept information that is validated in completed forms.

One of the biggest challenges we have is that the information on the forms isn't always there on the applications. We do ask firms to be ready with all the information. To be willing to work with us and to be organized before they put their applications in. So we think that this development is going to significantly help us.

Again, in the background, systems that we use inside, we are putting more automated processing in them, more data related links that will speed up our assessment behind the scenes.

So we have committed to, as Nikhil said at the beginning, substantially meeting all those service levels by the end of this year, which is the end of March. We obviously have had quite a drag on that as we've been working through those back cases, but we remain as transparent as we possibly can be and aim to improve further. So, that's the general picture on authorizations.

Now, specifically the temporary permissions regime. There is a separate team working on the temporary permissions regime within authorizations, but they're also working very collaboratively with the supervision teams as well.

So through that we are looking for firms to ensure that they're structuring themselves post the EU withdrawal in the best way possible, which means that we can still do our supervisory oversight and, therefore, meet our objectives. We are asking firms to work with us on any changes or any thoughts that they have there.

Each firm has a specific landing slot that has already been communicated to them, and we are absolutely open to any engagement needed. We have it through our fixed firm supervisory model, but also through our flex firm model as well.

So if anyone has any detailed questions about their specific firm, we are open, we are here and ready to listen and to engage on whatever level needed. That temporary permissions regime finishes at the end of 2023. So, so far, we have received 378 applications of the full 962 that are in that slot. Thanks, Richard.

Richard Lloyd: Emily, thank you. We're going to move back to consumer protection now. And I've got a question from Gemma who says, 'What is the FCA doing to stop declared unsophisticated investors from losing money with certain companies? And how are these type of people able to get away with continual false declarations about profitability of the business and false protection promises and to move the money around so it's hidden from administrators?' Going to go to Sarah Pritchard to answer that one, please. Sarah.

Sarah Pritchard: Thank you, Richard. So under our strategy, we have made tackling financial promotions one of our 13 priority commitments. And in our consumer investment strategy, we specifically highlighted that we want to see a reduction in the number of consumers who invest in high risk investments who have a low risk appetite.

So what are we doing to stop some of this happening and to reduce the risk that unsophisticated investors are losing money? So in the summer we confirmed some much stronger rules for those promoting high risk investments to consumers. These rules, which will kick in from the end of the year in terms of the risk warnings, with subsequent rules coming in shortly afterwards, have been informed by behavioral testing. So we did some specific consumer research to enable us to test what is the most effective way of alerting consumers to a high risk investment when they are seeing it in a financial promotions context.

We're moving away from the, 'Your capital is at risk,' type warnings to very simplified warnings which say, 'This is a high risk investment,' and encouraging people to click and take two minutes to learn more. That's one element of ensuring that there are stronger rules for those giving financial promotions. But secondly, we want to make sure that we are taking action when we see harm.

Nikhil talked earlier in the introduction around us seeking to intervene more, and gave some examples of in the previous year action taken against 500 promotions, and already through the course of this year over 4,000. We are also more proactively supervising in this area with 64 more cases in the last year opened on high risk investment or investment scams in the last year than previously. And similarly, with a much tougher approach at the gateway, too, with one in five new firm applications in the consumer investments market being rejected.

It's the whole package of measures together, so being tougher on enforcement where we're able to do so. And we won't always have regulatory reach, but where we don't, we are making greater use of our warnings list so that there are warnings that are published to the world at large. So that people can look at those warnings and realize that this is a firm that we have some concerns about.

But it's the package of measures of being more assertive, acting more quickly, and also strengthening rules to start with, in terms of the way in which high risk investments are marketed to consumers, that we hope will seek to reduce the harm in this area.

Richard Lloyd: Thank you, Sarah. Going to come to Mark Steward now for an answer to this question from Pauline Creasey who says, 'For example, Premier FX fraud fiasco and LCF show the regulatory system is operated with negligence.' She says, 'Is this part of the deregulation strategy favored by city firms? What is the FCA doing to persuade the public it is there to protect consumers effectively?' Mark, could you come in on that? And in particular you might want to mention the Premier FX part of that question. Thanks, Mark.

Mark Steward: Yeah, thanks, Richard. And thanks for the question, Pauline. I will start with Premier FX. I mean, I certainly do not think that what happened with Premier FX is caused by any deregulatory mission on the part of anyone anywhere.

We published a couple of different statutory notices following our investigation into Premier FX. The first one, a really sad story, this was a case of fraud by the owner of the business who died and left the business to his children. Who then discovered what had gone wrong and sadly had to report their father to us. The timely reporting allowed us to get sufficient evidence to really understand what had gone wrong here.

And what had gone wrong was Premier FX, which was a payment services firm, was operating a Ponzi scheme. And customers who were providing Premier FX with their money, in fact their money was being paid out to other people rather than in the way in which they wanted it paid out. And at some point when he died, the whole thing fell apart.

An enormously sad story. But it shows the value, I think, of the regulatory system that we have, that we're able to get to the bottom of that and then provide some responses for the customers who had lost money.

Firstly, the response in telling the story of what actually did happen to their money, which was told in the first notice that we published on Premier FX, which is on our website. And then were able to take action against the bank that was involved in holding that money and who was in a position to have done something much sooner about what was happening with all those accounts, that would've protected customers from losing their money.

And that led to customers receiving the full amount of the principle money that they had paid to Premier FX being returned to them by the bank. So we had some very significantly successful outcomes despite the awful circumstances that preceded it.

I won't say anything more about London Capital & Finance because there are investigations still on foot, both by the Serious Fraud Office and by the SCA. And suffice to say, that the full story on LCF has not yet been written and that those investigations remain on foot. But thank you for the question, Pauline.

Richard Lloyd: Thank you, Mark. I'm going to come back to Sheldon Mills now for a couple of questions on the new consumer duty, which is one of the most important things the FCA is doing right now. Two questions, one from Hugh Saville who says, 'Why does the consumer duty cover so much commercial business?' And secondly, from Simon Thomas, 'How do the FCA expect to evidence outcomes testing?' Sheldon, over to you, please.

Sheldon Mills: Thank you. So the new consumer duty essentially applies to protecting consumers from harm, and sometimes small businesses as well, when they operate similarly to consumers. And generally speaking, it applies to retail firms, so those who are providing products and services directly to consumers. However, there are certain circumstances where firms who are not focused on retail customers might be included and have to think about the consumer duty.

And how we've gone about this is that where firms activity upstream can have a material influence on retail customers, then they might have to think about some of the aspects of the consumer duty. But most wholesale markets and most B2B transactions are explicitly excluded from the scope of the duty, so it doesn't really apply to a significant amount of commercial business.

On the second question, in relation to outcomes based testing. I mean, one of the important parts of the consumer duty is that it's not a set of prescriptive rules. It's a set of rules which apply a framework in which firms can ensure that their products and services meet the objectives and outcomes set out within that framework.

And what will be important in relation to that is that there are metrics and outcomes that firms and markets are seeking to achieve, and which they can demonstrate to their boards and to their customers that they're achieving.

So examples of that might be how many complaints does a firm get? And how quickly does it respond to those complaints? It might be, how long are waiting times for calls when people are trying to get through, either to resolve an issue or perhaps exit a contract? And what's the evidence base in relation to that consumer journey and in relation to those waiting times? It might be what are the responses of customers in relation to satisfaction surveys? Et cetera.

And then in addition to that, in relation to the fair value part of the new consumer duty, it might be in relation to working through over time what sort of value you're providing to customers in relation to the products and services that you have.

So that level of outcomes based testing under each of the four pillars of the consumer duty will be important for firms to design and put into their implementation plans and their programs as they move forward. We think by taking that approach, you genuinely can build trust and confidence, and you can also

innovate and provide more innovative products and services to consumers.

Richard Lloyd: Sheldon, thank you for that. We're going to talk a bit more about technology again with a couple of questions. First of all, from Jorge Enriquez who says, 'What is the future for GFIN, which is the Global Financial Innovation Network, and the FCAs lead?' And secondly from Thomas Wilson who says, 'How will the FCA evolve to the changing and increasingly digital nature of customer interactions and transactions?' And Jessica Rusu, I think those two questions are best for you. Thank you, Jessica.

Jessica Rusu: Great, thank you for the question. So about GFIN, the FCA chairs the GFIN Coordination Group, and plays really a key role in the leadership and delivery of the RegTech and SupTech work streams. And is also leading the cross-border testing initiative. So this is quite similar to our sandbox work, in that the cross-border testing allows firms to trial new technology products or services across jurisdictions.

And in terms of the road ahead, the focus will be on AI and machine learning, ESG and sustainable finance, as well as crypto. In terms of crypto, I think you've heard in earlier remarks we had the crypto sprint. And as well as the FCA working together to do research with the GFIN, gathering both qualitative and quantitative market data to determine what drives crypto adoption, the differences across jurisdictions, and highlight opportunities for across jurisdictional collaboration in regulation of crypto assets. So, that's just some of the types of work we're doing together with the GFIN.

And in terms of the second question, on evolving technology and the increasingly digital nature of customer interactions and transactions. I would say the FCA is also doing a lot of work to leverage data and technology to identify harm, and opportunities to intervene sooner to protect consumers.

For example, we're using web scraping to identify newly registered domains that show characteristics of a scam. We're also building an intelligence model framework called the Digital Unified Intelligence Environment, which identifies early warning

signals of a developing harm and turns those signals into actionable intelligence.

The Innovation Hub services, so you've heard quite a lot already about our regulatory sandbox, our innovation pathways, the digital sandbox. And all of these provide insight into how all of the various types of innovative technologies are being applied in the market. And that helps to inform our strategy.

And to further support the work in our use of regulatory innovation tools, they help shape the direction of innovation in the interest of consumers, and they bring together industry participants to identify some of the barriers, and inform future policy and help us develop potential solutions.

So I would say all of this work, together with our leadership role in GFIN, helps to demonstrate that the FCA is working collaboratively, and using our convening powers to support the industry creation of some new solutions, and help consumers in the digital market.

Richard Lloyd: Jessica, thank you. We are coming towards the end of the meeting, so I'm going to just come to a couple of questions on financial promotions, and competition and claims management. First of all, from Hannah Doherty, 'In line with your proactive approach to financial promotions, do you intend updating your social media guidance soon?' That's one, I think, for you, Sarah Pritchard.

Sarah Pritchard: Thanks, Richard. So you've already heard me say that we will take action where we see financial promotions offered, including on social media that don't meet our requirements. And we know that social media platforms and influencers are becoming increasingly popular.

Earlier this year, we banned a social media influencer promotion as it didn't meet our clear, fair and not misleading rules. And what's important is our rules apply regardless of the media. So the fact that something is promoted on social media is neither here nor there, our rules still apply.

We will be revisiting and updating our social media guidance in due course. But in the meantime, as well as taking action where we see promotions offered that don't meet our requirements and being assertive in that space, we're also seeking more broadly as an organization to make use of social media as part of our InvestSmart campaign that I referred to earlier, in terms of helping to create confident consumers and helping consumers understand the risks of investment too.

Richard Lloyd: Thanks, Sarah. And now one for Sheldon Mills, please. Which is about the claims management sector. Monalisa Emmanuel says, 'How are you promoting effective competition within the claims management sector?' Sheldon, over to you please.

Sheldon, you're on mute. So if you could just unmute yourself, that would be great. Thank you.

Sheldon Mills: Yeah, sorry. Sorry, Richard. And thank you for the question. We've been responsible for regulating claims management firms since 2019. And since then our approach has been to help claims management firms come into regulation and understand some of the requirements that apply to them. And obviously that helps with competition amongst claim management firms and the services that they provide, as the regulatory standards that apply to them become clear.

We also work with other partner agencies, such as the Solicitors Regulation Authority in relation to some of the firms that they may regulate. We've also looked closely at the way in which products and services are provided to customers by claims management firms. And in particular in this year, what came into force was a fee cap in relation to certain aspects of claims management firms products and services.

The reason for that is that we found that some of the fees in relation to claims management firms services we found to be excessive and potentially causing harm to consumers. So in a sense, we're currently starting to regulate those firms. We can see that there is benefit and value in a claims management market, and we've sought to tackle some of the more excessive

fees that we've found in relation to that market. And I hope that we see progression in that market as it develops under our regulation.

Richard Lloyd: Thank you, Sheldon. I want to just turn to enforcement action again. We've got a question from Bhavesh Dattani who asks, 'Is the FCA currently pursuing enforcement proceedings against regulated firms for failures in systems and controls related to financial crime? Particularly in terms of anti-money laundering and sanction requirements resulting from the Russian invasion of Ukraine?' Mark Steward, over to you, please.

Mark Steward: Thanks, Richard. I'll try and be brief and succinct. The issue around financial crime systems and controls, particularly anti-money laundering systems and controls, is a very significant focus of attention for us.

And we've had many cases over the last few years. We've certainly really upped our game in relation to AML, particularly involving large firms and institutions like the banks, such as the prosecution of NatWest last year.

Do we have further investigations on foot now? Yes, we do. Do we have regulatory proceedings on foot against firms now? Yes, we do. And they will continue. And obviously we're working very closely with other authorities around sanctions compliance and sanction controls, particularly in light of what's been happening geopolitically in the Ukraine.

Richard Lloyd: Thank you, Mark. We've got time for just a couple more questions now, please. And one is from Andy Agathangelou, who is representing the Transparency Task Force. Andy says, 'Does the FCA recognize the concept of regulatory capture? And to what extent does it apply to the FCA itself?' Nikhil, I think that's one for you.

Nikhil Rathi: Thanks, Richard. And Andy, thank you for the question and also the feedback that your task force gives us on an ongoing basis on such a wide range of our work.

What I see at the FCA are my colleagues working incredibly professionally to deliver the objectives that parliament has set for us, protection of consumers, market integrity, supporting competition in the interests of consumers, and all the regulatory principles that are set out in legislation. That requires evidence-based policy making, which involves consultation and impact assessments.

Growing on feedback from industry groups, who obviously will have a perspective on regulation and how it is calibrated, timetables with which we implement changes, consumer organizations and other third party organizations as well. We lean heavily on the work we do with our statutory panels, including our consumer panel too.

And all of the rule making and policy making that we undertake is done under the oversight of our board, who scrutinize the decisions carefully as well. So what I see is not regulatory capture, but very thoughtful professional work by colleagues right across the FCA, seeking to balance all of those important objectives that parliament has given us.

Richard Lloyd:

Thank you, Nikhil. And just to emphasize that, the role of the board is precisely as you say, Nikhil, to ensure that there is challenge, that there is robust oversight, that there's a clear strategy that we can hold the executives to account against.

And it's really crucial that that independence embodied in the board, and at arms length from government, and accountable to parliament, that that is the system that internationally is respected and supported. And I can assure you that board meetings are extremely robust discussions full of challenge, full of support where it's right for our executives, but by no means is there regulatory capture that I see around that board table.

Now I'm going to turn to one final question, which is from Mark Bishop who says, 'Would the FCA agree to operate a hybrid annual public meeting from 2023? And to engage an independent person to chair it, to assuage any concerns about

the selection of easy questions, et cetera?’ And I think that’s one for me.

I hope you’ve seen over the last two hours that we certainly haven’t ducked extremely tough questions, very specific, very well-researched questions, and we’ve given very full answers. And this isn’t an annual public meeting where you will get evasion or a chair. Certainly, I have been very anxious to make sure, as Chair, that we deal with the very difficult questions that often come our way. And rightly so, it’s an important part of our public accountability.

This year, it was my decision to hold the meeting online. We wanted to make it as accessible as possible, as cost effective, as sustainable an event as possible. And I think because we’ve postponed this meeting, obviously because of the mourning period for the Queen, it was the right call this year to have that flexibility. And to ensure that people across the country can engage with us fully online.

There’s a couple of interesting suggestions there about an independent chair, someone other than me or my successor who joins us in February. And we’ll think hard about that, and also about whether it would be better to have a hybrid meeting next year.

Now that brings us to the end of today’s meeting. We’ve covered an enormous range of issues, and we’re all very grateful for the thought and time that you’ve given today for so many of you to join us.

The FCA exists to serve the public interest, and that means being accountable to the public on how we are delivering on that. As I said at the beginning, any questions we haven’t managed to answer will be answered in the next couple of weeks. They will be posted online and we’ll be clear about when that happens.

Finally, I just want to thank everyone at this end, all our executive committee colleagues who’ve been here answering



your questions, and to my board colleagues as well for answering questions too and being here.

And finally, I would just like to pay tribute to my predecessor, Charles Randell, who chaired this meeting last year. Who was an outstanding public servant, and we are very grateful for the four years of chairing the FCA that he put in.

But finally, thank you again to all of you for your questions, for your challenge, where we get it, your support. We know we are dealing with very, very difficult issues, an increasingly complex market at extremely difficult economic times. And I can assure you that the FCA is working, literally at the moment night and day, to fulfill its statutory objectives, to protect consumers, ensure market integrity, and to promote competition for the benefit of consumers.

And with that, we will finish this meeting. Thank you very much, and we will see you next year. Thank you.