FINANCIAL CONDUCT AUTHORITY

Report of the Independent Review into the FSA and FCA's supervisory intervention on Interest Rate Hedging Products (IRHP) – The FCA response

December 2021

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1 Foreword

1.1 The actions taken by the Financial Services Authority (FSA) nearly a decade ago **delivered redress of £2.2 billion to thousands of small businesses** who had been mis-sold interest rate hedging products (IRHPs) by their banks.

1.2 The FSA judged that it needed to get money back into the hands of these businesses, many of which were struggling in difficult economic conditions at the time, as quickly as possible. The FSA considered that this aim required an approach of negotiation with the banks because that would deliver outcomes faster and with more certainty than formal legal or regulatory action.

1.3 In 2015, as this significant intervention ('the Scheme') was nearing completion, the Board of the Financial Conduct Authority (FCA) committed to commission a review once it was complete. I put this review in motion after my arrival as Chair of the FCA, so that it could start as soon as all related legal proceedings were over.

1.4 The independent lessons learned review by John Swift QC ('the Review') finds that the FSA achieved much of what it set out to do. But it also contains important findings that there were significant weaknesses in the processes adopted, and it makes important recommendations to ensure that we the FCA, as successor body to the FSA, continue to learn the lessons from this especially large and complex voluntary redress scheme.

1.5 The root causes of the IRHP problem lay in the product design, product governance, incentives, and sales controls within banks. Weaknesses in those areas led to poor selling practices for these complex derivatives. They were typically presented as protection against interest rate increases but, in some cases, they caused small business customers to suffer more risk, financial loss, and anxiety even where they eventually received redress.

1.6 We expect all firms today to give much greater priority to the end outcomes for consumers and markets when they design and deliver their products and services. An important further step in ensuring this is our consultation on a new **Consumer Duty** to set clearer and higher requirements and expectations for firms' standards of care towards consumers.

1.7 The key lesson we take from the Review is its further reminder that we must identify proactively when firms we regulate are making substantial amounts of money from new or rapidly growing products or services. This will allow us to assess their characteristics and distribution quickly and intervene if these are unfair. Our Transformation Programme aims to make us an innovative data-driven regulator, changing our capabilities and resources so that we collect the right information and intelligence, use it in analysing firms' business models and intervene quickly and assertively when we need to. We are reshaping our culture to support this, becoming more questioning, proactive and agile, and empowering our people to act more decisively.

1.8 Banks sold IRHPs to a wide range of customers. Some were small trading businesses which were the lifetime's work of their owners or of generations of family members. Others were businesses carrying out more complex financial or property transactions,

sometimes as part of a larger network of companies. The FSA's rules classified all of them as Private Customers/ Retail Clients.

1.9 The FSA's approach in the subsequent Scheme sought to direct redress as quickly as possible to those businesses which were in the most vulnerable circumstances because they were the least able to assess the products the banks sold them and faced more acute financial difficulties later. The dividing lines, from that perspective, between who should and should not have been included in the Scheme were difficult for the FSA to draw and complex.

1.10 We acknowledge clear shortfalls in processes, governance and record keeping when decisions about the redress scheme were made, and a lack of transparency.

1.11 Nonetheless, we consider that it was reasonable and appropriate for the FSA to exclude from the Scheme the more sophisticated customers within the Private Customer/Retail Client class, given the FSA's regulatory aim of providing swift and certain redress to those who were in the most vulnerable circumstances among that varied customer base.

1.12 Similarly, we also believe that our general approach in future, both to protecting consumers and to redress if things go wrong, can differentiate between customers, given their widely differing characteristics even within particular classifications. Our statutory obligation is to provide 'appropriate' protection for consumers, taking account of (among other things) differences in their experience, skills and expertise, as well as the general principle that consumers should take responsibility for their decisions. We have this year issued guidance to firms about taking particular care of those in **vulnerable circumstances**.

1.13 We are encouraged that the Review finds it was reasonable for the FSA to aim for a voluntary agreement rather than using its statutory powers. If the FSA had instead proceeded under its statutory powers, which could have been challenged by the banks, the process and outcomes for consumers would have been more uncertain and would probably have taken longer. Equally, if the FSA had insisted that a voluntary scheme should include all Private Customers/Retail Clients, there was no certainty it could have achieved agreement to a scheme at all. We are not able now to judge whether, in the context of that relatively weak position, it would have been wise for the FSA to threaten to walk away from the negotiations.

1.14 We welcome the Review's finding that there was no lack of independence in the way the FSA acted; we agree that maintaining regulatory independence and being seen to do so is critically important.

1.15 We acknowledge that, in future, before the FCA makes a significant decision about a redress intervention in any particular case, and especially where that intervention could result in different people within a particular classification being excluded, we should ensure that the decision is governed at the appropriate level in the organisation, is supported by objective evidence which is properly recorded, is transparent, and is subject to consultation where this is possible and appropriate.

1.16 We set out below our detailed commitments in response to the Review's recommendations, including how we weigh statutory and voluntary approaches when choosing a pathway to redress, what features and controls we build into their design and how we then monitor and assess the outcomes. We are folding these

commitments into a wider workstream which is building on the policy work we had in train, before Covid-19 struck, to optimise pathways to redress and codify for FCA staff the options and factors they should consider.

1.17 This workstream is collating information on some of our previous redress interventions and experiences and building on the lessons learned, including the lessons from this Review. It is developing a 'before the event' (ex ante) evaluation framework to inform and help us decide the most appropriate paths to redress to pursue in future cases, including the use of s.404 and other powers. This framework will include considerations of the evidential hurdles involved, timescales, costs, benefits and issues of proportionality, and it will help to ensure that our approach to redress is consistent and transparent.

1.18 We will incorporate this redress workstream into our wider post-review work programme, which is already driving forward improvements in response to the findings of the **LCF** and **Connaught** reviews last year. We will report regularly on our progress.

1.19 On behalf of the FCA Board, I would like to thank John Swift QC for a thorough and thoughtful Review which will help shape our transformation plans and our future work.

Charles Randell, Chair of the FCA

2 Background

2.1 This is our response to the Review's assessment of the FSA and FCA's supervisory intervention on IRHPs and to its recommendations for the FCA to act on going forward. This Review was commissioned by the non-executive directors of the FCA Board in June 2019.

2.2 From 2001 (and especially during 2005-2008), a number of banks sold thousands of IRHPs to small and medium size enterprises (SMEs), often on the basis that these derivatives would help those SMEs hedge the interest rate risk on their loans from the banks. These stand-alone derivatives were regulated by the FSA ('regulated sales') but the loans were mostly unregulated.

2.3 In mid-2012, the FSA concluded that there had been significant weaknesses in the banks' selling practices over the previous years. After careful consideration, the FSA chose to pursue a voluntary redress scheme for IRHP mis-selling, rather than investigate and use its statutory powers. It began negotiations with the banks on this scheme.

2.4 The banks and the FSA reached an **initial agreement** on the broad terms and features of the Scheme and announced these in June 2012, including which types of customers were to be included or not in its scope. Following a pilot exercise, a **supplemental agreement** adding or amending details of the Scheme was agreed and announced on 31 January 2013.

2.5 Through 2013 the banks, with the assistance of **skilled persons** approved by the FSA (including major consultancy, audit and law firms), designed and rolled out policies and procedures to implement the Scheme.

2.6 By late 2016, the banks and skilled persons had reviewed nearly 31,000 IRHP sales, of which:

- around 35% had been assessed as 'sophisticated' sales against the agreed criteria and excluded from further review
- around 65% had been assessed as 'non-sophisticated' and taken forward for further review (unless opted out by the customer, as around one tenth were)

2.7 Of the sales that weren't opted out (over 18,000), around 80% led to redress offers of money and/or an alternative hedging product. Customers accepted around 95% of those offers by 30 September 2016, to the value of around £2.2 billion. Some of the remaining offers were accepted later.

2.8 In early 2015, the FCA confirmed that it would undertake a review of the Scheme, led by a Non-Executive Director. Our intention was to complete that review as soon as possible, but the timing was affected by the ***Holmcroft*** legal proceedings concerning the Scheme. As a result, in March 2015, the FCA Board decided that, to avoid any prejudice, the review should only start once legal proceedings connected to the Scheme had concluded.

2.9 During the long period in which those proceedings continued, our view of the nature of the review and the required level of independence changed. We therefore decided to commission an independent external party to carry out the review.

2.10 In June 2019, the FCA Board appointed John Swift QC to conduct the review. We asked the Reviewer to cover the period 1 March 2012 to 31 December 2018, enabling him to look at the implementation and operation of the pilot and the subsequent Scheme.

2.11 We asked the Reviewer to examine the quality and effectiveness of the supervisory intervention, assess the FSA and FCA's judgements and actions involving the redress exercise, and set out what lessons we should learn.

2.12 We published the full **Terms of Reference for the Review**. The Review was not intended to assess whether individual offers were appropriate or to be a route by which individual cases, or the redress scheme, could be re-opened.

2.13 Based on its findings about the Scheme, the Review has identified 21 forward-looking recommendations for us, which it has broadly categorised into 5 topics:

a. general recommendations
b. good regulatory practice in the development and use of voluntary redress schemes
c. greater willingness to use statutory powers
d. implementation/oversight and the importance of retaining ownership and control over regulatory interventions
e. FCA decision-making and processes, including the principles of transparency and regulatory independence

We have carefully considered the recommendations and the findings about the Scheme that they are based on. Below, we set out our response to each recommendation and describe the relevant changes we have made, have in train or plan to make, to address each one.

3 Our response to the IRHP Review's recommendations for us

A. General Recommendations

Recommendation A1: The FCA should regulate more proactively to prevent harm to consumers as well as taking remedial action after harm has occurred.

The Review finds that there had been largely no relevant regulatory action prior to 2012, a lack of interest in IRHPs and, as a result, a limited knowledge base in respect of them. This failure to identify the risks early and intervene meant the problem grew.

3.1 **We accept this recommendation.**

3.2 We agree with the Review on the importance of ensuring that we:

- have a comprehensive and informed understanding of the markets and business activities we regulate
- have a surveillance and intelligence-gathering function that is proactively inquisitive rather than reactive, well informed and operates in a coordinated joined up manner
- are ready to intervene promptly and effectively

3.3 The accelerating volume of IRHP sales in 2005-08 occurred at a time when the philosophy of financial conduct regulation was very different from today and extended into the period of the global financial crisis. Addressing the fallout from that crisis was an over-riding priority for the FSA and its leaders.

3.4 We are already a very different organisation from that time. We have made many specific improvements over the last few years and have more in train. So, we would expect to act far sooner, more decisively and with more information today. But we are acutely aware that we still have more improvements to make.

Effective supervision

3.5 Between 2016-18 we carried out a large-scale programme of change called 'Delivering Effective Supervision', in parallel with a wider consultation on our regulatory **Mission**. We set out the resulting framework in our **Approach to Supervision**, published in April 2019. This explains how we now go about identifying the risks of harm and diagnosing their causes, before designing effective responses that aim to pre-empt or address poor conduct to stop any associated harm materialising or becoming significant. Under this approach, we:

- Develop consolidated views and market analyses of different business sectors, and their trends and risks, to support our assessment of firms.
- Assess firms' strategies and business models to identify emerging risks of harm. A strong understanding of business models helps us identify mismatches between firms' profit incentives and the interests of consumers and markets.

- Use our understanding of markets and business models to target firms where misconduct would cause most harm, especially to consumers in vulnerable circumstances or important markets, or where the harm is most likely to be significant.
- Address the key drivers of firms' behaviour likely to cause harm. This includes their purpose, the behaviour and competence of their leadership teams, their approach to managing and rewarding people, and the effectiveness of their governance arrangements, controls and key processes.
- Hold to account the most senior individuals whose decisions and personal conduct have a significant effect on the conduct of their firm.

3.6 However, the 3 independent reviews show that we still have more to do to ensure we become less cautious and reactive, and more willing to investigate and act earlier, with better information-sharing and coordination supporting that proactive approach. The following are key areas of work in train that will help address recommendation **A1**.

Transforming our approach to intelligence and information – better data, better use

3.7 We agree that we need to find and stop harm faster, not least because harm can occur more quickly in today's digital environment. As we set out in our **Business Plan 2021/22**, our Transformation Programme is investing in improving our technology, our capabilities and our information, so we are quicker at identifying harm and intervening to stop it.

3.8 The volume of data we receive, which supports our supervisory, policy and enforcement work, is increasing and with the right technology and capability we can take advantage of it more effectively. We are investing more than £120m over 3 years to automate more of our data collection and better analyse data across systems. We aim to review and analyse unstructured data (such as emails, word documents and video files) from different sources more efficiently. We will gather publicly available information on firms and products to identify potential risks to consumers. We are also strengthening our data skills and expertise. We continue to focus on the following outcomes in the coming year:

- *Data:* Improving its accuracy and accessibility, so we can use it more effectively to identify harm and intervene more quickly.
- *Information:* Building capabilities to deliver automation and efficiencies and using technology to make our operations more efficient.
- *Intelligence:* Using advanced analytical techniques to proactively identify and prioritise firms or harms for investigation.

More proactive and assertive culture

3.9 We will have the technology we need to become a data and evidence-led regulator. However, to achieve the best results we need a culture where our people are empowered to act decisively, proactively and at pace.

3.10 As part of that, we need to be quicker and bolder in taking decisions. The Governance and Decision Making workstream within our Transformation Programme is taking this forward. As a first step, following consultation, we have moved decisions about certain authorisations, supervisory and enforcement actions from our Regulatory Decisions

Committee to the FCA executives in the frontline. As a result, we expect to intervene more quickly more often to prevent harm to consumers and market integrity.

3.11 We also need to be active, front-footed and persistent in seeking answers, questioning whether there is evidence to suggest actual or potential harm and aiming to get ahead of problems in the marketplace. We need to approach complex problems with a curious mindset, taking ownership for ensuring that we properly grasp them and looking for new and innovative ways to deliver outcomes effectively. We expect high standards of performance and are committed to ongoing professional development.

3.12 We need to collaborate closely and proactively: with all our colleagues across the FCA, with firms and consumers, and our partner organisations in the UK and internationally. Together, we can drive up standards and improve conduct in the financial services sector.

3.13 The new **Consumer Duty** we have proposed aims to bring about a higher level of consumer protection in retail financial markets. We want firms consistently placing consumers' interests at the centre of their businesses and focusing on delivering good outcomes. And we want consumers to get products and services that are fit for purpose and provide fair value, and that they understand how to use and are supported in doing so. The Duty aims to help us hold firms and their Senior Managers accountable.

Ensuring a more holistic approach to business models, including across the perimeter

3.14 Selling IRHPs was a regulated activity but they were sold to SMEs alongside loans that mostly weren't regulated, which made it harder for the FSA to spot the problem. We are strengthening our holistic firm assessments by building our capability to conduct such assessments through training and bringing together data and intelligence across our systems. We are also committed to being more proactive at the limits of our regulation, working with partners and other agencies where we don't have powers.

Treatment of SMEs

3.15 We are now much clearer than the FSA was about the extent of our responsibility for firms' treatment of SME customers.

3.16 Most lending to SMEs remains outside the regulatory perimeter. However, we now expect each bank that lends to SMEs to have a Senior Manager (under the Senior Managers and Certification Regime) with clear responsibility for that activity. This means we can act where the Senior Manager has breached one of the Conduct Rules (eg failing to treat customers fairly, where the SME meets the relevant definition of a 'customer'). In February 2020 we recognised a set of industry standards overseen by the Lending Standards Board for lending to SMEs and that code is something we can consider in assessing how Senior Managers meet their duties.

3.17 In April 2020, we wrote to the CEOs of **banks** and **insurers** setting out our expectations for lending to and insuring small businesses during the pandemic. We worked closely with the Government and the British Business Bank on the changes to the Coronavirus Business Interruption Loan Scheme (CBLS) and the launch of the Bounce Back Loan Scheme (BBLS). Subsequently, we have been monitoring banks to see how they are delivering forbearance and other protections for relevant SME borrowers in financial

distress, especially in the context of BBLS and CBLS loans and the Pay as you Grow framework for their repayment.

3.18 Providing banking services to SMEs that are not micro-enterprises is, like lending to SMEs, mostly outside the perimeter and is not, for example, covered by our conduct of business rules. However, our competition powers are wide, and we investigate beyond the activities we regulate to assess if a market is working well. Our **Strategic Review of Retail Banking Business Models** raised concerns about whether SMEs are well served by retail banking products and whether future competition is going to improve outcomes for them. This reinforced our view that we need to understand better how retail banking models are changing the services they offer in response to SMEs' changing needs. We also want to explore whether SMEs' ability to raise finance could be improved, and we have worked with the Treasury to inform their thinking in this area, including their consultations on the **Wholesale Markets Review** and on the **Prospectus Regime**.

3.19 As well as these increased efforts to improve outcomes for a broad range of SME customers, we have significantly strengthened SMEs' ability to get redress if things do go wrong:

- In April 2019, after detailed consultation, we enabled 'larger' SMEs to refer complaints to the Financial Ombudsman Service ('the Ombudsman Service') for the first time. Previously, only micro-enterprises could do so but now over 97% of all UK SMEs are eligible. We also increased the maximum award limit from £150,000 to £350,000, which better reflects the nature and scale of many SME complaints.
- We strongly encouraged and supported the founding of the Business Banking Resolution Service (BBRS), also in April 2019. This service is supported by participating banks but run by an independent board, including leaders with experience of commercial resolution. It considers complaints that are not eligible for the Ombudsman Service, typically from the larger end of the SME population.

Recommendation A2: The FCA should aim to ensure that persons within the same category are treated consistently: where rules exist for the protection of all within a defined class, regulatory intervention should not be restricted to benefit only a subset of that class unless there is an objective justification founded on strong evidence and tested through consultation.

The Review finds that the FSA recognised there was a designated class of persons (Private Customers/Retail Clients) to whom the banks owed duties under the conduct of business rules, but then went wrong by not ensuring protection and redress for all those in that class and instead agreeing to sub-divide it into non-sophisticated and sophisticated categories and to exclude the latter from the Scheme.

3.20 **We agree that, where regulatory intervention is restricted to benefit only a subset of persons within a defined class, there should be objective justification.**

3.21 **We believe that the decision to treat sophisticated and non-sophisticated customers differently in the case of IRHPs was justified, but we acknowledge clear shortfalls in processes, governance and record keeping when decisions about the redress scheme were made (see B1, E2, E3)**

Looking Back

3.22 At the time, the FSA considered it appropriate to focus its attention on seeking redress for those in the most vulnerable circumstances among the potentially mis-sold IRHP customers. We consider that this was an appropriate principle and aim for the FSA to have followed. We further consider that the voluntary Scheme the FSA agreed largely achieved that aim in practice.

3.23 The FSA took the view early on that a voluntary redress scheme would provide redress to the customers in the most vulnerable circumstances more quickly and with greater certainty than a statutory approach. If the FSA had sought to use its statutory powers to try to provide redress, this would have involved significantly more resource and evidence-gathering and probably taken more time to achieve any result, against a backdrop of rapidly growing harm to many of the SMEs. Moreover, the banks might well have contested such a statutory approach and, if successful, this could have led to redress for customers being substantially less than under the voluntary scheme, eg in terms of the period of sales covered, the customers included or the failings to be redressed.

3.24 As the Review notes, in taking the 'bird in the hand' approach of the agreed voluntary scheme (p305, para 23), the FSA gained an advantage for the customers included within the Scheme, compared to less certain and likely slower outcomes by statutory routes, and it was an appropriate way for the FSA to address its concerns about the sale of IRHPs to those eligible under the Scheme terms.

3.25 However, achieving a voluntary agreement necessarily involved some trade-offs and, as the Review describes, the detailed delineation of the exact scope of the Scheme was in part a result of the negotiations (including the Pilot Review) which formed part of the process of reaching a voluntary agreement. In the FCA's view, there is no evidence that the banks would have agreed to a voluntary redress scheme if the FSA had insisted that it cover the past sales to all Private Customers/Retail Clients.

3.26 The FSA was also obliged by FSMA to assess what it considered to be an 'appropriate' degree of protection, taking into account several factors including the differing degrees of experience and expertise that different consumers may have had.

3.27 Accordingly, there were a range of conclusions reasonably open to the FSA at the time and we consider that it was reasonable for the FSA to judge, as it did:

- That some of these customers were more sophisticated and would have likely understood the key features of IRHPs, such as their appropriate duration and the associated early break costs. These customers would have understood the risks in buying these products or have been able to access relevant expertise and skills to help them understand and appreciate those aspects. Examples of these customers include large property companies, Special Purpose Vehicles or common ownership groups, some of which were very significant in terms of size, finance arrangements and transactions.
- That any redress scheme for IRHP should prioritise, and if appropriate be limited to, less sophisticated customers, so as to secure more timely redress for them. These customers were less likely to have understood the key features and risks and were more at risk of having been mis-sold. They were also mostly smaller businesses with fewer financial resources. This meant they faced more acute financial difficulties, including from the interest rates they were paying due to the mis-sales, in the difficult economic circumstances during the global financial crisis.

3.28 The FSA thus agreed the voluntary Scheme as a means of providing certainty and securing swift redress for the customers it reasonably considered to be most at risk. The FSA considered the differentiation of customers within the Private Customer/ Retail Client class to be an appropriate mechanism for achieving that outcome, based on their likely sophistication as identified by detailed criteria the FSA developed. Again, we consider that this was a reasonable and appropriate approach for the FSA to take. However, we acknowledge that the dividing lines from that perspective, between who should and should not have been included in the redress scheme, were difficult to draw and complex. We acknowledge clear shortfalls in processes, governance and record keeping when decisions about the redress scheme were made.

Looking forward

3.29 It remains important that we can use flexibility, both in redress interventions and more generally, to ensure appropriate protection for consumers in real-world circumstances. That means we will sometimes need to use our regulatory judgement to treat different types of consumers differently, even if they belong to the same regulatory classification. In the case of potential redress interventions, this judgement will take account of the wider framework of pathways to redress that the customers may or may not have, such as the approach and jurisdiction of the Ombudsman Service (as enhanced now for SMEs), the BBRS, Financial Services Compensation Scheme, and the Courts.

3.30 We agree, however, that our regulatory judgements on any such differential treatment within a redress intervention should be reasoned, evidence-based and objectively justified. We also agree that such potential differential treatment, if significant, may be a good reason to hold meaningful consultation on the intervention if doing so is possible and appropriate (see **B6**).

3.31 We will incorporate this recommendation's important considerations and challenges into our thinking as part of our workstream on redress pathways.

3.32 More broadly, we consider that there needs to be an important public debate about what 'appropriate protection' should mean in practice. This is increasingly relevant for the growing range of financial services offered to a diverse body of consumers, and for the costs of providing those services. For example, we would welcome an open conversation between investors, firms, regulators, Government and Parliament about how far investor freedoms should be curtailed. We need to get the right balance between freedoms and protection from harm, including for those consumers currently exempt from regulatory protections such as those using the high net worth and sophisticated investors exemptions.

3.33 We started this discussion in September 2020 by publishing a **Call for Input on the future of the consumer investments market**. We have now published our **Consumer Investments Strategy** which sets out our approach, including strengthening our Financial Promotion Rules for high-risk Investments. We will be looking to improve the process for categorising clients, given the key role this categorisation plays in determining what investments they can access and the regulatory protections they have. Currently, this largely relies on customers self-certifying their level of knowledge and experience.

3.34 We are actively engaging with these debates, including in the context of the Treasury's consultation on the UK's post-EU **Future Regulatory Framework**. We also note our recent discussion paper on the **compensation framework** for financial services customers.

Recommendation A3: the FCA should ensure its rules are sufficiently clear and detailed to permit effective compliance.

The Review finds that what constituted adequate pre-sale disclosure of the break costs that would arise, if the interest rate hedge was terminated early, was clarified only during the agreement on the Sales Standards to be applied in the Scheme and the subsequent skilled persons' FAQs. The Review also says that rules applicable across multiple regulated products, such as generic risk warnings, can dilute the effectiveness that more granular and targeted rules might have.

3.35 **We accept this recommendation.**

3.36 For some time, our approach has been principles-based where possible. Our **Principles for Businesses** support a focus on the desired outcomes of regulation, whereas detailed rules can drive a 'tick box' compliance culture in firms. Principles also provide greater flexibility than detailed sets of prescriptive rules and this enables us, for example, to be more adaptable to changing circumstances and market innovations.

3.37 However, we agree that the key questions in practice are:

- what is the mix of rules, of differing levels of detail, that is likely to be most effective in particular areas of the market?
- are our rules, at whatever level they are pitched, clear and outcomes-focused?

3.38 We will assess these questions carefully in the context of the Treasury's consultation on the UK's post-EU Future Regulatory Framework. These questions are also likely to be directly relevant to our proposed Consumer Duty for firms.

B. Voluntary Redress Schemes

Recommendation B1: The decision-making function to approve voluntary redress agreements should be reserved to the FCA's senior leadership.

The Review notes that the FCA is required to follow rigorous procedures when using its powers to require a firm to pay redress or issuing supervisory notices. The Review recommends that we apply similar rigour to voluntary redress schemes, with only our senior leadership approving those of material scope and significance, potentially through our Executive Committee.

3.39 **We accept this recommendation.**

3.40 Our decision-making framework has evolved and is now more mature and rigorous than at the time of the IRHP events. We agree that it will be appropriate for the Executive Committee (or equivalent) to take the decisions about the most material and significant voluntary redress agreements, within our properly specified decision-making framework.

3.41 We also agree with the Review that the decision-makers should be presented with the advantages and disadvantages of the proposed voluntary redress agreement, including:

- the rationale for adopting it and for discounting any alternative options (see **C1**)
- a comprehensive impact assessment, including of any customers who would be excluded (see **A2**)
- any formal or informal consultation exercises that are to be carried out or the reason for dispensing with consultation (see **B6**)

3.42 As part of our Governance and Decision Making workstream, we will make clear and embed in our decision-making framework what types and sizes of voluntary redress agreements our different levels of senior staff can approve. This will be informed by the thinking from our workstream on redress pathways.

Recommendation B2: Before entering into a voluntary agreement, the FCA should consider formalising the agreement through the use of a VVOP or VReq.

The Review finds that the agreements underpinning the Scheme took the form of a contract. It recommends that formalising a redress agreement would enable the FCA to take direct enforcement action in the event of non-compliance, which is likely to be a more reliable route to enforcing the terms than contractual litigation.

3.43 **We accept this recommendation.**

3.44 Where we ask a firm to examine its conduct and address harm and it agrees to do so, that agreement can be formalised by the firm's voluntary application for the imposition of a requirement (VReq) or for variation of its permission (VVoP). We consider on a case by case basis the pros and cons of using statutory tools to formalise voluntary agreements and we have sometimes invited firms to apply for a VReq or a VVoP in the past. But we are likely to use them more in future, including for the reasons the Review highlights.

3.45 We will incorporate this recommendation into our thinking as part of our workstream on redress pathways.

Recommendation B3: To the greatest extent possible, redress schemes should be simple, clear and easy to implement, to ensure rapid and consistent results. Any scheme should be designed to avoid unnecessary complexity, so that those implementing the scheme, and its beneficiaries, are able to readily understand its terms and conditions and that the scheme can operate quickly and easily.

3.46 **We accept this recommendation.**

3.47 Our redress schemes need to be legally robust, even where they are voluntary, to withstand potential challenge. For example, using counterfactual considerations, to put the customer back into the position they would have been in but for the firm's misconduct, can introduce complexity but is a well-established approach to redress, grounded in the general law and the practice of the Ombudsman Service.

3.48 However, we accept that the recommendation raises an important general point about the design of our interventions and the need for simplicity wherever possible. We also accept the specific lessons about ensuring that we explain any significant points

of detail clearly from the outset to the firms, consumers and other participants, and about providing a readily available means of consistently resolving any issues that arise later.

3.49 We will incorporate this recommendation into our thinking as part of our workstream on redress pathways.

Recommendation B4: In future redress schemes, the FCA should strengthen the oversight role of the Skilled Persons, including a starting point that they (and not the regulated firms) should be the primary decision-makers.

The Review finds that the skilled persons played a very significant role in ensuring the terms of the Scheme were adhered to, but also expresses concern, given the lack of an independent appeal mechanism in the Scheme, that the skilled persons' role was secondary and could only challenge banks' decisions on cases, not override them.

3.50 **We do not accept this recommendation.**

3.51 We do not agree we should take as a starting point that skilled persons should act as the primary decision-maker on individual cases in a redress scheme. Contrary considerations include the potential delay to delivery of redress if the skilled person is required to decide each individual case, rather than focusing on checking the processes and procedural fairness of the agreed scheme and sampling or quality assuring the outcomes.

3.52 We note the expansion of the Ombudsman Service's jurisdiction to include complaints from most SMEs, the creation of the BBRS, and our recognition of the potential importance of including an independent appeal mechanism in a redress scheme (see **B5**). These factors mean that in practice there will often now be a streamlined appeal mechanism within the existing redress pathways or a redress scheme. That will probably mean the skilled person's role is less crucial than it was in the Scheme, where it provided the main independent review on each case.

3.53 We do agree that it is important for us to continue to do the following:

- Give early and careful consideration, when developing a redress scheme, to the skilled person's potential role in it, taking into account the nature, aims and circumstances of the particular scheme and the powers available to us.
- Ensure there is coherence between what the skilled persons are expected to deliver and what they can do in practice to deliver it. For example, the appropriate extent of their engagement with consumers is likely to vary in the circumstances of each scheme but specifying that precisely will be very important.
- Explain expressly from the outset the skilled person's exact role and responsibilities in a scheme.

3.54 We have already incorporated such lessons into our general approach to s.166 reviews, which we have enhanced and updated since the Scheme and its skilled person appointments. But we will reflect further on how they relate to redress schemes as part of our workstream on redress pathways.

Recommendation B5: Future redress schemes should include an independent appeal element allowing beneficiaries to challenge outcomes (including eligibility determinations) with which they disagree.

3.55 **We accept this recommendation.**

3.56 We now consider that, in general, an independent appeal mechanism is likely to be an important feature in redress schemes. As noted, the expansion of the Ombudsman Service's jurisdiction to include complaints from most SMEs, and the creation of the BBRS, mean that in practice there will often now be a streamlined appeal mechanism within the existing redress pathways or a redress scheme. (In statutory s.404 redress schemes, the Ombudsman Service could be bound by the scheme rules which would likely specify who is to be redressed and by how much.)

3.57 Since the Scheme, firms such as Royal Bank of Scotland and Lloyds Banking Group have included bespoke mechanisms involving retired judges in some redress exercises.

3.58 These kinds of bespoke mechanisms are thorough, but they can take longer. So in future, if the Ombudsman Service or other existing appeal pathways are not available, we will likely need to balance considerations in favour of establishing a bespoke independent appeal mechanism in a redress scheme, against delivering swifter more pragmatic redress and, in the case of simpler or small-scale redress scenarios, considerations of proportionality.

3.59 We will incorporate this recommendation into our thinking as part of our workstream on redress pathways.

Recommendation B6: The FCA should improve consultation with all stakeholders.

The Review finds that there was a lack of adequate, broad-based consultation at different stages of the Scheme. The Review says that consultation has significant advantages and that in future the FCA should be slow to assume that consulting would jeopardise the possibility of reaching a voluntary agreement or be in breach of confidentiality obligations.

3.60 **We accept this recommendation.**

3.61 We agree with the importance and benefits of consulting on redress interventions where it is possible and appropriate to do so.

3.62 We consider it was reasonable for the FSA to have had concerns that consulting widely on the terms of the Scheme would have caused significant delay in achieving settlement and paying redress. It would also have been likely to involve disclosure of matters which would have undermined the FSA's negotiating position and created a risk of a worse outcome for customers. Additionally, the banks would, in our view, have had to agree to the disclosure of their confidential information (see **E1**).

3.63 However, we recognise the important potential advantages of wide and meaningful consultation that the Review highlights. So, we will take care to:

- look for opportunities to consult where we can and push firms harder, when exploring potential voluntary schemes, to agree to some degree of meaningful consultation
- weigh the question of consultation more carefully in the balance when we choose between pursuing voluntary schemes, where consultation may not always be possible, and using statutory powers, where consultation may be required (as under s.404) or possible (in the sense of representations made through a Court or Tribunal process)

3.64 We will incorporate this recommendation into our thinking as part of our work on redress pathways.

C. Greater Use of Statutory Powers

Recommendation C1: The FCA should give due consideration to its statutory powers to obtain compensation and restitution.

The Review recommends that in future the FCA should not too readily assume that the higher investigative and administrative burdens of these powers outweigh the benefits of operating under a clear statutory framework. The Review also says that if s.404 were amended to remove its limitation to remedies available to the relevant consumers in civil proceedings, then it would be a much more effective tool in the FCA's armoury.

3.65 **We accept this recommendation.**

3.66 When serious issues of misconduct arise, we already give careful consideration both to voluntary agreements and to our statutory powers as potential ways to get redress. There is extensive working level support, including a redress expert group for our supervisors to engage with. This group includes individuals from our Enforcement and Supervision areas who can share their experience and knowledge about the approach to previous cases. There is support from Enforcement when discussing both voluntary and statutory options, and support from Policy on aspects such as complaints-handling, the role of the Ombudsman Service and how we might use our s.404 powers.

3.67 In the years since the Scheme we have increased our enforcement activity, and **made changes** to our operating model to improve prioritisation and efficiency. As a result, we are confident that Enforcement-led routes to redress, whether statutory or through a settlement following an investigation, are a more practicable option today than they were for the FSA in 2012. That, combined with greater awareness of enforcement tools throughout the FCA, helps ensure that today these options are central when we are assessing issues involving potential redress.

3.68 S.404 of FSMA is a significant power that enables us to create a rule-based consumer redress scheme which requires authorised firms to proactively identify their liability for past sales. We do have to clear significant hurdles for evidencing widespread or regular misconduct and consequent consumer loss or damage before we can use it. But as our

Handbook guidance on our approach to using s.404 makes clear (**CONRED** 1.3), it is important we don't overestimate those hurdles when considering its potential use.

3.69 As a s.404 scheme requires us to undertake a public consultation, any decision to use it will tend to involve considerable policy, supervision and legal resources. We will conduct a cost-benefit analysis when considering whether to use s.404 instead of other options. Factors which we will consider in this analysis are likely to include:

- the potential benefits that affected consumers may get through securing redress they are owed if we establish a scheme
- our costs in implementing the scheme, including evidence gathering
- the costs to firms of complying with the scheme, in terms of potential redress and administration
- the Financial Services Compensation Scheme's costs of handling cases for firms in default
- the market impact of the redress scheme
- general legal principles of reasonableness and proportionality

3.70 We will incorporate this recommendation into our workstream on redress pathways and consider how we can evaluate the benefits and costs of different tools for redress where appropriate to do so, including statutory and potential voluntary schemes.

3.71 However, in respect of the Review's suggestion that s.404 should be amended, we note that the restrictions on our use of this power are set out in legislation and cannot be amended by us. That would be a matter for the Government and Parliament.

Recommendation C2: Even where a voluntary redress agreement has been reached, the FCA should give careful consideration to the concurrent use of regulatory powers, including exercising its enforcement powers alongside the agreed redress scheme.

3.72 **We accept this recommendation.**

3.73 Other action taken alongside a voluntary redress scheme, particularly an enforcement investigation, may slow the agreement and progress of that scheme. And if the main concern is securing redress, and that is being successfully done, it may not necessarily be a good use of our resources to progress an investigation too.

3.74 However, we agree that the potential need for a wider package of measures to investigate and remedy the root causes of the misconduct which led to customer harm, and hold Senior Managers accountable for it, is something we should always carefully consider when we are considering an intervention to secure redress. We should consider all our available tools and be willing to use more than one together where appropriate. We will ensure that this is sufficiently emphasised in our guidance and training for colleagues.

D. Implementation/Oversight

Recommendation D1: In future schemes, the FCA should implement high-level monitoring of outcomes to ensure consistency across firms.

The Review says that this dedicated monitoring role could be performed by the FCA itself or by a 'super skilled person' it appoints to look across firms and their skilled persons.

3.75 **We accept this recommendation.**

3.76 In the Scheme we did monitor the banks'/skilled persons' outputs for consistency, using data received from them and having monthly meetings with them, challenging them where needed. We also note that differences between banks' methodologies did not, in themselves, threaten the intrinsic fairness of any redress offer. There were also objective reasons for differences in outcomes across banks, including differences in the mix of derivatives they sold and in their conditions of lending.

3.77 However, we agree that monitoring the outcomes from a redress scheme and, to an appropriate degree, their consistency, is an important consideration. In voluntary redress schemes, firms generally provide reports to us at regular stages throughout the exercise and a final report once it has concluded, with these reports typically including:

- confirmation that it is being/has been completed in accordance with the agreed criteria
- the results and progress to date, including how many customers were successfully contacted, how many responded, a breakdown of responses and of decisions, figures for actual redress paid, and details of customers who remained dissatisfied

3.78 In the future, when considering the design of redress interventions, we will seek to ensure that they deliver an appropriate level of consistency. We will also include arrangements for proportionate reporting and monitoring, by us or others, to ensure that level of consistency. We will consider how such monitoring can best be carried out and seek to ensure that the level of monitoring we think appropriate and how that effort is resourced (see **D3**) are aligned. We will also consider whether it would be appropriate to monitor outcomes among those consumers who are pursuing redress through routes outside the redress intervention.

3.79 We will incorporate this recommendation into our thinking as part of our workstream on redress pathways.

Recommendation D2: Timescales and deadlines for the delivery of different stages of a redress scheme should be realistic and reasonably achievable.

3.80 **We accept this recommendation.**

3.81 We recognise that forcing the pace to achieve speedy redress can result in mistakes or problems that then take time to resolve. It is in everyone's interests that targets are realistic and achievable. We also accept the need for clear and realistic communications, especially to affected consumers, and for appropriately managing expectations, especially if timelines do have to change.

3.82 We will incorporate this recommendation into our thinking as part of our workstream on redress pathways.

Recommendation D3: FCA interventions should be adequately resourced at both the operational and senior level, throughout the duration of the project.

3.83 **We accept this recommendation.**

3.84 Emerging issues are always competing for our resources and we are constantly making difficult choices about what to prioritise. We are working to improve our processes, so that how we allocate resources keeps pace with external developments and we can use resources more flexibly to support faster and more effective interventions. This was seen in practice in the way we responded flexibly during the pandemic to provide enough resource for Covid-19 driven priorities.

3.85 But we accept we have more to do. We will give further thought to how we would bring in appropriate 'surge' resources if we were making a major redress intervention today, and not just in its early stages. This would include careful consideration of the specific facts and circumstances, and of the most appropriate combination of resources and specialist skill sets, using our regulatory tools as needed – which might include the use of s.166.

3.86 We also agree that we should maintain enough dedicated capacity among senior staff throughout a major redress intervention to ensure proper oversight and accountability, including monitoring the ongoing operational resourcing requirements.

3.87 We will incorporate this recommendation into our thinking as part of our workstream on redress pathways.

E. FCA Decision-Making and Processes, including the Principles of Transparency and Regulatory Independence

Recommendation E1: The FCA should commit to greater transparency (not limited to consultation) in the exercise of its powers and its policies.

The Review finds that the FSA put itself in a position where any of the banks involved could lawfully veto the publication of key documents about the Scheme, and that this situation contributed to a lack of transparency (and wider consultation) throughout the development and implementation of the Scheme.

3.88 **We accept this recommendation.**

3.89 We agree entirely with the importance of transparency. Our own analysis is that details about a voluntary scheme may not necessarily fall under the 'gateways' set out in FSMA which allow us to disclose without the firm's consent. However, **we agree that in the particular circumstances of IRHP the FSA made a mistake in not insisting, as part of any agreement, on the banks giving consent to the prompt disclosure of all the key documents relating to the agreed Scheme**.

3.90 In the future, we will be more sensitive to the importance of transparency when agreeing voluntary schemes, and more willing, if firms do not consent to disclose, to

remove the option of a potential agreement. We might then pursue an enforcement investigation and, if it resulted in a settlement that included redress, would expect this settlement to include disclosure of the agreement, including a short summary of the redress programme.

3.91 We will incorporate this recommendation into our thinking as part of our workstream on redress pathways.

Recommendation E2: The FCA should maintain a detailed, comprehensive and reasoned audit trail in relation to its decisions, which goes beyond just recording headline decisions. The audit trail should also cover the way the decisions made are followed through and actioned.

3.92 **We accept this recommendation.**

3.93 Our governance framework is more mature today, and our audit trail of decisions is far better, including appropriately detailed minutes of committees' considerations and rationales for decisions. Also, as the Review notes, we have chosen to apply **a version of the SMCR regime** to ourselves, even though we are not a regulated firm. We keep our SMCR compliance under regular review.

3.94 However, as part of our Governance and Decision Making workstream, we will challenge ourselves about whether there is still more we need to do. We will assess how well we keep track of the long-term delivery of previously decided actions, including against defined measures and outcomes.

Recommendation E3: To ensure Board accountability, the FCA should improve processes for engaging its Board, including non-executive directors, in any major interventions.

The Review finds that, given the importance of the intervention, there should have been a much closer connection between the Executive and Board before major strategic decisions were taken.

3.95 **We accept this recommendation.**

3.96 We agree that where our intervention is of a similar scale, complexity, novelty and importance to that on IRHP, the Executive should agree the approach with the Board early. The Executive should also provide the Board with regular and sufficient information to allow it to conduct assurance on progress against pre-agreed milestones and success measures.

3.97 In our public **Corporate Governance document**, we set out that the Board's role includes taking specific decisions, outside those specified in the Schedule of Matters Reserved to the Board, which the Board or executive management consider to be of a novel or contentious nature or of such significance that they should be taken by the Board.

3.98 We made a series of major, novel, complex and important interventions over the course of the pandemic where the Board was engaged early to agree its role in oversight and strategic direction. For example, the decision to bring a test case on the validity of certain Business Interruption Insurance policy wordings was discussed early with the Board. The Board received regular reporting both on the case's

progress, and on ensuring that we supervised firms' responses to the outcomes of the case adequately.

3.99 The Board becomes aware of emerging issues through the CEO's report at each meeting, which provides details of any interventions of this sort, including the objectives of the intervention, progress against achieving them and outcomes. In addition, the Board's Risk Committee plays an important role in gaining assurance from the Executive that the principal risks facing the FCA have been appropriately identified, assessed, prioritised and have appropriate mitigations in place. It receives regular reporting from the Risk and Compliance Oversight division to ensure that interventions of this sort are brought to the Board's attention.

3.100 However, the Board's precise role is likely to differ from case to case, depending for example on the scale, novelty, complexity and importance of the intervention and whether it involves a decision that the Board has reserved to itself, either as a matter of good governance practice or the requirements of statute. Nonetheless, as part of our Governance and Decision Making workstream, we will ensure that our Board and Committee terms of reference capture this recommendation fully.

Recommendation E4: Whether using Skilled Persons or not, the FCA should ensure future schemes are designed so that it retains sufficient control over any intervention and remains accountable in public law for the results of the exercise of its jurisdiction.

The Review finds that the FSA's assignment of independent oversight of the banks' compliance with the Scheme to skilled persons, without any right of appeal against the redress decisions of the banks/skilled persons to the FCA, tribunal or High Court, left a serious gap in the FSA/FCA's accountability for the implementation and outcomes of the Scheme, both substantive and in terms of fair process.

3.101 **We accept this recommendation.**

3.102 Applications for judicial review did provide an opportunity for the Courts to consider the FSA/FCA's exercise of regulatory powers in relation to IRHP mis-selling. However, we have accepted that the absence of an appeals mechanism in the Scheme was a weakness (3.56) and noted that in future redress schemes there will likely be either a standard or a bespoke appeals mechanism (3.52). This will probably mean the skilled person's role is usually less crucial than it was in the Scheme, where it provided the main independent review on each case. We have also accepted the need to think carefully about monitoring future redress schemes' outcomes to an appropriate level of consistency (3.78), and resourcing and overseeing that monitoring effort appropriately throughout the life of the scheme (3.85).

3.103 However, we will incorporate this recommendation's challenges about our accountability into our thinking as part of our workstream on redress pathways. When designing future redress schemes, we will carefully consider the importance of checks and balances while bearing in mind their potential impact on our finite resources, and the legislative framework within which we operate.

Recommendation E5: Following any major regulatory interventions, the FCA should conduct full internal reviews to establish lessons learned and achievements in a timely manner.

The Review finds that the FCA's lessons learned exercise in 2013, after the set-up phase of the Scheme, was useful but that the FCA did not carry out any similar exercise in the later stages of the Scheme.

3.104 **We accept this recommendation.**

3.105 We agree that it is important for us to identify any improvements as early as possible so that we can make changes to the intervention, as well as include them in relevant subsequent interventions. We now have a much stronger second line Risk function to help us resource and conduct such reviews and learn such lessons.

3.106 We will incorporate this recommendation into our thinking as part of our workstream on redress pathways.

3.107 Since 2017, and partly in response to recommendations from the National Audit Office and Public Accounts Committee, we have run our **impact evaluation programme** to assess if our major interventions were effective, achieved the outcomes we aimed for and gave value for money. We will further develop that programme, to help us get better at choosing the right interventions.

Recommendation E6: The FCA should consider including post-termination cooperation obligations in the employment contracts of all senior FCA personnel.

3.108 **We accept this recommendation.**

3.109 We agree that independent reviews benefit from as full a participation of relevant senior individuals as practicable and we will consider what more we can do to secure this. However, we note that such a contractual provision may be difficult to enforce in practice and so, even if we did include it, might not achieve the desired outcome.

Recommendation E7: The FCA should ensure it acts, and is seen to act, as a fully independent regulator.

3.110 **We accept this recommendation.**

3.111 We are pleased to note that the Review found that the FSA did act independently, and we agree that we should continue to do so and be seen to do so.

4 Next Steps

Finality of the Scheme

4.1 The terms of the Review made clear that it was not intended to be a route by which the Scheme could be re-opened, and the Review does not suggest this. However, as a responsible regulator we have considered carefully, in the light of its findings, whether we should seek to use our powers to require any further redress to be paid to IRHP customers.

4.2 We have concluded that we should not take any such action. Our reasons are as follows.

4.3 First, and most important, as we have explained (3.21-3.28), we do not agree that the FSA went wrong in limiting the scope of the Scheme to less sophisticated customers within the Private Customer/Retail Client class. Notwithstanding the shortcomings in processes and governance which we have acknowledged, we consider that this was a reasonable approach, given the FSA's regulatory aim of providing swift and certain redress to those who were in the most vulnerable circumstances among that varied customer base. We consider that the FSA thereby provided appropriate protection to all the various customers involved, including the more sophisticated, who remained able to pursue mis-selling allegations and claims for redress against the banks through complaint routes outside of the Scheme and by litigation.

4.4 Secondly, and in any event, we consider that it would not be appropriate or proportionate for us to take further action now. The Scheme was entered into by the FSA and the banks by voluntary agreement in good faith at the time and the regulator set out the entirety of the steps it required the banks to take (beyond operating their normal complaints channels and responding to court claims) to ensure they paid redress to mis-sold IRHP customers. We have never suggested we would seek to extend the Scheme, or take further steps, to include or assist the excluded customers. Doing so now would also make it harder for us to agree other voluntary remediations with firms in future, which would hamper our ability to resolve issues swiftly and require more formal action more often, with the delays and resource burdens that would bring.

Complaints against the FCA

4.5 We will determine complaints against the FCA arising from IRHP as quickly as we can, including those we previously put on hold pending the findings of the Review. In line with our published Complaints Scheme, we will consider all complaints on an individual basis.

Our key commitments

4.6 It is 20 years since sales of IRHP began and nearly 10 years since the FSA established the Scheme. In that time, we have made many significant changes and we are a different organisation today. For example, we would now avoid the kinds of procedural shortcomings caused by the pace at which the FSA established the Scheme.

4.7 However, we know that we still have more to do, and a main aim of our Transformation Programme is to make sure we can intervene quickly and assertively in problems when we need to. We are committed to learning all we can from this Review and to improving accordingly, and we recap our key commitments here.

4.8 We will incorporate the Review's recommendations into a wider workstream, building on work we had underway which is focusing on our approach to redress, to ensure that we:

- combine swift actions to secure redress with realistic timings and plans (3.80-3.82)
- give due consideration to using our statutory powers to secure redress (3.65-3.70)
- make sure any differential treatment of consumers by a redress intervention provides appropriate protection and is evidence-based and objectively justified (3.29-3.31)
- weigh more carefully the potential importance of consultation and transparency in agreeing voluntary redress schemes, and are more willing, if firms do not consent to these aspects, to take a potential agreement off the table (3.60-3.64 and 3.88-3.91)
- strive for simplicity, as far as possible, when designing redress interventions, and provide clear upfront explanations of any remaining complications (3.46-3.49)
- make clear from the start of any redress intervention the precise role, if any, of skilled persons, and ensure there is coherence between what they are expected to deliver and how they can deliver it (3.53-3.54)
- include an independent appeal mechanism in redress interventions, unless this would be disproportionate or unworkable (3.55-3.59)
- consider the potential benefits to enforceability of formalising voluntary redress schemes through an a VReq or VVoP (3.43-3.45)
- give thought, when considering redress interventions, to how they will deliver an appropriate level of consistency, and to proportionate reporting and monitoring (3.75-3.79)
- make realistic assessments of what work will be required in the later phases of a redress intervention, and how to resource that adequately (3.83-3.87)
- carry out timely evaluations and lessons learned exercises through the life of a redress intervention to improve it, as well as subsequent ones (3.104-3.106)

4.9 As part of our Governance and Decision Making workstream, we will make clear what types and sizes of voluntary redress agreements our different levels of senior staff can approve (3.39-3.42) and embed this in our decision-making framework. We will also provide clarity about appropriate Senior Executive and Board engagement in major redress schemes (3.95-3.100), including in the later stages.

4.10 As we have previously committed to, we will report on the progress of our Transformation Programme at 6-monthly intervals until we have substantially implemented the recommendations from this Review and the reviews into LCF and Connaught. Our implementation of the recommendations will be subject to comprehensive assurance activity and our Board and its Audit and Risk Committees will oversee this.

Annex 1
The costs of the Review

1. An independent report of this length and complexity inevitably calls for a high level of specialist expertise. The total external costs of the investigation since it was commissioned until the end of November 2021 are approximately £8.6 million including VAT. There will be some additional costs beyond November 2021.

Service	Amount incl. VAT (million)
Independent Reviewer and Direct Support Team	£7.1
Legal Advice and other support for FCA and employees	£1.5
Total	**£8.6**

Annex 2
Abbreviations used in this paper

Abbreviation	Description
BBLS	Bounce Back Loan Scheme
BBRS	Business Banking Resolution Service
CBLS	Coronavirus Business Interruption Loan Scheme
CONRED	Consumer Redress Schemes sourcebook
DES	Delivering Effective Supervision change programme
DISP	Dispute resolution: Complaints sourcebook
EMO	Enforcement and Market Oversight
FCA	Financial Conduct Authority
FOS	Financial Ombudsman Service
FSA	Financial Services Authority (the regulatory body preceding the FCA and Prudential Regulation Authority)
FSMA	Financial Services and Markets Act
FSCS	Financial Services Compensation Scheme
SMCR	Senior Managers and Certification Regime
SME	Small and Medium size Enterprise
s.166	section 166 of FSMA
s.404	section 404 of FSMA, which, as revised, came into force in 2010
VReq	Voluntary Requirement
VVoP	Voluntary Variation of Permission

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