Directors' Report and Corporate Governance Statement

Directors' Report

Table 1

Name	Board meetings	Additional Board Meetings*	NedCo	RemCo	AuditCo	RiskCo	Original appointment date	Expiry of current term
Amanda Davidson [b]	10/10	4/4	6/6	4/5	5/6		1.5.10	31.3.13****
Sandra Dawson [b]	10/10	4/4	6/6	7/7	5/6		1.5.10	31.3.13****
Peter Fisher [b]	9/10	2/4	5/6			3/5	19.1.07	31.3.13****
Brian Flanagan [b]	9/9	2/4	5/5	5/6	3/5		19.1.07	28.2.13
Karin Forseke [b]	2/3	0/0	1/1	2/2	1/1		1.12.04	3.7.12
John Griffith-Jones	6/6	2/2	2/3				1.9.12	31.3.13****
Mick McAteer [b]	10/10	3/4	6/6			5/5	1.11.09	31.3.13****
Brian Pomeroy [a & b]	9/10	3/4	5/6		6/6	5/5	1.11.09	31.3.13****
Hector Sants	2/3	0/0					4.5.04	30.6.12
Andrew Scott [b]	10/10	1/4	6/6			5/5	1.11.09	31.3.13****
James Strachan [b]	8/10	2/4	5/6	7/7	4/6		1.11.09	31.3.13****
Paul Tucker [b]	6/10	0/4	4/6			2/5	1.3.09	31.3.13**** ***
Adair Turner	10/10	4/4					20.9.08	31.3.13****
Martin Wheatley	10/10	3/4					1.9.11	31.3.13****

Key
a Chair of the FSA Pension Plan Trustee Ltd
b Independent non-executive director

Committee membership during the year:
Audit Committee (AuditCo)
Amanda Davidson **
Sandra Dawson
Brian Flanagan
Karin Forseke (Chair until 3 July 2012)
Brian Pomeroy (Chair from 4 July 2012) **
James Strachan **

Remuneration Committee (RemCo)
Amanda Davidson
Sandra Dawson (Chair from 4 July 2012)
Brian Flanagan
Karin Forseke (Chair until 3 July 2012)
James Strachan

Risk Committee (RiskCo)
Peter Fisher
Mick McAteer
Andrew Scott (Chair)
Paul Tucker
Brian Pomeroy

Committee of Non-executive Directors (NedCo)
All non-executive directors were members of NedCo
Karin Forseke was Chair until 3 July 2012
Sandra Dawson was Chair from 4 July 2012

* Additional to those scheduled at the start of the year.
** Considered to have recent and relevant experience for the purposes of the UK Corporate Governance Code.
***The Financial Services & Markets Act 2000 required the Deputy Governor, Financial Stability at the Bank of England to be a member of the Board of the FSA. In a reciprocal arrangement with the Bank of England, the FSA's Chairman served as a member of the Court of the Bank of England.
**** Appointment terminated on 31 March 2013 when the FSA ceased to exist at legal cutover.

The only members of the FSA were the directors. Each director undertook to guarantee the liability of the FSA up to an amount of £1.

The executive directors were not directors of any UK-listed companies and had no other paid positions.

All the FSA's directors were appointed by the Treasury, with input on the selection panel from at least one incumbent member of the FSA Board. Appointments were made in line with the principles in the code of practice issued by the Commissioner for Public Appointments.

The Chairman of the FSA was appointed for a five-year term and all other directors were normally appointed for three-year terms. The executive directors had continuous employment contracts with the FSA, details of which are given in the Remuneration Report.

The directors present their report for the year ended 31 March 2013.

Change of Company Name

On 1 April 2013, following the enactment of section 1A of the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012), the name of the company was changed from The Financial Services Authority to The Financial Conduct Authority.

Business review

As a company, it is necessary for the FSA to provide a fair review of its business. This requirement is fulfilled by information provided in the first eight sections of the Annual Report.

Principal activities

During the year, the FSA was the primary regulator of financial services in the UK and had statutory responsibilities set out in the Financial Services and Markets Act 2000 (FSMA). Detailed information on its principal activities for the year can be found in sections one to eight of this Annual Report.

Principal risks and uncertainties

The principal risk for the FSA during the period under review was the failure to meet its statutory objectives.

Due to the Government's regulatory reform proposals, there were considerable risks relating to the transition of the FSA's functions into the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and the Bank of England, including the impact on its capacity to deliver against its FSMA obligations. The Board regularly reviewed the executive's strategy to mitigate these risks, which was led by a high-level transition committee, and scrutinised and challenged the plan to ensure operational risks were minimised. All identified risks and uncertainties were kept under review throughout the organisation, including at the Executive Supervision and Risk Committee and at the highest level by the Risk Committee and the Audit Committee. Further information on some of the key areas recently reviewed can be found in the committees' reports.

Development and performance of the FSA

Analysis of the FSA's performance during the year and the position at the end of the financial year are set out in the Financial Review and the Financial Statements for the year.

When the FCA came into existence at legal cutover on 1 April 2013, it was given a strategic objective under the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012) to ensure that the relevant markets function well. In addition, the FCA has three operational objectives: to secure an appropriate degree of protection for consumers; to protect and enhance the integrity of the UK financial system; and to promote effective competition in the interests of consumers.

Further information on the FCA's objectives can be found in section one of this Annual Report and on the FCA's website.

Qualifying indemnity provisions

Qualifying third party indemnity provisions for the purposes of section 232 of the Companies Act 2006 were in force during the course of the financial year ended 31 March 2013 and remain in force at the date of this report.

Directors' responsibilities in respect of the Annual Report and accounts

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards, as adopted by the European Union, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and for taking reasonable steps to prevent and detect fraud and other irregularities.

As far as the directors are aware:

- there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and distribution of financial statements may differ from legislation in other jurisdictions.

Financial position

The primary source of income for the FSA was the fees charged to regulated firms. Specific information on its financial position is provided in the Financial Statements and in the Financial Review. The directors agree with the analysis in the Financial Review and believe the organisation is able to meet its liabilities as they fall due.

Going concern

Throughout the period under review, the FSA was an independent body that regulated the financial services industry in the UK. Its powers and objectives were given to it by the Financial Services and Markets Act 2000 (FSMA). The business activities of the FSA during the last 12 months are summarised in the Executive Chairman's report. The Directors of the FCA (formerly the FSA) have considered the following risks and uncertainties in reaching a conclusion on going concern as set out below:

i. **Liquidity risk:** The FCA's strong fee covenants are underpinned by the statutory powers granted to it to raise fees to fund its regulatory activities. The FCA is also well placed from a liquidity perspective, with £48.3m in cash reserves at 31 March 2013 and available and undrawn credit facilities of £115m.

ii. **Credit risk:** The FCA's credit risk falls into two main categories:

   a. the collection of fees from the financial services industry: the organisation has a strong record in terms of collecting fees with bad debt experience averaging at less than 0.3% of fees receivable over the last three years; and

   b. the placement of those fees as deposits with various counter-parties: the FCA only invests with financial institutions that meet its minimum credit rating as assigned by credit rating agencies. The FCA also spreads its deposits across a number of counter-parties to avoid the concentration of credit risk.

iii. **Critical Accounting Judgements and Key Sources of Estimation Uncertainty** that have been considered by the Directors are the estimated useful economic life of internally developed software and the assumptions underpinning the pension deficit as set out in Note 3 to the Financial Statements.

Having regard to the above, it is the directors' opinion that the FCA is well placed to manage any possible future funding requirements pertaining to its regulatory activity and has sufficient resources to continue its business for the foreseeable future.

The directors therefore conclude that using the going concern basis is appropriate as there are no material uncertainties related to events or conditions that may cast significant doubt about the FCA's ability to continue as a going concern.

Corporate responsibility

Throughout the year, the FSA played a key role in protecting and enhancing the integrity and stability of the UK financial system. As such the FSA took its corporate citizenship seriously and led by example to influence positive change not only within the FSA but also among the financial services industry.

To provide an effective and efficient regulatory service, it was important to ensure that the FSA could recruit, develop and retain a talented, engaged and diverse workforce. To provide the best service to the public and to the financial sector, it needed to support staff to understand, represent and have close links with both the marketplace and the wider community. In this way the organisation could be in the strongest position to fulfil its obligations and role.

Within the FSA, Corporate Responsibility had three main objectives:

- to make the FSA an employer of choice;
- to ensure it safeguarded all its resources; and
- to support staff to understand the communities the FSA served.

People

The FSA was committed to promoting equality and diversity and creating a positive culture in all areas of its work as an employer and a regulator, where differences are recognised and supported. Policies were in place outlining its approach to equality, diversity and inclusion, flexible working, career development and wellbeing. Each of these emphasised the FSA's commitment to its people and key performance indicators focused on these areas. Performance, where possible, was measured and reported in the corporate responsibility section of the FSA's website. The FCA will continue to review and develop measures for those areas that are not currently assessed.

Environment

The FSA was conscious of the impact of its operations on the environment and the increasing expectation that organisations should manage this impact. The organisation aimed to reduce CO_2 emissions, energy use, water and the waste it produced, as well as increase the amount of waste that was recycled. To achieve this it sought to raise awareness of environmental issues among its staff. Targets were set in each of its key impact areas, and these were measured and reported on in the corporate responsibility section of its website.

Community

As well as an opportunity to engage within the wider community and have a positive impact, staff were encouraged to view volunteering as a tool to help them in their personal development. It was also seen as an opportunity to gain a better understanding of the community that would enhance the FSA's interactions with regulated firms leading to greater insights and improving the quality of regulatory policies and process.

Equality and diversity

The FSA was committed to the principles of equality, diversity and inclusion and further information about its work in these areas is contained in Appendix 7 to this Annual Report.

Employee involvement

A variety of media was used to communicate with employees, including the intranet, email, weekly floor briefings, forums, staff plenary sessions and staff meetings. Employees were invited to give feedback on the FSA and its operations both informally and formally, through a number of staff surveys.

The Staff Consultative Committee was the forum through which the FSA complied with the Information and Consultation of Employees Regulations 2004. It also provided a clear channel of communication and consultation between the FSA and its staff. It gave staff the opportunity to contribute to, and influence the development of, the FSA and to provide their views to the highest levels in the organisation. The Board and senior management recognised the importance and value of ensuring this process happened effectively.

Employee training

Employees were given opportunities to undertake a variety of in-house and external training and, during the year, each employee spent an average of 5.8 days training (2011/12: 6.29 days).

Charitable donations

The FSA did not make any charitable donations during the year (2011/12: Nil).

Health and safety

The FSA remained committed to providing a healthy and safe environment. A policy to promote health and safety at work was pursued and the cooperation of all employees and visitors was sought in this endeavour.

Creditor payment policy

The FSA's policy wass to aim to pay 90% of valid invoices with a correct purchase order within 30 days of receiving them. During the year, 92.8% of invoices were paid within the service standard (2011/12: 91.7%). The average time taken to pay suppliers from receipt of invoice was 27 days (2011/12: 24 days).

Auditor

The National Audit Office was appointed as the auditor of the company at a General Meeting on 1 July 2010 and was the auditor throughout the 2012/13 financial year.

By Order of the Board

S Pearce
Secretary
13 June 2013

Corporate governance statement for the year ended 31 March 2013

The FSA was a company limited by guarantee and was therefore not obliged to comply with the UK Corporate Governance Code (the Code). However, FSMA required the organisation to have regard to generally accepted principles of good corporate governance as applicable. The Board was committed to meeting high standards of corporate governance and decided to comply with the Code as far as appropriate. This report sets out how the FSA was governed in line with the Code's principles.

FSMA required the FSA to have a number of accountability mechanisms, including an Annual Public Meeting and to report on the extent to which its regulatory objectives were met. The FSA was funded by the industry it regulated through its statutory fee-raising powers and it operated independently of Government, but was accountable to Parliament through obligations set out in FSMA. Consultation with consumers and practitioners on rules and general policy was undertaken through the Consumer, Practitioner and Smaller Businesses Practitioner Panels.

The FSA was led by a Board, which developed its strategy and approved and monitored the annual operating plan and budget. Certain responsibilities were reserved to the Board for its decision and these were set out in the schedule of matters reserved to the Board. There was also a governance memorandum detailing the functions that had been delegated by the Board. The majority of the FSA Board comprised non-executive directors who, in addition to their statutory responsibilities under the Companies Act 2006, had specific obligations under FSMA. The Board was of sufficient size to ensure that the requirements of the business could be met and that changes to the Board composition and any of its committees could be managed without undue disruption. FSMA required that there was a non-executive directors' committee (NedCo), which kept certain functions under review. Information on NedCo's work is set out in the non-executive directors' report.

The Board and Board Committees met regularly during the year and details of the number of meetings held and attendance at those meetings are set out in Table 1. The membership of the various committees can also be found in Table 1.

Before Hector Sants resigned as chief executive with effect from 30 June 2012, the roles of the FSA chair and chief executive were separate: the chair, who was independent on appointment in September 2008, led the Board and ensured its effectiveness, and the chief executive was responsible for developing and delivering the strategic objectives agreed with the Board. Between Mr Sants' resignation and legal cutover to the new regulatory system on 1 April 2013, Adair Turner acted as executive chairman.

In preparation for legal cutover, the FSA operated an internal 'twin peaks' structure during the year, with a Conduct Business Unit led by Martin Wheatley and a Prudential Business Unit led by Andrew Bailey.

The non-executive directors of the Board had a variety of appropriate skills and experience. Apart from any contact they may have had with the FSA as a result of being connected with a regulated firm, or as consumers of regulated products, the non-executive directors were judged by the Board to be independent of the FSA. Where any conflicts of interest arose relating to personal or business matters, procedures were in place to ensure that no director would be exposed and that decisions would be made without undue influence.

The chair ensured, with the company secretary, that the Board's agendas were set in line with the priorities of the organisation. The company secretary reviewed papers before their circulation to Board members to ensure that information was accurate and clear. Papers for Board and Committee meetings were usually circulated one week before meetings.

Until legal cutover, one of the non-executive directors acted as chair of the non-executive directors' committee and was viewed as the senior independent director. The non-executive directors' committee ceased to exist in the new regulatory framework.

Directors of the FSA were formally appointed by the Treasury following a rigorous selection process. The selection panel comprised representatives of both the FSA and the Treasury and the procedures followed were in line with the principles in the code of practice issued by the Office of the Commissioner for Public Appointments.

The company secretary arranged induction for new directors that was appropriate for their knowledge and experience. The Board also received ongoing professional development on relevant issues. During the last year this included training for non-executive directors on consumer credit and platforms. Individual directors have also had personal briefings on other topics, such as interest-only mortgages, before Board meetings.

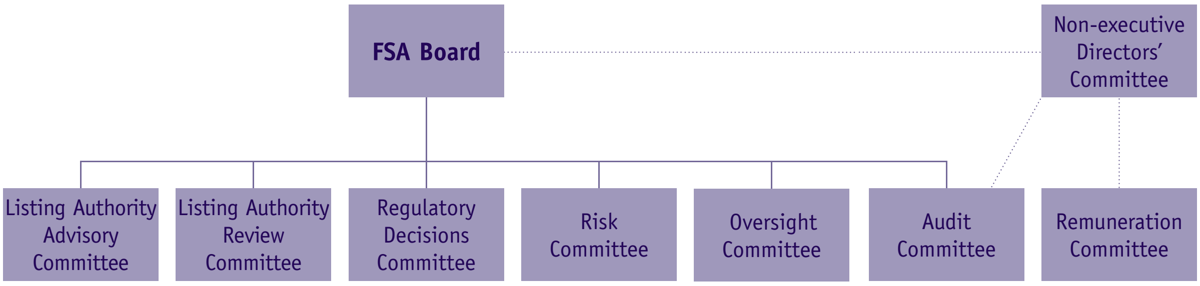
Each director had access to the advice and services of the company secretary, who also advised the Board on all aspects of governance matters. The company secretary was responsible for providing access to external professional advice for directors, if required.

Due to its statutory nature, the FSA benefited from immunity under FSMA in respect of legal action, which it supplemented with indemnities in favour of individual directors. The Board therefore regarded insurance in respect of legal action against directors as unnecessary.

As reported last year, a number of evaluations relating to the Board, its members and committees that were started during 2011/12, were completed in the early part of 2012/13. These were facilitated by external consultants and reviewed what lessons could be learned for the remaining tenure of the FSA and for the future operation of the FCA. In view of the changes to the regulatory framework and the transition of the FSA into two new regulatory bodies, it was agreed that it would not be appropriate to carry out further reviews of the effectiveness of the Board, its members or its committees during 2012/13.

In September 2011, the Board established a sub-group to support the executive in the development of the FCA. The sub-group was initially chaired by Adair Turner as chair of the FSA and, from October 2012, by John Griffith-Jones as chair-designate of the FCA. The other members of the sub-group were all non-executive directors. The sub-group was advisory in nature and had no delegated decision-making duties or powers. It was responsible for providing support and challenge to the CEO designate of the FCA to ensure the FCA was developed as a 'fit for purpose' successor to the FSA.

Governance structure of the FSA



In October 2012 the Board also established a sub-committee to oversee the FSA's review of the failure of HBOS.

The non-executive directors' committee (NedCo)

The functions of NedCo were set out in the provisions of Schedule 1 to FSMA and, during the year, NedCo ensured that its statutory functions were being satisfactorily discharged by:

- reviewing reports on the efficient and economic use of the FSA's resources;
- receiving reports on the Audit Committee's (AuditCo) work in keeping under review the question of whether the internal financial controls secured the proper conduct of the FSA's financial affairs (via reports made to the Board); and
- receiving reports from the Remuneration Committee (RemCo) on the remuneration awards to the executive directors and the chairman; and the performance-related bonus payments made to the executive directors.

NedCo's composition is shown in Table 1.

Report of the non-executive directors

The Board was the FSA's primary decision-making body. It also exercised a broad oversight of all policy, strategic and operational activities. The extent of the Board's role and the information provided to it, allowed NedCo to rely largely on the Board's work while sharing other functions, including oversight of internal controls, with AuditCo. RemCo reported on its work to NedCo.

Efficiency and economy

During the year, NedCo reviewed whether the FSA was using its resources in the most efficient and economic way. Data relating to measuring efficiency and economy formed part of the management information presented to the Board quarterly, and was reviewed specifically by NedCo. NedCo challenged the information it received and sought further explanations when appropriate. During the year under review, NedCo monitored the implementation of the internal twin peaks system, which separated the FSA's business into prudential and conduct divisions in preparation for legal cutover to the new regulatory framework on 1 April 2013. One impact of internal twin peaks within the Conduct Business Unit was an initial shortage of experience of managers with their firms due to the split of staff following the introduction of the internal twin peaks structure and the previous focus on prudential issues. NedCo noted, however, that this was being addressed through training to ensure that staff were appropriately skilled.

Internal financial controls

During the year, AuditCo reviewed audit progress reports from the National Audit Office and assessments from the Internal Audit Division on the relevant FSA key internal controls to obtain assurance that the internal financial controls secured the proper conduct of the organisation's financial affairs. Feedback on this work was provided to the Board. The full statement on internal controls, which includes information on financial controls is on page 116-117.

Remuneration of the executive directors

NedCo had delegated to RemCo the function of determining the remuneration of the chair, the chief executive, the executive directors and certain other senior staff.

In addition to its statutory functions, NedCo discussed how the Board was involved in, and alerted to, issues of significant interest or issues that had significant reputational impact. This assisted in considering the design for the FCA governance structure to ensure that processes were in place to facilitate the most effective communication.

Remuneration report

This section of the remuneration report is not subject to audit.

Remuneration Committee (RemCo)

RemCo was a committee of NedCo and was chaired by the chair of NedCo.

During the year, RemCo met formally on seven occasions, and some decisions were initially made by email and later ratified.

Remuneration strategy

The FSA's remuneration strategy was to provide a remuneration package that:

- helped to attract, retain and motivate staff;
- recognised its role and responsibilities as a public authority;
- was as competitive as possible against the appropriate market;
- encouraged and supported a culture aligned to achieving its statutory objectives;

- was fair and transparent; and
- was capable of being applied consistently across the organisation.

Remuneration policy
To achieve the remuneration strategy, the remuneration policy aimed to:

- set base salaries at, or around, the median of the relevant market competitive level;
- target reward at those whose performance was strongest;
- reward stretching performance; and
- provide an appropriate balance between the need to attract, retain and motivate staff, while reflecting the constraints placed on a public authority.

2012/13 Remuneration review
The total remuneration package, which was common to all FSA employees, comprised:

- basic pensionable salary;
- eligibility to be considered for a performance-related annual individual incentive award;
- additional flexible benefits; and
- pension contribution.

Information on the appointment of the chair of the FSA and its executive directors can be found in the Directors' Report and in Table 1. The information contained in the remuneration table has been audited by the external auditor. All individuals who held the post of executive director during the year had continuous contracts of employment providing for no more than 12 months' prior notice of termination by either party. The chair was employed on a fixed-term contract, which began on 20 September 2008 and was due to end on 19 September 2013, although, as noted elsewhere in this Annual Report, Adair Turner stepped down as chair and as a director of the organisation when the FSA ceased to exist at legal cutover.

RemCo determined the remuneration of the executive directors. To help with this, RemCo received information on, and assessment of, their individual performance. Performance was measured against the achievement of the collective FSMA objectives by reference to the Business Plan, the objectives relating to the directors' individual areas of responsibility and assessment of their leadership abilities.

In considering executive remuneration, RemCo had advice from the Director of Human Resources and market data from Towers Watson, its external consultants.

Basic pensionable salary
Salaries were reviewed annually in line with the policy. When making decisions on base salary, RemCo was mindful of the need for public sector organisations to continue to exercise restraint.

In considering the pay review for the year, the committee noted the importance of remuneration packages being sufficient to attract and retain staff while awarding any salary increases in a responsible manner, ensuring careful use of the FSA's resources. Some difficulties were experienced in attracting and retaining certain levels of suitably qualified professionals and, to retain the appropriate staff, it was important for the Executive to focus reward clearly on performance. This resulted in some staff receiving no pay increase, but the committee considered that the previous year's exercise, which had aimed to give the majority of staff a pay rise and also to address key anomalies, went some way to ameliorating this issue.

The Committee noted that the Executive had issued new equal pay guidelines and required clear indications of peer comparisons for all staff. The FCA Executive will look at the design of the pay bands for the new organisation and the need to ensure reward is linked to performance will continue to be emphasised.

Annual incentive award

During the period under review, the executive directors were eligible to be considered for a performance-related incentive award up to a maximum of 35% of average base pensionable salary applying during the previous year.

Last year, the organisation had an extended performance period of 15 months (1 January 2011 – 31 March 2012) to enable the performance period to align with the financial year. This was a one off transition. For 2012/13, the performance year was 1 April 2012 – 31 March 2013.

Please note that the remuneration figures for Messrs Sants and Wheatley for 2011/12, which are shown in the remuneration table on page 111 for comparison purposes, include performance-related incentive awards for the period from 1 January 2011 to 31 March 2012.

The chair was not eligible to be considered for an individual incentive award. When making its decisions, RemCo took proper account of all aspects of the FSA's and the individual's performance.

Other benefits

A sum was available for each director, which could be spent against a range of benefits. The sum for the chair and executive directors is included in 'other emoluments' in the remuneration table. The chair and executive directors also had access to a car and driver and, where appropriate, the relevant portion of these costs is included in 'other emoluments' in the remuneration table.

Pensions

The FSA Pension Plan (the Plan) has two sections, both of which are non-contributory; a defined benefits section (closed to new entrants and any future accruals) and a defined contribution section. Adair Turner and Hector Sants are not members of the Plan and were entitled to receive a non-pensionable supplement. The sums paid to the chair and each of the executive directors, in respect of each component, are shown in the remuneration table.

Remuneration Table

	Board fee £	Salary £	Performance related bonus £	Other emoluments and benefits £	Contractual entitlements on termination £	Pension £	2013 Total £	2012 Total £
Chairman								
Adair Turner [1, 2, 4]	-	446,250	-	33,353	252,000	53,550	785,153	500,474
Executive Directors								
Hector Sants [2, 11]	-	184,615	-	30,648	300,178	15,000	530,441	835,731
Martin Wheatley [2, 9]	-	429,999	86,000	112,386	-	38,700	667,085	399,657
Non-executive Directors [5]								
Amanda Davidson	35,000	-	-	-	-	-	35,000	35,000
Sandra Dawson [6, 13]	42,436	-	-	-	-	-	42,437	35,000
Peter Fisher [7, 13]	-	-	-	-	-	-	-	-
Brian Flanagan [12]	32,083	-	-	-	-	-	32,083	35,000
Karin Forseke [10]	15,462	-	-	-	-	-	15,462	57,333
John Griffith-Jones [2, 3]	99,167	-	-	192	-	11,900	111,259	-
Mick McAteer	35,000	-	-	-	-	-	35,000	35,000
Brian Pomeroy [6, 8]	62,436	-	-	-	-	-	62,436	55,000
Andrew Scott [6, 13]	45,000	-	-	-	-	-	45,000	37,012
James Strachan [13]	35,000	-	-	-	-	-	35,000	35,000
Paul Tucker [7, 13]	-	-	-	-	-	-	-	-
	401,584	1,060,864	86,000	176, 579	552,178	119,150	2,396,356	2,060,207
Remuneration as executives							1,982,679	1,735,862
Fees for service as Directors							413,677	324,345
							2,396,356	2,060,207

Where Directors have served for part of the year only, the remuneration figures are shown as pro-rated.

1. On becoming Executive Chairman with effect from 1 July 2012, Adair Turner's salary was increased to £450,000 from £435,000
2. Adair Turner, Hector Sants, Martin Wheatley and John Griffith-Jones are not members of the FSA Pension Plan and received a non pensionable supplement in lieu of pension contributions.
3. John Griffith-Jones was appointed as a non-executive director and chairman designate of the FCA on 1 September 2012.
4. Adair Turner's total emoluments for service during the year were £533,153 (2011/12: £500,474). In addition Adair Turner received in April 2013 a payment of £252,000 as compensation for termination of employment as he was restricted in respect of taking paid employment for a period of six months from April 2013 to September 2013. Lord Turner had been employed on a fixed-term contract which was due to end on 19 September 2013 but which was terminated on 31 March 2013.
5. The fee for non-executive directors was set by the independent panel, established with the approval of HMT, at £35,000 per annum with effect from 1 April 2011. This remained unchanged in 2012/13.
6. An additional fee of £10,000 per annum is paid to any non-executive director who has been appointed to chair a committee of the Board. Andrew Scott was appointed to chair the Risk Committee from 19 January 2012. Brian Pomeroy was appointed as Audit Committee Chair with effect from 4 July 2012. Sandra Dawson was appointed as Chair of NedCo with effect from 4 July 2012.
7. Peter Fisher and Paul Tucker both waived their Board fee in respect of the years concerned.
8. Brian Pomeroy was appointed to chair the FSA Pension Plan Trustee Ltd from 1 June 2010. The annual fee was set by the independent panel at £20,000 with effect from 1 April 2008. This remained unchanged in 2012/13.
9. Martin Wheatley was appointed as an executive director from 1 September 2011 and accordingly his remuneration for 2012 in the table above is only in respect of seven months.
10. Karin Forseke discharged the role of Chair of Nedco and Senior Independent Director from June 2010 until her resignation from the board with effect from 3 July 2012. She undertook additional work in relation to this and her appointment as Deputy Chair was formalised with effect from 1 June 2011. There was an adjustment to her fees to reflect the additional work to a total of £60,000 which comprised a non-executive director fee of £35,000, an additional fee for chairing AuditCo of £10,000, and an uplift as Deputy Chair of £15,000. The maximum amount for this position had previously been set by the independent panel at £69,000.
11. Hector Sants resigned as chief executive and as a director with effect from 30 June 2012. In line with his contractual entitlement, on leaving the FSA he continued to be employed by the FSA for a further six months during which he received his full pay and benefits and was unable to take paid employment in another organisation.
12. Brian Flanagan resigned as a director with effect from 28 February 2013.
13. Sandra Dawson, Peter Fisher, Andrew Scott and James Strachan resigned as directors with effect from 31 March 2013 and Paul Tucker also left the board with effect from 31 March 2013 when section 1A of the Financial Services and Markets Act 2000 took effect.
14. Margaret Cole resigned as a director with effect from 31 March 2012. In line with her contractual entitlement, on leaving the FSA she continued to be employed by the FSA for a further five months during which she received her full pay and benefits totalling £250,897 and was unable to take paid employment in another organisation.

Non-executive directors

It was not considered appropriate for the fees payable to the FSA's non-executive directors to be increased in the last year before the regulatory restructure and accordingly the level of fees remained unchanged during 2012/13.

The fees payable are shown in the notes to the remuneration table.

Committees of the Board

Audit Committee (AuditCo)

AuditCo's purpose within the FSA was to be responsible for reviewing and providing assurance to the Board on the effectiveness of the FSA's internal controls and risk management systems, the integrity in the annual accounts of the financial statements that relate to financial controls and internal risk, and oversight of the external audit process. The review of external risks and the review of individual firms were outside the Committee's terms of reference. The former lay with RiskCo and the latter with the supervisory process.

Details of AuditCo members' attendance at meetings can be found in Table 1.

In view of the changes to the regulatory framework and the transition of the FSA into two new regulatory bodies, it was agreed that it would not be appropriate to carry out a further review of the committee's effectiveness in the 2012/13 financial year. The operation of AuditCo was, however, reviewed with respect to the way it will operate following legal cutover and the committee's terms of reference have been amended as appropriate.

AuditCo met on six occasions during the year; in addition to the four scheduled meetings, the committee also formally met twice to consider progress on the review being undertaken by Internal Audit in relation to LIBOR. The FSA chief executive attended one of the scheduled meetings before leaving the organisation and the FCA chief executive designate attended three of the scheduled meetings. The chief operating officer, the director of internal audit and the lead audit partner from the National Audit Office (NAO) or his alternate, attended each of the scheduled meetings at the request of the committee chair. Private sessions were held with the internal and external auditors during the year without management present. The committee also held private sessions with a number of members of the senior leadership team without management present.

The committee reviewed and challenged the risk reporting proposals under the twin peaks model and expressed concern that operational problems could arise as a result of a vacuum during the transition process. Following discussion with the chief executive, however, the committee considered that the proposed way forward was sensible, but expressed concern that an FSA consolidated risk report was not available between the introduction of ITP and legal cutover.

The committee also oversaw the review by Internal Audit of the extent of awareness within the FSA of inappropriate LIBOR submissions.

To discharge its functions AuditCo carried out the following during 2012/13:

- Monitored the integrity of the financial statements and challenged management on financial performance.
- Reviewed the financial reporting judgments and disclosure issues.
- Reviewed pension plan arrangements.
- Reviewed the FSA's financial policies.
- Reviewed the chairman's expenses.
- Reviewed and challenged the identification of internal risks, including financial management risks, information systems risk and people risks (as reflected in the consolidated risk report), and managers' mitigation of these risks.
- Reviewed the operation of the FSA's whistleblowing policy and received reports on specific issues.
- Reviewed compliance by FSA staff with key internal policies and procedures, including the operation and management of the Staff Code of Conduct.
- Reviewed potential and actual litigation against the FSA.
- Reviewed the audit universe (i.e. the internal audit framework) and approved proposals by Internal Audit for it to be more risk-focused.
- Reviewed and approved the audit plans for internal audit.
- Monitored and challenged managers on their responsiveness to internal audit findings.
- Reviewed the quarterly reports from internal audit.
- Reviewed the independence and effectiveness of the external auditor. The FSA aimed to protect the external auditor's independence through its policy, which required that fees for non-audit services were limited to the charge for performing the audit of its annual accounts. Information on fees paid to the auditor is given on page 139. Moreover, there were no relationships between the NAO or its staff and the FSA that affected the NAO's objectivity and independence.
- Considered the external auditor's audit strategy for the financial year.
- Reviewed programme and project management in the FSA.
- During the year the Audit Committee also commissioned a review of the adequacy and effectiveness of the Internal Audit function. This work was carried out by an external consultant who was specifically asked to ensure that the outputs from the review would be as useful as possible, both for the FSA and for the FCA in the new regulatory structure. The outcome of the review was very positive, noting that the Internal Audit function had strong

leadership, a professional team and good execution of work. The report also made a number of recommendations meriting further consideration by the FCA Audit Committee and the FCA executive in due course.

Risk Committee (RiskCo)

RiskCo's purpose was to help the Board review external risks to its statutory objectives. It did not review internal risks, which were the responsibility of AuditCo, nor did it review individual firms.

Details of RiskCo members' attendance at meetings can be found in Table 1.

As the FSA would cease to exist following legal cutover, it was agreed that it would not be appropriate to carry out a further review of the committee's effectiveness in the 2012/13 financial year. The operation of RiskCo was, however, reviewed with respect to the way it will operate in the FCA following legal cutover and the committee's terms of reference have been amended to reflect its proposed purpose and duties as the FCA risk committee in the new regulatory framework.

RiskCo had responsibility for review and oversight of the risks to the FSA's statutory objectives, the FSA executive's appetite for such risks, and the management and mitigation strategies and systems used to control these risks. In discharging that responsibility, RiskCo received regularly during the year, information on the top risks as articulated by both the Conduct Business Unit and Prudential Business Unit Executives. These risks were reviewed by the Executives in the respective business units, who considered appropriate mitigation strategies.

The committee sought assurance from the FSA Executive through debate and challenge in the following areas: whether the major risks to the FSA's statutory objectives and its reputation had been identified and prioritised appropriately; whether the actions taken to address and mitigate the risks were effective; and whether the timescales for mitigation were appropriate. RiskCo reported to the Board on its consideration of the risk areas and reports from the Executive.

During the year, RiskCo highlighted to the Board concerns that the move to an Internal Twin Peaks (ITP) model had led to some elements of the control framework being weakened. In particular, a separation of the way in which the FSA's risk framework was being applied in the prudential and conduct business units. On balance, RiskCo believed this development of separate risk tolerances and frameworks in the new regulators, continued macroeconomic strains and the extent of internal change to the organisation elevated substantially risks to the FSA's statutory objectives, although not necessarily to its successor organisations. RiskCo requested that the Executive of both the Conduct Business Unit and the Prudential Business Unit keep it informed of their developing new frameworks and that it be kept fully informed of issues emerging under these frameworks.

RiskCo discussed with management the amount and detail of the information provided to it, as this had reduced following the introduction of ITP. For part of the year, RiskCo considered that it did not have enough information about new approaches being used to effectively challenge the Executive or to provide assurance to the Board that risks were being measured or mitigated appropriately. When additional information was requested and provided by the Executive on the top down and bottom up risks, this provided reassurance that key risks had been identified even if mitigation was difficult during the period of change and transition to the new regulatory structure.

Being conscious of the risks of transition from the FSA to the FCA, RiskCo kept under review the coordination between the prudential and conduct business units of the FSA. The committee also considered a number of forward-looking risk scenarios and a diverse range of risks and mitigation strategies, including consideration of the FCA risk outlook; the development of the FCA's approach to risk and business model and strategy analysis as a tool to identify potential conduct issues.

Internal controls

The Board and NedCo (the latter under FSMA) were responsible for ensuring the FSA had a sound system of internal controls and risk management (internal risks being overseen by AuditCo and external regulatory risks by RiskCo). AuditCo reported at least quarterly to the Board on internal controls and internal risk management. AuditCo received regular reports from managers on financial, operational and compliance controls and the risk management systems. In addition it received and reviewed reports from the Director, Internal Audit summarising work undertaken, findings and actions by managers.

The system was designed to provide reasonable but not absolute assurance against material misstatement or loss and to manage rather than eliminate risks to the FSA's statutory objectives. The Board's policy on internal controls and risk management included established processes and procedures for identifying, evaluating and managing significant risks.

The internal control processes were in place throughout the year.

Key features of the internal control system included the following:

- Risk reporting that highlighted the key internal and regulatory risks faced. This facilitated discussion on the best course of action to mitigate the key risks and helped senior managers make decisions on priorities and resource allocation. This was regularly reviewed by the Executive Operations Committee and the Executive Committee and formally reported to AuditCo on a quarterly basis through the consolidated risk report.

- A review of the framework of controls to mitigate the key internal (and regulatory) risks faced.

- Internal Audit's provision of independent assurance to the FSA Board and management on the effectiveness of risk management and controls over all of its activities.

- The Audit Universe, which contained all the FSA's activities, systems, projects and programmes. Each unit within the universe was assessed appropriately to prioritise review by Internal Audit and these priorities were revised periodically. Factors considered included risk, business criticality and materiality.

- The terms of reference of the Internal Audit function were reviewed during the year. As noted in AuditCo's report, a full review of the effectiveness of Internal Audit was also carried out during the year.

- Clear reporting lines and delegated authorities, which were reviewed on a regular basis.

- The external audit, including interim and final audit, which provided assurance to the Board and senior management in relation to financial controls. The independence and effectiveness of the external auditor was reviewed by AuditCo and reported to the Board on an annual basis.

- Clear segregation of the regulatory aspects of the FSA's supervisory operations and those of the internal treasury function. In addition a third party was used to decide, from a list of approved counterparties, where best to place deposits for the optimum return. This enabled the FSA to adopt a robust 'Chinese Wall' arrangement in line with good market practice.

- Ensuring appropriate policies and procedures were contained within the staff handbook.

- The performance management framework, which included setting objectives on an annual basis and a formal appraisal process.

- Directors' and senior managers' commitment to maintaining an appropriate control culture across the FSA, which was regularly communicated to all staff.

Regulatory Decisions Committee (RDC)

The RDC decides whether the regulator should give the statutory and other notices described as within its scope by the Handbook, any regulatory guide or legislation. During the period under review, members of the RDC were appointed by the FSA Board. The FSA Board received quarterly reports from the RDC Chairman, who also attended Board meetings twice a year to discuss significant matters in those reports.

Listing Authority Committees

The Listing Authority Advisory Committee (LAAC), the membership of which comprises external practitioners, met three times during the year. LAAC's role was to advise the Board and review elements of the FSA's function as the competent authority for listing in the UK. The chairman provided reports to the Board on relevant issues.

The Listing Authority Review Committee, whose role within the FSA was as a technical appeal committee, was not called during the year.