

Annual Report and Accounts 2019/20

(for the year ended 31 March 2020)

HC 715



Financial Conduct Authority
Annual Report and Accounts 2019/20
(for the year ended 31 March 2020)

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Charles Randell
Chair

Chair's foreword

We were prepared for change and challenge in 2019/20, and – even before the coronavirus pandemic – the year certainly brought both. Changes we achieved include the extension of the Senior Managers and Certification Regime, to drive change in the culture of financial firms; and changes to the rules to prevent harm in high-cost consumer credit products such as rent-to-own. Challenges we continue to tackle include unfair pricing in general insurance; and tackling the internet marketing of unsuitable high-risk and scam investments, which cause such misery to those who sign up. Alongside all this, and the daily challenge of supervising some 60,000 firms, we have been preparing for a range of outcomes in the UK's withdrawal from the European Union and its new relationship with the EU.

Towards the end of the financial year, these challenges were joined by the coronavirus pandemic. Since the pandemic started, financial services firms, regulators, the Government and the voluntary sector have been working together to keep the financial system operating. I would like to pay tribute to the tens of thousands of people who work in financial services on the frontline of this response: the bank staff keeping branches and ATMs open, cash circulating, payments flowing; those staffing the phones, under huge pressure as consumers and businesses seek help; the debt advice charity staff responding to the urgent and growing needs of people who are struggling financially; and the technology and back office staff maintaining the resilience of systems.

It's already clear that the economic impact of coronavirus will be significant, affecting borrowers, savers, financial firms and other businesses large and small. The FCA will be expected to ensure the fair treatment of struggling consumers and small businesses while ensuring that markets work well for the recovery.

To ensure that the FCA is able to meet these challenges, we will continue to transform our own organisation, developing regulation that is fit for the future and the systems and capabilities that will be required. This transformation will equip us better to supervise 60,000 authorised firms, and while we will never prevent all firm failures, our ambition is to be faster to identify harm and to intervene more quickly.



**We will continue to transform
our own organisation**



We've already shown in the first 6 months of this crisis what we can achieve with new ways of working. I would like to thank FCA colleagues who have adapted to the unprecedented conditions resulting from the pandemic. They have both continued their essential existing work and developed a range of major interventions intended to ensure consistency in the fair treatment of consumers affected by the economic fallout. These interventions have included payment deferrals across a range of credit products, from mortgages to pawnbroking. In this work we have been supported by our independent panels, whose advice is more important than ever as we work at pace, supplementing the feedback we receive from public consultation and our engagement with other stakeholders.

The experience of the past 6 months makes me very optimistic about the benefits that the transformation of the FCA will bring. This transformation will proceed under the leadership of our new Chief Executive, Nikhil Rathi, whom we welcome to the FCA as he takes up his role on 1 October 2020. He will build on foundations already laid by Chris Woolard, who has led the FCA with great energy and skill since March 2020, and Andrew Bailey, who did so much to stabilise the FCA when he took over in 2016 and set the course for its transformation. I have been fortunate to work with these leaders and thank them on behalf of the FCA for their integrity and resilience in one of the most demanding jobs in public service.



The experience of the past 6 months makes me very optimistic about the benefits that the transformation of the FCA will bring



In the course of the last twelve months I have been pleased to welcome Liam Coleman, Bernadette Conroy, Jeannette Lichner and Tommaso Valletti as non-executive directors. I would like to thank Amelia Fletcher and Nick Stace, who stepped down as non-executive directors in 2019/20 and Catherine Bradley, who stepped down at the end of July, for their contributions to our work.

Charles Randell
Chair
Financial Conduct Authority



Christopher Woolard
Interim Chief
Executive

Introduction from the Interim Chief Executive

Since the spring, the impact of coronavirus has dominated how we live our lives and has a significant economic impact. Responding to it has required unprecedented action by government and regulators to help manage the impact on people's finances and the financial system.

With the Bank of England and the Government, the FCA moved quickly to help consumers and businesses affected by the economic fallout of coronavirus.

In the course of the crisis, over 3.4 million people took advantage of the payment breaks we established on mortgages and other credit products for those who needed it.

We provided space for the firms we regulate to concentrate resources, stretched by the virus's impact, on serving their customers.

We supported those businesses and their advisers who needed to keep their investors informed or to access capital markets. And we worked closely with regulators around the world to keep these markets – on which so many jobs depend – open and orderly.

We began a legal test case to gain clarity for 370,000 policy holders and their insurers on which business interruption policies should pay out.

Our aim has been to ensure as many people and businesses reach the other side of coronavirus's immediate impact, whenever that is and whatever that might look like, in as good a shape as possible.

While much of this work falls outside of the reporting period, as coronavirus continues to affect daily lives with a resulting influence on the economy and the financial firms that serve it, it is important to make clear how much of the FCA's focus will stay on supporting consumers and firms through the crisis. The decisive approach we adopted as coronavirus took hold will remain as we consider how financial markets and their customers adapt to a deep economic shock.

This report, however, allows us to take stock of the other work delivered in the last financial year.



The decisive approach we adopted as coronavirus took hold will remain as we consider how financial markets and their customers adapt to a deep economic shock



Protecting consumers

Our wide-ranging review into high-cost credit resulted in extensive changes. These included a price cap on rent-to-own products and ban on most fixed fees for overdrafts. We estimate that the 30% of personal current account (PCA) consumers living in the most deprived neighbourhoods in the UK could see an aggregate reduction in overdraft charges of around £101m per year.

Our 2019 market study on general insurance pricing found weak competition at renewal for loyal customers, and that an estimated 1 in 3 of those paying high prices are potentially vulnerable. Our assessment of motor finance found that commission models linked to the interest rates being charged resulted in excessive costs to customers. We have finalised measures to ensure firms deliver better value in these contracts. We also brought in new signposting rules in 2020 to help customers with pre-existing medical conditions get affordable travel insurance.

We have invested in our ScamSmart campaign to raise public awareness of the risk of fraud, particularly when continued low interest rates lead many to look for higher returns in new places.

In 2019/20, we temporarily banned the mass-marketing of speculative illiquid securities, including speculative mini-bonds, to retail investors. This summer, we are consulting on making the ban permanent. We provided consumers with clarity on how cryptoassets fit within the regulatory framework set for us by Parliament, and the risks they run if they decide to invest.



With the Bank of England and the Government, the FCA moved quickly to help consumers and businesses affected by the economic fallout of coronavirus





We have invested in our ScamSmart campaign to raise public awareness of the risk of fraud



Conduct, culture and resilience

Culture within firms is the foundation on which their customer outcomes are built. That is why in December 2019 we extended the Senior Managers and Certification Regime (SM&CR) to almost all FCA-authorized firms. This extension gives us a universal conduct tool to hold firms and individuals to account if they fail to meet these standards, while embedding personal responsibility within firms.

That the vast majority of firms adapted quickly to the overnight move to home working was made possible by the focus we – along with industry – have placed on operational resilience for a number of years. That continued this year with a joint consultation with the Bank of England on further improvements firms can make to deal with the unexpected. Our first assessment of technology and cyber resilience also highlighted the importance of firms' gripping the issues of third-party providers and of change management.

EU withdrawal

Before the UK's departure from the EU at the end of January 2020, over 1,000 EEA-based firms notified us that they wanted to use the Temporary Permissions Regime to continue cross-border activity in the UK. We have confirmed the Regime will be available from the end of the transition period.

We continue to work closely with the Treasury on the content of the Financial Services Bill, to ensure it includes necessary legislative measures to resolve outstanding issues.



That the vast majority of firms adapted quickly to the overnight move to home working was made possible by the focus we – along with industry – have placed on operational resilience for a number of years





Our aim has been to ensure as many people and businesses reach the other side of coronavirus's immediate impact, whenever that is and whatever that might look like, in as good a shape as possible



Regulator of the future

Our own transformation to become a regulator fit for the future continues. Over the course of last year, we put in place a new data strategy. This focused on building the right skills, making available new technologies and embedding a culture that encourages innovative thinking across the organisation. In particular, we have sought to build our data analytics capability and intelligence function to deepen our understanding of markets and those served by them and to better allow us to swiftly identify and react to firm and market issues. We are also changing the way we deploy and manage our people to ensure we are a flexible organisation, capable of adjusting easily to changing market dynamics.

Improvements in how we deal with complaints underline that we too must learn lessons where things have gone wrong. We will consider carefully the findings of the forthcoming reviews into Connaught, Interest Rate Hedging Products and London Capital and Finance.

Christopher Woolard
Interim Chief Executive
Financial Conduct Authority

Highlights from 2019/20

Taking action against firms



Imposed **15 financial penalties** totalling over **£224m**



£116m reimbursed to victims of **push payment fraud** – up **40%** from 2018



Took action that resulted in firms **paying over £135m** to over **32,500 customers** for failures in information about enhanced annuities options



65 anti-money laundering investigations underway

Keeping markets clean and resilient



We regulate the conduct of nearly **60,000 firms**



Determined **4,133 cases** for new firm authorisation in the last financial year



Dealt with over **1,000 international requests** for assistance and disclosures



952 claims management companies registered for temporary permissions



Opened **415 preliminary reviews** into market abuse

Protecting consumers



Published **715 consumer warnings** about unauthorised firms



Over **1,000** EEA-based firms notified us that they wanted to use the **Temporary Permissions Regime**



Over **1.8m mortgage** and over **1.6m credit card** and **personal loan payment deferrals** for those affected by coronavirus



Received over **1,100** separate whistleblowing disclosures, covering nearly **3,000** separate allegations



324,000 online video views of our latest **ScamSmart campaign**



Assessed **824 incident reports** – of which **790** were cyber or technology-related



71% of our target audience aware of our **PPI campaign** by its conclusion



57 global participants in the FCA-chaired **Global Financial Innovation Network** – up from 29 in 2018/19



Introduced **new rules** to help ensure value for money and improve competition for the **74% of UK adults** with a private pension

1 Our role

Our 2019/20 Annual Report provides a record of what the FCA has achieved during the last year. The report shows the wide remit of our work to deliver the strategic and operational objectives Parliament has set us. The extent of our role means we must make choices about where we focus our resources to drive the right outcomes for users of financial services.

How we regulate

Our work and purpose is defined by the Financial Services and Markets Act 2000 (FSMA). Our strategic objective is to ensure that the relevant markets function well. To achieve this, FSMA gives us 3 operational objectives. These are:

- to secure an appropriate degree of protection for consumers
- to protect and enhance the integrity of the UK financial system
- to promote effective competition in the interests of consumers

The financial sector plays a critical role in the lives of everyone in the UK. Well-functioning markets provide direct benefit to the economy and the public as a whole. Consumers need to have confidence in the services provided and the firms that provide them. They expect the market to be fair, open and competitive.

As a public body, our regulation serves the public by improving how financial markets operate and how firms conduct their business. We use our powers to deliver robust and practical rules and provide a framework within which markets can function well. Our competition mandate authorises us to promote effective competition in the interests of consumers and to identify and address competition problems. It also makes us work to sustain a regulatory environment which helps consumers and firms to make the most of the opportunities that competition offers.

Our Mission provides the framework for the strategic decisions we take. We concentrate our resources on the markets and firms that are most likely to cause harm to consumers, damage market integrity or weaken competition. This report outlines the work we have done in and across key sectors to reduce harm during 2019/20. This reflects the work we committed to do in our Business Plan.

Our Mission outlines 5 categories of harm, which reflect our operational objectives. We aim to use our tools efficiently and effectively to reduce or prevent this harm, deliver the greatest public value and so serve the public interest.

Type of harm	Relevant FCA operational objectives
Confidence and participation in markets are threatened by unacceptable conduct such as market abuse, unreliable performance or by disorderly failure	Market integrity
	Consumer protection
	Effective competition
Consumers buy unsuitable, or are mis-sold, products; poor customer service/treatment	Consumer protection
	Effective competition
Important consumer needs are not met because of gaps in the existing range of products, consumer exclusion, lack of market resilience	Consumer protection
	Effective competition
Prices are too high, or quality too low	Effective competition
	Consumer protection
Risk of significant harmful side-effects on wider markets, the UK economy and wider society, eg crime/terrorism	Market integrity
	Consumer protection

Our regulatory principles and functions

Under FSMA, we have a number of functions. These include making rules and giving general guidance, as well as authorising and supervising firms.

When carrying out these functions, we take the following principles for good regulation into account:

- efficiency and economy
- proportionality
- sustainable growth
- consumers' own responsibility
- the responsibility of firms' senior management to comply with the regulatory framework
- recognising the differences in different types of businesses
- openness and disclosure
- transparency

These principles underpin all our work and are all equally important. As required by FSMA, we include a compatibility statement in our consultation papers. This explains why we believe our proposals are compatible with our duty to have regard to these principles, recognising that more than one principle may be involved in a case and that not all the principles will always be relevant in every case.

We are also responsible for registering mutual societies. Our 2019/20 mutual societies registration function update can be found [here](#).

Measuring performance

Our Mission explains the 3-tier approach we use to measure our performance:

Tier 1: The efficiency of internal processes

We use the National Audit Office definition of value for money as 'the optimal use of resources to achieve an intended outcome'. We continue to improve the way we measure value for money in our processes and the way we work. We know that being efficient with our resources also includes how we make the best use of the data and information available to us to measure the impact of our actions.

We are committed to achieving value for money when we address harm and deliver our objectives. Our success at delivering public value also depends on managing key internal risks. We do this in part by having the right colleagues with the right skills focused on the right activity. We explain how we manage our internal risks in the Chapter on Corporate Governance.

Our Service Standards measures include a mix of voluntary commitments and statutory obligations. These standards cover areas including telephone enquiries, Freedom of Information Act requests and how we respond to them, and MPs' letters.

Tier 2: The impact of our interventions

We measure the likely impact of our actions before we intervene. We have produced a group of publications to give a clear picture of how we do this. This includes our approach to cost benefit analysis, when and how we use field trials and how we estimate the benefits of interventions.

We have continued to improve how we measure progress, in line with our Mission. We are building a greater focus on the outcomes achieved by our individual interventions and also across the financial services sectors we regulate. Where available, and it is proportionate to do so, we are beginning to monitor outcomes using quantitative metrics. Qualitative evidence will be used where quantitative data is not available.

There is often a time lag between when we intervene in a market, when interventions start to take effect, and when data becomes available to monitor progress. For the majority of the interventions outlined in this report we will start to gather evidence over the coming year. We have also committed to post-implementation reviews on certain of our policy interventions eg credit and the retirement outcomes review and will report the findings once complete.

Our programme of ex-post impact evaluation enables us to directly evaluate our impact by developing a counterfactual (what would have happened if we hadn't intervened). To date we have published 4 ex-post impact evaluations to assess if our intended outcomes have been achieved.

In October 2019, we published an evaluation of our April 2017 intervention to increase transparency at renewal in general insurance markets. We estimated savings to consumers of between £39 million and £330 million a year – with an average estimate of £185 million a year – due to our intervention. This is set against costs of around £4 million a year. We believe these benefits came from firms' increased focus on renewal practices resulting in renewal premiums increasing less than they would have otherwise. It was also the result of consumers being prompted to make better-informed decisions through engaging and shopping around.

Tier 3: Outcomes in the sectors we regulate

We consider outcomes in financial sectors as a whole to identify how the markets are performing and to guide our strategic approach. These do not provide a complete evaluation for how effective our work has been, nor do they set targets. Instead they tell us about the direction of travel for key harms and whether they are increasing or decreasing.

Our Sector Views describe our understanding of how each financial sector is performing and identify the areas of greatest potential harm.

Our latest Business Plan sets out the outcomes we want to achieve over the next 3 years. Future annual reports will report against these outcomes and where they have changed.

Financial Lives survey

We have conducted the second Financial Lives survey, following up our 2017 survey. The 2020 survey, with fieldwork completed from August 2019 to mid February 2020, is a large-scale survey of UK adults, giving insights into different types of consumer and their experiences of financial products and services.

The survey is a key source of information for us and underpins our consumer protection work. We share the survey on our website, and have made the raw data available to several organisations via application to the Consumer Data Research Centre archive at University College London.

The Financial Lives 2020 survey statistics on 'vulnerability' published in this Annual Report/Diversity Report are described in our [Vulnerability Guidance Consultation Paper](#), published on 29 July 2020.

We refer to the survey several times in this report and will release further findings over the coming year.

The FCA and Practitioner Panel survey

Our 2020 joint survey of FCA-regulated firms has been postponed following the coronavirus crisis.

Who we regulate

We regulate the conduct of nearly 60,000 UK businesses serving both retail and wholesale consumers. These firms vary in size, complexity and in their risk of harm to consumers and market integrity.

We also prudentially regulate all firms apart from banks, building societies, credit unions, insurers and large investment firms. We prioritise the areas and firms that pose a higher risk to customers, counterparties or market stability. We actively seek to reduce the impact of firm failures.

The boundaries of regulation

The firms, activities and markets we regulate are primarily set out by the Financial Services and Markets Act 2000 (Regulated Activities) Order (the RAO) and other relevant legislation. This legislation sets out the boundary of the activities we regulate, commonly called the 'FCA perimeter'.

The perimeter is important as it decides the limits of our regulation. It also affects how much protection consumers can expect when they buy financial services and products. Services and products that come within our perimeter have higher levels of protection than those outside it.

Many of the toughest issues we face involve activity at or over the other side of this boundary, such as the recent serious harm to consumers caused by some firms operating around the perimeter. We aim to identify these activities quickly and make appropriate recommendations to the Government and Parliament about what we should regulate.

Independent reviews

There are ongoing independent reviews into our supervision of London Capital and Finance, the Connaught Income Fund Series 1 and connected companies and interest rate hedging products. We are fully committed to supporting the timely conclusions of these investigations and ensuring that the Reviewers have all the relevant information and documentation to enable them to form their conclusions.

While there have been some delays owing to difficulties in the retrieval and provision of data, as well as challenges posed by coronavirus, these reviews are expected to conclude by the end of the financial year 2020/21. They will identify where there are lessons for us and we will respond to their findings and recommendations.

Our core work

To deliver our objectives, Parliament gave us a range of tools, and independent powers to decide how best to use them. We need to use all of our powers and functions (including authorisation, supervision, enforcement and competition) to fulfil our objectives, sometimes using a combination of them to tackle an issue.

We always aim to be open and transparent about how we regulate and take decisions. We give more details of our approach to carrying out our functions in our [approach documents](#).

Authorisation

We use authorisation as a tool to prevent harm from occurring. We set the principles, rules and standards that firms must meet to enter or operate in financial markets to ensure that consumers get a fair deal.

All regulated firms and individuals must meet – and continue to meet – a common set of standards. We do not allow those that do not meet or will not continue to meet these standards, known as Threshold Conditions, to enter the relevant financial market. During authorisation, we assess a variety of factors to ensure our minimum requirements are met. For example, we look closely at whether a firm has adequate financial resources for the regulated activities it wants to provide. We also consider if there are risks of harm in a firm's business model or culture.

Supervision

Our approach to supervision is forward looking and involves making judgements. We supervise firms and individuals to reduce actual and potential harm to consumers and markets. We apply a framework of principles and rules to drive good conduct and help firms to meet standards. We expect firms and individuals to meet these standards and hold them to account when they do not. We believe that firms' culture and governance significantly influences the way that firms behave towards their customers and the markets they operate in. So we look carefully at the drivers of culture including firms'

leadership, purpose, governance and approach to managing and rewarding their employees.

Enforcement

Our approach to enforcement is to achieve fair and just outcomes where we identify serious misconduct. If serious misconduct is not addressed it causes loss of trust in our markets as well as financial losses to consumers and firms. Our aim is to detect serious misconduct early so that we can intervene and prevent harm from continuing. When we suspect serious misconduct has already occurred, we investigate efficiently and fairly to find out the facts and determine what action we should take. We have a range of both deterrent and remedial powers to put things right.

During 2019/20 we saw an increase in cases of firms and individuals trying to carry out business without our authorisation. We received 20,326 reports, the highest number we have received in a single year and a 11% increase from 2018/19. These have resulted in a variety of outcomes, including:

- issuing alerts – 715 alerts published during 2019/20 – a 37% increase from 2018/19
- opening criminal and civil investigations
- resolving the matter through voluntary measures agreed with the firm or individual
- referring matters to other agencies where they were best placed to take action or where the underlying conduct was out of our scope

One of our trials involved the directors of Our Price Records (OPR), Venor Associates Ltd (Venor), and Miller & Osbourne Associates Ltd (M&A). Our Price Records was a start-up company involved in affiliate marketing. It raised funds by selling shares to the public with the help of marketing agents, including VAL and MOA. OPR raised more than £3.6m from 259 UK investors but entered administration. The court found that OPR marketed its shares through false and misleading financial promotions that had not been approved by an authorised firm and ordered the defendants to pay this amount back in restitution.

Further data relating to our enforcement function can be found [here](#).

Competition

Our approach to competition is to ensure that our regulation ensures the advantages of competition in financial services markets. When competition works well, it can drive down costs and prices, drive up service standards and improve access to financial services. It can also drive innovation, productivity and economic growth.

Our competition objective and competition duty means that competition is an integral part of our thinking across all our work so that we:

- collaborate across different parts of the FCA to think carefully about how our own interventions and regulations could affect competition and innovation
- investigate markets to see how well they are working for consumers and intervene where necessary to ensure competition drives good consumer outcomes
- support firms' ability to enter the market and provide beneficial competition with innovative new products and services

We also have powers to enforce UK and (until the end of the transition period) EU competition law for the provision of financial services. During 2019/20 we used our concurrent competition powers to continue our investigation into suspected anti-competitive agreements that we opened in March 2019.

Our priorities

Cross-sector priorities

We set priorities to tackle issues that cut across many sectors. These are generally the most significant issues in financial services and tackling them is likely to span multiple years. This document reports on 7 cross-sector priorities we set during 2019/20, and what we have done to stop or reduce harm from them.

Sector Views

Our Sector Views describe our understanding of how each financial sector is performing and identify the areas of greatest potential harm. Each year we publish a summary of these views explaining the issues we have found. This analysis contributes to our Business Plan and the decisions we make affecting consumers, market integrity and competition.

Working with our partners

We work closely with consumer groups, trade associations and professional bodies, EU legislators and many other stakeholders.

Some of our closest collaboration is with other public bodies covering the financial sector. These include the Prudential Regulation Authority (PRA), the Bank of England, the Payment Systems Regulator (PSR), the Competition and Markets Authority (CMA), the Money and Pensions Service, The Pensions Regulator, the Financial Ombudsman Service, the Financial Services Compensation Scheme, the Treasury and the statutory panels (the Consumer Panel, the Practitioner Panel, the Smaller Business Practitioner Panel, the Markets Practitioner Panel) and the Listing Authority Advisory Panel.

Our Memorandum of Understanding with the PRA sets out how we coordinate our actions and activities, and measures how well we work together to achieve collective outcomes. The PRA can veto our action where it considers it may threaten financial stability. This power was not exercised during 2019/20. During the year, policy issues we have coordinated include EU withdrawal and coronavirus.

In May 2020, we published the first Regulatory Initiatives Grid. This is a 12-month forward look at major regulatory initiatives affecting the financial services sector. The Grid is produced by the Financial Services Regulatory Initiatives Forum – made up of the FCA, the PRA, Bank of England, PSR, CMA and the Treasury (as an observer member).

It will help industry, consumer groups and the wider public understand and plan for the upcoming regulatory initiatives that may have a significant operational impact on them. It also highlights those initiatives that have been cancelled or delayed to ease the burden on financial services firms during the crisis – including the Bank of England's 2020 annual stress test and a number of consultations.

As part of our enforcement work, we also provide significant support to overseas regulators and law enforcement agencies with their own investigations and enforcement activities. We play a key role in worldwide efforts to tackle financial

services misconduct. In 2019/20, we received over 1,000 requests for assistance and disclosures from international counterparts.

Many of our investigations have global reach, with the underlying misconduct we tackle reaching across multiple jurisdictions. Ensuring we collaborate effectively with international regulators and law enforcement agencies is vital to achieving results and we dedicate significant resource to building, maintaining and strengthening international cooperation.

We also work closely with international groups like the International Organisation of Securities Commission's (IOSCO) committee on enforcement and the exchange of information (C4). C4 provides a global platform to foster international cooperation and discussion on important and emerging enforcement issues. We are currently the Vice-Chair of C4, and we hosted C4's September 2019 meeting in London.

2 Coronavirus response

The coronavirus pandemic has had a devastating effect. Tens of thousands have died, many more now have ongoing health problems and millions continue to suffer from the financial consequences. Coronavirus has reshaped the lives of most people, including their financial lives. Although we have taken significant action during the early part of 2020/21 to help manage the financial impact, we expect the effects of the crisis will continue to be felt for many months. We will continue to adapt our rules and issue new guidance as the situation develops.

We are responding quickly to the financial implications of coronavirus to ensure customers are protected and markets continue to function well. We continue to work closely with the Government, the Bank of England, the Prudential Regulation Authority, the Payment Systems Regulator and firms on this.

During this period of immense disruption and uncertainty, it has been more important than ever to deliver on our objectives – protecting consumers, protecting and enhancing the integrity of financial markets, and making sure that competition plays a part in supporting consumers.

Our 2020/21 [Business Plan](#), which we published in April, set out 5 priorities to guide our response. These were:

- supporting consumers through the immediate shocks created by the crisis
- keeping markets functioning and orderly during a major 'repricing' event
- issuing emergency guidance so that government schemes, for example, help small firms and mortgage holders
- keeping public access to essential banking services
- protecting the most vulnerable in society

Our absolute priority was to deal with the implications of coronavirus quickly and effectively. This meant swiftly intervening where we could make a difference, focusing on supporting consumers facing difficulties, and giving firms the regulatory clarity to concentrate on serving their customers.

Our work for consumers and small businesses provided respite to help them adjust to the impact of coronavirus until longer-term government support was available.

The coronavirus made it more vital than ever that consumers could get suitable and affordable credit. We acted early to provide targeted temporary relief for users of commonly held consumer credit products affected by coronavirus. We initially issued guidance stating that firms should allow credit card and loan customers in temporary financial difficulty to stop payments for 3 months and to offer arranged overdraft customers zero interest overdrafts of up to £500. We then adding additional provision for reduced payments for a further 3 months for consumers remaining in financial difficulty. The scheme was extended to support consumers who could be impacted at a later date by coronavirus – allowing new requests for support to be made up until 31 October 2020. We also introduced guidance stating that firms should offer limited-duration payment freezes to directly support people with motor finance and high-

cost credit agreements, including high-cost short-term credit (such as payday loans), buy-now pay-later, rent-to-own and pawnbroking. We continue to closely monitor developments in the credit market to ensure it is working well for borrowers.

In support of the announcements made by the Government, for homeowners struggling to pay their mortgage due to coronavirus we published guidance on the availability of 3-month mortgage payment deferrals, or partial payment deferrals where reduced payments could be made. In June, this guidance was updated to both extend the period in which deferrals could be requested and also to allow those who had already taken mortgage payment deferrals to extend that deferral by a further 3 months. To stop the risk of people losing their homes during this time, we clearly set out our expectation that mortgage lenders stop all repossession action, whether or not borrowers' incomes were affected by coronavirus. However, we also made it clear that a payment deferral may not be right for everyone, and if customers could continue making payments, they should do.

For many people, particularly the most vulnerable, access to cash is critically important. We worked closely with industry and our regulatory counterpart, the PSR, to ensure essential services for consumers were still provided and to lessen the effect of cash machine closures and government restrictions due to coronavirus. We will continue to work closely with the industry as we move out of the coronavirus crisis, and use data to build on our work to date to maintain access to cash.

In the general insurance market, coronavirus has affected the value provided by many products. We asked firms to carefully consider where coronavirus affected how consumers could use and benefit from their products. We also asked firms to help customers in financial difficulty from the situation to maintain their insurance cover. This included options such as considering how changes to their cover could reduce ongoing premiums or, for premium finance arrangements, offering payment deferrals.

Other examples of the action we took include:

- Working on business interruption insurance. This was in response to widespread concerns about some firms' decisions on whether policies covered the interruption caused by coronavirus. We took a representative sample of cases to court to achieve clarity for all concerned, policyholder and insurer alike, in an unprecedented situation.
- Consulting on additional guidance for payment firms to strengthen the way in which they look after customers' money. This work was brought forward due to the pressures that coronavirus placed on firms' finances.
- Writing to firms of closed mortgage books reminding them of their responsibility to actively review rates given the current financial challenges posed.
- Giving firms an extra 6 months to implement strong customer authentication (SCA) for e-commerce to minimise potential disruption to consumers and merchants.
- Working closely with the Government and the British Business Bank on changes to the UK's coronavirus business interruption loan scheme (CBILS) to support small businesses and the launch of the bounce back loan scheme (BBLs) including issuing a statement on how they worked with our rules.

For firms and markets, we stepped up both our market monitoring and our firm and trade body engagement to ensure that markets continued to work well. In parallel, we delayed other planned regulatory activity so that firms could focus on responding to coronavirus.

To understand the impact on firms' financial resilience, better predict the vulnerability of firms and assess the potential impact on consumers we collected data from around 13,000 solo-regulated firms.

We gave firms flexibility over some regulatory requirements, including forbearance for firms on best execution reporting.

Solo-regulated firms were provided with extra time to undertake the first assessment of their Certified Persons with an extension of the deadline from 9 December 2020 to 31 March 2021. To ensure that Senior Managers & Certification Regime (SM&CR) implementation deadlines remained consistent, we extended the date for the conduct rules to come into force and for data submissions for the Directory accordingly.

We announced a series of temporary measures to help companies raise new share capital while maintaining an appropriate degree of investor protection. We have specifically designed these new measures, which include tailoring the approach to working capital statements and revising regulatory requirements for general meetings, to address the challenges caused by the pandemic.

As well as these temporary policy adjustments, the Statement of Policy also welcomed a statement by the Pre-Emption Group on temporary relaxation of the Guidelines on Non-Pre-Emptive Issuances during the coronavirus crisis. It also reminded issuers of the new simplified prospectus, introduced in July 2019, as an option that companies can use for secondary issuances.

We have issued regular updates to listed companies. These have included permitting a delay on announcing preliminary financial accounts and subsequently temporary relief for publishing audited annual financial statements and half-yearly financial statements. We have also issued a joint statement with the Financial Reporting Council (FRC) and PRA, setting out measures to ensure timely and accurate information flow to investors to ensure capital markets can function well.

We looked closely at our own work plans and postponed activities that were not critical to protecting consumers and market integrity in the short-term, to give firms time and space to support their customers. We significantly scaled back our programme of routine business contact, only contacting firms on business-critical requests or about their response to the current situation.

We chose to continue some regulatory reform, particularly work to help the most vulnerable and some major long-term change programmes, such as our own transformation work. However, we delayed most of our policy activities, including moving the deadlines for all open consultations and calls for input (to 1 October 2020). Our website gives a full list of the work affected. We will keep our planning in these areas under review.

There is more information about these measures in the sector chapters of this report and in the dedicated coronavirus section of our website.

3 EU withdrawal and international engagement

We are committed to maintaining our influence as a leading global regulator, and to strengthening our international engagement. We have continued our close engagement and cooperation with international regulatory authorities, national competent authorities, and the European Supervisory Authorities (within the terms of the Withdrawal Agreement since January 2020).

Cross- border cooperation

We seek to shape the global regulatory agenda and international policy by developing close and constructive working relationships with international regulators, governments and other stakeholders.

Our work has involved both EU withdrawal and broader issues affecting cross-border financial services regulation, including important work on the impact of coronavirus. Since the pandemic started, we have been in regular contact with international and EU bodies, as well as our global counterparts, to share information on market developments and closely coordinate our regulatory responses. Wherever possible, we have pushed for coordinated international responses, including ensuring a strong commitment from regulators to supporting open and orderly markets during this time, and to support the interests of both businesses and consumers.

Both the domestic and international response has involved providing supervisory flexibility where appropriate, delaying some scheduled rule changes which would have placed additional operational burden on firms, and re-prioritising non-essential work. We have also engaged with international counterparts to reach agreement on such points as the potential implications of coronavirus for LIBOR transition. The approaches both we and the Prudential Regulation Authority have taken to regulatory reporting, corporate financial reporting, and accounting treatments of payment deferrals have been coordinated with relevant EU and international bodies.

During 2019/20, we have also again focused on maintaining and promoting effective international standards that will continue to underpin the UK regime, through our ongoing international engagement. This has included active participation in work covering a number of FCA sectors by international bodies such as IOSCO, The European Securities and Markets Authority, the Federation of Small Business and the International Association of Insurance Supervisors.

EU Withdrawal

The UK left the European Union (EU) on 31 January 2020 with a Withdrawal Agreement. It has entered a transition period which is due to operate until 31 December 2020. During this time, we will work closely with the Treasury and the Bank of England to onshore EU legislation that has been brought into force during the transition period and amend our Handbook accordingly.

Helping smaller firms prepare for Brexit

Ahead of the withdrawal date on 31 January 2020, our focus was on ensuring we were prepared for all scenarios. As well as providing technical advice to the Government, we also made sure we communicated clearly with firms on the steps they needed to take to prepare for a range of potential outcomes, so they could identify and manage risks both to consumers and to markets. The independent Practitioner Panel's 2019 Survey showed our communications had reached larger firms successfully, with 97% of larger firms having accessed our guidance on preparing for EU withdrawal. But we were concerned that the survey found only 50% of smaller firms had done so.

Closing the communications gap

To close this gap, we increased both the volume of, and channels for, communications with smaller firms, giving them the level of detail they may not have had the resources to promptly source themselves.

We focused on the critical actions firms needed to take before exit, drawing attention to regulatory changes and temporary regimes in the UK. Where firms did business in the EU, we reminded them to check the local laws of other jurisdictions, and to take their customers' interests into consideration at all times. We delivered several key speeches, which generated media and trade press coverage. We increased the use of existing channels, such as our online Regulation RoundUp – emailed to firms – and trade body roundtables to disseminate messages within specific sectors. We also created a dedicated Brexit section on our website to make information easier to find, created online videos to explain the implications and issues for firms, ran a targeted digital advertising campaign and used sector-specific communications to reach these firms.

In research carried out by BritainThinks into stakeholders' views of our effectiveness, most stakeholders praised the openness, consistency and timeliness of our Brexit communications.

Looking forward, we will continue to ensure that we, firms and consumers are as prepared as possible for the end of the transition period and beyond.



We have been assisting the Government on a range of issues to help ensure continuity for consumers, for firms operating in the UK and to keep the integrity of UK markets protected as far as possible. This includes preparing transitional measures, such as the Temporary Permissions Regime (TPR) for European Economic Area (EEA) based firms passporting into the UK and the Temporary Marketing Permissions Regime (TMPR) for EEA funds marketed into the UK.

Before the UK's exit from the EU, over 1,000 EEA-based firms notified us that they wanted to use the TPR. In addition, over 600 fund managers notified us that they would want to continue temporarily marketing over 9,000 EEA-domiciled investment funds/sub-funds under the TMPR. For consumers, the TPR, the TMPR and run-off regimes will help avoid disruptions to products and services provided by EEA-based firms.

The Treasury has now confirmed that the TPR and the TMPR will be available from the end of the transition period. We continue to prepare this and other contingency measures for the end of the transition period. We are working closely with them to

ensure that relevant legislative measures to resolve any issues that result from EU withdrawal are delivered.

We have also worked closely with the Treasury and the Bank of England, providing technical advice about the future EU-UK relationship.

While we cannot completely eliminate the risk of potential disruption at the end of the transition period, our work has reduced the risk of harm and promoted continuity of open and stable markets.

Engaging with industry and monitoring change

We have maintained a high level of engagement with industry in the lead up to the transition period taking effect and thereafter. Our focus has been on encouraging firm and consumer preparedness for changes that will occur with the end of the transition period. In last year's annual 'BritainThinks' survey of a wide range of our key stakeholders from across industry and other groups, Brexit stood out as having been a key priority area for the FCA, and our work in this area was praised for its coordination and consistency.

We have also worked closely with the industry on our coordinated international activity on coronavirus, given the industry's vital role in supporting consumers, business and the economy during the period.

We will continue our open engagement with industry and consumers in the coming year through a variety of media.

4 Our cross-sector priorities

Our key priorities and planned activities for 2019/20 were set out under 7 priorities which cut across multiple financial sectors. In this chapter, we report on how we have tackled these issues and monitored changes over the past year.

Firms' culture and governance

Healthy cultures play a critical role in reducing the potential for harm from firms to consumers and markets. Healthy cultures can drive innovation and value for consumers, sustainable profits for shareholders and a fulfilling workplace for employees.

To understand firms' cultures, we look at how effective they are in reducing the potential harm from their business models and strategies.

We expect firms affected by coronavirus to keep their governance arrangements under review, this includes allocating responsibilities for responding to coronavirus in the way which best enables them to manage the risks they face.

Our key priorities

- working with firms to promote and embed healthy cultures, focusing on 4 drivers of behaviour – purpose, leadership, approach to reward and managing people, and governance
- remuneration – we review firms' remuneration arrangements to identify if they are encouraging staff to act in ways that could harm consumers or markets
- expanding the Senior Managers and Certification Regime (SM&CR) to all FSMA-authorized firms, and holding individuals to account under SM&CR when things go wrong

Supporting culture transformation

Our aim is to improve our collective understanding of the drivers of healthy cultures and encourage firms to actively manage their cultures, making changes to reduce the potential for harm to consumers and markets.

We have continued working with firms and the academic community by exploring key topics affecting healthy cultures.

In 2019/20, we broadcast 3 webinar panel discussions with expert panellists to over 2,000 participants. We also hosted 2 CultureSprints with participants collaborating to design innovative solutions to cultural transformation that they then took back to their firms to try out in practice. Over 200 people also attended CultureSprint follow-up events to share their progress, reporting a positive impact in driving improved behaviours and culture.

In July 2019, we launched a [Transforming Culture LinkedIn showcase page](#) to share resources on driving healthy cultures with all firms. Our second Transforming Culture

Conference was scheduled to take place in March 2020. This has been delayed due to coronavirus. It will now take place in 2020/21.

The outcomes that we are seeking to achieve are improved culture in the financial services industry and reduced instances of misconduct leading to actual or potential harm. Public trust may be used as one measure of these.

Results from our Financial Lives survey show that in 2020 only 35% of UK adults agree with the statement 'I feel most financial firms are honest and transparent in the way they treat me.' And only 42% of UK adults agree with the statement 'I have confidence in the UK financial services industry.' Both results have improved since 2017, however, from 31% and 38% respectively. We hope our relentless focus on the need for firms to drive and maintain healthier cultures is one element contributing to this improvement, and hope to see a continued increase in trust and confidence in financial services.

Exploring the role of 'purpose' in creating healthy cultures

The purpose of a firm is central to its business model, strategy and culture and should play a fundamental role in reducing potential harm. Our aim is to ensure that firms and their leaders understand the importance of defining and delivering their own purpose and make positive changes to their cultures as a result. To support this, we set up a working group to examine how to drive purpose in both individual sectors and the industry as a whole.

The group met 5 times between May 2019 and January 2020, and members also held roundtables for their own sectors. These discussions made a valuable contribution to the debate and were reflected in the [Discussion Paper on driving purposeful cultures](#) we published in March 2020 with the aim of sharing insights and encouraging broader discussions.

Evaluating firms' remuneration practices

Across different sectors, we have seen examples of incentive arrangements which focus primarily on financial measures when assessing staff performance – without taking into account broader factors such as behaviours, conduct and good customer outcomes.

We expect firms to manage the potential risks from their incentive schemes and how they manage their staff performance to reduce the likelihood of harm to consumers. We continue to assess and evaluate firms' remuneration practices and tackle the drivers of harm in firms.

Extending the SM&CR to all FSMA-authorized firms

On 9 December 2019, we extended the Senior Managers and Certification Regime (SM&CR) to nearly all FSMA-authorized firms. The aim of the SM&CR is to strengthen market integrity through a system that reduces harm to consumers by enabling firms and regulators to hold people to account. It is a fundamental part of our drive to transform culture in financial services.

It aims to improve conduct by setting basic standards for everyone working in financial services and bringing clarity to who is accountable for what.

We also expect to reduce harm by:

- Applying the Conduct Rules, related reporting requirements and assessments of individuals' suitability.
- Promoting more effective competition. We believe that firms acting in the best interests of consumers are more likely to get business, driving stronger competition and better, cheaper products for consumers.
- Increasing accountability. This should lead to better decision-making by firms, cutting costs and leading to better quality products.

We also made changes to the SM&CR and issued clarifications that firms had asked for. This included amending the scope of the client dealing function and clarifying how SM&CR applies to the legal function. We consulted on these in January 2019 and made final rules in July 2019.

Firms that are newly subject to the SM&CR have a transitional period to deliver staff training on the Conduct Rules, and certify relevant employees as fit and proper. We continue to support firms through communications, engagement and training. This will help ensure that firms can comply with the regime requirements.

Improving the Register

The Financial Services Register is the system we use to make public information on the firms we regulate and the individuals the FCA and PRA have approved. Over the last year a large amount of work has been undertaken to launch a new, improved version of the Register, designed to ensure greater clarity and understanding by consumers and other users to ensure that they are less likely to be harmed by misconduct or scams.

The improvements make the Register easier to use, improve data quality and provide more information. During 2020/21 firms will be required to regularly update their certified and assessed persons data on a new directory.

Whistleblowing

Whistleblowing reports remain a vital and unique source of information for our work. They help us to better understand the behaviour of the firms we regulate, to supervise more effectively, and in our enforcement actions.

To ensure whistleblowers are handled consistently and fairly, we have increased resources in our dedicated whistleblowing team and have rolled out training to ensure our staff, who consider whistleblowing intelligence, act on it appropriately. We have also continued to review and refine our practices, to ensure we maintain whistleblower confidentiality, track whistleblowing intelligence as it is shared across the FCA and maximise the benefit from the insights provided.

From April 2019 to March 2020 we managed and assessed 1,153 whistleblower reports. These consisted of 2,983 separate allegations.

At the end of June 2020 the 1,153 reports had resulted in the following outcomes:

- in 8 cases, we took significant action to mitigate harm
- in 210 cases, we took action to mitigate harm
- 137 cases helped to inform our work and were relevant to the prevention of harm, but did not lead to any specific action
- 107 cases were not considered relevant to the prevention of harm
- 691 cases are still being assessed to determine their outcome

Small moments that drive culture change

While healthy cultures reduce the potential for harm to consumers and markets, understanding how to create them can be a challenge. Many firms often see the solution as launching widescale culture-change programmes. We want to encourage them to experiment with ideas, and focus on small 'moments' – encouraging individual changes to collectively make a big impact, rather than attempting to change culture in one go.

Our CultureSprints programme delivers a series of problem-solving events, bringing together firm representatives and experts from different fields to work collaboratively. They explore ideas and develop targeted, practical solutions to specific challenges to healthy cultures. Participants agree to take at least one of the solutions back to their firms to experiment with in practice and report back.

CultureSprints in 2019/20

How staff are recognised and rewarded has a major impact on their behaviour, and managers are inevitably those who implement change in their teams. So this year we held 2 CultureSprints exploring how to support and empower managers to transform culture, and how to drive healthy cultures through non-financial incentives and recognition. Both were oversubscribed, around 30 leaders from firms and 20 other experts took part in each Sprint, developing 17 solutions to take back and test.

We want discussion of these topics to feed into wider thinking and action across financial services. So we also broadcast 2 webinars on these themes, with over 1,000 people learning from the insights of a panel of experts.

The 2 follow-up events we held this year also brought back participants from previous Sprints to share their progress. We published some of the solutions on empowering managers so all firms can benefit from them and will publish more this year.

Feedback from these events is encouraging. Participants report benefits both from the solutions developed and from a new approach to culture change they can implement in their firms.

We monitor how culture is improving through our supervision of firms, focusing on how effectively the 4 drivers of culture – purpose, leadership, approach to rewarding and managing people, and governance – reduce the potential harm from firms' business models and strategies.



Firms' operational resilience

Operational resilience is an integral part of protecting the UK's financial system, institutions and consumers. We work closely with other authorities to try to maintain continuity of services whatever the cause of disruption.

Operational disruptions happen. Our focus is on the continuity of supply of the financial products and services that people, businesses and the wider economy rely on most.

Operational resilience has become even more important during the current pandemic, both so that services to businesses and consumers can continue and for the majority of firms' staff working from home. As firms have implemented their business continuity plans, cyber criminals are looking to take advantage of the situation.

During the response to coronavirus, and beyond, we want to see a resilient financial system that is better able to supply important services during disruptions and can also recover effectively. This means fewer operational incidents and shorter outage times. When things do go wrong firms should respond promptly, communicating clearly with customers and markets. By ensuring the continuity of vital services and reducing losses of service, we mitigate harm caused to consumers and market participants.

Our key priorities

- being clear about what we expect from firms through our consultation and policy papers that follow on from our [Operational Resilience Discussion Paper](#)
- being clear about what we expect from firms to improve the way they manage risks from using third-party service providers
- finding out more about firms' change management practices and why they are the cause of a high level of reported incidents
- assessing firms' cyber capabilities and addressing areas where firms can improve their resilience, including areas relevant to the Government's economic crime agenda

Operational Resilience Discussion Paper response

In December 2019, together with the Bank of England we published a [policy summary](#) and [Consultation Paper](#) (CP) on how firms can strengthen their operational resilience. These proposals will improve consumer protection and market integrity by improving the way in which ongoing availability of business services and supply of new business services to consumers are ensured, as well as helping build the resilience of the financial services market to continue to function as effectively as possible following disruptions. Our proposals also promote effective competition as consumers may be more likely to choose or stay with firms that are more resilient to operational disruptions.

Under our proposal we will expect firms to act where we identify weaknesses in operational resilience, for example, by investing in improving processes, better infrastructure, addressing vulnerabilities in legacy systems or improving contingency plans.

We know that the current situation means firms' existing arrangements will be put to the test. We have extended the consultation period to 1 October 2020 to allow firms to

focus on the essential customer support required during the pandemic. This will have a corresponding effect on when we publish final rules in a Policy Statement, which is now likely to move to the first half of 2021.

We have completed our first round of assessments of the highest impact firms' technology and cyber resilience. These provide a baseline to measure these firms' progress. How they remedy identified weaknesses is part of our strategy for supervising firms.

These assessments, together with firms' own reports to us, also help us identify specific areas of weakness and strength, and monitor sector-specific trends. During 2019/20, we identified 2 key areas for further work: third parties and change management.

Assessing firms' use of third-party service providers

We identified issues at third parties as being the root cause of 16% of reported incidents in 2019/20. Through our supervisory assessment work, we have worked to better understand the significance of, and dependence upon, outsourced and third-party service providers for the delivery of important business services.

Our work has shown that some firms manage their third-party service providers effectively. However, other firms do not and have less resilient services as a result, with the main causes of harm being:

- Ineffective oversight by firms of their service suppliers resulting in deficiencies within systems and controls.
- Failure of firms to fully understand their dependence on third parties for the delivery of important business services and to adequately mitigate the associated operational risks.
- Failures in other aspects of expected service delivery including change management, business continuity arrangements, oversight of the extended supply chain and cyber defence.

We have found that there is a growing dependence on third parties with new firms being heavily dependent on them and an increasing dependence on a small number of providers for specific services (eg industry standard application software, specialised technology services, cloud computing). These trends increase the complexity of business models and thereby raise operational risk in firms to new levels.

A focus on the importance of outsourcing and other third-party service provision to the resilient delivery of important business services has been incorporated into the Operational Resilience Consultation Paper. This should encourage greater and better targeted engagement by firms with outsourced and third-party service providers upon whom those services depend.

Reviewing our expectations for change management

Our aim is to better understand why change management is the greatest cause of technology incidents reported to us. We have been working with a sample of firms to collect qualitative and quantitative metrics, plus a confidential questionnaire for board members.

Our initial analysis of this data has helped us better understand why firms have rated themselves as mature in this area. By the end of 2020 we plan to hold a roundtable with participants and leading technology firms to discuss the challenges our analysis identified and disseminate best practice. We will also publish a report so that other firms can understand what we found and learn from this.

Ethical hacking to test resilience and supervisory work on cyber attacks

Consumers and market participants must be protected from cyber crime and be confident that firms can be trusted with their data. We want firms to better identify their key assets, understand their vulnerability to cyber attack and determine where further improvements can be made.

Together with the Bank of England, we used our CBEST regulatory tool to assess the highest impact firms. We will test 88 firms over a 5-year period and have collectively, with the PRA completed 18 CBEST tests to date. Testing has been impacted by the coronavirus pandemic with some impact to timelines.

We put on hold our planned multi-firm work to better understand firms' weaknesses in identifying their key assets, detecting cyber attacks on these assets and how they can improve resilience. We will be reviewing this decision once the demands on firms from the current pandemic have subsided.

Communications to smaller firms

We want to see an outcome where smaller firms become more operationally resilient, particularly to cyber attacks so that less harm is caused to consumers and market participants.

We have continued our collaborative work with the National Cyber Security Centre (NCSC) to make sure communications to smaller firms make our expectations clearer and to provide firms guidance on cyber resilience.

In March 2020, we published the second of our [Cyber Insights](#) documents, sharing best practice on key areas of cyber resilience. We also ran a webinar in March 2020 on Operational Resilience and a Cyber Security podcast.

Responding to major incidents

When a cyber attack or service disruption occurs, we work with other authorities to ensure a joined-up response. They include the Bank of England, the PRA, the Treasury, the NCSC, the National Crime Agency and the Information Commissioner's Office, using the Authorities Response Framework (ARF). The ARF has been activated 5 times in the past year, including for the current pandemic.

Incident reports

In 2019/20 we received

824

incident reports,
of which

109 were cyber related,
681 technology related
and 34 non-technology
related

against

849

reported incidents
in the previous
financial year

(139 cyber related,
685 technology related
and 25 non-technology
related)

and

232

for 2017/18.

(41 cyber related,
172 technology
related and
19 non-technology
related)

The number of both cyber and technology related reports has fallen. This could indicate firms are implementing better controls. However we would want to see this trend continue for a longer period to be able to draw conclusions.

Financial crime – Anti-money laundering (AML) and fraud

To reduce the likelihood of financial crime, we ensure the firms we regulate establish robust systems and controls. We closely align our activity with the Government and private sector partners on economic crime.

Our key priorities

- sharing intelligence with the Government and other relevant agencies.
- using intelligence, data and technology to improve our approach to money laundering, bribery and corruption
- tackling fraud by developing our understanding of the risks in specific financial sectors and ensuring firms have implemented appropriate safeguards

Strengthening partnerships on tackling financial crime

Our aim is to make the UK's financial markets robust against criminal activity. One way that we work to achieve this is by closely aligning our activity with the Government's overall agenda on tackling economic crime.

Tackling insider trading

Walid Choucair was an experienced trader in financial securities and Fabiana Abdel-Malik, a family friend, was a senior compliance officer at investment bank UBS AG. Ms Abdel-Malik's role gave her unrestricted access to UBS' compliance computer systems, including inside information about UBS clients' role in commercial transactions. She and Mr Choucair used unregistered pay-as-you-go phones to keep in regular contact, despite also having each other's usual day-to-day contract phone numbers. The purpose of using the unregistered phone numbers was to pass inside information and attempt to conceal their behaviour.

We became aware that Mr Choucair traded in securities shortly before details of mergers and acquisitions concerning the relevant companies became public. The inside information Ms Abdel-Malik passed to him gave him an unfair advantage over the rest of the market.

The National Crime Agency supported the FCA in arresting Mr Choucair and Ms Abdel-Malik, executing search warrants at their homes, and Ms Abdel-Malik's work. During these searches evidence vital to the prosecution was seized.

In June 2019, we prosecuted Walid Choucair and Fabiana Abdel-Malik for insider dealing. They were both convicted of 5 offences of insider dealing, and each sentenced to 3 years' imprisonment. Mr Choucair made approximately £1.4 million in profits from his unlawful trades.

We are currently also pursuing confiscation proceedings under the Proceeds of Crime Act against both defendants. They have been granted leave to appeal their convictions and a hearing of their appeal application is expected during 2020.



We collaborate closely with international partners and standard-setting bodies such as the Financial Action Task Force (FATF). We have continued to contribute to the National Economic Crime Centre (NECC), with a greater focus on fraud particularly in the payments and investment sectors.

In 2019/20, we worked with the Government to develop their Economic Crime Plan (ECP). The ECP includes strengthening our anti-money laundering (AML) supervision, further use of data and intelligence, new responsibilities as the AML supervisor for businesses carrying on some cryptoasset activities and updating our supervision to reflect new requirements implementing the EU's 5th AML Directive.

We have strengthened partnerships with other agencies to support efforts to understand risk and threats and respond accordingly. This includes:

- Seconding experienced staff to the NECC to work on money laundering and fraud threats.
- Through the Office for Professional Body Anti-Money Laundering Supervision (OPBAS) we run workshops with AML professional body supervisors (PBSs). The results have increased understanding of UK regional risk and response and have fed into the Government's National Risk Assessment of Money Laundering and Terrorist Financing which is due to be published this year.

- Establishing, through OPBAS, 2 AML Intelligence Sharing Expert Working Groups. One is for legal sector PBSs, and one for the accountancy sector PBSs with participation from the NECC, HMRC and ourselves as AML regulators.
- Providing expert assessors to several FATF evaluations, ensuring high AML standards are implemented internationally and supporting an OECD anti-bribery and corruption evaluation.
- Hosting a multi-partner AML and financial crime TechSprint with participants from 16 countries, to develop concepts for technologies to protect privacy and better prevent and detect financial crime.

Strengthening our anti-money laundering capabilities

Our aim is to minimise the incidence of money laundering and terrorist financing.

We have improved our AML capabilities. Our improvements aim to ensure we can make smarter use of data and intelligence to increase our reach, focus on areas of highest risk, and carry out more in-depth regulatory assessments. Our data strategy is a long-term programme of work. The coronavirus pandemic may change the way in which we supervise firms but we will continue to use data to minimise the incidence of money laundering and terrorist financing. This will enable us to better predict, monitor and respond to firm and market issues. During 2019/20 we:

- Analysed the financial crime returns from approximately 2,000 firms, using this data to develop our supervisory approach. We continue to monitor the trends in the data from firms to hone our risk-based approach to AML supervision to make it more bespoke, flexible, targeted and in-depth. This makes the quality of firms' submissions important and we will follow up with firms where we find any issues. We will publish analysis of trends from the first 3 years of financial crime data in the second half of 2020 and consult on options to extend the return as soon as the situation allows.
- Enhanced our core AML supervision modules, and developed proof of concepts for new tools which will enable us to test more effectively how robust firms' systems are in detecting financial crime.
- Increased the number of AML enforcement investigations underway to 65.
- Conducted 30 onsite visits and 151 desk-based reviews. During 2019/20 we issued 17 Skilled Person requirement notices, sought 3 attestations and commenced 5 enforcement investigations for financial crime systems and controls failings.

On 10 January 2020, we became the anti-money laundering and counter-terrorist financing supervisor of UK cryptoasset businesses, under the Money Laundering Regulations 2017 (MLRs) and in line with the latest international Financial Action Taskforce Standards.

Strengthening professional body supervision

OPBAS was set up in 2018 to reduce harm caused by financial crime carried out by professional enablers. It works to achieve this through higher standards of professional body AML supervision and better intelligence and information sharing. It works to drive up AML supervision standards undertaken by PBSs who are a key part of the system-wide defence against money laundering.

During 2019/20 we have:

- Tracked and assessed each PBSs' progress in developing and implementing strategies to address areas of weakness.
- Used OPBAS's powers of direction, including setting deadlines for firms to complete actions, and using more directive and restrictive measures. For example, preventing a PBS accepting new members until they have completed specified actions.
- Worked closely with the Treasury and HMRC to ensure all our supervisory standards and expectations are consistent, with a particular focus on the accountancy sector.
- Published a fuller account of OPBAS's findings from its second year of supervisory work and its activities to promote intelligence sharing. This identifies a wide range of areas in which most, if not all, professional bodies have improved as well as areas where a few are now lagging significantly behind.
- Used these findings to plan the next phase of OPBAS's supervisory work and shared good practice at workshops in Edinburgh and Belfast.

Understanding and tackling key fraud types and scams

Financial crime can lead to direct consumer loss. Our Financial Lives survey told us that a significant proportion of UK adults have experienced unsolicited approaches that could have been some form of fraud or scam in the preceding 12 months. One in ten (10%) UK adults have experienced an unsolicited approach in the past 12 months such as calls, emails or text messages claiming to offer pension advice which may or may not have been with fraudulent intent.

Our work is focused on ensuring that firms meet our requirements to have effective systems and controls to detect, disrupt and reduce the risk of financial crime. We work with a wide variety of stakeholders to combat different kinds of fraud. In particular, we work to ensure that financial institutions take the right measures to prevent fraud and to manage the impact of fraud on their customers. We also:

- routinely assess the adequacy of firms' systems and controls
- investigate and impose sanctions on regulated firms who do not meet the necessary standards
- help to protect consumers from harm by unauthorised firms purporting to carry out regulated activities through regular public warnings

ScamSmart

Our ScamSmart campaign focuses on mitigating consumer harm arising from scams. It is a core component of protecting consumers from investment and pension scams.

We give at-risk consumers the information, knowledge and tools to stop them falling victim to financial fraud. We use a variety of mechanisms including TV, print, radio, digital advertising and the ScamSmart website. We also use press activity and partner communications to build fraud awareness. The website gives consumers tips on how to spot the techniques used by fraudsters and hosts the FCA Warning List. This is a tool to help consumers check if an investment opportunity is a scam and allows them to search a list of firms that we know are operating without our authorisation.

In May 2019, we launched a ScamSmart campaign targeted at investment scams carried out via online trading platforms. This encouraged consumers to be more sceptical of 'get rich quick' trading promoted online. We targeted 21 – 55 year olds, as they are most at risk, and used Facebook, Instagram, and the same paid search engines used by scammers. Our campaign generated over 324,000 video views on Facebook and Instagram and drove over 16,000 people to our dedicated [webpage](#). We also featured on Rip Off Britain and BBC Radio.

Fair treatment of existing customers

Fair value for consumers is key to healthy competition and underpins consumer trust in financial services. Our recent investigations of pricing practices in General Insurance, Cash Savings and Mortgages show markets sometimes fail to achieve fair value for consumers, some of whom pay a loyalty penalty. These risks of harm could be exacerbated by the global economic uncertainties caused by coronavirus. We want to protect these consumers, particularly the vulnerable.

We have seen greater digitisation of the firms we regulate, and we can expect the social changes driven by coronavirus to accelerate the development of digital markets. We need to ensure we have the necessary skills and focus to supervise firms effectively in an age of Big Data, but also harness the benefits for consumers through our own and firms' use of this data. We also need to be aware of the potential disproportionate impact on vulnerable consumers, some of whom may be among the 'digitally disenfranchised'. We want consumers to benefit from digital innovation and competition, while tackling any problems. Consumers need confidence that they are getting fair access, price and quality.

We have made Fair Value in a Digital Age one of our priority areas for the next 1 to 3 years. We explain in our [2020/21 Business Plan](#) the outcomes we are targeting and how we will measure success. Below we set out our key achievements in relation to our 2019/20 priorities to ensure existing customers are treated fairly.

Our key priorities

- to continue to work with the Competition and Markets Authority (CMA) as we consider how to act on its recommendations, following the super-complaint from Citizens Advice regarding concerns about the 'loyalty penalty' faced by longstanding customers
- push forward work on cash savings, mortgages and general insurance pricing practices – looking at how to improve outcomes for consumers

To ensure all customers can benefit from increased competition and innovation, we recently looked at a number of markets to examine pricing practices more closely. Our work in the General Insurance, Cash Savings, and Mortgages markets are examples of our ongoing commitment to ensure that consumers receive fair value for the products they buy.

Fairness in pricing and product value

In July 2019, we published a [Feedback Statement](#) to our Discussion Paper on Fair Pricing in Financial Services. In it we explain more about how we intend to judge when pricing practices are unfair using a 6 question framework and set out when this will be operationalised. The statement also summarises the responses we received.

General Insurance Pricing Practices Market Study

In October 2019, we published the [interim report](#) from our market study. This is part of a package of work to make general insurance markets work well for consumers and ensure long-standing customers are not treated in a way that results in poorer outcomes. Details of this work are covered in the section on General Insurance and Protection.

Price discrimination in the cash savings market

In January 2020, we published our [Consultation Paper on introducing Single Easy Access Rates \(SEARs\) for cash savings](#). Details of this work are covered in the section on Retail Banking and Payments.

Further information about our work in the mortgage market can be found in the Retail Lending section.

Innovation, data and data ethics

Financial services are changing rapidly. Much of this change has been driven by the data revolution and developments in technology, such as the cloud, advanced analytics, artificial intelligence and big data. All of this means that firms now know more about their current and potential customers than ever before. This can lower costs and lead to greater participation that can benefit consumers. But it also has the potential to expose people to harm.

Our aim is to ensure that innovation, coupled with advances in technology and data use, work in consumers' interests.

Our key priorities

- to build on our knowledge of innovation in the UK financial services markets – influencing the global response to financial innovation (FinTech) and developing our strategic approach to regulatory technology (RegTech)
- to explore whether we should put in place policy frameworks for how firms collect and use data, to protect consumers and strengthen market integrity
- to consider where a global response is needed to protect those who use our markets – while ensuring that it does not unnecessarily hinder the potential benefits from innovation

Open finance

We want the data revolution to deliver market and consumer benefits, without exacerbating access or competition issues. Developing open finance provides an ongoing opportunity for us and the industry to use data to support greater access.

Open finance allows customers to share their data held by financial institutions with other parties and to see their financial products in one place. It has the potential to transform the way consumers and businesses use financial services. It could make it easier to compare price and product features and switch product or provider. It could also help widen access to advice and support in decision making. It has the potential to improve competition among financial services providers, spurring innovation, development of new services and increased demand.

We aim to develop a clear framework for our approach to open finance. We published a [Call for Input](#) in December 2019 to explore the opportunities and risks. We want to understand what is needed to ensure open finance develops in the best interests of consumers, and what role we should play.

We began a debate that firms should be able to access consumers' data with explicit consent, through application programming interfaces (APIs). This will support innovation by ensuring data is shared across sectors and by improving security across the industry. We also identified opportunities from data sharing to improve the financial health of consumers and businesses.

Ethical issues can arise around consumer consent, data rights, as well as the use of machine learning and Artificial Intelligence (AI). We propose that consumers should have control over their data, and that any re-use by other providers happens in a safe and ethical environment, with informed consumer consent. The [Call for Input](#) closes on 1 October 2020, (extended in light of coronavirus) after which we will publish a [Feedback Statement](#).

Data ethics

Our focus is on ensuring data empowers consumers rather than hinders value or excludes them from accessing key products and services.

During 2019/20, we have developed a deeper understanding of how financial services use AI and data. In October 2019, we published our [joint survey](#) that we undertook with the Bank of England.

We have begun a joint project with the Alan Turing Institute to address the issues of transparency in the use of AI. This will help to clarify the role that data ethics can and should play in the design, use and monitoring of AI.

Along with the Bank of England we have also established the [AI Public-Private Forum](#) to help us better understand how machine learning/AI is driving changes in financial markets and to keep up to date with a broad range of activity and thinking in this area. This forum will start work in October 2020 and share its work regularly.

Our Innovate services continue to support proposed products and services aimed at improving competition or developing new tools, services and access through Open Banking. Innovate has also provided insight to the potential harm from poor controls or

oversight of the use of this data – including how it can be used to manipulate consumer biases and a lack of controls for access. These can damage consumers' rights to privacy or the security of their data.

Our supervision work is also looking at how firms use data and their existing governance over its use.

Cryptoassets

We aim to provide a clear and proportionate regulatory framework to reduce harm from cryptoassets. We are working to ensure that consumers are protected, market integrity is maintained and that competition works well in the interest of consumers.

We also want to ensure that the financial services sector is well placed to harness the potential of Distributed Ledger Technology (DLT). DLT is a set of technological solutions that enable a single, sequenced, standardised and cryptographically-secured record of activity to be safely distributed to, and acted upon, by a network of varied participants. A record could contain transactions, asset holdings or identity data. This contrasts with a traditional centralised ledger system, owned and operated by a single trusted entity.

We are a member of the UK's Cryptoasset Taskforce, a joint initiative between us, the Treasury and the Bank of England, which works to assess the potential impact of cryptoassets and DLT in the UK and to consider appropriate policy responses. We have contributed to key international programmes to assess the potential benefits and risks of cryptoassets, including stablecoins. This has included working with The International Organization of Securities Commissions (IOSCO), through its FinTech Network.

In July 2019, we issued [guidance on cryptoasset](#) activities to help firms understand whether their activities fall under our regulation. This allows firms to have a better understanding of whether they need to be authorised and what they need to do to ensure they comply with our requirements.

Influencing the global response to FinTech

We chair the Global Financial Innovation Network (GFIN). During 2019/20 this has grown from 29 to 57 participants, made up of financial services regulators and global bodies.

The GFIN's purpose is to encourage intelligence sharing and best practice on the implications of innovation in financial markets. The aim of cross-border trials is to provide a more efficient way for innovative firms to interact with global regulators, helping them navigate between countries as they look to scale and test new ideas. Cross-border testing will allow innovative UK-based firms to expand abroad while providing non-UK innovative firms greater access to the UK market without undermining consumer protection and market integrity. This increased competition may in turn encourage current providers to improve their offerings.

In May 2019, we hosted the first GFIN Annual Meeting. This brought together 33 different organisations from around the world for a day of discussions on the forward strategy for the Network, progress of cross-border trials and how the Network can

support better collaboration amongst regulators. In June 2019, the GFIN published a 'One Year On' report setting out the progress made in the year since the Network was first discussed as the 'global sandbox' concept.

RegTech

Digital Regulatory Reporting (DRR) could fundamentally transform how the industry understands, interprets and reports regulatory information. It could help to lower barriers to entry by reducing the cost of compliance for firms. Our work is focused on improving the interface between ourselves, other regulators and regulated firms to ensure we have access to high quality, consistent information at speed.

Our previous work focused on the automation of the regulatory reporting process. A project group has been set-up to explore the potential for machine executable regulatory reporting and the creation of common industry data standards and definitions. Common definitions between firms and the regulator could make regulatory interpretation more consistent and regulators could improve the quality of data from firms.

We published a Viability Assessment of the technological and economic factors that may affect the move towards more automation in regulatory reporting. This assessment flagged up the many hurdles that need to be overcome to move to a more automated future. We are now working on a number of initiatives, using our data strategy to help transform how we collect, store, visualise and analyse the data we collect from firms.

In July 2019, we held a week-long Global Anti-Money Laundering and Financial Crime TechSprint. Our purpose was to try to find better ways of detecting and preventing financial crime. The event focused on how encryption techniques can enable information about money laundering and financial crime concerns to be shared, while still complying with data security laws.

Demographic change

Demographic change, developments in the employment and housing markets and a long period of low interest rates have all had an impact on people's financial needs. There are significant differences in terms of wealth and financial needs across different generations.

Financial services must adapt to meet those changing needs, as must we, to ensure our regulation reflects the genuine needs of different groups of consumers.

Our key priorities

- Intergenerational differences – deepening our understanding of the needs of different generations for financial services.
- Vulnerability – this can be obvious or hidden, permanent or temporary, and depends on individual circumstances. We want to make our expectations of firms clearer and are developing guidance for them on how to consider these complex issues, and ensure they meet the financial needs of vulnerable consumers.

- Understanding consumers' needs – we will use a range of sources to deepen our understanding of consumer needs and ensure we take decisions based on the latest consumer insights.

Intergenerational differences

We want to ensure that our regulatory approach and assumptions reflect the changing needs of consumers across generations, and that consumers of all generations can access products and services that offer fair value. We aim for an increase in the number of – and access to – products and services that offer fair value to these differing groups of consumers.

In May 2019, we published our [Discussion Paper](#) on intergenerational differences. It gave our initial analysis of how specific socio-economic factors have changed the needs and circumstances of different generations. Following stakeholder feedback and further analysis, in July 2020 we published our [Feedback Statement](#).

We identified 3 key areas in our findings where we have a role to play:

- Consumers need better support to manage increased responsibility, particularly with managing both saving for and accessing their pension and retirement income, and additional exposure to risk.
- Consumers need more hybrid and flexible products to meet their evolving needs. As they take on more responsibility for financial choices they would benefit from hybrid products, such as the Pension Sidecar being trialled by Nest Insight, that allow different needs to be met simultaneously.
- Some groups of consumers cannot access the lending products they need to meet their financial goals. Our 2020 Financial Lives survey found that 6% of UK adults have been declined a financial product or service in the last 2 years. This is most acute with credit products, particularly credit cards.

We are responding to our findings including through work outlined in our Business Plan to ensure that consumers can make effective investment decisions and that consumer credit markets work well.

Vulnerability

A vulnerable consumer is someone who, due to their personal circumstances, is especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care. According to our Financial Lives survey, 46% of UK adults display one or more characteristics of vulnerability. Protecting vulnerable consumers is one of our priorities. We want to see fair treatment of vulnerable consumers being taken seriously by firms and embedded in their culture.

When consumers are in vulnerable circumstances it may affect the way they engage with financial services. Results from our Financial Lives survey 2020 tell us that one in five (20%) UK adults with an ongoing physical or mental health condition have had problems with debt or their ability to manage money because of their health. One in six (16%) UK adults with low financial capability have fallen into debt and feel it might have been avoidable if they had understood their options better.

In July 2019, we published our first consultation on draft guidance, setting out how our [Principles for Businesses](#) require firms to treat vulnerable consumers fairly. It aims to ensure consistent outcomes for vulnerable consumers, regardless of the sector in which a firm operates.

As well as working with representative stakeholders to develop the draft guidance, we also held events for firms, trade bodies and consumer groups to discuss our approach. We also ran a firm survey and a workshop for consumer representatives to get information on the potential costs and benefits.

A second consultation has been delayed due to coronavirus. We will publish this later in 2020 alongside some qualitative research we have carried out with vulnerable consumers.

Future of Regulation

Technology and innovation, changing consumer needs and new business models and services continue to transform financial services. Our exit from the EU and coronavirus have underlined the need to ensure the way we regulate keeps pace with changing circumstances. In our [Business Plan 2019/20](#), we said we would review our approach to ensure we are able to meet existing and new regulatory challenges.

During 2019/20 we have explored what some of the most significant challenges are and how we respond, including through a stronger focus on outcomes-based regulation. Our work has highlighted the need to ensure we have the right regulatory framework to support our work and to make best use of our regulatory toolkit, to deliver good outcomes. We will say more about how we propose to take our thinking forward in due course.

Our key priorities

- Reviewing the regulatory cost to firms and companies of complying with the FCA Handbook. We want to understand how firms interpret and interact with our regulatory standards, focusing on where firms incur cost and explore the opportunities technology offers to reduce these costs.
- Developing approaches to tackling consumer harm that occurs on or around the perimeter of what we do and don't regulate, especially when firms and users are unclear over our role for specific activities.

Consumer duty

Our intention is to promote an open discussion and debate about the potential merits of a new consumer principle that firms have towards their customers. We must also ensure we understand the consequences of any changes we may make.

As part of this, we published a [Feedback Statement on duty of care and potential alternative approaches](#). In this, we committed to reviewing how we apply the regulatory framework, particularly the Principles for Businesses, and how new or revised Principles could strengthen and clarify firms' duties to consumers. This work has been delayed due to coronavirus but we intend to consult on potential options for change when we can.

FCA Handbook

We have also begun some research to better understand users' experiences of our Handbook and how it might be improved. The initial findings suggest the Handbook is too complex in its language, structure and navigation. We will take these findings on board as we work to improve the Handbook.

Our work on the FCA Handbook is also covered in the EU withdrawal and international engagement section.

Perimeter Report

Last year we published our first annual Perimeter Report. The perimeter is important because it determines which activities undertaken by firms require authorisation, and often affects how much protection consumers can expect for the financial services and products they buy.

Our report explained our role, how we manage issues on the edge of our perimeter and respond to specific issues from previous years. The report also discusses whether there are any issues within the perimeter which might require legislative or other changes. We also highlighted the difficulties facing consumers in the retail investment sector and what we are doing to address these.

We intend to publish a follow up perimeter report later this year.

Climate change and green finance

The impact climate change has on the planet will have an increasingly critical and wide-ranging effect on the UK's economy, financial services markets and, ultimately, consumers. In the face of this global challenge, our role is to ensure that our regulatory framework allows everyone in financial markets, and those who use them, to respond to the growing risks from climate change and to support the necessary transition to a greener economy. Investors and consumers want to understand how their investments affect the environment and what broader impact they have in society.

We aim to be pro-active in ensuring that firms provide greater transparency of how 'green' products actually work and are held accountable for the labelling and selling of such products and services.

This transition will be far-reaching and affect everything from the cost and availability of insurance to how pension funds are invested, as well as the development of new green products and services.

Our key priorities

- improving climate-related disclosures
- ensuring firms consider material climate-related financial risks and opportunities
- improving consumer access to green financial products and services

Improving climate-related disclosures

In March 2020, we proposed a new disclosure rule to improve premium-listed issuers' climate-related disclosures aligned with the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD). The consultation paper also includes, for comment, a draft Technical Note to clarify issuers' existing disclosure obligations for climate change risks.

Our proposed changes will help to enhance market integrity by improving the transparency, quality and consistency of disclosures. This will help to provide markets with the information they need to assess how well companies are adjusting to the risks and opportunities of climate change and better price assets. Ultimately, improving disclosures will help to enhance competition among providers of climate-focused products and services and enable investors to make more informed choices about where to allocate their capital, supporting the transition to a low carbon economy.

We have extended the consultation period for these proposals to 1 October 2020. Depending on the feedback, we aim to publish a Policy Statement, the finalised rules and Technical Note early in 2021.

We have also actively contributed to a government-led cross-regulator taskforce that is considering the most effective way of implementing TCFD-aligned climate-related disclosures across all key non-financial and financial sectors, and will continue to do so.

Ensuring firms consider material climate-related financial risks and opportunities

We expect regulated firms to consider material climate change risks and opportunities when they make business, investment and risk decisions.

To support better understanding of these risks and enhance the sector's response, we established the industry-led Climate Financial Risk Forum (CFRF) in early 2019 together with the Prudential Regulation Authority (PRA). In June 2020, the CFRF published its practical industry guides to help firms assess and manage climate-related financial risks. We will continue to support the CFRF as it looks to build on this work.

We published a Feedback Statement in October 2019 setting out what we will do to help tackle barriers to effective investor stewardship. Good stewardship by asset owners and asset managers can encourage action by investee companies to address climate-related risks and create sustainable, long-term value for clients and beneficiaries. To this end, we held an industry workshop in February 2020 to promote more effective stewardship arrangements between asset owners, asset managers and service providers. We are engaging closely with industry initiatives to take forward actions arising from the workshop.

In December 2019, we finalised rule changes that require Independent Governance Committees (IGCs) to oversee and report on pension scheme providers' environmental, social and governance (ESG) and stewardship policies in relation to workplace personal pensions and investment pathways.

These changes will help to protect consumers by providing checks and balances to ensure that firms appropriately consider ESG risks in making investment decisions,

take into account consumer needs and preferences, and encourage good stewardship of investments. We published [our findings](#) on the effectiveness of IGCs in June 2020.

Green financial products and services

We want consumers to be able to choose green finance products and services which meet their needs and preferences. In doing so, consumers need to have appropriate information and advice to enable them to make informed choices. This links to our operational objectives of protecting consumers and promoting effective competition in the interests of consumers.

We have been carrying out policy research to better understand how sustainable investment products are designed and delivered, and whether the disclosures that firms make on these products accurately reflect their climate-related (and wider sustainability) characteristics and are sufficient to enable consumers to make effective decisions.

We will use these insights to inform ongoing work with the Treasury in line with the UK Government's commitment in the Green Finance Strategy to match the ambition of the objectives of the EU Sustainable Finance Action Plan.

5 Our sector priorities

Wholesale and financial markets

Healthy wholesale financial markets mean companies and governments can access capital, give retail and institutional investors opportunities to invest, enable domestic and international trade and fund growth.

In response to coronavirus, we have worked to ensure markets remain open and orderly. Whilst we have seen price volatility, high volumes of trading in some markets and reduced liquidity in others, we judge that UK markets have remained orderly throughout.

We expect equity and debt capital markets to play a vital role in (re)financing businesses to enable them to recover from the significant financial impact caused by the pandemic.

In April 2020, we announced a series of temporary measures in a [Statement of Policy](#), to help companies raise new funding while maintaining investor protection. We give more information on this Statement of Policy and the other measures taken in response to the pandemic in the section on coronavirus.

Our key priorities

- Clean markets that make it difficult to commit market abuse – market abuse causes harm by enabling perpetrators to gain unfairly at the expense of other market participants. This threatens confidence and participation in wholesale markets.
- Orderly transition from LIBOR – transition from LIBOR to risk-free interest rate benchmarks should, in the long-run, increase market integrity by moving markets to more robust benchmarks. It is important that this transition takes place in an orderly way and that firms manage risks from transition, including conduct risks.
- Conflicts of interest – this is a key conduct risk in wholesale markets. Identifying and preventing or managing these helps ensure that firms act in the best interests of their clients and treat them fairly.

Cross-cutting priorities – our work during 2019/20 has focused on priorities that cut across sectors, including financial crime, governance, operational resilience, and EU withdrawal. Details of these activities can be found in the cross-sector sections.

Our specific activities

Promoting clean financial markets

The overall outcome we are seeking to achieve is clean markets that make it difficult to commit market abuse and financial crime.

In wholesale markets, threats to market integrity can come from a wide range of business models – from international investment banks through to small brokers and across both primary and secondary markets.

Improving the quality of firms' transaction reports

Firms have to report transactions in financial markets to us. Each of these transaction reports gives details of the financial instrument traded, the price, the buyer and seller and the date and time of the transaction. We use these reports to identify and investigate potential market abuse, which makes it vital that they are complete and accurate. We closely monitor the quality of these reports, supported by technology that can both assess millions of transaction reports and generate alerts, so we can identify data quality issues. We use these alerts to identify firms sending potentially inaccurate data and require them to correct all errors and omissions.

One aspect of our focus this year has been the price field, which is essential for determining the value of a transaction and is instrumental in market abuse investigations. One of our price alerts flags transaction reports containing a value in the price field that is outside the daily range for the instrument traded, suggesting that the report may be inaccurate. Having identified this as a potential issue in Q1 2019, we have been contacting firms that submit price data that is out of range for the instrument traded. As a result, this year we have seen a significant improvement in data quality.

This work to improve the quality of transaction reporting data has a direct impact on our ability to conduct better market abuse surveillance and help ensure the integrity of our markets.



We have implemented new transaction reporting data quality alerts and used our publication 'Market Watch', issues [59](#) and [62](#), to publicise common errors to firms. As a result, firms have corrected large numbers of transaction reports (please see the case study above for more details). There has also been an increase in firms requesting samples of their transaction reporting data to improve their own data quality monitoring. Improved quality of this dataset helps us detect and investigate potential market abuse.

We worked with firms who provide sponsor services and corporate broking to strengthen their controls over the inside information they hold in their role in advising listed companies. Most firms have already improved their controls in response to our feedback and the others are in the process of doing so. We expect this to further strengthen control frameworks for inside information and to reduce the risk of market abuse.

During 2019/20 we received a total of 5,336 Suspicious Transaction and Order Reports (STORs) from the industry and 788 other external notifications about potential market abuse. As a result, we opened 415 preliminary market abuse reviews. From these, we have subsequently started 53 enforcement investigations and 102 non-enforcement actions, including supervisory interventions and issuing letters of education.

While this level of activity cannot be used as a proxy for the level of market abuse in UK financial markets, it demonstrates our focus on detecting and investigating market abuse, deterring wrongdoers and educating market participants on the harm market abuse causes to the economy.

Market cleanliness statistics

We report several market cleanliness indicators on a yearly basis. We also continue our work to expand the range of indicators we publish. During 2019/20 we have developed a new metric called the 'Potentially Anomalous Trading Ratio (PATR)'. Our latest update on the Market Cleanliness Statistic, Abnormal Trading Volume metric and the results for the PATR can be found on our [website](#).

Supporting the transition from LIBOR

Alongside the Bank of England, we have worked with firms to support an orderly transition from LIBOR and to ensure that customers are treated fairly and share in the benefits of this transition.

Following our 2018/19 [Dear CEO LIBOR letter](#), to the UK's largest banks and insurers, in June 2019 we gave these firms individual feedback on their progress. We also published a [feedback statement](#) that all firms could consider for their transition planning. We clarified our expectations of firms, including through publishing [answers to key questions](#) on conduct risk and a [joint letter](#) with the PRA to firms' senior managers. We also worked with industry, including the International Swaps and Derivatives Association, on the development of robust fallbacks for LIBOR contracts.

While coronavirus is likely to affect the timing of some aspects of many firms' transition programmes, the central assumption remains that firms cannot rely on LIBOR after the end of 2021. This should remain the target date for firms.

Mitigating conflicts of interest

MiFID II introduced new requirements for firms undertaking underwriting and placing business to manage conflicts, including conflicts between themselves and their issuer clients. In April 2019, we published the [findings](#) of our review of how firms have applied these requirements.

Effectiveness of Primary Markets

The outcome we are seeking to achieve is ensuring that our Listing Rules continue to encourage companies to raise capital in the UK and provide investment opportunities for investors, while ensuring risks are managed in an effective and proportionate way.

In March 2020, we [published](#) our consultation for a more proportionate listing regime for open-ended investment companies (OEICs). These proposed changes should ensure that OEICs' obligations in the Listing Rules are more proportionate and more tailored to their business models. This will mean issuers do not have to incur additional costs to comply with requirements which do not add appreciable value for investors. We have extended the deadline for responding to our consultation to 1 October 2020.

Implementing the EU Prospectus Regulation

The EU Prospectus Regulation came into force in July 2019. It refines the prospectus regime which requires companies to ensure that investors have the information they need to make informed investment decisions and helps companies to raise capital efficiently on UK regulated markets.

Corporate reporting in the European Single Electronic Format (ESEF)

We have worked to implement the European rules for electronic publication and filing of annual financial reports in machine readable format for accounting periods starting from January 2020. These reforms aim to improve the ease with which investors can evaluate the performance of companies with securities admitted to trading on

a regulated market. We have subsequently launched a consultation proposing a one year delay to mandatory reporting in the ESEF format. This is in light of coronavirus and our desire to relieve the regulatory burdens at this time. Companies can still report voluntarily in the ESEF format, and we are continuing to develop the infrastructure to receive these reports.

Taking action against breaches of our Listing Principles and Disclosure rules

Transparent markets rely on issuers ensuring they provide disclosures to the market which are timely, accurate and do not contain any misleading information. As a prerequisite, issuers need to have adequate procedures, systems and controls in place to meet their disclosure obligations. This should result in all market participants including current and potential investors receiving the information they need and effective price formation.

On 28 June 2019, we fined a premium listed company, Cathay International Holdings Limited (Cathay), £411,000, and 2 of its directors £214,300 and £40,200. We found that Cathay breached our Listing Principles and Disclosure Rules and Transparency Rules, and that the 2 directors were knowingly concerned in some of these breaches.

Cathay's financial performance deteriorated over the course of 2015. However, serious failings in procedures, systems and controls meant that Cathay did not monitor the full impact of issues on its expected financial performance for the year ended 31 December 2015 when compared with market expectations. As a result of these failings, Cathay then recklessly failed to disclose to the market, as soon as it should have, a material change in its actual and expected performance compared to market expectations.

In addition, it was determined that in 2016 Cathay did not deal with the FCA in an open and co-operative manner when responding to a request for information.

Access and use of data in wholesale financial markets

The supply of market data is vital to the functioning of wholesale financial markets. In March 2020, we published a Call for Input (CFI) on 'Accessing and using wholesale data' to better understand how firms are accessing and using data and advanced analytics. We also wanted to assess the value offered to market participants and if data are being sold and priced competitively. This is part of our continued efforts to ensure that wholesale markets deliver a range of good value, high-quality products and services to market participants. Feedback from our previous studies suggested that trading venues and benchmark administrators may not face sufficient competitive pressures, allowing them to charge high prices to clients and competitors. We want to know whether this is the case, which users are affected and why. The evidence we get from this CFI will allow us to decide if we need to do further work to address any harm, as well as ensure our regulations do not hinder innovation.

Trade transparency and market liquidity

We monitor proportions of trades carried out on venues with varying levels of trade disclosure and levels of market liquidity. We provide more details of these indicators on our [website](#).

Investment management

The investment management sector covers asset management, institutional intermediary and advice services, and custody and investment administration services. Our aim is for an operationally resilient sector that provides a range of good value products to both institutional and retail investors in a clean and orderly market.

The sector faced challenges due to the high levels of market volatility and investor redemptions following the outbreak of coronavirus. The resulting economic situation also highlights the importance of firms ensuring that the products they offer to customers meet expectations and offer good value. Priority outcomes include:

- Pricing and quality: fund managers should work to deliver products that offer good value despite the economic conditions.
- Operational resilience: heightened volatility and disruption present challenges to ensuring continuity of service for customers, as well as monitoring and oversight.

Our key priorities

- The value of products – our aim is to ensure consumers have access to a range of products that are good value and meet their investment needs.
- Our cross-sector work on operational resilience is also particularly relevant for this sector. More detail is provided in the section on Operational resilience.

Our specific activities

Asset Management Market Study (AMMS)

Our key area of concern is poor value asset management products and services. We want consumers to be able to access and choose from a range of products that are good value and meet their investment needs. The [AMMS](#) identified many problems that cause consumer harm. These included weak price competition in many areas of the asset management industry, meaning investors were not always getting good value products.

Over the course of 2019/20 we have made several changes to our Handbook, including:

- rules banning fund managers from making risk-free box profits on dual priced funds
- requiring fund managers to explain why or how their funds use particular benchmarks and to use them consistently
- requiring firms to calculate performance fees based on the scheme's performance after deduction of all other fees
- requiring Authorised Fund Managers (AFMs) to conduct an annual assessment of each fund against a set list of value factors, publish a summary of the results and any actions taken
- requiring AFMs to appoint 2 independent directors (or 25%) of each AFM's governing body

These measures make costs more transparent, make fund objectives clearer and improve performance reporting. They enable investors to find better value, drive competitive pressure on asset managers and improve the effectiveness of intermediaries.

In May 2019, the independent Cost Transparency Initiative (CTI) finalised the cost disclosure templates, a set of industry-ready templates to ensure the disclosure of costs and charges to institutional investors. This was a key recommendation of the AMMS and gives investors a clearer and more detailed understanding of the charges they pay.

Illiquid assets and open-ended funds

On 30 September 2019, our final rules on disclosure, liquidity management and suspension of dealing for illiquid assets and open-ended funds came into effect. Separately, we are working jointly with the Bank of England on a review of the potential risks posed by a mismatch between the redemption terms of open-ended funds and the liquidity of their assets. A planned survey, which forms part of this review, has been delayed in light of the coronavirus pandemic. We expect to return to this work later in 2020/21.

In November 2019, we issued a Dear CEO letter emphasising how critical liquidity management is for all AFMs.

At the end of March 2020, most UK authorised, open-ended property funds had suspended due to material uncertainty over the valuation of their assets. In general, managers of these funds adopted approaches to suspension that broadly aligned with the rule changes published in September 2019, even though they are not effective until 30 September 2020. We are consulting on ways in which funds could safely transition to a structure where liquidity promises to investors are better aligned with the liquidity of fund assets.

In February 2020, we published a Feedback Statement on patient capital and authorised funds. This found no inappropriate barriers to investing in long-term assets within our authorised funds regime and found it fit for purpose for professional and sophisticated retail investors. This work is intended to support the sector's priority of meeting investment needs by encouraging the supply of patient capital to meet demand.

In March 2020 we published a Policy Statement setting out amendments to the permitted link's rules for unit-linked funds. They follow recommendations by the Law Commission and engagement with the Treasury's Pension Scheme Investments

Taskforce regarding potential regulatory barriers to investment in some less liquid or illiquid assets. The amended rules seek to address any unjustified barriers to retail investors investing in a broader range of long-term assets in unit-linked funds, while maintaining an appropriate degree of investor protection.

Investment consultants and Fiduciary Managers

We have worked with the CMA to produce its [Investment Consultancy and Fiduciary Management Market Investigation Order](#).

The CMA undertook its market investigation following our referring the industry to it as part of the AMMS. The Order aims to increase competition in these markets by requiring fiduciary managers and investment consultants to provide clearer information about what their customers receive for their money, and incentivising pension scheme trustees to shop around for services.

These changes will lead to greater transparency on the products and advice that fiduciary managers and investment consultants provide to pension scheme trustees. We will consult on how to transpose this into our rules and will review their effectiveness in due course.

Effective consumer disclosure

The new Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation will be implemented at the end of the transition period. We will work with the Treasury to ensure that the Regulation is adopted effectively in the UK while addressing the concerns highlighted by industry and consumer bodies in our Feedback Statement published in 2019.

The Treasury's [Policy Statement](#) and subsequent Financial Services Bill amendments will empower us to do this more effectively.

LF Woodford Equity Income Fund

On 3 June 2019, Link Fund Solutions (Link), the Authorised Fund Manager of the LF Woodford Equity Income Fund (LFWEIF) suspended the LFWEIF following increased levels of redemptions. Subsequently, on 15 October 2019, Link decided to wind-up the fund and return capital to the fund's investors. As at 3 June 2020, £2.27bn had been returned to investors, and the fund's net asset value stood at £444m. We have been closely engaged with Link as the fund is wound-up. Our investigation into the circumstances leading to the LFWEIF suspension is ongoing.

Outcome indicators

In our Business Plan 2019/20, we committed to provide a range of metrics to help assess the impact of remedies put in place as a result of our Asset Management Market Study in 2016. These include:

- asset manager operating profitability as a percentage of revenue, weighted by AUM
- average annual ongoing fees for UK-domiciled active and passive funds respectively, weighted by AUM
- extent to which UK-domiciled passive fund performances track their respective indices after fees, weighted by AUM
- average annual ongoing fees for UK-domiciled active and passive funds in specific sectors respectively, weighted by AUM

Details of the metrics can be found [here](#). They show that:

- profitability in the sector of 36% (AUM-weighted operating profit margin) in 2019, a modest decline from 38% in 2015
- ongoing fees for active funds of 0.8% (AUM-weighted average) in 2019, a decline from 1.07% in 2015
- ongoing fees for passive funds of 0.11% (AUM-weighted average) in 2019, a decline from 0.25% in 2015
- 85.3% of passive funds (AUM-weighted average) deviated 0.5% or less from their benchmarks during the 12 months to April 2020, up from 73.9% in the same period in 2015

Stewardship

Effective stewardship supports consumers by better aligning incentives across the institutional investment community with the long-term interests of consumers of financial services. We want consumers to benefit from better information flow across the institutional investment community about how firms engage with issuers to promote their interests.

In May 2019, we published [rules](#) intended to help companies run themselves better and ensure better alignment between the interests of asset managers and their investors. These resulted from the UK's implementation of the EU's Shareholder Rights II Directive (SRD II).

To promote effective competition, we required asset managers and asset owners to make disclosures about their engagement policies and investment strategies from 10 June 2019, including:

- life insurers and asset managers must publish their engagement policy and annual implementation information on a comply or explain basis
- life insurers must annually disclose their arrangements with asset managers, their investment strategy and how it contributes to medium/ long term asset performance
- asset managers must give asset owners information on how their investment strategies contribute to medium/ long term asset performance

These new rules should encourage firms to compete to deliver high-quality investment decisions, oversight of assets and engagement with, and challenge of, companies' boards and management.

In October 2019, we published a [Feedback Statement – Building a regulatory framework for effective stewardship](#). This confirmed we will not impose further stewardship requirements on life insurers and asset managers now.

Firms should be given time to adapt to our new rules implementing SRD II and the Financial Reporting Council's UK Stewardship Code 2020 – which was released in parallel with our Feedback Statement – before we consider further regulatory measures.

Investment firm prudential regime (IFPR)

In our 2019/20 Business Plan we announced a consultation on introducing a new prudential regime for MiFID investment firms, to improve on the EU's existing CRD IV regime.

The EU IFPR was published at the end of 2019 and comes into effect after the end of the transition period. We therefore issued a detailed [Discussion paper](#) in June 2020, to help gather feedback on how a new domestic prudential regime might work for the UK market.

We will then consult on detailed rule proposals once we know the legislative framework for the new regime under the proposed Financial Services Bill.

This regime will include new rules and change our authorisation/prudential supervision processes and reporting requirements, so as to reduce unnecessary costs to firms.

Retail banking and payments

Retail banking and payments are central to the lives of virtually every consumer, business and organisation in the UK. The way consumers use them is constantly evolving, as seen by the continuing growth of mobile banking and payments apps.

We seek outcomes that mean consumers have a choice of suitable, fairly priced products from competing providers, can access services that meet their needs and are treated fairly when things go wrong or disputes occur.

The crisis triggered by the pandemic has tested firms' resilience and made it more challenging for some consumers to access the services they need.

The crisis has had significant impact on both consumers and SMEs and we have worked together with the industry to ensure continued access to services. We have put in place temporary financial relief measures to mitigate the immediate impact on consumers. At the same time, a growing number of SMEs have experienced financial strain and discontinued trading. As banking customers, the fair treatment of these SMEs will become central to the conduct of the sector.

Our key priorities

- making the banking sector safer and more competitive – our aim is to increase competition and improve the security and quality of payments services
- ensuring reliable payment services for all users – we aim to ensure that payments services are accessible, safe, reliable, resilient, value for money and innovative, all while functioning well for consumers and other users

Our specific activities

Analysing firms' business models to identify the harms they pose

We expect firms to have robust systems and controls to protect customers' funds. In July 2019, we published the [findings](#) of our supervisory review of payments services firms' safeguarding arrangements. We found some examples of firms meeting the individual components of the requirements effectively. However, others needed to do further work to ensure they can properly identify client funds and hold them separate from other funds. We set out our expectations in a [Dear CEO letter](#). We also created a team to review firms' key policies and procedures around safeguarding, reconciliation and policies and procedures around company accounts.

Making the banking sector safer and more competitive for consumers

We have continued to work with firms and the Bank of England to maintain and strengthen operational resilience. We share intelligence on financial crime with

other agencies and require firms to have appropriate safeguards in place. Further information can be found in the section on Operational Resilience.

Overdrafts

We introduced reforms to make overdrafts simpler, fairer, and easier to manage. Further information can be found in the section on Retail Lending and in the case study on page 64.

Ensuring reliable payment services for all users

We want to see greater competition between payment services providers. In August 2019, we extended our Principles for Businesses and the Banking Conduct of Business Sourcebook communication rules to payment services and e-money firms so that the same standards apply to all firms in the market. Our new rules make it clear that currency transfer service providers must not promote unachievable exchange rates or make unfair claims about competitors. By ensuring firms provide the right information, consumers can make better choices which supports effective competition.

The payments sector is developing rapidly. More firms, new products and third-party providers are entering the market. Making payments safe and accessible is a key priority for us over the next 1-3 years. This includes working with the Government, PSR and other regulators to help to ensure that consumers and SMEs continue to have access to cash and related services.

Working with the Payment Systems Regulator and others to tackle fraud

Achieving good outcomes for consumers requires firms to ensure they are not used to facilitate financial crime. The Authorised Push Payment (APP) Scams Steering Group launched the Contingent Reimbursement Model Code in May 2019, improving consumer protection against these scams. The amount of money firms reimbursed to consumers increased by 40% to £116m in 2019, up from £82.6m in 2018. Reported APP fraud increased to £455.8m (122,437 cases) in 2019, up from £354.3m (84,624 cases) in 2018.

SME banking

Our strategic review of retail banking business models showed that business deposit accounts pay very little interest and have comparatively high fees and charges. As a result, we wanted to seek to understand whether SMEs are well served by these offerings and whether competition is working effectively to improve outcomes. We carried out initial work to better understand how business models are responding to SMEs' changing needs.

Single Easy Access Rate for cash savings

Price discrimination in the easy access cash savings and cash ISA market leads to longstanding customers receiving poorer outcomes than new customers. Our key objectives are to protect longstanding customers currently on the lowest interest rates by providing incentives to firms to increase the rates they receive, and maintain the competition that exists for new customers by allowing introductory rates for up to 12 months.

The average rate on live no-notice accounts dropped to 0.51% in April 2020 from 0.62% in May 2019, the average rate on closed no-notice accounts remained unchanged at 0.68%. After the Bank of England cut the Base Rate to 0.1% in March 2020, the number of savings accounts paying over the Base Rate rose to 1,405 in April 2020, up from 1,340 in May 2019.

In January 2020, we consulted on new rules to require firms to introduce and publish single interest rates for easy-access cash savings accounts and easy-access cash ISAs that have been open for more than one year. Our proposals will improve competition, make it simpler and easier for consumers to understand the savings market and get a good deal. They will also help protect those consumers that currently receive the lowest interest rates. We have now extended the consultation period to 1 October 2020.

Implementing the revised Payment Services Directive (PSD2) and Open Banking

Applying and monitoring SCA rules through detailed fraud statistics

In September 2019, new rules for strong customer authentication (SCA) came into effect for payment service providers to improve security and reduce fraud. To avoid disruption to users, we showed some supervisory flexibility, to give firms extra time to implement SCA for online banking and online card payments. In the wake of the pandemic, we have committed to working with the e-commerce industry to agree any changes to the milestones and timelines that may be necessary.

Ensuring Open Banking services are introduced securely

Open Banking was designed to increase innovation and competition in banking and payment services. We want to see Open Banking develop through increased provider uptake and more customers using its services. This will unlock better outcomes for consumers – for example, an improved customer experience and access to innovative products and services which meet their needs today and in the future. By January 2020, over 1 million customers had signed up to Open Banking. We have authorised or registered over 130 Open Banking firms. Over 70 banks and other account providers now share data through Open Banking.

Leading the broader public debate on developing Open Finance

Open Finance involves extending Open Banking-like data-sharing to a wider range of financial products. Open Finance has the potential to improve access within Financial Services, and could substantively change the nature of competition. Our aim is to ensure Open Finance progresses in a way that delivers good outcomes for consumers and that the right incentives exist for all parties to participate.

In December 2019, we published a Call for Input to explore the opportunities and risks of Open Finance. We extended this to October 2020 due to coronavirus. We want to understand what is needed to ensure Open Finance develops in consumers' best interests and what role we should play. To help shape this, we have set up an external advisory group with industry experts, consumer and business representatives, academics and government departments.

Completing Payment Protection Insurance (PPI) redress

In April 2020, we published our final report on the impact of the August 2019 PPI deadline and the 2-year consumer communications campaign that preceded it. The campaign's objectives were to raise public awareness of the deadline and prompt all those who intended to act to do so by the deadline. We significantly raised awareness of the deadline, with 71% of our target audience aware of it by the end of the campaign. During the 2-year period, we provided information and help to 6.2 million people through our website and over 110,000 through our helpline.

PPI – the biggest consumer redress exercise in UK history

Insurance covering credit repayments if people lose their income – payment protection insurance or PPI – was suitable for some consumers in some circumstances. But PPI sales grew rapidly through the 1990s, peaking in 2004. Widespread weaknesses in sales practices meant too many firms too often failed to give a balanced presentation of the product's pros and cons, or ensure policies were suitable for consumers' needs. Many consumers got policies they didn't need or couldn't benefit from.

The road to redress

In 2005, our predecessor, the FSA, became the regulator for sales of general insurance. During 2005-7 it carried out 3 sector-wide reviews to assess firms' PPI sales practices. It followed this up in 2008 with stronger rules and guidance on how to conduct PPI sales fairly and, in 2010, on how to handle PPI complaints fairly.

The FSA fined 24 firms for failings in PPI sales, and 3 firms for failings in PPI complaint handling.

Between 2007 – 2015, firms handled over 16.5m PPI complaints, upheld 75% of them and paid over 12 million customers over £21bn in redress.

In 2017, following a 2014 Supreme Court judgement about undisclosed high commission taken by lenders, we issued further rules and guidance on fair PPI complaints-handling. As a result, firms told 1.3m previously-rejected complainants that they might have new grounds for complaint.

Our deadline and campaign

In 2015 and 2016, we consulted on setting a deadline for new PPI complaints, to help prompt remaining consumers to act, and bring the issue to a fair and orderly conclusion. In 2017, we announced a deadline of 29 August 2019, and began our biggest ever public awareness campaign. We reached 99.9% of our audience a total of 49 times. Our final report shows 12.6 million PPI complaints were made during our 2-year communications campaign, more than twice the number in the previous 2 years.

Since 2011, consumers have made 32.4 million PPI complaints to firms, and firms have so far paid over £38bn in redress. We continue to ensure that firms handle the remaining PPI complaints fairly.



Retail lending

The retail lending sector is broad, encompassing a wide range of lenders to both consumers and businesses. Retail lending can help consumers spread the cost of borrowing to meet their financial needs, but unaffordable and unsuitable lending can cause significant harm including to already vulnerable consumers. Our aim is to achieve a healthy sector which provides fair, accessible and appropriate products to consumers and meets the needs of those who are most vulnerable.

Coronavirus has had a significant and immediate impact on the retail lending sector. To tackle its immediate impact, we produced a package to protect the most-impacted consumers, focusing on forbearance, to ensure that lenders resist enforcing re-payment in the short term. We give more information on these in the section on coronavirus.

Our key priorities

- Ensuring that consumers are protected in high-cost credit markets – we want consumers to have access to good value products that meet their needs. To achieve this, we have tackled barriers that prevent markets from working as well as they could.
- Tackling business models that drive unaffordable lending – we prioritise actions to protect the most vulnerable consumers. These include new rules, and price caps where products are particularly harmful to consumers. We have continued to promote effective competition in the interests of consumers and the availability and awareness of alternatives.
- Making the mortgage market work better for consumers – we want to make it easier for consumers to switch mortgage products and make more informed choices. We also want to ensure that our regulation supports the market to develop appropriate and innovative products and services.

Our specific activities

Ensuring that consumers are protected in high-cost credit markets

Our high-cost credit review was a detailed, wide-ranging review, resulting in measures to protect consumers. It implemented changes across the following products:

Overdrafts

Our research found that charges for overdrafts were highly concentrated, with a minority of consumers paying the majority of fees. Our remedies to boost competition and address repeated use of overdrafts came into force in December 2019, and new pricing rules came into force in April 2020. These prevent firms charging higher prices for unarranged overdrafts, ban most fixed fees, and make it easier to compare the costs of overdrafts. Our aim is that unarranged overdrafts remain available, but at a significantly lower price than in 2018. We expect firms to communicate overdraft prices, particularly the APR, clearly and simply and to develop credible strategies to address repeat borrowing concerns.

Our estimates show 7 out of 10 overdraft users will be better off or see no change based on the prices firms announced because of these changes. We will evaluate the impact of our remedies and expect to see prices fall for unarranged overdrafts.

As part of our package of financial relief for consumers affected by coronavirus, we asked firms to review their overdraft prices to ensure that customers were no worse off compared to prices charged before the new rules took effect.

Rent-to-own

Before our interventions, the costs to consumers of using RTO were high, sometimes exceptionally so. This was both for the goods themselves and compared to the cost of financing them by using other forms of high-cost credit. Our expectation is that RTO customers receive fair prices and see reductions in their borrowing costs. To achieve this, we introduced a RTO price cap, which delivers estimated consumer benefits of between £19.6m and £22.7m a year. The price cap came into force for most products on 1 July 2019. In April 2020, we started an impact evaluation of the price cap. We do not expect firms to attempt to circumvent our cap and are looking closely at whether borrowing costs have reduced by as much as our estimates.

Buy-now-pay-later

In the 'buy-now-pay-later' market, consumers often end up paying more for goods than they originally expected or intended. In September and November 2019, our new rules came into force to ensure customers are better informed and are not charged back-dated interest on sums they repay during an offer period.

Alternatives to high-cost credit

In July 2019 we published our [Alternatives to High-cost Credit report](#), setting out the availability of lower-cost and non-credit options. We have achieved several of the outcomes this report identified, including:

- encouraging innovation within the credit union sector
- supporting the Treasury's Affordable Credit Challenge, which sought to increase access to affordable, responsible credit
- updating our guidance for Registered Social Landlords to make it easier for them to help tenants find alternatives to high-cost credit when buying essential household goods

Home collected credit

Rules came into force in March 2019 to ensure that discussions with firms about repeat borrowing in the customer's home only occur when requested by them. We estimate that this change will provide cumulative benefits for consumers of between £4m and £34m per year by reducing hidden costs, strengthening protection against repeat borrowing and improving sales practices.

Remedies for persistent debt

Following our earlier [Credit Card Market Study](#) in 2018, we introduced rules to significantly reduce the number of customers with persistent credit card debt. These rules require firms to take a series of escalating steps to help these customers to repay their debt more quickly. We have now extended these rules to catalogue credit and store cards.

In February 2020, we wrote to the CEOs of credit card firms with some areas of concern in the way they were applying the persistent debt rules. We also underlined our expectations that firms treat customers fairly while reducing persistent debt.

Making the mortgage market work better for consumers

In October 2019, we introduced new rules removing barriers preventing some customers – 'mortgage prisoners' – from finding a cheaper mortgage deal. This should

mean more consumers benefit from competition in the market. We have estimated that around 14,000 eligible mortgage prisoners should be able to meet the commercial lending criteria to switch products and make a meaningful saving.

In January 2020, we made changes to our mortgage advice and selling standards, permitting more customer interaction before firms are required to give advice. This will enable firms to make their execution-only sales channels easier for consumers to use. It will also require advisers to take account of price when choosing between suitable mortgages.

We expect these changes to mean that consumers are given more choice in how they buy a mortgage and are empowered to make effective choices before taking out a mortgage, and throughout the duration of the mortgage. Our changes will increase innovation in distribution and competition in the interests of all consumers.

In response to the potential impact of coronavirus, we have written to lenders with customers who took out mortgages with higher risk characteristics before the financial crisis. We have asked them to review the interest rates they are charging these customers as a matter of urgency and to ensure that the rate they pay is fair. We have also extended the period of time that firms have to contact customers about switching by 3 months.

Claims Management Companies

We completed the transfer of claims management regulation to us on 1 April 2019, with 952 claims management companies (CMCs) registering for temporary permission. Since then, we have received more than 840 applications for full authorisation. We have now determined over 460 of those applications with 380 CMCs being authorised, some with requirements limiting their activities, and 83 CMCs withdrawing their application. We are in the process of completing the assessment of the remaining applications which include those whose applications we will be seeking to refuse. We have conducted supervisory work programmes in relation to CMCs holding client money and financial promotions, used our formal financial promotions banning power in 1 instance, issued 2 Dear CEO letters and 1 other communication in relation to CMC conduct.

We have new powers to make fees rules for all CMC sectors and a duty to make fees rules in relation to financial services and financial product claims in order to protect customers of CMCs from excessive charges. We are further developing our policy on this.

Work postponed due to coronavirus

Given the significance of the impact of coronavirus on this sector and the time and resources we have diverted to early and vital interventions, it has been necessary for us to postpone some other pieces of work that we had planned.

- **Business model drivers of unaffordable lending** – We are concerned that some retail lending business models, including some in the subprime credit sector, are largely designed to benefit from consumers not repaying their debts in full and on time. Following successful preliminary testing we had started requesting firm data to inform the second stage of this work before it was delayed.
- **Motor Finance Review** – in July 2020, we published final rules banning commission models that give motor finance brokers and dealers an incentive to raise customers' interest rates. These rules will reduce consumers' finance costs, give lenders better control over the interest rate that consumers pay and foster greater

price competition between lenders. We have also made minor clarifications on commission disclosure across consumer credit. This should mean consumers are better informed and more likely to engage with what is on offer. This in turn should promote competition in the interests of consumers. These rules come into effect on 28 January 2021.

- **Consultation on proposed rule changes to encourage switching among inactive mortgage consumers** – In March 2020, we published a [research paper](#) to help understand the characteristics of 'inactive' mortgage holders – those who had been on a reversion rate for half a year or more and would have benefitted from switching. This paper found that to encourage inactive borrowers to switch, any remedies would need to engage consumers in the switching process, set the case for switching out clearly, and give consumers the right information. We have considered a range of different remedies and we intended to publish this consultation in 2021. This consultation paper has now been delayed.

Protecting the vulnerable from high overdraft charges

Consumers who regularly use unarranged overdrafts are often vulnerable and yet have borne a disproportionate burden of high overdraft charges. In 2016, we found that over 50% of firm's unarranged overdraft fees came from just 1.5% of customers. We found that high fees and charges for unarranged overdrafts meant consumers regularly paid more than the equivalent of a daily interest rate of 10%. People living in deprived neighbourhoods were most likely to incur these fees.

Reducing harm, encouraging competition

After consulting on proposed remedies, in June 2019 we published new rules to protect these consumers from these charges. The rules stopped firms charging higher prices for unarranged overdrafts than arranged ones and banned most fixed fees for borrowing through an overdraft. Importantly, these rules also dramatically simplify overdraft pricing- ensuring the price for each overdraft is now a simple, single, annual interest rate – no fixed daily or monthly charges. We estimate that the 30% of personal current account consumers living in the most deprived neighbourhoods could see an annual reduction in overdraft charges of around £101m.

In April 2020 our reforms came into force. They make overdrafts simpler, fairer and easier to manage, and will protect the millions of consumers that use them, particularly the more vulnerable. We expect the cost of borrowing £100 through an unarranged overdraft to drop from a typical £5 per day to under 10p per day. Firms now also have to automatically enrol customers into overdraft alerts. We estimate these alerts will save consumers between £59m and £160m in reduced overdraft and refused payment fees and charges, as consumers are likely to incur these less frequently.

Some firms' decision to increase arranged overdraft rates meant that some users' costs would increase. So at the start of the pandemic we took action to ensure that for a limited period no customer would have to pay more than they would have under previous arrangements.

We also hope that simplifying overdraft pricing and making it easier for customers to compare between overdraft and other credit products will encourage them to shop around. We will be keeping a close watch on how prices develop.



General insurance and protection

General insurance (GI) products protect consumers when things go wrong and allow businesses to limit their risk of financial loss. Wholesale insurance protects businesses against financial loss by covering large and complex risks.

The outcomes we are seeking to achieve in this sector are focused on ensuring that insurance markets deliver fair value for customers, ensuring more transparency and encouraging firms to improve their culture, conduct and governance. We want to encourage effective competition in the interests of consumers so that a wide range of products and services are offered to meet a variety of needs.

Coronavirus has resulted in significant claims across a range of insurance products including travel insurance, event cancellation and business interruption.

We have set out expectations for general insurance firms, including being clear and fair at renewal and giving consumers information about what they should see from their insurance provider during the coronavirus pandemic. We continue to work on specific issues that arise.

Our key priorities

- Fairness in pricing and product value – it is important that consumers can find and buy insurance that provides fair value. Comparing value can be difficult for consumers as it depends on both the price and quality of the product.
- General insurance pricing practices – as well as delivering fair pricing and product value, it is important to understand whether pricing practices support effective competition in the market.
- Poor governance and oversight in the distribution chain – harm to consumers from products that do not provide fair value and service is often due to failures in the oversight and governance of distribution chains. We often see these problems in long or complex distribution chains, where consumers can pay significantly more for products or receive lower levels of service.
- Access and exclusion in insurance – consumers with specific insurance needs can find it harder to find or buy cover, especially when using mass market distribution channels. This can cause significant potential harm, for example where someone with an existing medical condition seeks travel insurance.

Our specific activities:

General Insurance Pricing Practices market study (GIPP)

We published our General Insurance Pricing Practices Market Study Interim Report in October 2019. This sought to analyse the impact of pricing practices on competition in the home and motor insurance markets. This included examining consumers' understanding of pricing practices and their shopping around and switching behaviour to help understand its impact on competition. We found that competition is not working well for all consumers in these markets. Around 6 million home and motor policyholders paid high or very high prices in 2018 and were not getting a good deal on their insurance. We also estimated that 1 in 3 of those paying high or very high prices are potentially vulnerable.

We are considering remedies to tackle the harms we identified, to ensure that competition works well, and to ensure that these markets work well for consumers in the future. We want to ensure customers get fair value from products that perform as they expected and that firms do not create barriers that prevent consumers from shopping around and switching. Our Final Report is due to be published after June 2020 alongside any proposed remedies.

During 2019/20, we have also worked to address the problems we identified in pricing of insurance products, including making sure firms improve their governance, control and oversight of pricing practices and continuing to improve firms' transparency and engagement at insurance renewal.

Value measures

Following our [value measures consultation](#) in 2019 we want to align our work on value measures with any GIPP remedies we develop. Our proposals aim to promote competition in product value by improving market transparency and creating incentives for firms to improve products and address poor product performance. We are finalising the value measures proposals alongside work on GIPP remedies and expect to publish our Policy Statement alongside our GIPP Final Report.

General insurance distribution chain

We want to see efficient value chains that keep distribution costs low and ensure products provide consumers with good value for money. In April 2019, we [set out the key findings](#) from 2 thematic reviews on the general insurance distribution chain. We saw examples of possible harm to customers. This included customers paying potentially excessive prices due to firms in the chain getting remuneration over and above the actual costs of distributing the products or their benefits. We also saw customers buying potentially unsuitable products, due to either the distribution or sales approaches in place.

As a result of this work and following the Insurance Distribution Directive's (IDD) implementation, in November 2019 we introduced new [guidance](#) on how our rules apply to GI distribution chains and the value of GI products. This makes it clear to firms which factors we expect them to consider when designing and distributing insurance products and the requirement to act in the customer's best interests. This is likely to lead to many consumer benefits. These include better targeting of products, removing products that do not offer customer value and firms taking swifter and more substantial action to rectify issues causing consumer harm. We also want firms to make sure that longstanding customers are treated fairly at renewal.

Claims inflation

In 2019, we assessed the impact of changing costs of motor claims on the cost of motor insurance. We found the Ogden (discount) rate and the increasing complexity of repairing modern vehicles were significantly affecting claims costs.

We are working with the Treasury on a report on savings provision and regulations that will require firms to report data on any savings from the Civil Liability Act. The draft regulations were published in October 2019. This work will allow us to assess whether or not the Civil Liability Act has had the desired effect.

Signposting and access to insurance

Consumers should not be unfairly excluded from access to general insurance and protection products. We expect firms to consider the needs of vulnerable consumers carefully and not discriminate on factors that do not relate to risk. Our work on consumers with pre-existing medical conditions (PEMCs) has shown they often have problems finding affordable cover for their conditions. In July 2019, we consulted on new requirements for firms to signpost them to a directory of firms that are willing and able to cover them. We also consulted on new guidance to clarify firms' obligations when providing travel insurance to customers with PEMCs.

In February 2020, we introduced new signposting rules and guidance to help these consumers better navigate the travel insurance market and help more consumers with PEMCs to access affordable insurance that covers their conditions.

GI renewals evaluation

In October 2019, we published an evaluation of our general insurance renewal transparency rules and guidance. These rules and guidance aimed to increase transparency and consumers' engagement at renewal.

The evaluation estimated that consumers had saved between £39m and £330m a year due to these changes. This is set against costs to firms of around £4m a year.

We believe this is due to:

- Firms' increased focus on renewal practices – premiums offered at renewal for home and motor insurance have not increased by as much as they would have done without our intervention.
- Consumers making more active decisions through engaging and shopping around. Our interventions led to more consumers negotiating or switching at renewal in motor and pet insurance, but fewer in home insurance.

Action against Triton Insurance Brokers Limited (Triton) – On 17 February 2020, we removed Triton's permission to conduct regulated business. We took this action because Triton told customers it renewed their insurance policies in circumstances where it was not allowed to and it did not pass on customers' insurance premiums to insurers leaving them without a valid insurance policy. Triton also repeatedly did not respond to our communications. We required Triton to refund the affected customers and we published an alert to all customers who bought an insurance policy through Triton.

Retail Investments

The retail investments sector covers the distribution of investment products to consumers through a range of different channels, including financial advisers, wealth managers and platforms.

Sustained low interest rates have reduced returns in safer asset classes, resulting in many consumers deciding to take on more risk in the search for higher yields. It has led to some being tempted by promised returns from high risk, and sometimes fraudulent, investments.

Market volatility caused by coronavirus has increased the potential for losses from high-risk investments. It has also affected the liquidity of retail investments. We have been in constant contact with firms to help them give their customers the support and service they need. The pandemic has also increased consumer vulnerability. This may lead to some consumers having to surrender their investments, because of urgent need for the capital, while the value of these investments is low.

Our key priorities

- High-risk investment products – the most significant consumer harm has come directly from growing consumer exposure to investment risk, particularly where they have invested in products that exposed them to more risk than they could tolerate or afford.
- Suitability of advice – this has continued to be a key focus for our supervisory work, including strengthening our focus on advisers. Our work here aims to stop banned or criminal individuals moving around the industry and to ensure that customers are treated fairly before a firm exits the market.
- Tackling scams in retail investments – we have continued our [ScamSmart campaign](#) using TV, radio and online advertising to give consumers the [warning signs](#) to help spot when a proposed investment or pensions opportunity is a scam.

Our specific activities

High-risk retail investments products

9% of UK consumers are currently invested in alternative assets, with an estimated 1.2% of British adults holding retail mini-bonds. These products are often marketed directly to retail consumers, often with poor communication of the real risks. These products have been a significant focus for us in 2019/20. We want to ensure products are designed to meet consumers' needs, deliver value for money, and are marketed in a fair, clear and not misleading way.

We issued a [temporary product restriction](#) on marketing speculative mini-bonds to most retail customers. This came into force on 1 January 2020 and will last for 12 months while we consult on making permanent rules. We also launched a communications campaign to improve consumers' awareness of the risks and to tell them what they should consider before investing in high-risk investments.

In July 2019, we [imposed restrictions](#) on how Contracts For Differences (CFDs) could be sold to retail clients. These restrictions will reduce harm to retail consumers by ensuring that these CFDs and CFD-like options are not sold with excessive risk

features, while still allowing sales to those who understand the risks and can bear the potential losses. We designed the restrictions to ensure that UK firms compete in the best interests of retail consumers, rather than by lowering conduct standards and/or offering products or services to retail consumers for whom they are inappropriate.

In July 2019, we also issued guidance to clarify the types of cryptoassets that fall within our regulation and consulted on a ban on investment products referencing cryptoassets (such as derivatives). The consultation proposals were aimed at reducing the harm to retail consumers caused by the sale of derivatives and Exchange Traded Notes that reference cryptoassets.

In September 2019, we introduced new rules on illiquid assets held within open-ended funds. We give details of this in the investment management section. There were numerous property fund suspensions in March 2020 because of market volatility caused by coronavirus. We worked closely with firms that suspended property funds to ensure these closures were managed appropriately and that firms issued prompt communications to consumers.

Assessing suitability of advice and disclosure

We want to ensure that consumers receive suitable advice and that the products recommended suit their needs. We continue to tackle unsuitable Defined Benefit (DB) transfer advice through supervision of advice firms giving transfer advice. We have taken enforcement action where we have identified serious misconduct. We give further detail in the pensions section.

We have paused our follow up work on assessing the suitability of advice, which was focused on retirement income advice, to enable firms to prioritise responding to the coronavirus crisis.

Until 31 January 2020, we participated in the EU European Supervisory Authorities' (ESA) Joint Consultation on PRIIPS. The ESA's are reviewing PRIIPs regulatory technical standards to better enable it to achieve its core function of providing transparent and understandable information about investment products to retail investors.

Post implementation review of RDR and FAMR outcomes

The Retail Distribution Review (RDR) and the Financial Advice Market Review (FAMR) aimed to improve consumer outcomes from financial advice and guidance. We are reviewing their impact on the market to date, and assessing how the market may develop, to ensure it meets consumer needs now and in the future. We will publish the outcome of our review later in the year.

Investment platforms market study

Our market study Final Report set out our concerns that consumers were often finding it difficult to move from one platform to another, because of time, complexity and cost. Barriers to switching limited competition in the market. We want to ensure that consumers are able to make informed choices and switch to providers that better meet their needs.

In December 2019, we introduced new rules that require platforms to offer direct transfers of assets (in-specie transfer) where possible. These will ensure that consumers are not forced to liquidate their holdings to switch platforms unnecessarily and will encourage greater competition through removing barriers to switching. We have delayed implementation to February 2021 because of coronavirus.

Pensions and retirement income

The pensions savings and retirement income sector plays a crucial role in enabling millions of people to save for their future and fund their retirement. Our 2020 Financial Lives data shows 74% of UK adults had a private pension provision either through saving into a pension or having accessed one in 2020, increasing from 66% in 2017. The Government's 2015 pensions freedoms, and the shift from Defined Benefit (DB) to Defined Contribution (DC) pensions, have given consumers more responsibility for complex investment decisions. With the closure of DB schemes, these investments are becoming the most significant part of consumers' total financial wealth.

When this sector does not work well, consumer losses, either through high charges, inappropriate investment decisions or unsuitable advice, can have a catastrophic impact. While the impact of coronavirus will vary depending on the type of pension and underlying assets, market volatility caused by coronavirus increases these risks. For example, consumers switching or cashing out their pensions investments could crystallise losses, leading to a permanently lower retirement income.

We have been in constant contact with firms to help them give their customers the support and service they need. In April 2020, we published [guidance](#) to firms highlighting how they can provide information to and support their customers through this market volatility, without straying into regulated advice.

Our key priorities

- Helping consumers make better pensions choices – we continue to be concerned about unsuitable defined benefit (DB) pension transfer advice. Our focus has been on improving outcomes from DB pension transfers so that more consumers receive suitable advice.
- Value for money – we want to ensure that consumers don't suffer harm because of weak competitive pressure. We have also been working to create a framework for Independent Governance Committees (IGCs) to assess value for money of the workplace schemes they oversee, to promote a consistent approach between IGCs and trustees.

Our specific activities

Implementing our Retirement Outcome Review (ROR) remedies

In July 2019, we finalised our rules for introducing investment pathways, which drawdown providers must offer to non-advised consumers. The aim is to help non-advised consumers entering drawdown choose an investment product that matches their retirement objectives.

We have continued to focus on tackling poor value for money. ROR remedies required pension providers to also give consumers in decumulation annual information on the costs and charges they have paid. These must be expressed as a single pounds and pence figure, so that consumers can easily understand the charges they are paying.

Implementation has been delayed to February 2021 because of coronavirus.

Effective competition in non-workplace pensions

Competition between pension providers can be an important driver of value for consumers. Greater transparency can improve competitive pressure in the market from consumers and can make it easier for industry observers, regulators, consumer groups, and market commentators, to scrutinise products. The outcomes we want to achieve in this sector are to: protect consumers who do not or cannot engage with their investment decision; make charges more transparent and easy to understand.

Our work on non-workplace pensions found that poor consumer engagement, combined with complex and confusing products and charges, has led to a lack of competitive pressure in the non-workplace pensions market. In response, we published a [feedback statement](#) in July 2019 suggesting a package of potential measures. These include considering introducing default investment solutions akin to those in workplace pensions and measures to reduce the complexity and improve the visibility of ongoing charges.

We plan to issue a consultation paper later in the year.

Supervisory work on self-invested personal pensions (SIPP)

Our work on SIPP operators continued to focus on firms who have high levels of non-standard assets in their schemes. We worked closely with SIPP operators to ensure they are able to meet their financial liabilities as they fall due. These pressures and other factors have resulted in a number of SIPP operators entering insolvency or selling their back book to another firm. We worked with firms and insolvency practitioners to ensure the safe protection of assets and ensure that customers are treated fairly.

Addressing unsuitable pension transfers

We have continued to focus on improving outcomes from DB pension transfers so that more consumers receive suitable advice. This has included significant supervisory work on firms posing harm to consumers, including further firm assessments and visits. As part of this, we have visited the majority of the DB transfer firms with the greatest impact and written to over 1,500 of the lower impact firms.

In July 2019, we also consulted on [changes to our rules](#) on pension transfer advice, including a proposed ban on contingent charging. This is intended to address the conflicts of interest created by ongoing advice charges. We published our policy statement on the 5 June 2020 which sets out new rules and guidance on pension transfer advice, particularly defined benefit (DB) to defined contribution (DC) transfers.

Scams

Protecting consumers from scams continues to be a significant focus. We have continued our [ScamSmart campaign](#) using TV, radio and online advertising to give consumers the [warning signs](#) to help spot when a proposed pensions opportunity is a scam. Further detail is provided in the retail investments section of this document.

Extension of Independent Governance Committee (IGC) remit and review of IGC effectiveness

In October 2019, we published a [Feedback Statement](#) that set out our approach to improving how investment markets measure and disclose climate change and green finance factors. Our intended outcome is to ensure that consumers can make effective decisions about 'green products'. Effective disclosure and consideration of climate-related risks, as well as product and service information, will also help enable more effective consumer choice.

Following this we changed our [rules](#) to extend the remit of IGCs. They will now have to consider and report on environmental, social and governance (ESG) issues and oversee the value for money of investment pathways solutions for pension drawdown. Our new rules to extend the remit of IGCs to investment pathways are the final part of our package of measures following our Retirement Outcomes Review to improve outcomes for non-advised consumers accessing their pension savings through drawdown.

We have continued to work to make costs more transparent across the pensions industry. This includes encouraging firms to adopt common methods for cost and charges disclosure. We have reviewed the effectiveness of IGCs and Governance Advisory Committees (GAAs). We worked with 19 firms to consider whether IGCs/GAAs were appropriately structured, resourced and had the right processes in place to effectively act in members' interests. In June 2020, we published the [findings](#) of our IGC Effectiveness Review. At the same time we launched a consultation on how IGCs and GAAs compare the value for money of pension products and services and help ensure value for pension scheme members. Our aim is to make this comparison easier.

Review of outsourcing in the life insurance sector

Outsourcing is a widespread practice in the life and pensions sector. We want to ensure that firms adequately manage the risks associated with this to reduce the potential for consumer harm. We undertook work to assess the risks of harm that could result from insufficient operational resilience in firms and inadequate controls over outsourcing. In March 2020, we published the [findings](#) of this review. We found no evidence of widespread failure to manage the risks to customers from outsourcing, but identified some areas where firms needed to improve their systems and controls.

Taking action against unfair sales of non-advised annuities

In July 2019 and September 2019, we fined [Standard Life Assurance Limited \(Standard Life\)](#) £30.8 million and [The Prudential Assurance Company Limited \(Prudential\)](#) £23.9 million for failures related to non-advised sales of annuities. These firms did not consistently tell customers nearing retirement with certain health and/or lifestyle conditions that they could get a better annuity if they shopped around. The choice of annuity can affect customers for the rest of their lives. The firms' failures therefore caused potentially far reaching harm.

As a result of our action, redress of approximately £25.3 million was paid to 15,302 customers by Standard Life. Prudential offered approximately £110 million which includes on-going annuity payments to around 17,240 customers.

6 Our section 172 statement

The following section describes how the directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006.

Engaging with our stakeholders

The Board holds the FCA accountable for the way it works. It has a duty to ensure that the FCA achieves its statutory objectives of ensuring that: the relevant markets function well; we protect consumers; we protect financial markets; and we promote effective competition in the interests of consumers. In order to do this effectively, the Board takes account of the interests of our internal and external stakeholders and recognises that effective stakeholder engagement is key to meeting its duties under section 172 of the Companies Act 2006. The FCA's key stakeholders include its employees, consumers, parliamentarians, international and domestic regulators, regulated businesses and individuals, suppliers and the communities it operates in.

The FCA is an independent public body, accountable to the Treasury and responsible for regulating a sector which plays a critical role in the lives of everyone in the UK. This means that its stakeholders increasingly expect it to achieve its statutory objectives in an uncertain, fast-changing world, and to do so ever faster. The Board sets out to achieve this by:

- Ensuring that it engages fully with stakeholders to gain an understanding of the issues that matter to them.
- Providing strategic leadership within a framework of robust corporate governance and internal control; setting the culture, values and standards that are embedded throughout the FCA and support the FCA in delivering in the public interest.
- Being committed to attaining and maintaining high standards of business conduct. Our Corporate Governance statement in Chapter 8 provides more details.

In the table below we have explained in more detail the engagement the Board has had with stakeholders during 2019/20 and how this engagement has helped the FCA to deliver better outcomes for users of financial services.

Stakeholder group	Why we engage and what our stakeholders told us	Examples of how we engaged and responded in 2019/20
<p>Our people</p>	<p>Our employees are the key to our success as a regulator. We seek to create a diverse and inclusive workplace that is free from discrimination and bias so that our employees can perform at their best and we can better deliver as a regulator. One of our values is 'work inclusively' and one way we support this is through our various employee networks. The networks have an important role on our diversity and inclusion agenda and the Board engages with these groups to support this work. We also publish an annual Diversity Report.</p> <p>Key issues for our employees from our 2020 employee survey results were:</p> <ul style="list-style-type: none"> • our purpose: their pride in the work we do and the continuing commitment to delivering the FCA's Mission and objectives • corporate responsibility: understanding how we contribute to society and take account of the social and environmental impacts of our actions • diversity: better reflecting the society we serve and including diverse perspectives and opinions in our work • our effectiveness: measuring how well we deliver our statutory objectives <p>We engage with many interest groups and non-governmental organisations to help us build a more engaged and diverse workforce. This includes being the first group to sign the Government's Women in Finance Charter, a member of Women on Boards, Stonewall, City Mental Health Alliance, Inclusive Employers, Business Disability Forum, Purplespace, The Gender Network (formerly known as We are The City) and Employers for Carers.</p>	<p>The Board and committees ensure that they fully engage with our employees using a variety of means, including:</p> <ul style="list-style-type: none"> • Inviting members of the management team to present on, and contribute to, the matters being discussed • Reviewing the results of employee surveys and monitoring progress against actions arising • Having a specific non-executive director, Catherine Bradley, acting as the FCA's internal Whistleblowing Champion. This role involves having overall responsibility for ensuring and overseeing the integrity, independence and effectiveness of our whistleblowing policy, including protecting whistleblowers, and provides an anonymous reporting line for concerns to be raised directly with the Board • Receiving regular updates from the Staff Consultative Committee (SCC) to discuss issues of importance to the FCA's staff and inviting a representative of the SCC to attend a Board meeting to discuss issues of concern to staff. The SCC, which the Board considers to be a formal workforce advisory panel, is one of the FCA's most important communication lines with its employees and the Chief Executive and Chair also periodically meet with Staff Representatives to discuss staff issues • Holding regular informal 'coffee sessions' with the Chief Executive and small groups of employees to hold question and answer sessions and gather employee feedback on all aspects of working at the FCA • Directors contributing blog articles for the intranet, to both inform and engage our employees

Stakeholder group	Why we engage and what our stakeholders told us	Examples of how we engaged and responded in 2019/20
<p>Consumers and consumer organisations</p>	<p>As a public body, our role is to serve the public interest and to make a difference for consumers. Our decisions directly affect the wellbeing of people, businesses and the UK economy so it is important that we actively consult with consumers and consumer bodies.</p> <p>The main consumers we aim to protect include:</p> <ul style="list-style-type: none"> • retail consumers buying financial products or services for their own use or benefit (such as mortgages, personal loans, ISAs or investment advice) • retail investors in financial instruments (such as shares and bonds) • small businesses buying financial products or services <p>The key concerns that consumers raised with us during 2019/20 were:</p> <ul style="list-style-type: none"> • what coronavirus means for their finances and the support available to them • access, quality, affordability and choice of financial products and services • receiving fair treatment from financial services providers • the cost of loyalty when purchasing financial products and services • clear and effective communication from financial services providers • understanding how Brexit may impact them particularly in the event the UK leaves the EU without a deal <p>Read more about the actions we have taken in response during 2019/20 in Chapters 2-5.</p>	<p>The Board takes account of the views of consumers when making decisions in a number of ways. It receives regular information and metrics about how well we are delivering our consumer protection objective and reducing consumer harms. It also receives information about consumer research we have undertaken. Other sources of information include:</p> <ul style="list-style-type: none"> • Feedback from the Financial Services Consumer Panel. The Board receives reports from the panel Chair and requires policy proposals to be discussed with the panel • Reviewing feedback to Consultation Papers prior to confirming new or amended rules • Links with consumer organisations and engagement with consumer groups and charities such as Citizens Advice and Stepchange • Providing stakeholders with an opportunity to question the Chair, Chief Executive and Executive Directors on how the FCA has delivered against its strategic objectives at the Annual Public Meeting; • Meeting and reviewing reports from the Complaints Commissioner regarding the effective operation of our Complaints Scheme. <p>Members of our executive team also directly meet with consumers through regular regional visits and participate in roundtable discussions and other forums with consumer organisations.</p>

Stakeholder group	Why we engage and what our stakeholders told us	Examples of how we engaged and responded in 2019/20
<p>Regulated firms and individuals</p>	<p>The conduct and culture of the firms we regulate, and the individuals who hold key roles in those firms, shape the outcomes for consumers and markets. Our engagement with firms aims to identify potential harm so that we can reduce or prevent it at an early stage.</p> <p>Issues that mattered for regulated firms and individuals based on the findings of the FCA and Practitioner Panel 2019 joint survey were:</p> <ul style="list-style-type: none"> • Withdrawal from the EU: receiving clear guidance on regulatory requirements and regular updates • Regulatory burden: the volume and the associated costs to firms of requests for information • Understanding of firms: supervisors having the right experience and knowledge to exercise good judgement <p>Read more about the actions we have taken in response during the last year in Chapters reference needed.</p> <p>Read more about the actions we have taken in response 2019/20 in Chapters 2-5.</p>	<p>The Board receives regular updates about our engagement with regulated firms and individuals. This includes the results of consultation with regulated stakeholders for policy changes and findings from supervisory activity such as thematic reviews.</p> <p>Teams across the organisation use a wide range of sources to inform the Board’s decision-making – this includes data and intelligence from firms and their trade associations, insight shared by other regulatory organisations, information from MPs and from whistleblowers. We also gather information from industry events and surveys to help us understand the issues firms face.</p> <p>In April, we established a Small Business Unit to coordinate our activities across small business issues. The Unit ensures that regulated firms are being supported through the challenges posed by the coronavirus crisis, gathers intelligence and delivers a coordinated response to any issues identified. Our Chair also meets regularly with the Federation of Small Businesses.</p> <p>The Board engages with the Practitioner Panel, the Smaller Business Practitioner Panel, the Markets Practitioner Panel and the Listing Authority Advisory Panel, to understand their views and the views of those they represent.</p> <p>The Board closely considers the results of the annual Stakeholder Survey and joint Practitioner Panel/FCA Survey of firms, which enables comparison of the FCA’s progress against results from previous years. This activity also improves the Board’s understanding of stakeholder perceptions of the FCA and perceived priority areas of work for the coming year.</p>

Stakeholder group	Why we engage and what our stakeholders told us	Examples of how we engaged and responded in 2019/20
<p>Parliament and parliamentarians</p>	<p>We are an independent regulator, accountable to the Treasury, which is responsible for the UK's financial system, and to Parliament. To deliver our objectives, we actively engage with Ministers, MPs and government departments. We also engage with members of the Scottish Parliament, the Welsh Parliament, the Northern Ireland Assembly, the London Assembly and their associated executive bodies. Our work also involves discussions with other political bodies and stakeholders.</p> <p>The Treasury appoints our Board, which manages and challenges our executive team, helps hold us to account and helps set our direction as an organisation.</p>	<p>Our Chair and Chief Executive give evidence before the Treasury Select Committee as part of its ongoing scrutiny of our work in a general accountability hearing twice a year. We also regularly give evidence to other parliamentary committees.</p> <p>As part of our accountability to Parliament we respond to requests for information from MPs and peers through letters, parliamentary questions and evidence to All Party Parliamentary Groups.</p> <p>Our Board approves an Annual Report we make to Parliament setting out the progress we have made in delivering our objectives during the last year. We also published our first annual Perimeter Report in June 2019 explaining how we will continue to work with the Treasury and Parliament on the challenges posed by the current regulatory perimeter.</p>
<p>Other regulators and regulatory partners</p>	<p>To meet our objectives – benefiting consumers and markets – we must collaborate with other regulators. We work together to share knowledge and best practice, improve ways of working and explore cross-cutting issues. Internationally, we seek to shape the global regulatory agenda and international financial policies.</p> <p>Read more about our engagement with regulatory bodies during 2019/20 in Chapter 1.</p>	<p>The Board oversees the cooperation and coordination activities we undertake with regulatory counterparts across the UK and internationally.</p> <p>An example of this work is the Oversight Committee, which meets regularly to provide support and advice to the Board on its relationship with the Financial Ombudsman Service and the Financial Services Compensation Scheme.</p>
<p>Our suppliers</p>	<p>To meet our objectives efficiently and effectively, we are dependent on approximately 1,000 suppliers, providing a wide range of goods and services. How we select our suppliers and how we foster our relationships with them is essential in enabling us to perform at our best.</p> <p>We must be able to demonstrate that everything that we procure delivers Value for Money (VfM) for the FCA and its stakeholders. In addition, we are a Contracting Authority under the Public Contract Regulations 2015 and are currently subject to EU Procurement Directives.</p>	<p>The Board delegates all matters relating to procurement and the management of suppliers to the Chief Operating Officer (COO). The COO ensures that:</p> <ul style="list-style-type: none"> • procurement practices are compliant with appropriate legislation • we buy responsibly and adhere to our Ethical Procurement Policy • procurement processes are built around assessing against VfM criteria • feedback is sought from and given to suppliers before, during and after procurement projects • terms and conditions are regularly reviewed to enable the delivery of VfM • the behaviours and standards expected from suppliers to the FCA are clearly set out in our Supplier Code of Conduct • there is a structured approach to Supplier Management framework, based on the relative importance and the risk profile of each relationship

Stakeholder group	Why we engage and what our stakeholders told us	Examples of how we engaged and responded in 2019/20
<p>Our community and the environment</p>	<p>Good corporate citizenship and corporate responsibility are important parts of our identity, both as an employer and a regulator. As a responsible employer, we take account of the social, environmental and financial impacts of our decisions and actions and aim to contribute positively to the wider community and our environment.</p> <p>Through our Corporate Responsibility work we have Community Engagement programmes in London and Edinburgh allowing colleagues to take volunteer leave and fundraise for our Charity partners. The programmes of activity are wide ranging from our flagship programmes of Inspiring Futures in London and Mentoring in Edinburgh working with young people to Career Insight Sessions, volunteering as board members and during Covid-19 volunteering for St John's Ambulance.</p> <p>We are committed to becoming a more sustainable organisation and minimising our impact on the environment. We focus our efforts on the areas in which we can make the biggest impact such as energy, waste, water and paper use. Changes to our working practices in response to Covid-19 have led to a significant reduction in our environmental impacts, particularly emissions from business travel.</p> <p>Our building in Stratford was designed with sustainability in mind and was awarded the BREEAM rating of excellence. We also require our suppliers to meet our commitment to sound environmental practice and encourage them to develop and supply goods and services to help improve environmental performance.</p> <p>Read more about our Diversity and Inclusion work in our Annual Diversity Report. Our Sustainability Report, in appendix 4, explains more about our environmental activities.</p>	<ul style="list-style-type: none"> • The Board, together with our Executive Committee, oversee our community engagement, diversity and inclusion and sustainability strategies. The Board strongly supports corporate responsibility at the core of the FCA as it embeds the values of the organisation and empowers our people as well as the wider community.

Board decisions and taking stakeholder views into account

Board decision-making processes

The Board and Directors took account of the views and interests of a wide range of stakeholders during 2019/20. In the previous section we identified these stakeholders and explained some of the ways that the Board had engaged. Having access to a full range of views is an important part of the way the FCA Board makes decisions. We are also required by the Financial Services and Markets Act 2000 (FSMA) to consult

publicly with the industry, consumers and other interested parties on our rules and guidance before the Board approves our rules and guidance and they are published in our Handbook. To inform our decision-making process, any change to our Handbook will be accompanied by a cost benefit analysis to assess the costs and the benefits we expect from the change. This ensures any burden or restriction we impose is proportionate to the benefits we expect as a result.

FSMA also requires that the Board has regard to the principles of good regulation when carrying out its work.

Key Board decisions during 2019/20

Board decision	
<p>Aligning the FCA's budget and future activities to address areas of harm in financial services</p> <p>Approving organisational budgets and business plans of the Payment Systems Regulator, the Financial Ombudsman Service and the Financial Services Compensation Scheme</p>	<p>In June 2019, the Board agreed the <u>fees</u> and levies for the 2019/20. The Board carefully considered agreeing a core budget increase for the organisation, balancing the need to deliver increased investment for our transformation against the higher regulatory costs for firms.</p> <p>The Board carefully considered the business priorities and budget proposals from the PSR, FOS and FSCS for 2020/21 in February and March 2020. The Board agreed the necessary funding to ensure that each of these organisations was able to continue to operate and to meet their objectives.</p>
<p>Managing the impact of European Union withdrawal on financial services consumers and firms</p>	<p>In the run-up to January 2020 and the UK leaving the European Union, the Board oversaw preparations to ensure that both the FCA and the UK financial services sector were well prepared. This included, in October 2019, agreeing to make changes to Handbook rules and guidance for the Temporary Permissions Regime if an extension to the Article 50 period was not agreed.</p> <p>Read more about our work on EU Withdrawal in Chapter 3.</p>
<p>Approving actions to address key consumer detriment issues</p>	<p>In May 2019, the Board approved rules in relation to some of our High-Cost Credit work on Overdrafts and Buy Now Pay Later arrangements.</p> <p>In September 2019, the Board approved the publication of the interim report from our General Insurance Pricing Practices market study.</p> <p>In March 2020 and subsequently, the Board took a number of decisions to support consumers and small businesses through the coronavirus pandemic.</p>
<p>FCA cultural and data transformation</p>	<p>In June 2019, the Board agreed our new data strategy focusing on how we will make use of new developments in technology, such as advanced analytics. The data strategy is part of our overall transformation programme which is driving forward significant improvements to how we work.</p>



Christopher Woolard
 Interim Chief Executive

7 Group operational overview

This review focuses on the financial performance of the Group in 2019/20. In particular, it covers:

1. results for the year
2. analysis of income and operational costs
3. overall financial position at 31 March 2020
4. principal risks and uncertainties facing the group

To deliver our objectives as effectively as possible we:

- use our resources in an economic, effective and efficient manner
- invest in our people, infrastructure and systems
- encourage diversity and inclusion

Section 1 – results for 2019/20

The Group generated a £121.4m surplus for 2019/20 (see Table 1). This primarily resulted from improvements in the funding position of the defined benefit pension scheme due to a reduction in liabilities as a result of gains from a change in assumptions linked to price inflation, and positive investment returns on assets combined with contributions to the scheme. As planned, we overspent against fees collected for Ongoing Regulatory Activities (ORA) due to the funding of EU Withdrawal activities and investments in Data Strategy. This was offset by net recoveries of scope change (largely reflecting the continued recovery of Consumer Credit set up costs).

This surplus has resulted in an improvement in the Group's position to a net surplus of £63.3m (see Table 4).

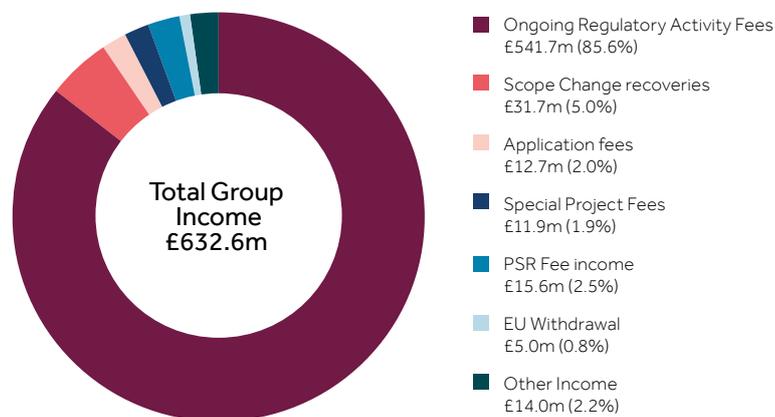
Table 1

Group Surplus	2020 £m	2019 (as restated) £m
Net actuarial gains/(losses) on Pension Scheme	85.6	7.1
Pension contribution income taken to Balance Sheet	23.8	29.0
Pension interest charge	(1.6)	(3.8)
Total Defined Benefit Pension Scheme	107.8	32.3
FCA over recovery of ORA	3.1	11.4
FCA ORA Reserves Utilised	(7.0)	(32.4)
PSR (under)/over recovery of ORA	(0.3)	1.6
PSR Reserves Utilised	(0.2)	-
Net recovery of Scope Change	18.0	16.3
Total Group Surplus	121.4	29.2

Section 2 – Analysis of Income and operational costs

Income

Chart 1 – The Income breakdown 2019/20



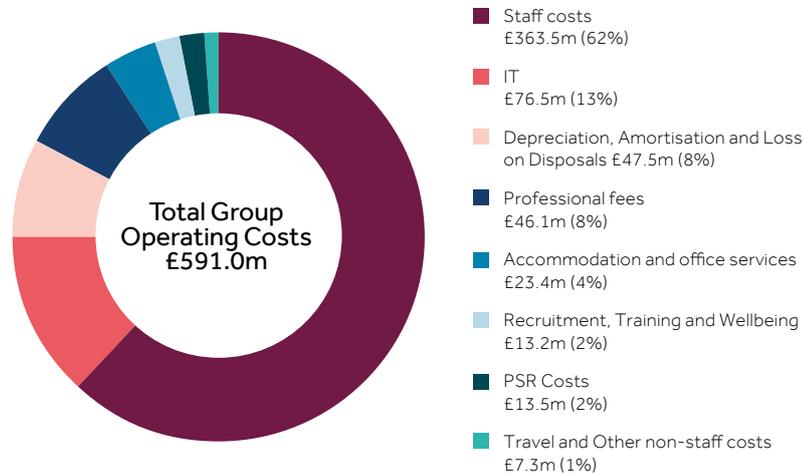
Fees: We do not receive funding from the UK government. We are funded by raising fees from the firms we regulate. FSMA gives us the powers to raise fees to cover our budgeted Ongoing Regulatory Activity (ORA). This represents the net costs of our core operating activities after offsetting Other Income.

Fee income also reflected in our Annual Funding Requirement (AFR) includes scope change (set up costs of new responsibilities) recoveries, special project fees, other regulatory income (Register extract services), application fees and fees to support EU Withdrawal activities. Under certain circumstances, such as when Parliament introduces new legislation, there may be changes to the scope of our regulated activities which can include new responsibilities. Major work resulting from this scope change is reported separately from ORA, so it is individually identifiable from a cost and fee perspective. We include these activities as part of the cost of ORA only when this scope change work becomes part of our business as usual.

Other Income: This includes income from certain publications and training services we provide, recovering the costs of Skilled Persons to carry out s166 reviews, interest on bank deposits and income for providing, levying and collecting fees for other regulatory bodies.

Operational costs

Chart 2 – How we spend our money



2.1 Investing in our people

Direct staff costs represent 62% of our operational costs. We aim to attract, develop and keep the best talent, as the quality of our people is key to our ability to meet our objectives. Our people strategy enables this and reflects our Mission, including:

- Our 'At our best' values, which directly support the embedding of our Mission and reinforce the right behaviours across the organisation.
- A refreshed Capability Framework that drives the performance and behaviours needed to deliver our Mission.
- A strategic Employee Capability Plan that tells us what capabilities we will need in the future and helps us ensure these are in place.

During this time of national crisis, we have taken several actions to ensure our employees are not put at risk. We are also working hard to ensure that our employees remain engaged, are able to deliver on our objectives and ensured that we focus on delivering our key priorities including through the redeployment of staff as required.

Staff numbers, shown in Table 2, increased in 2019/20 primarily as a result of investment in our key priorities and the delivery of a demanding change portfolio of major IT projects.

Table 2

Average staff numbers	2020	2019
Supervision	1,495	1,400
Enforcement and market oversight	729	693
Strategy and competition	578	565
Operations	779	723
Secondment, Maternity and Long-term Sick	292	274
FCA full-time equivalent employees	3,873	3,655
Payment Systems Regulator	91	76
Group full-time equivalent employees	3,964	3,731
Group temporary and contract staff	224	220
Total Group	4,188	3,951

The following areas reflect core people related activities with a mixture of strategic and operational importance.

Attracting and keeping talent

During 2019/20 we have looked closely at our existing talent and promoted internally wherever possible. Where we have been unable to recruit from within, we have been successful in attracting people to join the organisation. During 2019/20 we made 973 appointments (923 FCA, 50 PSR), a combination of 552 internal moves (527 FCA, 25 PSR) and 421 external appointments (396 FCA, 25 PSR). There were 22 appointments to the Senior Leadership Team, 16 of which were internal appointments. External turnover has dropped during 2019/20 from 11.4% (2018/19) to 9.4%.

In 2019, we recruited 84 graduates and 37 summer interns. Our annual intake was increased by 60 places during 2019/20 as a strategic intervention to meet future capability gaps. We continue to focus on recruiting Science, Technology, Engineering and Mathematics (STEM) graduates to our newly developed Data Science, Cyber Security and Technology specialist schemes. We received over 10,500 applications for the graduate programme. During 2019/20 we removed our UCAS point requirement to ensure our programmes are inclusive and accessible to all. We are proud that we have maintained a high level of diversity with our graduate hiring; 44% identify as female, 33% identify as BAME and 7% declared a disability.

We recruited a further 25 apprentices for our programme in 2019. We received 1,218 applications for 25 vacancies. We continue to meet the Government's annual apprenticeship duty target to train 2.3% of our headcount through apprenticeships.

Externally, it is great to be recognised for our work. We have been shortlisted for 2 industry awards for the 'Most Inclusive Recruitment Campaign' and 'Best Graduate Recruiter in Banking & Finance'.

Listening to our employees

Our annual employee survey helps us to understand our people's views on working here, what we are doing right and where we can improve. Acting on this feedback builds a better workplace and makes us a more effective regulator.

Our 2019 employee survey attracted responses from 85% of our people with 68% saying they were positively engaged in working at the FCA. Our people consistently tell us through this annual survey that what they value most about the FCA as a workplace is the purpose of our work, our collegiate ethos and our focus on wellbeing.

Our highest scoring survey categories are diversity (80%), our effectiveness (80%), and corporate social responsibility (75%). Our priority areas identified for the coming year are enhancing our sense of 'one FCA' and further developing a positive culture grounded in our values. This builds on last year's focus areas, which were leadership and management and supporting a 'speak up listen up' culture.

We recognise the value of employee input and feedback. We believe that effective communication between our employees and senior leaders is vital to ensure the successful development of the FCA. Our Staff Consultative Committee (SCC) enables discussion and consultation on a wide range of matters and we also communicate with colleagues through several other channels, such as a new intranet, weekly team cascades, blogs and articles.

Employee development

Developing our people remains an essential part of our employment offer, while also ensuring our people have the right knowledge, skills and behaviours to achieve our Mission. The FCA Academy offers high quality structured learning and a programme of events keeps our employees up to date with financial markets and changes in the financial services and regulatory landscapes. In 2019/20, we have:

- Consolidated the FCA Academy curriculum and focused on priority organisational capabilities, such as data analytics capability. We delivered a total of 6,112 training days across 2019/20 with 61% of employees attending at least one formal training event.
- Worked with colleagues in Supervision and Enforcement to refresh their capability frameworks and ensure our people in those divisions understand what support is available for their ongoing performance and development.
- Continued to support the professional development of our employees. The number of employees undertaking apprenticeship studies increased to 178 (106 in 2018) across 28 (17 in 2018) different fields of study. 41 (22 in 2018) employees enrolled to undertake the MSc in Regulation and Compliance.
- Arranged 26 secondments to the FCA (26 FCA, 0 PSR) and 52 from the FCA (51 FCA, 1 PSR) to partner organisations. These include authorised firms, the U.S Securities & Exchange Commission, the National Economic Crime Centre, the Treasury, international regulatory bodies and consumer bodies.

Our senior leaders also benefitted from our investment in an 'At our best' Leadership Programme, run in partnership with Oxford Said Business School. This included practical tools for leading in uncertain times.

Employee wellbeing

We offer a comprehensive range of wellbeing services working with several third-party providers. Our proactive Health Gateway is an online interactive tool available to all our people. Nearly two thirds of our people are registered on the Health Gateway where they can book onsite health assessments, access webinars and read articles on a range of health-related topics.

Our mental health awareness training for managers is well attended and during 2019/20 we trained and established a cohort of Mental Health First Aiders, alongside launching a network of Mental Health Champions. Our employee network groups are very engaged in the wellbeing agenda and help to drive a large part of our delivery.

We have a well established wellbeing strategy, with a current focus on 4 areas: Mental Health, Musculoskeletal, Cancer and Absence Management. The strategy seeks to raise awareness, educate, inspire people and develop line manager knowledge, skills and confidence. These actions aim to signpost our wellbeing offering, improving understanding across the organisation and underpin behavioural change and healthy lifestyles.

During 2019/20 an average of 7.3 days per year (2019: 7.0 days) was lost per person due to sickness absence.

Commitment to diversity and inclusion

The work of the FCA touches almost every UK resident's daily life, and the lives of millions who rely on UK markets, so we need to reflect the society we serve. Diversity and inclusion is central to how we act, both as an employer and as a regulator, and it is central to our Mission. Having a diverse workforce also makes us a more effective regulator: a diversity of perspectives and thought results in better judgements and better decision making in the public interest. It reduces the risk of 'group think' and encourages innovation.

As part of our focus on gender equality and reflecting our financial services industry leadership role, in June 2016, we signed the Women in Finance Charter, which seeks to increase the representation of women in the financial services sector, particularly at senior levels. We also set targets for Black, Asian and Minority Ethnic (BAME) for the FCA's senior leadership and we have committed to achieving the following targets:

- 45% of the FCA's Senior Leadership Team (SLT) to identify as female by 2020, and 50% by 2025. Currently 40% of the SLT identifies as female. This is the same as last year.
- 8% of the FCA's SLT to identify as BAME by 2020, and 13% by 2025. Currently 10% of the SLT identifies as BAME. This is a 3% increase from last year.

We recognise that we need to maintain our focus on diversity and inclusion. Our Positive Action Framework guides our work internally and focuses on valuing differences and making positive changes. We have now embedded a framework that delivers progress in all aspects of diversity and inclusion, whether we have targets or not. Priority areas continue to be leadership role modelling, recruitment and work allocation. Although the government have relaxed the need to publish gender gap information for 2019/20 we feel that it is important to continue to publish our gender and ethnicity pay gaps. This year we also publish our disability pay gap and more granular data for our ethnicity pay gap.

The full details of our gender, ethnicity and disability pay gap figures for the year ending 31 March 2020 have been published on our external website.

Our median gender pay gap is 20.4% and mean 18.4%. The figures show a small movement from those reported in 2019. The overall median has decreased by 0.2 percentage points (from 20.6% to 20.4%) This represents a total 0.8% percentage point decrease since the first published figure in 2018. The mean has increased by 0.6% (17.8% to 18.4%) and has returned to a similar figure as reported in 2018. Our median gender bonus gap is 22.6%, which is a decrease of 0.9% from 2019 and the mean is 19% a decrease of 1.5%. Both the median and mean have shown a continuous downward movement since 2018.

Last year we published our ethnicity pay gap for the first time, even though there is no legal requirement to report, as we believe that data transparency drives positive action. We know that the experience of the ethnic groups that make up the 'BAME' grouping is not the same, and we need more granular data to help us better understand our challenges and take more targeted positive action. This year we have sought to provide an increased level of transparency by:

- further breaking our ethnicity pay gap down into the UK census ethnicity categories;
- looking at our pay gaps by contractual grade; and
- publishing our intersectional gender and ethnicity pay and bonus gap.

The overall ethnicity gap has not changed significantly since 2019. The median is 28.9% up by 0.2 percentage points (28.7% to 28.9%) and mean 27.0% down by 0.2 percentage points (27.2% to 27.0%). Our ethnicity median bonus gap is 32.0% a decrease by 0.9 percentage points, while the mean 31.8% has decreased by 1.5 percentage points. Details of the additional pay gap breakdowns can be found on our website. This year we have also included the pay gap for a further protected characteristic, disability. Again, there is no mandatory requirement to report but we believe the data should also be published, to drive positive action. Our disability median pay gap is 7.7% and the mean 3.9% for this year. The median bonus gap is 11.6% and the mean bonus gap is 5.2%.

There have been small improvements, but little consistent change from the actions taken so far, to address the pay gaps. Our analysis has shown that even if we reach the targets set for the representation of women and BAME within our Senior Leadership Team (SLT) by the end of 2020, this alone will not have a significant impact on the pay gaps.

Our actions now need to be bolder and more challenging. There are similar trends presented when we look at gender, ethnicity and disability, but our data demonstrates we have the most to do on ethnicity, where we see an imbalance in representation at all levels in the organisation. We will work with all our people to ensure that we push forward with impactful sustainable change – for our own organisation and the financial services sector.

2.2 Investing in our technology and environment

We are investing heavily in operational improvements to support our internal systems and effective working. Most notably, we have commissioned a virtual datacentre in the Cloud. This will enable us to produce better quality data analytics, increase innovation and provide a more flexible, more secure, better value for money service than via traditional physical datacentres.

2.3 Investing in Intelligence and Information

We receive a wealth of information and intelligence about the markets, firms and individuals we regulate. We are reviewing and making changes to how we identify, prioritise and act on information and intelligence we receive. This will ensure a more focused and coordinated approach to information and intelligence across the FCA. In turn, this will enable us better to anticipate and deal with potential issues and misconduct, at pace.

We are also investing in our systems and processes to enable us to work more efficiently and make better use of our sources of information. Our Data Strategy, in particular, will harness the power of data and help us understand markets and consumers better. More effective use of information and intelligence will allow us to identify harm and remove it more quickly when we see it. It will also reduce the regulatory burden on firms by streamlining data and regulatory returns through Digital Regulatory Reporting and streamlining operational impact on firms through better coordination between regulators.

2.4 Professional fees

We use professional fees for activities we cannot fulfil internally, for example for s166 Skilled Person reports and to run major publicity campaigns such as ScamSmart. The PPI campaigns, which concluded in 2019/20 were separately funded by the industry. We continue to utilise consultants to fill skills shortages, particularly to deliver specialist change.

2.5 Transformation Programme

We have begun to lay the foundations and aspirations for a transformation programme which will be a priority focus for the organisation over the next 3 years. This programme builds on our values and the capability framework that already exist and has already delivered a new Data Strategy for the FCA at the start of 2020. [See section 2.3 for more detail]. It allows us to focus in on specific behaviours that will enable us to better deliver our Mission and make the best use of the breadth of expertise and capability we have to meet external challenges. Our Business Plan 2020/21 sets out our thinking around our transformation priority in more detail.

Section 3 – Overall Financial Position

The Group **accumulated reserves have increased by £121.4m**, from a deficit of £58.1m to a surplus of £63.3m at 31 March 2020. This has been driven by:

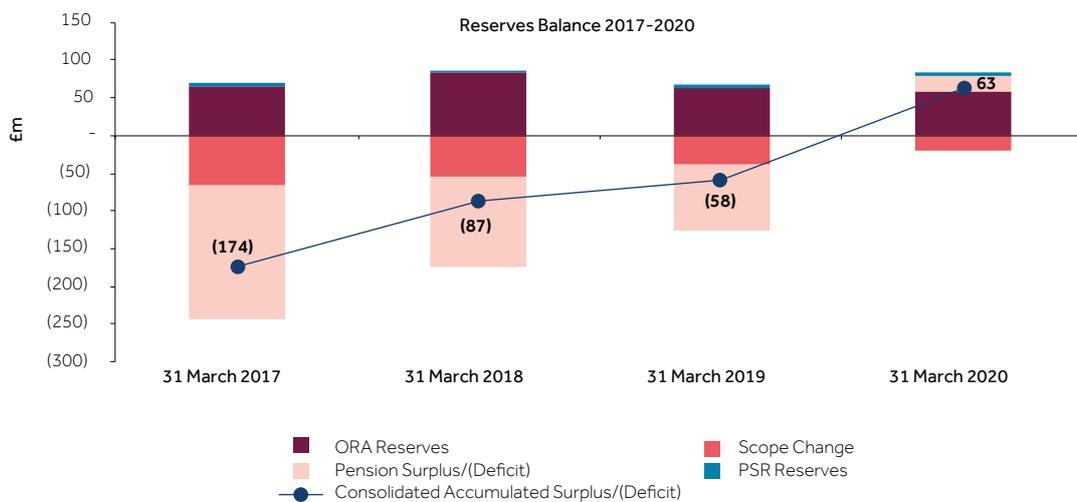
- reduction in the retirement benefit obligation reflecting contributions made to fund the pension scheme deficit, positive investment returns as a result of The Plan's low risk strategy to minimise the risk of shocks to funding levels and fluctuations in assumptions such as falling inflation rates and
- improvement in the FCA net asset position due to a net recovery of scope change costs

partially off-set by:

- utilisation of Ongoing Regulatory Activity (ORA) reserves to fund investment in Data Strategy and work on EU Withdrawal activities.

Table 3

Reserves	FCA				FCA Total Accumulated Surplus/ (Deficit) £m	PSR £m	Group Accumulated Surplus/ (Deficit) £m
	ORA Reserves £m	Scope Change £m	Net Assets £m	Pension Asset/ (Obligation) £m			
At 31 March 2018	84.0	(54.3)	29.7	(119.4)	(89.7)	2.4	(87.3)
Over recovery against budget	11.4	-	11.4	-	11.4	1.6	13.0
ORA Reserves Utilised	(32.4)	-	(32.4)	-	(32.4)	-	(32.4)
Net Scope Change recoveries	-	16.3	16.3	-	16.3	-	16.3
Pension movement	-	-	-	32.3	32.3	-	32.3
At 31 March 2019 (as restated)	63.0	(38.0)	25.0	(87.1)	(62.1)	4.0	(58.1)
Over/(under) recovery against budget	3.1	-	3.1	-	3.1	(0.3)	2.8
ORA Reserves Utilised	(7.0)	-	(7.0)	-	(7.0)	(0.2)	(7.2)
Net Scope Change recoveries	-	18.0	18.0	-	18.0	-	18.0
Pension movement	-	-	-	107.8	107.8	-	107.8
At 31 March 2020	59.1	(20.0)	39.1	20.7	59.8	3.5	63.3



The **ORA Reserves of £59.1m** are driven by historical underspends. In 2019/20, as planned, we utilised reserves to fund investment in Data Strategy and some costs attributable to EU Withdrawal activity.

The **Scope Change deficit of £20.0m** is due to the FCA funding scope change costs before recovering those costs from the relevant firms. The largest component relates to the setting up of the Senior Managers & Certification Regime (Table 4).

Table 4

Scope Change	Consumer Credit ¹ £m	MIFID ² £m	SM&CR ³ £m	EU Withdrawal £m	Claims Management ⁴ £m	Crypto Asset 5AMLD £m	Other ⁵ £m	Total £m
At 1 April 2018	36.9	12.5	3.5	-	0.9	-	0.5	54.3
2019 costs	-	1.0	2.7	3.8	2.6	-	0.8	10.9
2019 recoveries	(15.9)	(11.2)	-	(0.9)	-	-	0.8	(27.2)
At 31 March 2019	21.0	2.3	6.2	2.9	3.5	-	2.1	38.0
2020 costs	-	-	3.3	2.8	5.3	1.6	0.7	13.7
2020 recoveries	(16.6)	(2.6)	-	(0.2)	(11.8)	-	(0.5)	(31.7)
At 31 March 2020	4.4	(0.3)	9.5	5.5	(3.0)	1.6	2.3	20.0

1 Consumer Credit recoveries additional £10.4m to set against the deficit.

2 Markets in Financial Instruments Directive.

3 Senior Managers & Certification Regime.

4 Claims Management £4.7m surplus against AFR.

5 This relates to EU Benchmarks (£1.9m) and Securitisation Repositories (£0.3m) and Funeral Plans (£0.1m).

Penalties collected on behalf of the Exchequer

We collected penalties of £258.8m (2019: £114.6m), of which £206.1m (2019: £16.0m) were paid to the Exchequer. No penalties were issued for the PSR.

Section 4 – Principal risks and uncertainties

For both the FCA and the PSR, the most important risk is the failure to meet our respective statutory objectives. Delivery of our statutory objectives relies not only on our ability to influence the culture and conduct of the industry we regulate but also on our own internal operational environment and performance.

As explained in Events after the reporting period in the FCA and PSR financial statements, the coronavirus pandemic and resulting measures taken by the UK Government to contain the virus did not significantly affect our business in the first 3 months of the 2020 calendar year. Whilst the scale and duration of this pandemic remains uncertain, the future impact on our business is difficult to assess.

For PSR, the principal risk relates to revenue, as the potential for firm failures resulting from the coronavirus pandemic may impact the collection of fees.

For the FCA, the main risks that result from the current uncertain situation regarding coronavirus are:

- **Revenue and collections:** The potential for firm failures resulting from the pandemic may impact the collection of fees and future fee income due to reduced revenues generated by firms.
- **Project delivery:** The delivery of current projects may be delayed due to availability of or reprioritising resources and result in additional costs being incurred.

- **Change delivery risk:** The risk that the FCA fails to initiate, scope, deliver and embed agreed changes to time, cost and quality (i.e. its design, implementation, approach, management and oversight of change delivery is inadequate and/or ineffective);
- **Pension assets / (obligations):** The valuation of pension assets may be impaired due to market volatility and material uncertainty of property and investment fund pricing. In addition, the defined benefit obligation will fluctuate due to market volatility of bond yields and inflation which impact market returns and pension liabilities; and
- **Liquidity:** Current cash reserves and overdraft facility may be insufficient if there are significant adverse changes to the assumptions used to model the combined impacts of potential reductions in fee collections, additional costs associated with delays in projects delivery and other operating costs over the next 12-18 months.

The FCA's and PSR's key internal (execution and operational) risks are the key risks associated with the operating environment of the FCA or PSR.

1. **Execution risk:** this relates to the execution of our regulatory strategy and arises when we fail to deliver our business activities as intended. When execution risks materialise this usually means that the FCA or PSR has failed to achieve a reduction in/prevention of harm that would otherwise have been possible with the resources available. Appropriately managing execution risk enables us to be an efficient and effective regulator which is key to delivering value for money.
2. **Internal operational risks:** like any organisation, the FCA and PSR face significant operational risks which may result in financial loss, disruption or both and may, in turn, also result in us failing to deliver our business activities as intended. For the FCA and PSR these risks are summarised below:
 - **People risks:** including risks associated with the capacity of our staff to deliver our Business Plan and the changing capability needs of the organisation and their general wellbeing. This could lead to the FCA and PSR being unable to manage recruitment, retention, skills and knowledge within acceptable tolerances potentially leading to increased costs, or failure to deliver our objectives. We continue to mitigate these risks as part of our People Strategy.
 - **Process risks:** including risks from inefficient, inadequate or ineffective internal processes. The risk that processes and procedures are poorly designed or do not perform correctly may result in poor decision-making or operational failure that may in turn lead to regulatory failure. Managing process risks to ensure we are efficient and effective is key to delivering value for money.
 - **Systems risks:** including the availability, resilience, recoverability and security of our core IT systems. If systems are not fit for purpose and fail to deliver the intended outcomes they could undermine our ability to deliver key objectives.
 - **Security and workplace safety:** including risks that relate to cyber, information security or workplace safety that have the potential, if crystallised, to cause financial, regulatory, legal or public confidence risk. These risks include potential loss or damage of physical assets and data as a result of natural disaster, cyber events, data leaks or human error causing market instability, financial loss and damage to public confidence. Cyber and Information risks continue to be a major focus for both organisations, with a significant investment, as we respond to the evolving threat level. Workplace safety risks relate to the FCA's and PSR's ability to provide a safe physical environment for employees.
 - **Legal risks:** including the risk of breach of legal requirements, other regulations and contractual provisions within the full scope of our activities, resulting in non-compliance, possible fines and possible damage to public confidence.
 - **Data risks:** including the risk that we suffer failures as a result of poor data quality or inappropriate data use, leading to increased public confidence risk. Inaccurate or incomplete data can result in poor decision-making, leading to the potential failure of the delivery of key objectives.
 - **Change delivery risk:** The FCA is currently undertaking a number of complex projects which are targeted to complete early in the 2021/22 financial year in order to ensure systems and

infrastructure is in place to meet future operational needs. There is a risk that the amount of change required will be difficult for the organisation to absorb especially at this current time. The complex nature of the change to new technology in such a timescale poses a risk to the organisation. These projects are being closely monitored by the organisation and are currently on track.

FCA and PSR public confidence risks include risks which could constrain the FCA's and PSR's ability to deliver against our objectives due to diminished levels of public confidence, a reduced ability to influence key stakeholders and/or a reduction in our credibility and standing as effective regulators. These risks could result from the inappropriate management of our other risks. Public confidence risk is further heightened by the 3 Independent Reviews currently being completed. In the event of adverse findings being delivered there may be increased operational and financial risks given the effort that will be expended in terms of both people and cost as we ensure an appropriate response is delivered. The current economic environment also increases public confidence risk due to the potential increased failures of firms regulated by the FCA and PSR which may occur.

Going concern and key financial risks

The directors have considered the FCA's Business Plan 2020/21 and the key financial risks and uncertainties in assessing the FCA and PSR as a going concern as set out below:

1. Liquidity risk: can be assessed by looking at the following 4 key areas:

- a. The FCA's current liquidity position reflects (i) cumulative scope change costs (£20.0m), (ii) the continued cash contributions to reduce the pension scheme deficit; and (iii) the funding of capital expenditure which is recovered over the useful economic lives of the assets rather than when the expenditure is incurred.
- b. The FCA's net pension asset at 31 March 2020 reflects (i) the triennial valuation of the FCA Pension Plan at 31 March 2019 and (ii) the effectiveness of the Plan's low risk strategy to minimise the impact of market fluctuations on funding levels, resulting in a net pension assets position of £20.7m.
- c. The FCA's strong fee covenants are underpinned by the statutory powers granted to it to raise fees to fund its and the PSR's regulatory activities. Of the firms on which the FCA currently levies its fees, the top 100 are responsible for 50.5% of those fees (2019: 52.5%).
- d. The FCA is currently well placed from a liquidity perspective, with cash deposits of £199.7m at 31 March 2020 and an available overdraft facility increased from £50m to £100m.

2. Credit risk: falls into 3 main categories:

- a. The collection of fees from the financial services industry: The FCA has a strong record in terms of collecting fees with bad debt experience averaging less than 0.2% of fees receivable over the last three years. However, collections of fees are at greater risk due to coronavirus. While the FCA has agreed to extending the payment of invoices from 30 days to 90 days to provide small and medium sized firms with greater liquidity, the impact of coronavirus on the financial services industry has yet fully to materialise and may put additional pressure of the collection of fees.
- b. EU Withdrawal has had a slight impact on 2020/21 fee rates from firms moving some of their business outside the UK. The impact on 2021/22 fees will therefore depend on whether firms continue to move part of their operations outside the UK and reduce the tariff data they report for the calendar year ending 31 December 2020.
- c. The placement of those fees as deposits with various counter parties: the FCA only invests with financial institutions which, among other things, 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.

3. Significant Accounting Judgments and Key Sources of Estimate Uncertainty that have been considered by the directors are the estimated intangible assets useful lives (as set out in Note 8 to the Financial Statements) and the assumptions underpinning the pension asset (obligation) and the material uncertainty in the valuation of property plan assets (as set out in Note 17 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 in preparing its financial statements 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.

By Order of the Board



S Pearce
Secretary
3 September 2020

8 Directors' report and corporate governance statement

Directors' report

The directors present their report for the year ended 31 March 2020. Certain information that fulfils the requirements of the Directors' report can be found elsewhere in this document and is referred to below. This information is incorporated into this Directors' report by reference.

Names of the directors who held office during 2019/20 can be found in Table 1 of the Corporate Governance Statement on page 98.

The directors use the s172 statement (see page 73) and Corporate Governance Statement (see page 95) to explain how they have performed their duty under section 172 of the Companies Act 2006 to promote the success of the Financial Conduct Authority (FCA) and factor our stakeholders into their decision making.

The Group comprises the FCA and its wholly-owned subsidiary, the Payments Systems Regulator Limited (PSR). More information about the PSR's activities during 2019/20 can be found in its own Annual Report.

The FCA has no branches or subsidiaries outside of the UK.

Directors' responsibilities for 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 chosen to prepare the financial statements for the FCA (the Parent Company) and the Group 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 apply them consistently
- make reasonable and prudent judgements and estimates
- state whether applicable International Financial Reporting Standards, as adopted by the European Union, have been followed and any material departures disclosed and explained in the financial statements
- 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 show, with reasonable accuracy, the company's financial position 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
- they have taken all the steps they ought to have taken as a director in order 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 maintaining and ensuring the integrity of the corporate and financial information on the company's website. The UK legislation which applies to preparing and distributing financial statements may differ from legislation in other jurisdictions.

The directors confirm that the Annual Report and Accounts as a whole, is fair, balanced and understandable.

Employee Engagement

Details of how the directors have engaged with employees during the year are set out in the section 172(1) Statement on page 73.

Business relationships

The directors recognise that there are numerous external stakeholders, including consumers, suppliers, regulated and other businesses, parliamentarians and other regulators, that they must have regard to in their decision making. By endeavouring to gain an understanding of the views of each external stakeholder group and of the issues that matter to them, we can ensure that we deliver a high-quality service.

The directors recognise that the views of our external stakeholder groups do not always align and in such circumstances, they must decide on the most appropriate course of action to ensure we are delivering in the public interest.

Further information on our key external stakeholder groups and how we engage and take into account the views of those stakeholders is described in our section 172(1) Statement which can be found on page 73.

Directors' indemnities

In general, under the Financial Services and Markets Act 2000 (FSMA), the FCA has the benefit of an exemption from liability in damages for anything done or omitted in relation to the exercise or purported exercise of our statutory functions, provided that such acts or omissions are in good faith and do not infringe section 6(1) of the Human Rights Act 1998. This is supplemented with indemnities the FCA gives for the protection of individual employees, including directors, as described below. Accordingly, we do not currently purchase Directors and Officers Liability Insurance.

In accordance with our Articles of Association and to the extent permitted by law, directors are granted an indemnity from the Company in respect of liability incurred as a result of their office. The indemnities were in force during the course of the financial year ended 31 March 2020 and remain in force at the date of this report.

Political Donations

The Group did not give any money for political purposes in the UK nor in the rest of the European Union. The Group did not make any political donations to political organisations, or to any independent election candidates, or incur any political expenditure during 2019/20.

Auditor

The Comptroller and Auditor General acted as Auditor throughout 2019/20, in line with the requirements of FSMA for the Company's accounts to be examined, certified and reported on by the Comptroller and Auditor General.

By Order of the Board on 3 September 2020.

A handwritten signature in black ink, appearing to read "Simon Pearce". The signature is written in a cursive, flowing style.

Simon Pearce Secretary

Corporate governance statement for the year ended 31 March 2020

Introduction

This section of the report explains the FCA Board's ('the Board') composition and governance structure. It also outlines the Board's role, its performance, ongoing professional development and succession planning.

We are an independent public body, funded entirely by fees from the firms that we regulate. We are accountable to the Treasury, which is responsible for the UK's financial system, and to Parliament. The Financial Services and Markets Act 2000 (FSMA) defines our work and purpose and requires us to meet and consult with our various stakeholders.

To ensure we are fulfilling our duties appropriately we have an active programme of engagement with regulated firms, consumer groups, trade associations and professional bodies, our statutory panels, domestic and international regulators and a wide range of other stakeholders. Ensuring that we have a comprehensive understanding of our key stakeholder groups enables the Board to consider the needs and concerns of our stakeholders in its discussions and decision-making.

Our governance structure provides the Board with assurance that the potential impacts on our stakeholders have been taken into careful consideration during the development of proposals put before it (further information on our stakeholders and how we engage with them is available in the s172 statement).

We are open and accountable to the public through our Annual Report and our Annual Public Meeting. We report annually to the Treasury on how far we have met our regulatory objectives and are also subject to regular detailed scrutiny by the Treasury Committee.

FSMA requires us to have regard to generally accepted principles of good corporate governance. Our Board is committed to meeting high standards of corporate governance and this report sets out how we are governed in line with the principles of the UK Corporate Governance Code (the Code), recognising that parts of the Code are not applicable to the FCA (i.e. related to shareholders or otherwise governed by HM Treasury). The Board considers that we comply with the Code as far as is appropriate.

The role of the Board, Board Committees and Executive Committees

Consistent with the Code, the Board is our governing body and has collective responsibility for the long-term success of the company. There is a clear division of responsibilities between the Board and executive management. The Board provides strategic leadership and sets our strategic aims, ensuring that we have the necessary financial and human resources to allow us to meet our statutory objectives.

The Chief Executive is responsible for implementing the strategy agreed by the Board, the leadership of the organisation and managing it within the authorities delegated by the Board.

The Board's role includes:

- a. Deciding which matters it should make decisions on, including exercising our legislative functions and other matters as set out in the Schedule of Matters Reserved to the Board.
- b. Making strategic decisions about our future operation.
- c. Overseeing the executive management of our day-to-day business.
- d. Setting appropriate policies to manage risks to our operations and the achievement of our regulatory objectives.
- e. Seeking regular assurance that our system of internal control is effective in managing risks.
- f. Maintaining a sound system of financial control.

- g.** Taking specific decisions that are not included in the Schedule of Matters Reserved to the Board, which the Board or executive management consider are so novel, contentious or significant that the Board should take them.
- h.** Maintaining high-level relationships with other organisations, authorities and other relevant stakeholders. These include Government, the Financial Services Compensation Scheme, the Financial Ombudsman Service, the Bank of England, the Prudential Regulation Authority, and the various statutory and other panels.
- i.** Establishing and maintaining the accountability for decisions made by committees of the Board and executive management.

To support the efficient discharge of its functions and facilitate effective decision-making, the Board is supported by its committees, shown in Chart 1. Membership of these committees is provided in Table 3.

Mechanisms are in place to ensure that these committees are accountable to the Board. For example, the Chairs of the Board Committees report on the work undertaken by these committees at the following Board meeting and the Chair of the Regulatory Decisions Committee reports to the Risk Committee.

Our 'Corporate Governance of the Financial Conduct Authority' document gives more details on our governance arrangements and is available on our [website](#). We provide further details of the Board committees' activities later in this report.

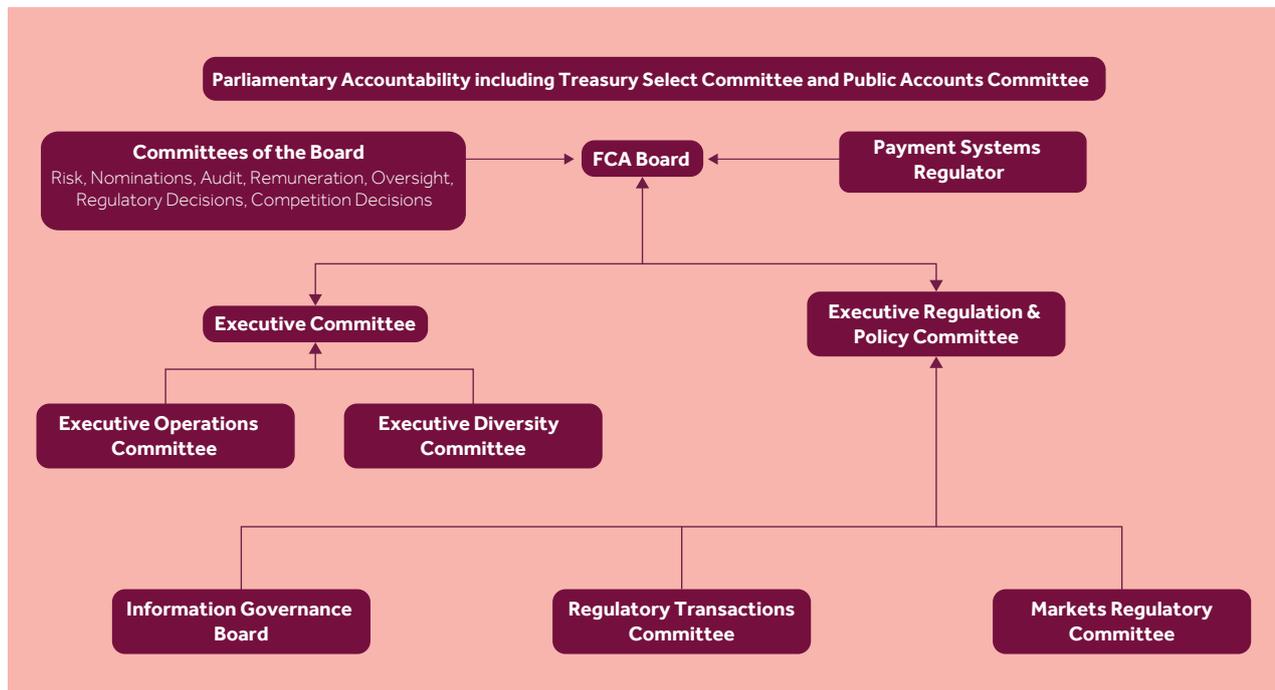
Our Executive Committees also play an important role in our overall corporate governance. The Executive Committee (ExCo) is chaired by the Chief Executive and takes decisions on internal operational issues. The Executive Regulation and Policy Committee (ERPC), also chaired by the Chief Executive, sits alongside ExCo and takes decisions on significant regulatory and policy issues.

There are several other committees that report to ExCo or ERPC, including the:

- Executive Diversity Committee – which leads our diversity and inclusion agenda
- Executive Operations Committee – which monitors our economic and efficient use of resources, operational risk management, people strategy and culture and operational resilience
- Information Governance Board – which oversees implementation of the FCA's data strategy
- Markets Regulatory Committee – which exercises oversight and takes decisions on certain regulatory and market issues, and is also responsible for the function and decision making of the UK Listing Authority
- Regulatory Transactions Committee – which makes decisions on matters affecting specific firms and individuals, including authorisation and approvals and waivers and statutory notices

Chart 1 below summarises our governance framework. Further [details of our executive structure](#) can be found on our website.

Chart 1 – The FCA's governance framework



Senior Managers and Certification Regime

The Senior Managers and Certification Regime (SM&CR), does not formally apply to the FCA. However, in accordance with best practice we have set out descriptions of the core responsibilities of our Board, Board Committee and Executive Committee members and staff carrying out Senior Management functions. Our website has more details on how we apply the SM&CR to ourselves.

Board Composition

FSMA requires that the membership of our Board is as follows:

- the Chair and the Chief Executive, who are each appointed by the Treasury
- the Bank of England Deputy Governor for Prudential Regulation
- two non-executive directors appointed jointly by the Secretary of State and the Treasury
- at least one other director appointed by the Treasury

In making appointments to the Board, the Treasury is required to ensure that a majority of members are non-executive. The directors who served during the year are shown in Table 1.

Table 1 – Directors during the year 2019/20

Name	Original appointment date	Expiry of current term/date membership ceased
Andrew Bailey Executive Director – Chief Executive	01/07/16	13/03/20
Catherine Bradley Non-Executive Director	02/08/14	31/07/20
Liam Coleman Non-Executive Director	05/11/19	04/11/22
Amelia Fletcher Non-Executive Director	01/04/13	31/03/20
Baroness Hogg Non-Executive Director – Senior Independent Director	01/04/16	31/03/22
Richard Lloyd Non-Executive Director	01/04/19	31/03/22
Alice Maynard Non-Executive Director	05/11/19	04/11/22
Charles Randell Non-Executive Director – Chairman	01/04/18	31/03/23
Nick Stace Non-Executive Director	01/04/17	29/01/20
Tommaso Valletti Non-Executive Director	05/11/19	04/11/22
Sam Woods Non-Executive Director – Bank of England Deputy Governor for Prudential Regulation	01/07/16	Not applicable
Christopher Woolard Executive Director	01/08/15	31/07/21

Andrew Bailey stepped down as Chief Executive of the FCA on 13 March 2020 following his appointment as Governor of the Bank of England. Christopher Woolard was appointed as Interim Chief Executive while the recruitment process to appoint a new Chief Executive took place. On 22 June 2020, HM Treasury announced the appointment of Nikhil Rathi as the new permanent Chief Executive of the FCA, with effect from 1 October 2020.

All non-executive appointments are made in accordance with the Government's Principles of Public Appointments and the Governance Code published by the Cabinet Office and are regulated by the Office of the Commissioner for Public Appointments. During the year, a recruitment exercise to appoint non-executive directors was undertaken. Liam Coleman, Alice Maynard and Tommaso Valletti were appointed for a 3-year term with effect from 5 November 2019. After the year end, Jeannette Lichner and Bernadette Conroy were appointed for a 3-year term with effect from 1 April 2020 and 6 April 2020 respectively. The Assessment Panel responsible for conducting the recruitment process was assisted by the executive search consultants, Odgers Berndtson.

A majority of Board members are non-executive and bring extensive and varied experience to the Board and Board Committees. All non-executive directors are considered to be independent. Baroness Hogg was the Senior Independent Director until Richard Lloyd took over the role on 1 April 2020.

The Board aims to ensure it has a diverse membership. Particular attention is paid to the recruitment process to attract a diverse field of candidates from which a variety of members with the appropriate balance of relevant skills and experience can be selected. During the year 2019/20, our female membership was at or above the 33% target figure for the boards of UK FTSE 350 companies as proposed by the Hampton-Alexander review.

Charles Randell has no commitments in addition to his Chairmanship of the FCA and PSR.

The executive members of the Board have continuous employment contracts with the FCA, subject to the notice periods as set out in Table 2 below. As previously noted, Andrew Bailey's contract with us came to an end on 13 March 2020.

Table 2 – Notice Periods

Executive Director	Notice period
Andrew Bailey	6 months
Christopher Woolard	6 months

The membership of the Board Committees during 2019/20 is set out in Table 3 below:

Table 3 – Board Committees membership during 2019/20

Audit Committee	Risk Committee	Remuneration Committee	Nominations Committee	Oversight Committee
Catherine Bradley (Chair)	Amelia Fletcher (Chair)	Baroness Hogg (Chair)	Charles Randell (Chair)	Charles Randell (Chair)
Amelia Fletcher	Catherine Bradley	Amelia Fletcher	Catherine Bradley	Richard Lloyd (from July 19)
Liam Coleman (from Feb 20)	Liam Coleman (from Feb 20)	Charles Randell	Liam Coleman (from Nov 19)	Baroness Hogg
Richard Lloyd (from Feb 20)	Richard Lloyd	Alice Maynard (from Mar 20)	Amelia Fletcher	Nick Stace (until Jan 20)
Simon Ricketts (A director of the Payment Systems Regulator)	Nick Stace (until Jan 20)		Richard Lloyd	Christopher Woolard
	Alice Maynard (from Mar 20)		Alice Maynard (from Nov 19)	
			Nick Stace (until Jan 20)	
			Tommaso Valletti (from Nov 19)	

The activities of the Board

The Board has a formal schedule of matters reserved to it and it meets regularly to ensure it is discharging its duties effectively. In addition to the 11 scheduled meetings, an additional meeting was held in September 2019. Outside of formal meetings, the Board considered a small number of matters by written procedure. Such matters were noted at the subsequent meeting and recorded in the respective minutes.

The Board Committees also met frequently during the year. Table 4 provides details of member's attendance for all the Board and Board Committee meetings of the year 2019/20 (the denominators of those asterisked reflect the number of meetings available for them to attend, given that their terms began or ended part way through 2019/20).

Table 4 – Board and Board Committee attendance during 2019/20

Name	Board meetings	Audit Committee	Risk Committee	Remuneration Committee	Nominations Committee	Oversight Committee	Additional Board meetings	Additional Remuneration Committee meetings	Additional Oversight Committee meetings
Andrew Bailey*	10/10						1/1		
Catherine Bradley	10/11	5/5	5/5		3/3		1/1		
Liam Coleman*	5/5	1/1	1/1		0/1				
Amelia Fletcher	11/11	3/5	5/5	3/4	2/3		1/1	1/1	
Baroness Hogg	10/11			4/4	3/3	4/4	1/1	1/1	1/1
Richard Lloyd*	11/11	1/1	3/5		3/3	1/4	0/1		1/1
Alice Maynard*	5/5				1/1				
Charles Randell	11/11			4/4	3/3	4/4	1/1	1/1	1/1
Simon Ricketts		4/5							
Nick Stace*	7/8		3/4		3/3	3/3	1/1		
Tommaso Valletti*	4/5				1/1				
Sam Woods	9/11						1/1		
Christopher Woolard	11/11					4/4	1/1		1/1

The Chair and Company Secretary work closely together to ensure that the Board's agendas reflect the FCA's priorities and that the right matters are escalated to the Board and Board Committees at the appropriate time. They review papers before they are circulated to members to ensure that information is accurate, clear and received in a timely manner; papers for Board and Board Committee meetings are usually circulated one week before meetings take place.

Internal processes ensure that matters presented to the Board, Board Committees and Executive Committees have undergone internal stakeholder review and sought external stakeholder engagement, as appropriate.

At meetings, the Board considers a number of standard agenda items including: a report from the Chief Executive; reports from the Chairs of the Independent Panels; updates from the Prudential Regulation Authority; progress against the Business Plan; and regular updates on people and culture issues. The Board also considers specific items on strategy, policy and other issues as required.

Non-executive directors provide rigorous challenge on strategy, performance, responsibility and accountability to hold the Chief Executive to account and ensure that the Board's decisions are robust and aligned to the strategy of the FCA and its Mission.

The Board addressed many issues during the year. The principal areas of activity included:

- reviewing the Sector Views which identify areas of harm in financial services, and challenging and approving the FCA's budget and business plan to address those harms
- approving organisational budgets and business plans of the Payment Systems Regulator, the Financial Ombudsman Service and the Financial Services Compensation Scheme
- overseeing the FCA's approach to manage the impact of European Union withdrawal on financial services consumers and firms
- supporting the organisation's transformation programme, particularly in relation to the use of data and organisation culture
- approving actions to address key consumer detriment issues;
- approving major policy initiatives
- approving the annual report and accounts

Key stakeholder engagement activities undertaken by the Board during the year include:

- Providing stakeholders with an opportunity to question the Chair, Chief Executive and directors on how the FCA has delivered against its strategic objectives at the Annual Public Meeting on 17 July 2019.
- Considering a report from the Complaints Commissioner regarding the review of the effective operation of our Complaints Scheme.
- Reviewing the results of the annual Stakeholder Survey and joint Practitioner Panel/FCA Survey of firms, which enables the Board to compare the FCA's progress against results from previous years. This also improves the Board's understanding of stakeholder views of the FCA and perceived priority areas of work for the coming year. The research findings are also published internally, to enable our employees to understand how our stakeholders perceive us and to help them in planning for the year ahead.
- Receiving updates on Corporate Responsibility and Sustainability initiatives (further information on Sustainability initiatives is available in Appendix 4).

More detail of the Board's activities during the year can be found in the [minutes of Board meetings](#) which are published on our website.

Company Secretary and independent advice

Each director can use the advice and services of the Company Secretary, who advises the Board on company law and corporate governance matters and ensures that the Board follows appropriate procedures. The Company Secretary is responsible for providing access to external professional advice for directors, as necessary.

Succession

The Board considers that all of the non-executive directors bring strong independent oversight and continue to demonstrate independence. However, the recommended term within the Code is recognised and we take into account the need for suitable succession in our advice to the Treasury, whose Ministers make appointments to our Board.

Succession planning remains a regular key agenda item for the Board and takes into account the FCA's diversity and inclusion objectives. It uses its Nominations Committee to monitor the balance and composition of the Board and Board Committees and Board members' skills and experience to identify where gaps may exist in order to inform the Treasury on future appointments.

Board induction and training

On joining the Board, directors are given background information describing the FCA and our activities. They receive an induction pack which includes information on our governance arrangements, the Board's role and responsibilities, its sub-committees and officers and other relevant information. Structured meetings and briefings with a range of key people across the FCA are also organised, to ensure directors have a thorough induction to the Board and to the business of the FCA.

As part of its 2019/20 board effectiveness review, the Board agreed proposals to introduce a more systematic continuing professional development programme for board members.

Board effectiveness review

Reviews of board effectiveness are conducted annually, with regular external reviews in accordance with best corporate governance practice. The most recent external review was commissioned in the April 2017 – March 2018 reporting year and so an internal review was conducted during the year 2019/20.

The review took the form of a questionnaire compiled by the Chair and the Company Secretary that was completed by all board members and other senior executives who work closely with the Board. The results were collated by Independent Audit, acting as an external facilitator, to ensure that the anonymity of the responses was maintained and any issues would emerge objectively.

The Board considered the findings from the effectiveness evaluation at its meeting in June 2020. Key findings included:

- Board dynamics remained positive and there was a good level of debate and challenge at meetings.
- The Board remained focused on the needs of the organisation's various stakeholders.
- The challenges around the departure of the CEO had been well managed.
- The need to consider further how the Board might most effectively monitor the performance or success of the FCA in delivering its strategy.
- That further work was required to improve the standard of board papers overall and to ensure that they were clear about the strategic context of the decisions sought.
- The need to focus on improving the Board's ability to judge the culture of the organisation and the forum through which to most effectively do so.

The Chair and Company Secretary are now working with board members to develop the way in which the Board and its committees operate, so as to enhance their effectiveness in the areas highlighted by the evaluation.

Conflict of interests

All directors are required to declare relevant interests. The Board took appropriate steps to manage any potential conflicts of interest that arose during the year.

A register of interests is maintained by the Company Secretary. The Board reviewed its policy in February 2019.

Internal controls

The internal control framework is designed to provide reasonable, but not absolute, assurance about the effectiveness of the FCA's control environment. The framework is an important part of our governance arrangements and is intended to help manage, as opposed to eliminate, risks to our statutory objectives.

The Board is satisfied that the internal control framework is broadly appropriate for the organisation and is assured that internal controls and a risk management framework have been maintained throughout the past year. However, the Board recognises that the risks facing the organisation have and will continue to evolve, especially as we look forward in the light of the current Coronavirus pandemic.

Throughout the year, the Risk Committee and Audit Committee received reports on the assessments performed by the three lines of defence. The Board considers that the design of the organisation's internal controls is largely adequate, with controls mainly operating effectively. Some improvements are required, including in relation to the information supporting supervision and enforcement activities and certain other key areas, noting the need to keep this under constant review.

The internal and external risk environment is overseen by the Risk Committee, with operational risks also overseen by the Audit Committee. The Board's policy on internal controls and risk management includes established processes and procedures for identifying, diagnosing and remedying or managing significant risks. The Audit Committee reported at least quarterly to the Board on internal controls and operational risk management.

Regular reports from management were received by the Audit Committee and Risk Committee on financial and operational controls and the risk management system. As part of this, the Audit Committee received and reviewed reports from the Director of Internal Audit which included executive summaries of audit reviews, work undertaken, audit findings and subsequent actions taken by management. The Risk Committee received reports on the risk framework and environment from the Risk and Compliance Oversight division and the Internal Audit division.

Key features of the internal control framework included the following:

- Risk reporting that highlighted the key operational and external risks faced. This supported discussion on the best course of action to mitigate the key risks and helped senior managers make decisions on priorities and resource allocation.
- The FCA's Executive Committee and Executive Operations Committee regularly reviewed these reports and the views of these committees were reported to the Risk Committee and Audit Committee as appropriate.
- A review of the strategic internal audit plan to ensure that the organisation's risk management framework keeps pace with the changing internal and external environment.
- The Internal Audit division provided independent assurance about the effectiveness of risk management and controls to the Board and management.

- The Audit Universe, which contained all the FCA's activities, systems and projects that contribute to managing our risks, is considered in the development of the 3-year strategic internal audit plan. Internal Audit adopted a risk-based approach in its periodic review of the Audit Universe and development and review of the annual audit plan.
- Clear reporting lines and delegated authorities, which were reviewed on a regular basis.
- Clear segregation between the FCA's regulatory function and the internal treasury function to avoid either endorsing or criticising any financial institution through investment activities.
- Appropriate policies and procedures were included in the Employee Handbook.
- Directors and senior managers regularly communicated their commitment to maintaining an appropriate control culture across the FCA to all staff.

Board Committees

The terms of reference for each committee are detailed in the '[Corporate governance of the Financial Conduct Authority](#)' document, published on our website.

Following a recommendation of last year's board effectiveness review, the terms of reference of the Audit Committee and the Risk Committee have been updated to clarify the role and responsibilities of the committees in relation to each other and to the FCA and PSR Boards, and to align with governance best practice. The FCA Board approved these changes on 30 January 2020.

Information on each committee's membership is published on our website and is available in Table 3. Details of members' attendance at meetings during the year is presented in Table 4.

On 30 January 2020, the Board approved the adoption of the name 'Risk Committee' for the Board Committee formerly known as the External Risk and Strategy Committee.

Audit Committee

The Audit Committee consists entirely of non-executive directors of the FCA and PSR. It is responsible for reviewing and providing assurance to the Board on matters including: the effectiveness of our internal controls; our operational risk management framework and mitigation strategies; the integrity of the financial statements and the statements that relate to financial controls and operational risk in the annual report and accounts; and for oversight of the external audit process.

The Board's statement above gives more information on internal controls. The Committee has assured itself that the financial statements give a true and fair view and have been prepared with integrity.

During the year the Committee's principal areas of activity included: reviewing internal audit reports; scrutinising significant projects and contracts for IT and major change programmes; cyber security; the FCA's compliance framework; monitoring complaints handling; considering the outcomes from the annual risk and control self-assessments and joint organisational internal control assessments; and reviewing the National Audit Office's (NAO) audit strategy. The Audit Committee Chair also sat as a member of the panel that evaluated responses to the tender on the procurement of co-sourced Internal Audit services.

The Committee also oversaw the FCA's relationship with the external auditor. Information on fees paid to the auditor is given on page 138.

The Committee met on 5 occasions during the year, scheduled to coincide with the risk reporting and external audit cycles.

The Committee held private sessions with the Director of Internal Audit, the Director of Risk and Compliance Oversight and the external auditors throughout the year, without management present. The Committee also held private sessions on its own without management present.

Wherever possible and as necessary, the Committee meetings were attended by: the Chair of the Board, the Chief Executive, the Chief Operating Officer, the Director of Risk & Compliance Oversight, the Director of Internal Audit and representatives from the NAO. Other relevant members of staff were invited to attend in relation to certain items of business.

Risk Committee

The Risk Committee consists entirely of non-executive directors. It has responsibility for the review and oversight of the risks¹ to the FCA achieving its statutory objectives, the executive's appetite for such risks and the suitability of the scope and coverage of the mitigation used to reduce the potential impact of such risks. The Committee is also responsible for the effective operation of the Regulatory Decisions Committee (RDC) and received regular reports on the operation of the RDC from its Chair.

During the year the Committee reviewed the updated FCA risk management framework and received regular reports from the Risk and Compliance Oversight and Internal Audit divisions. The Committee's items of business included: undertaking detailed examinations of the risks in certain sectors and considering the organisational approach to risk; reviewing the data strategy; considering sustainable finance; reviewing the Sector Views and overseeing the Directory and Register Enhancements project. It also considered the effectiveness of risk identification and mitigation, including the potential for unintended consequences of FCA interventions.

The Committee met on 5 occasions during the year, scheduled to coincide with the risk reporting cycle.

The Chief Operating Officer, the Director of Risk & Compliance Oversight and the Director of Internal Audit all attended meetings of the Committee. A representative of the Payment Services Regulator was a regular attendee by invitation.

The FCA Chair and Chief Executive also attended meetings of the Committee by invitation, with other members of staff invited to attend relevant items.

The Committee held private sessions with the Director of Risk & Compliance Oversight at each meeting during the year, without management present. The Committee also held private sessions on its own, without management present.

Remuneration Committee

The Remuneration Committee is responsible for ensuring that there is a formal and transparent procedure for developing policy on remuneration and for agreeing the remuneration packages of Senior Managers Regime (SMR) directors. This includes recommending to the Board the annual budget for pay and performance awards and also the remuneration of members of associated bodies (such as the Board of the Financial Ombudsman Service and the Consumer Panel).

During the year the Committee's principal areas of activity included: approving the annual budget for pay and performance awards and approving the remuneration of the SMR directors.

¹ Further information on the principal risks and uncertainties facing the FCA can be found in the Group operational overview (Chapter 7).

To enable it to transact this business, the Committee received information on, and assessment of, the individual performance of SMR directors. Performance was measured against the achievement of the collective objectives by reference to the Business Plan, the objectives relating to the directors' individual areas of responsibility and assessment of their leadership abilities.

The Committee, which consists solely of non-executive directors, met on 5 occasions during the year.

Nominations Committee

The Nominations Committee is responsible for making recommendations for maintaining an appropriate balance of skills on the Board to ensure we maintain our ability to meet our statutory objectives.

During the year the Committee's principal areas of activity included: considering the performance objectives of the Chief Executive and persons who fall within the scope of the Senior Managers Regime, supporting non-executive director recruitment and considering succession planning for senior managers.

The Committee, which consists solely of non-executive directors, met on 3 occasions during the year. It also held one additional meeting to deal with specific matters which required attention between the scheduled meetings.

Oversight Committee

The Oversight Committee provides support and advice to the Board on its relationship and obligations in respect of the Financial Ombudsman Service (the Ombudsman Service) and the Financial Services Compensation Scheme (FSCS). The Committee, which meets throughout the year with senior representatives of the Ombudsman Service and FSCS, is advisory in nature and has no delegated decision-making duties or powers.

During the year the Committee's principal areas of activity included: assuring itself of the capabilities and performance of these organisations, including providing support and oversight to the Ombudsman Service on progress against actions arising from the Richard Lloyd review; receiving and discussing with the FSCS the drivers behind its compensation payments, and how the FCA and FSCS strategies should aim to reduce firm failure and the consequent burden on the industry of compensation; ensuring that the FCA maintained good and effective working relationships with the Ombudsman Service and FSCS to ensure other matters of mutual interest were identified, discussed and acted on; providing review and challenge of the basis of preparation, and underlying assumptions, of each organisation's annual budget and business plan (including changes to the Ombudsman Service's funding model); and providing oversight of their compliance with the Alternative Dispute Resolution regulations.

The Committee met 5 times during the reporting period.

Regulatory Decisions Committee

The Regulatory Decisions Committee (RDC) takes certain regulatory decisions on behalf of the FCA. These decisions relate to enforcement and supervisory actions, as well as applications by firms for authorisation and by individuals for approval.

The members of the RDC are not board members, but individuals who represent the public interest and are appointed to decide how we should use particular authorisation, supervisory and enforcement powers. These include the power to stop firms or individuals providing regulated financial services and levying fines for breaches of our rules and legal requirements.

The RDC is a decision-making body that is separate from the FCA staff who recommend action against a firm or individual. RDC members are selected for their experience of making independent evidence-based decisions, working in senior and expert positions in financial services, or their knowledge and understanding of consumers and other users of financial services. This range of skills and experience is intended to help achieve fairness and consistency across sectors and cases and enhance the objectivity and balance of the FCA's decision-making.

The RDC becomes involved in decision making on cases after the relevant division of the FCA has concluded that it is appropriate for the FCA to use particular powers against a firm or individual. The RDC receives a proposal and supporting evidence from the relevant division. The RDC reviews this material and, in most cases, seeks the views of the relevant firm or individual before coming to a decision.

The RDC Chair submitted quarterly reports to the Risk Committee and attended the relevant Committee meetings to discuss significant matters highlighted in those reports.

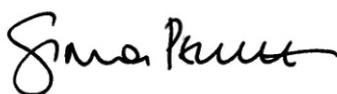
The RDC's separate annual review of its activities for the year ending 31 March 2020 can be found in Appendix 3 of this report.

Competition Decisions Committee

The Competition Decisions Committee (CDC) is a committee of the Board which exercises certain decision-making powers in competition law investigations on behalf of the FCA. The CDC comprises 3 persons appointed from the CDC Panel, a pool of individuals authorised by the Board to be appointed to act as decision-makers in any particular investigations under the Competition Act 1998 following the issuing of a Statement of Objections.

The decisions taken by the CDC include whether there has been a competition law infringement and whether to impose a financial penalty for an infringement, other than in settlement cases.

by order of the Board



Simon Pearce, 3 September 2020

Remuneration report

Remuneration Principles

The FCA's remuneration principles are to attract and retain high calibre individuals and to reward them for achieving clear objectives that are focused on results and behaviours. Pay and performance awards are based on performance and moderated across the organisation.

The remuneration offered to FCA employees is benchmarked annually to ensure that we position ourselves up to the median position within the financial services market, while taking account of the remuneration offered within the public sector. This is considered in conjunction with the economic environment in which we operate, and the affordability of any increases in relation to the overall cost of the FCA for the firms that we regulate.

The total remuneration package, which is common to all FCA employees, is:

- basic pensionable salary
- eligibility to be considered for a performance bonus
- additional flexible benefits
- a non-contributory defined contribution pension scheme

Remuneration focus for 2019/20

There were no changes to the remuneration strategy during 2019/20. We continued to focus on rewarding those who:

- demonstrate successful and consistent delivery against objectives
- make a significant overall contribution to the FCA's goals
- demonstrate the values and behaviours that the FCA expects and requires

This year we have continued to reduce funding for performance bonuses while transferring the spend into dealing with anomalies in employee's basic pensionable salaries.

2019/20 Remuneration review

All salary increases and performance awards for staff in 2019/20 were a matter for management judgement against our common set of performance standards. The aim has been to ensure that employees at all levels received appropriate recognition for their performance. We allocated a budget of 1.7% for salary increases, supplemented by an additional 0.5% to address anomalies. During 2019/20 81% of eligible employees received a salary increase.

We set the budget for performance awards at 12.6% of average salaries. The distribution of awards is shown in table 5.

Table 5: FCA bonus awards distribution

2019 – 2020		2018 – 2019	
Bonus percentage received	Percentage of workforce who received a bonus	Bonus percentage received	Percentage of workforce who received a bonus
0%	11%	0%	11%
0.1-5%	0%	0.1-5%	0%
5.1-9.9%	24%	5.1-9.9%	9%
10-14.9%	35%	10-14.9%	48%
15%-19.9%	23%	15%-19.9%	14%
20-24.9%	6%	20-24.9%	15%
25-30%	1%	25-30%	3%

The Remuneration Committee took advice from the Director of Human Resources and other relevant staff when considering executive remuneration.

Basic pensionable salary

During the year, salaries of Directors with designated responsibilities under the Senior Manager regime (SMR Directors) were reviewed in line with the policy. When making decisions on base salary, the Remuneration Committee took into account the importance of remuneration packages being sufficient to retain staff while awarding any salary increases responsibly to ensure careful use of our resources. Focus was also given to the economic environment in which we are operating and how our remuneration compares to the private and public sectors, while considering the impact on our fee payers.

Performance bonus

During the period under review, from 1 April 2019 to 31 March 2020, the SMR Directors were eligible to be considered for a performance-related award up to a maximum of 35% of average base salary applying during the previous year. Non-executive directors were not eligible to be considered for an award. Performance bonus decisions are made by the Remuneration Committee in February each year.

During 2019, following a request from the FCA Board, the Economic Secretary to the Treasury directed the FCA to carry out an independent investigation into the circumstances surrounding the collapse of London Capital & Finance plc (LCF). This investigation is ongoing and, as a result, the Remuneration Committee has decided that performance bonuses awarded to voting members of the Executive Committee in respect of the year under review should be deferred until the report of the investigation has been issued. The Committee will then decide whether it is appropriate for the bonuses to be paid at all, in whole or in part.

The Remuneration Committee has also agreed to change the way that performance bonuses will be paid in future for Executive Directors. These changes will apply to the performance year 2020/21 and thereafter.

The new arrangements are:

Bonus payments will be paid in two instalments. 40% of any bonus award will be paid in March and the remaining 60%, the 'deferred amount', will be paid in April in the following year.

The Remuneration Committee may decide in its absolute discretion that the deferred amount should be reduced or not be paid at all as a result of circumstances arising or new information being available after the date of the award.

The Committee may also decide in its absolute discretion that payment of the deferred amount should be deferred for a further period.

We also continued to reduce the overall funding for performance bonuses and redistribute these funds to pay increases to deal with anomalies. Bonus funding used to be up to 15% of our salary bill in 2015, this reduced to 12.6% for the 2019/20 review.

Other benefits

A sum was available for the SMR Directors which could be spent against a range of benefits. This sum is included in 'other benefits' in the remuneration table.

Pensions

The FCA Pension Plan (the Plan) has 2 sections, both of which are non-contributory; a defined benefits section (closed to new entrants and any future accruals) and a defined contribution section. Andrew Bailey is not a member of the Plan; Andrew received a non-pensionable supplement instead. Christopher Woolard is a member of the Plan.

Non-executive Directors do not receive any pension related remuneration.

Further information about the Plan is set out in Note 17 to the Financial Statements.

Directors' remuneration (audited)

The table below sets out the remuneration paid or payable to any person that served as a Board Director during the years ending 31 March 2020 and 2019. The remuneration figures shown are for the period served as Board Directors.

Table 6

	Basic salary		Performance-related pay		Other benefits		Total FCA Remuneration (excluding pension)		Pension		Total FCA Remuneration	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Chair												
Charles Randell ¹	170	170	-	-	-	-	170	170	-	-	170	170
Executive Directors												
Andrew Bailey ^{2,3}	435	449	-	68	35	35	470	552	39	40	509	592
Christopher Woolard ^{4,5}	316	306	34	45	33	32	383	383	30	30	413	413

	Group Fee Paid		FCA Fee Paid	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Non-Executive Directors⁶				
Bradley Fried ⁷	-	11	-	9
Amelia Fletcher ⁸	53	43	45	35
Richard Lloyd ⁹	35	-	35	-
Baroness Hogg ¹⁰	65	65	65	65
Jane Platt ¹¹	-	45	-	45
Ruth Kelly ¹¹	-	45	-	45
Catherine Bradley ¹²	45	35	45	35
Sam Woods ¹³	-	-	-	-
Nick Stace ¹⁴	35	35	29	35
Alice Maynard ¹⁵	14	-	14	-
Liam Coleman ¹⁶	14	-	14	-
Tomasso Valletti ¹⁷	14	-	14	-

Notes

Chair

- Charles Randell received a fee of £170,000 as Chair of the FCA and received a separate fee of £20,000 as Chair of the PSR during the year.

Executive directors of the FCA

- Andrew Bailey was awarded a performance bonus of £68,000 for 2018/19, of which £27,200 (40%) was paid in March 2019. The remaining £40,800 (60%) was held in deferment and due to be paid in April 2020. Andrew has declined to receive the remaining deferred performance bonus of £40,800. Andrew also received a non-pensionable supplement in lieu of pension contributions. This amount is included under 'Pension' in the table above.

3. Andrew Bailey resigned from the FCA to take up the position of Governor of the Bank of England. He left the FCA on 13 March 2020 and is therefore not eligible to be considered for a performance bonus for 2019/20.
4. Christopher Woolard was appointed as interim Chief Executive on 16 March 2020 and is a member of the FCA Pension Plan. Christopher is entitled to receive an annual pension contribution equivalent to 12% of his salary. He elects to have £10,000 of the employer pension contribution paid into the Pension Plan and the remaining employer contribution is paid as a non-pensionable cash supplement at a rate of 9% of his annual salary. The total amount is included under 'Pension' in the table above.
5. For 2019/20, Christopher was awarded a total performance bonus of £34,200. The bonus has been divided to reflect his time as an Executive Director and his time as Interim Chief Executive. For the period as Executive Director from 1 April 2019 to 15 March 2020 the total performance bonus equates to £32,622, normally payable in March 2020 but deferred pending the outcome of the LCF review. For the period of interim Chief Executive from 16 March 2020 to 31 March 2020 the performance bonus equates to £1,578, payable in two instalments as follows: £631 (40%) normally payable in March 2020, and the remaining £947 (60%) payable at the discretion of RemCo in April 2021. The total amount of £34,200 is held in deferment pending the outcome of the LCF review.

Non-executive directors of the FCA

6. In accordance with FSMA, the Treasury is responsible for determining the remuneration of non-executive directors. The fee for non-executive directors remains unchanged at £35,000 per annum. An additional fee of £10,000 per annum is payable to any non-executive director who has been appointed to chair a committee of the Board.
7. Bradley Fried left the FCA Board on 30 June 2018.
8. Amelia Fletcher served as Chair of the Risk Committee during the year. She is also a member of the PSR Board for which she receives a separate fee of £7,500. Amelia stepped down from the FCA and PSR Boards on 31 March 2020.
9. Richard Lloyd joined the FCA Board on 1 April 2019.
10. Baroness Hogg continued to serve as Chair of the Remuneration Committee and Chair of FCA Pension Plan Trustee Limited during the year. She stepped down as the Chair of the Pension Plan Trustee Limited, for which she received an additional fee of £20,000 per annum, on 31 March 2020.
11. Jane Platt and Ruth Kelly left the FCA Board on 31 March 2019.
12. Catherine Bradley served as Chair of the Audit Committee during the year.
13. Sam Woods, the Deputy Governor of the Bank of England for prudential regulation, is a non-executive of the FCA in accordance with FSMA. Sam does not receive a fee from the FCA for this role.
14. Nick Stace was appointed to serve as Chair of the Oversight Committee on 1 January 2020. He resigned from the FCA Board on 29 January 2020.
15. Alice Maynard joined the FCA Board on 5 November 2019.
16. Liam Coleman joined FCA Board on 5 November 2019.
17. Tomasso Valletti joined the FCA Board on 5 November 2019.

Fair pay disclosure (audited)

Remuneration ratio	Group		FCA (Parent Company)	
	2020	2019	2020	2019
Highest Paid Director's Total Remuneration	£448,017	£551,435	£448,017	£551,435
Median Remuneration of Total Workforce	£65,258	£66,009	£64,815	£65,917
Ratio (to Total Workforce)	6.9	8.4	6.9	8.4
Number of employees paid in excess of highest paid Director	Nil	Nil	Nil	Nil

¹ The difference between the total remuneration of the highest-paid director for the purposes of this disclosure and the total remuneration (excluding pension) as set out in the directors' remuneration table is that the directors' remuneration table includes actual amounts paid, whilst the remuneration ratio is a calculation of full year equivalent remuneration.

The Accounts Direction from the Treasury, in accordance with Schedule 1ZA, paragraph 14(1) of FSMA requires the FCA to disclose the relationship between the remuneration of the highest-paid director and the median remuneration of the organisation's total workforce for 2020 and 2019.

The remuneration ratio represents the difference between the highest-paid director and the median full-time equivalent, annualised remuneration of the total workforce at the reporting period end date (excluding the highest-paid director) expressed as a multiple. Definitions are below:

- Remuneration is total remuneration and includes salary, performance-related pay and benefits, whether monetary or in-kind. It does not include severance payments or employer pension contributions
- Total Workforce includes employees, temporary staff, contractors and other short-term resource

The median pay calculations reflect the FCA as a stand-alone entity ('FCA Parent Company') and the consolidated position including the PSR ('Group').

The Interim Chief Executive of the FCA was the highest-paid director for 2020.

Excluding the highest-paid director, remuneration ranged from £21,405 to £377,807 (2019: £21,522 to £511,297).

In 2020 no employees (2019, nil) received remuneration in excess of the highest paid director. All figures are based on full time equivalent basis.

Senior Pay Disclosure (audited)

The table below sets out the remuneration paid or payable to any person for the period served as a voting member of the Executive Committee during the year ending 31 March 2020.

	Basic salary		Performance-related pay		Other benefits		Total FCA Remuneration (excluding pension)		Pension		Total FCA Remuneration	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Executive Directors	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Megan Butler	311	306	34	45	31	31	376	382	37	38	413	420
Jonathan Davidson	311	306	34	45	27	26	372	377	28	28	400	405
Nausicaa Delfas	265	260	29	39	30	30	324	329	35	39	359	368
Sheree Howard ¹	155	-	20	-	18	-	193	-	24	-	217	-
Sheldon Mills ²	9	-	1	-	1	-	11	-	1	-	12	-
Georgina Philippou	264	260	19	26	28	28	311	314	32	31	343	345
Mark Steward	311	306	34	40	33	32	378	378	37	38	415	416

1 Sheree Howard was appointed as a voting member of the Executive Committee on 1 September 2019.

2 Sheldon Mills was appointed as an interim voting member of the Executive Committee on 16 March 2020.

Other Directors' salaries and benefits

The table below shows total remuneration ranges for Directors who are not voting members of the Executive Committee. These figures include base pay, performance bonus, benefits and pension contribution and are based on the actual amount an individual has earned during the accounting period.

Total Remuneration Range	2020	2019
	Number of individuals	Number of individuals
£80,000 – £99,999	0	1
£100,000 – £119,999	1	0
£120,000 – £139,999	0	0
£140,000 – £159,999	0	1
£160,000 – £179,999	1	1
£180,000 – £199,999	0	2
£200,000 – £219,999	2	1
£220,000 – £239,999	0	1
£240,000 – £259,999	5	5
£260,000 – £279,999	5	5
£280,000 – £299,999	8	4
£300,000 – £319,999	2	3
£320,000 – £339,999	0	0
£340,000 – £359,999	0	1
£360,000 – £379,999	1	0
£380,000 – £399,999	0	1

9 Financial statements of the Financial Conduct Authority for the year ended 31 March 2020

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Company Number 01920623

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

Opinion on financial statements

I have audited the financial statements of the Financial Conduct Authority for the year ended 31 March 2020 which comprise the Group and Parent Company Statement of comprehensive income, Statement of changes in equity, Statement of financial position and Statement of cash flows and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Remuneration Report that is described as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of Group's and the parent company's affairs as at 31 March 2020 and of the Group's surplus for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the Companies Act 2006.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Conclusions relating to principal risks and going concern

I have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether I have anything material to add or draw attention to:

- the disclosures in the Annual Report that describe the principal risks and explain how they are being managed or mitigated;

- the Directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the Group and the Financial Conduct Authority, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Financial Conduct Authority's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; or
- whether the Directors' statement relating to going concern is materially inconsistent with my knowledge obtained in the audit.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Financial Conduct Authority in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

The regularity framework described in the table below has been applied:

Regularity Framework

Authorising legislation

Financial Services and Markets Act 2000

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that I identified.

I consider the following areas of particular audit focus to be those areas that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort.

Key audit matter 1 – Risk of management override of controls

ISAs (UK) include a non-rebuttable risk that management could perpetrate fraud or manipulate accounting records. Accordingly, I am required to perform procedures in response to this risk. Whilst the other significant risks I identified are also designed to respond to the risk of management override of controls, due to the unpredictable nature of this risk I also performed more general procedures to gain assurance. Account areas that are particularly susceptible to management override of control are those areas where there has been a change to an established system or process, and account areas where there are high levels of estimation and judgement.

How the scope of my audit responded to the risk

I reviewed key financial processes and controls and carried out transaction testing on a sample basis.

I used data analytics to review the manual journals posted, looking for key risk factors identified through my assessment of potential fraud and management override risks and tested identified journals. I considered accounting estimates and judgements for evidence of bias, including a retrospective review of judgements and assumptions.

I reviewed the general ledger and bank statements and committee papers and made enquiries of management in seeking to identify significant transactions that appeared to be outside the normal course of business.

Accounting estimates made by the Financial Conduct Authority (FCA) mainly relate to the useful lives, valuation and impairment of non-current assets, expected credit losses, pensions and accruals, receivables and prepayments. I reviewed these as part of audit testing and found no evidence of management bias.

Key observations

My testing results were satisfactory.

Key audit matter 2 – Defined benefit pension – estimation of net asset/liability

The FCA recognised a net asset of £20.7m in respect of the final salary section of the FCA Pension Plan at 31 March 2020 (31 March 2019: net deficit of £87.1m). This balance has attracted significant interest from users of the accounts in the past and I expect it to continue to do so in the future.

The final salary section of the Pension Plan is closed both to new entrants and to future accruals. However, the gross pension asset or liability recognised by the FCA is a significant estimate where small changes in underlying assumptions could result in material changes in the underlying plan assets and liabilities.

The focus of the risk related to key assumptions impacting the value of the pension asset/liability which include the discount rate, retail price inflation (RPI), future pension increases and life expectancy.

The audit impacts of this significant risk are on the retirement benefit obligation and on the net actuarial gains/losses in respect of the defined benefit pension scheme.

How the scope of my audit responded to the risk

I was supported by specialist actuarial support.

I did not identify any misstatements through my testing of plan assets. All assets have been agreed to fund manager statements at year end and were in line with our expectations of in year movements in their value. No issues were identified with respect to the controls in place at the asset managers.

The defined benefit obligation is valued using assumptions which all lie within the expected range. No misstatements were identified in my testing of the asset.

Key observations

My testing results were satisfactory.

Key audit matter 3 – Defined benefit pension liability – triennial valuation

A triennial valuation of the final salary section of the FCA's Pension Plan as at 31 March 2019 took place, which is reflected in the financial statements for this year.

As the scheme is subject to the statutory funding objective, which means it needs to have appropriate assets to cover its accrued liabilities, the Trustees must prepare and maintain a statement of funding principles setting out its policy for meeting its technical provisions and a schedule of contributions covering payments due to the scheme. It needs to commission actuarial valuations periodically (at least every three years) to check the Plan meets the statutory funding objective. The FCA's actuary then uses roll forward procedures to calculate valuations in intervening years.

The key focus of the risk relates to whether membership data is complete and accurate and has been properly assessed as part of the valuation. The audit impacts of this significant risk are in relation to the liabilities rather than the assets. This is because the assets are valued in full each year and do not fall within the scope of the triennial review.

How the scope of my audit responded to the risk

I performed work to gain assurance over the completeness and accuracy of membership data underpinning the latest triennial funding valuation and also the accuracy of the opening position of the actuarial roll-forward.

I did not identify any misstatements, irregularities or control deviations and none of my findings were indicative of additional risks of material misstatement or of possible undetected misstatements, including due to fraud.

I consider there to be appropriate disclosures in the financial statements in respect of the triennial valuation.

Key observations

My testing results were satisfactory.

Application of materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for the company's financial statements at £5.8 million, which is approximately 1% of gross operating costs. I chose this benchmark because expenditure drives the accounts; the budgeted amount for the financial year determines the Annual Funding Requirement for both parent and subsidiary, which form the basis for the fees invoiced to regulated firms. With the exception of the portfolio of entity-constructed intangible assets, the defined benefit pension liability and the matching right of use asset and lease liability, the account is primarily comprised of payroll and other operating costs. The key area of interest for Parliament (and indeed more broadly the firms regulated by the Financial Conduct Authority) is the Financial Conduct Authority's annual expenditure, which determines the size of the regulatory cost that the Financial Conduct Authority imposes upon the financial services sector.

A benchmark of 1% of gross operating costs has historically been used as the materiality for the Financial Conduct Authority Group audit. I chose 1% because although the audit is relatively low risk in terms of underlying complexity, it is a high-profile account. For example, Financial Conduct Authority fines are regularly reported by the press and there is an active parliamentary interest in the ongoing operations of the Financial Conduct Authority, especially at the Treasury Select Committee. Regulated firms also

take an interest in where their fees are spent. The financial services sector is of key significance to the UK economy, and so the affairs of one of the key regulators will attract a great deal of attention. However, the Financial Conduct Authority is not subject to the requirements of the Parliamentary Supply process, and while users of the accounts have an expectation that the figures are materially accurate, the same level of precision is not required as would be the case of resource accounts with the lowest levels of materiality. A threshold of 1% therefore provides an appropriate level of precision given the profile and the Financial Conduct Authority's funding mechanism.

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users, for example, any errors reported in the audited parts of the Remuneration Committee Report. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

I agreed with the Audit Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £118,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds.

Total unadjusted audit differences reported to the Audit Committee would have nil impact on net assets.

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' responsibilities for the Annual Report and Accounts statement, the directors are responsible for:

- the preparation of the Group financial statements and for being satisfied that they give a true and fair view;
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- assessing the Group's and the Parent's Company's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK).

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Financial Conduct Authority's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Audit scope

The scope of my Group audit was determined by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

This work covered substantially all of the Group's assets and operating surplus, and together with the procedures performed at Group level, gave me the evidence I needed for my opinion on the group financial statements as a whole.

Other Information

Directors are responsible for the other information. The other information comprises information included in the annual report, but does not include the parts of the Remuneration Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

I am specifically required to address the following items and to report uncorrected material misstatements in the other information, where I conclude that those items meet the following conditions:

Fair, balanced and understandable: the statement given by the directors that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the necessary information to enable users to assess the entity's performance, business model and strategy, is materially inconsistent with my knowledge obtained in the audit; or

Audit Committee reporting: the section describing the work of the Group Audit Committee does not appropriately address matters communicated by me to the Audit Committee/is materially inconsistent with my knowledge obtained in the audit.

I also have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act

Directors' remuneration

In my opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

I also report to you if, in my opinion, certain disclosures of directors' remuneration required have not been made. I have nothing to report arising from this duty.

The strategic and directors' reports

In my opinion, based on the work undertaken in the course of the audit, the information given in the Strategic and Directors' Reports for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report.

The corporate governance statement

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the corporate governance statement, in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), in respect of internal control and risk management systems in relation to financial reporting processes, is consistent with the accounts and has been prepared in accordance with applicable legal requirements.
- rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules about the Group and Parent Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees have been complied with.

Based on my knowledge and understanding of the Group and Parent Company and their environments obtained during the course of the audit, I have identified no material misstatements in this information.

Matters on which I report by exception

Adequacy of accounting records information and explanations received

I report to you if, in my opinion:

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my staff;
- the financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made;
- I have not received all of the information and explanations I require for my audit; or
- a corporate governance statement has not been prepared by the Parent Company.

I have nothing to report arising from this duty.

Gareth Davies

Comptroller and Auditor General (Statutory Auditor)

National Audit Office
157-197 Buckingham Palace Road
London, SW1W 9SP

10 September 2020

Statement of comprehensive income for the year ended 31 March

	Notes	Group		Parent Company	
		Total 2020 £m	Total 2019 (as restated) £m	Total 2020 £m	Total 2019 (as restated) £m
Income					
Fee income	4	618.6	598.0	603.0	584.1
Other income	4	14.0	16.3	16.6	18.6
Total income		632.6	614.3	619.6	602.7
Operating costs					
Staff costs	5	(380.9)	(364.4)	(370.5)	(356.3)
Staff costs capitalised during the year	5	7.0	7.7	7.0	7.7
Administrative and general costs	6	(217.1)	(229.9)	(214.0)	(228.0)
Total operating costs		(591.0)	(586.6)	(577.5)	(576.6)
Operating surplus for the year		41.6	27.7	42.1	26.1
Interest payable and similar expenses	7	(5.8)	(5.6)	(5.8)	(5.6)
Net actuarial gains for the year in respect of the defined benefit pension scheme	17	85.6	7.1	85.6	7.1
Total comprehensive surplus for the year		121.4	29.2	121.9	27.6

Statement of changes in equity for the year ended 31 March

	Accumulated Surplus	
	Group £m	Parent Company £m
At 1 April 2018	(87.3)	(89.7)
Total comprehensive surplus for the year (as restated)	29.2	27.6
At 31 March 2019	(58.1)	(62.1)
Total comprehensive surplus for the year	121.4	121.9
At 31 March 2020	63.3	59.8

The notes on pages 127 to 155 form part of the accounts.

Statement of financial position as at 31 March

Company Number: 01920623

	Notes	Group		Parent Company	
		Total 2020 £m	Total 2019 (as restated) £m	Total 2020 £m	Total 2019 (as restated) £m
Non-current assets					
Intangible assets	8	122.2	94.1	122.2	94.1
Property, plant and equipment and ROU assets	9	301.5	321.6	301.5	321.6
Net retirement benefit assets	17	20.7	-	20.7	-
		444.4	415.7	444.4	415.7
Current assets					
Trade and other receivables	10	16.5	48.8	16.4	48.8
Cash and cash equivalents	10	209.3	257.8	199.7	249.4
		225.8	306.6	216.1	298.2
Total assets		670.2	722.3	660.5	713.9
Current liabilities					
Trade and other payables	11	(345.7)	(436.7)	(339.5)	(432.3)
Short-term provisions	11	(1.7)	(2.5)	(1.7)	(2.5)
Lease liabilities	11	-	(0.3)	-	(0.3)
		(347.4)	(439.5)	(341.2)	(435.1)
Total assets less current liabilities		322.8	282.8	319.3	278.8
Non-current liabilities					
Long-term provisions	12	(17.0)	(17.1)	(17.0)	(17.1)
Lease liabilities	12	(242.5)	(236.7)	(242.5)	(236.7)
		(259.5)	(253.8)	(259.5)	(253.8)
Net assets excluding retirement benefit obligation		63.3	29.0	59.8	25.0
Net retirement benefit obligations	17	-	(87.1)	-	(87.1)
Net assets/ (liabilities) including retirement benefit obligations		63.3	(58.1)	59.8	(62.1)
Accumulated surplus /(deficit)		63.3	(58.1)	59.8	(62.1)

The Company is exempt from the requirement of Part 16 of the Companies Act 2006 as stipulated in Schedule 1ZA, s.15(4) of the Financial Services and Markets Act 2000.

The financial statements were approved by the Board on 28 August 2020, and signed on 3 September 2020 on its behalf by



Charles Randell
Chair



Christopher Woolard
Interim Chief Executive

Statement of cash flows for the year ended 31 March

	Notes	Group		Parent Company	
		Total 2020 £m	Total 2019 £m	Total 2020 £m	Total 2019 £m
Net cash generated by operations	3	5.5	71.4	4.4	72.6
Investing activities					
Interest received on bank deposits	4	1.8	1.2	1.7	1.1
Expenditure on intangible software development	8	(52.3)	(42.2)	(52.3)	(42.2)
Purchases of property, plant and equipment	9	(3.2)	(23.5)	(3.2)	(23.5)
Proceeds from sale of equipment		-	0.2	-	0.2
Net cash used in investing activities		(53.7)	(64.3)	(53.8)	(64.4)
Financing activities					
Lease repayments		(0.3)	(0.2)	(0.3)	(0.2)
Net (decrease)/increase in cash and cash equivalents		(48.5)	6.9	(49.7)	8.0
Cash and cash equivalents at the start of the year	10	257.8	250.9	249.4	241.4
Cash and cash equivalents at the end of the year	10	209.3	257.8	199.7	249.4

Notes to the financial statements

1. General information

The Financial Conduct Authority Limited (FCA) is a company incorporated in England and Wales under the Companies Act 2006 and is a company limited by guarantee with no share capital. The directors of the company are the members and have agreed to contribute £1 each to the assets of the company in the event of it being wound up. The FCA only requires nominal capital due to its legal status and funding model. i.e. it operates within a statutory framework that enables it to raise fees to recover the costs of carrying out its statutory functions. The nature of the FCA's operations is set out in the Operational Overview.

These accounts have been prepared on a consolidated basis to include the Payment Systems Regulator Limited (PSR). The registered office for both the FCA and PSR is 12 Endeavour Square, London, E20 1JN.

The financial statements are presented in pounds sterling (rounded to £0.1m) because that is the currency of the primary economic environment in which both the FCA and PSR operate.

2. Core accounting policies

a) Basis of preparation

The consolidated financial statements have been prepared on a going concern basis, under the historical cost convention in accordance with: International Financial Reporting Standards (IFRS) as adopted by the European Union; the Treasury's Accounts Direction issued under the Financial Services and Markets Act 2000; and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. We discuss the reason why the going concern basis is appropriate in the Operational Overview.

The principal significant accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to both accounting years presented, unless otherwise stated.

b) Significant judgements and estimates

The preparation of financial statements requires management to make estimates and judgements. Actual results could differ from estimates. Information about these judgements and estimates is contained in the relevant accounting policies and notes to the accounts. The key areas are:

- Pension asset/(obligation) (note 17) – the quantification of the pension asset/(obligation) is based on assumptions made by the directors relating to the discount rate, retail price inflation (RPI), future pension increase and life expectancy;
- Intangible assets useful lives (note 8) - asset lives are reviewed on an annual basis and, where necessary, adjusted to reflect the remaining expected asset life. Changes to asset lives arise as a result of changes in technology or business need;
- The lease liability for 12 Endeavour Square ("lease") and related Right of Use (ROU) asset is calculated using an interest rate of 2.46% (being the published rate at the date of implementation) based on a 20 year loan from Public Works Loan Board as a proxy discount rate to calculate the present value of the lease payments. The lease states the rent payable in the first five years, and specifies minimum and maximum rent for the next five years. The discounted cash flow is based on the maximum rent stated; and

- The Plan asset held in property (note 17) comprises an investment in a pooled property fund. The investment manager of that fund has reported the value on the basis of "material valuation uncertainty" in light of the significant reduction in level of property market activity due to coronavirus and consequently, less certainty should be attached to their valuation than would normally be the case. No adjustment has been made to the valuation provided by the investment manager, which is assumed to be a best estimate of fair value given the market restriction in place at the disclosure date.

c) Group financial statements

The PSR is a private company, limited by shares (a single share with a £1 nominal value), and is a wholly owned subsidiary of the FCA.

d) Changes in accounting policy

No new or amended IFRSs or International Reporting Interpretations Committee (IFRIC) interpretations have been adopted in the year.

The FCA implemented IFRS 16 – Leases in 2018/19, a year earlier than the mandatory requirement.

In calculating the lease liability and related ROU asset on implementation at 1 April 2018, VAT of 20% of the expected lease payments was included in the discount calculations (as FCA recovers minimal input VAT under its partial exemption arrangements). Guidance issued as IFRS 16 has been implemented more widely has made it clear that the irrecoverable VAT should be accounted for in accordance with International Financial Reporting Interpretations Committee (IFRIC) 21 – Levies which requires that charges such as VAT are only accounted for when the event which triggers the levy occurs. In the case of VAT on lease payments, the trigger point is the issue of the VAT invoice and as a result the VAT amounts should not have been included in the discount calculations.

The correction is only applicable to 2018/19 and does not affect prior years. The overall impact is to reduce the value of the ROU asset and related liability, and consequently the related depreciation and interest charge. In future years, as lease payments are invoiced the invoiced VAT will be written off as incurred. The amount of the correction for each affected line of the Financial Statements is as follows:

	Notes	2019 £m
Statement of comprehensive income		
Administrative and general costs		
- Depreciation on ROU assets - reduction in charge	6	2.3
Interest payable and similar expenses		
- Interest on lease liability - reduction in charge	7	1.1
Comprehensive Surplus for the year - increase in surplus		3.4

	Notes	2019 £m
Statement of changes in equity		
At 31 March 2018		(87.3)
Total comprehensive surplus for the year as stated		25.8
At 31 March 2019, as originally stated		(61.5)
Retrospective adjustment for depreciation and interest		3.4
At 31 March 2019, as restated		(58.1)

	Notes	2019 £m
Statement of Financial position		
Non-current assets		
Property, plant and equipment and ROU assets		
- ROU asset cost - at implementation - reduction in cost	9	(46.2)
- ROU asset depreciation charge for the year and at 31 March 2019 - reduction in charge	9	2.3
- ROU asset - net book value at 31 March 2019 - reduction	9	43.9
Non-current liabilities		
- Lease liabilities - reduction in liability	12	47.3
Net liabilities including retirement benefit obligations - reduction in net liabilities		3.4
Accumulated deficit - reduction in deficit		3.4

	Notes	2019 £m
Statement of cash flows		
Surplus in year from operations - increase	3	2.3
Depreciation of property, plant and equipment including ROU assets - reduction in charge	3	(2.3)
Net impact		-

This correction has no impact on the Statement of financial position at 31 March 2018 and so the Statement of financial position at that date has not been represented.

e) Income

The core principle of IFRS 15 - Revenue from Contracts with Customers is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The standard requires an entity to identify the contract(s) with a customer and the performance obligation related to the contract. It further requires the transaction price to be determined and allocated to the performance obligations in the contract. Revenue can only be recognised under the standard when the entity satisfies a performance obligation.

Management assessed the implication of adopting IFRS 15 directly, however given the nature of the FCA's and the PSR's activities and that IFRS 15 relates to commercial organisations it was not considered appropriate. Accordingly management have applied IAS 8(10) to use its judgement to develop and apply an accounting policy that provides information that is relevant and reliable.

In doing so, management have broadened the definition of a contract to include legislation and regulation. In this circumstance, a "contract" is the underlying statutory framework set out in FSMA for the FCA and FSBRA for the PSR. This framework enables the FCA and PSR to raise fees to recover the costs of carrying out their statutory functions. The performance obligation under the "contract" is the granting of the ability to operate and remain authorised during the course of the year.

The group's revenue streams are categorised as either fee income or other income.

Fee income includes: annual periodic fees; special project fees; and application fees. FSMA enables the FCA to raise fees and FSBRA enables the FCA to raise fees on behalf of the PSR to recover the costs of carrying out their statutory functions.

- Annual periodic fees are levied and measured at fair value and are recognised at the later of the fee year to which they relate (invoices on account) or invoice date.
- Special project fees (SPFs) are charged to recover exceptional supervisory costs where a firm undertakes certain restructuring transactions such as raising additional capital or a significant change to a firm's business model. SPFs are recognised at the point when a corresponding fee is invoiced to the respective firm.
- Application fees are recognised on receipt of a firm's application for authorisation.

Other income satisfies the core principles and conditions as set out in IFRS 15 to be recognised as revenue.

Other income includes:

- Skilled person reports income: The FCA can itself appoint a Skilled Person and settle the professional fees directly with the supplier. These fees are then recovered by charging a corresponding fee to the respective firm. There is no separate performance obligation to a firm for this report and the income is not a separate revenue stream, but rather a direct recovery of costs. The fees are recognised as the costs are incurred.
- Services provided to other regulatory bodies: The FCA acts as a collection agent for certain other regulatory bodies. The FCA does not recognise any income collected on behalf of these regulated bodies except the fees it charges as stated in the Service Level Agreements (SLAs). The performance obligation is the provision of an integrated business support as stipulated in the SLA and revenue is recognised when the services are delivered.
- Publication and training services: The cost of events is not included in firms' fees so the FCA charges any firm that takes part in workshops, round-tables, conferences, seminars and other events. The performance obligation is the provision of an event to a firm and it is at this point that income is recognised.

Resulting contract assets and liabilities are accounted for as fees receivable within Current assets and Fees received in advance in Current liabilities.

f) Intangible assets - capitalisation and amortisation

In accordance with IAS 38: Intangible Assets, costs associated with the development of software for internal use are capitalised only where:

- i.** the FCA can demonstrate the technical feasibility of completing the software
- ii.** the FCA has adequate technical, financial and other resources available to it as well as the intent to complete its development
- iii.** the FCA has the ability to use it upon completion
- iv.** the asset can be separately identified, it is probable that the asset will generate future economic benefits, and the development cost of the asset can be measured reliably.

Only costs that are directly attributable to bringing the asset to working condition for its intended use are included in its measurement. These costs include all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in a manner intended by management. All additions are initially capitalised as work in progress during the development stage. When the asset is brought into use (immediately once completed) it is then transferred from work in progress to the appropriate asset category.

Intangible assets are amortised over their expected useful lives. Asset lives are reviewed on an annual basis and, where necessary, adjusted to reflect the remaining expected asset life. Changes to asset lives arise as a result of changes in technology or business need. Where the full asset life cannot be determined with reasonable certainty the net book value is amortised over the minimum time that would be required to implement a replacement asset. The minimum time to replace is also reassessed on an annual basis. Amortisation is reported as an administration expense in the statement of comprehensive income.

When software is not an integral part of the related hardware, it is treated as an intangible asset.

Where no intangible asset can be recognised, research and development expenditure is expensed when incurred.

g) Impairment of intangibles, property plant and equipment:

Each year the FCA reviews the carrying amount of its intangible assets, property, plant and equipment to determine whether there is any indication that its assets have suffered any impairment in value. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. The assets' residual values and useful lives are reviewed and adjusted if appropriate.

The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment is immediately recognised as an expense.

h) Leases:

IFRS 16 introduced a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee recognises a Right Of Use (ROU) asset in the same way as other non-financial assets (for example property, plant and equipment) and lease liabilities in the way of other financial liabilities. As a consequence, a lessee recognises depreciation on the ROU asset and interest on the lease liability, and also classes lease payments between principal and interest and presents them in the statement of cash flows in accordance with IAS 7.

The Group has taken advantage of the lease recognition exemptions permitted by the standard in respect of:

- Expenses relating to short term leases
- Expenses relating to low value asset leases

i) Taxation:

As a UK incorporated company, the FCA is subject to the provisions of the UK Taxes Acts, the same corporation tax rules as any other UK incorporated company.

On the basis of the relevant tax legislation and established case law, the result of the FCA's regulatory activities (on which it does not seek to make a profit) is not subject to corporation tax because regulatory activity does not constitute a 'trade' for corporation tax purposes.

The FCA invests heavily in its own fixed assets, mainly IT software, and accounts for these as intangible fixed assets. It therefore has significant levels of amortisation charges. The FCA has applied the intangible fixed asset tax rules to these assets and as a result tax relief is available for the amortisation.

This amortisation is currently being utilised to offset any corporation tax due on investment income, resulting in nil corporation tax being payable by the FCA at this time.

The application of the corporation tax regime for intangible assets has also led to an unrecognised deferred tax asset in relation to unused tax losses carried forward as it is not sufficiently certain that the FCA will actually have taxable income to set against these losses in future. As at 31 March 2020 this deferred tax asset equated to £49.2m (2019: £44.8m).

The FCA is partially exempt for VAT purposes because a significant part of the revenue relates to regulatory activities which are outside the scope of VAT.

The corporation tax treatment of the PSR's activities is the same as for the FCA, for the same reasons and agreed with Her Majesty's Revenue and Customs. As the FCA wholly owns the PSR, the FCA and the PSR are part of the same group for corporation tax and VAT purposes.

j) Provisions and contingent liabilities:

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted to their present values, where the time value of money is material. No liability is recognised if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

3. Notes to the cash flow statement

	Notes	Group		Parent Company	
		Total 2020 £m	Total 2019 (as restated) £m	Total 2020 £m	Total 2019 (as restated) £m
Surplus for the year from operations		41.6	27.7	42.1	26.1
Adjustments for:					
Interest received on bank deposits	4	(1.8)	(1.2)	(1.7)	(1.1)
Amortisation of other intangible assets	8	24.3	22.6	24.3	22.6
Loss on disposal of non-current assets	6	-	0.1	-	0.1
Impairment of non current assets	8	-	0.7	-	0.7
Depreciation of property, plant and equipment including ROU assets	9	23.2	23.4	23.2	23.4
(Decrease)/increase in provisions	18	(0.9)	2.7	(0.9)	2.7
Difference between pension costs and normal contributions		1.6	3.8	1.6	3.8
Payments made against unfunded pension liability		-	0.2	-	0.2
Additional cash contributions to reduce pension scheme deficit		(23.8)	(29.0)	(23.8)	(29.0)
Operating cash flows before movements in working capital		64.2	51.0	64.8	49.5
Decrease /(increase) in receivables	10	32.3	(29.1)	32.4	(28.3)
(Decrease)/increase in payables	11	(91.0)	49.5	(92.8)	51.4
Net cash generated by operations		5.5	71.4	4.4	72.6

4. Income

FSMA enables the FCA to raise fees and the Financial Services (Banking Reform) Act 2013 enables the FCA to raise fees on behalf of the PSR, to recover the costs of carrying out their statutory functions.

Fee income includes the annual periodic fees receivable under FSMA for the financial year and is recognised in the year and measured at fair value in accordance with note 2e.

	Group		Parent Company	
	Total 2020 £m	Total 2019 £m	Total 2020 £m	Total 2019 £m
Ongoing Regulatory Activity fees ¹	553.3	536.1	537.7	522.2
Additional Ongoing Regulatory Activity fees	4.0	(0.9)	4.0	(0.9)
EU Withdrawal fees	5.0	5.0	5.0	5.0
Scope change costs recovered - Consumer Credit	16.6	15.9	16.6	15.9
Scope Change costs recovered - Claims Management Companies ²	11.8	-	11.8	-
Scope change costs recovered - other	3.3	11.4	3.3	11.4
Application fees and other regulatory income	12.7	15.0	12.7	15.0
Special project fees	11.9	15.5	11.9	15.5
Total	618.6	598.0	603.0	584.1

1 Of the £537.7m (2019: £522.2m) Ongoing Regulatory Activity fees £47.6m (2019: £46.7m) related to penalties collected in the previous year for the sum of enforcement costs and returned to fee payers through reduced fees. See note 13.

2 Includes £2.1m received from Ministry of Justice (previous Regulator of this population) as surplus from the previous arrangements.

Other income is recognised when services are provided and is analysed below:

	Group		Parent Company	
	Total 2020 £m	Total 2019 £m	Total 2020 £m	Total 2019 £m
Skilled person reports (s.166) income ¹	1.6	1.7	1.6	1.7
Services provided to other regulatory bodies	8.5	10.6	11.2	13.1
Publications and training services	0.3	0.5	0.3	0.5
Interest received on bank deposits	1.8	1.2	1.7	1.1
Other sundry income	1.8	2.3	1.8	2.2
Total other income	14.0	16.3	16.6	18.6

1 This income is a recharge of the costs of the s.166 reports to the firm in question. Overall this has a net zero impact on the statement of comprehensive income for the FCA as these charges are included in administrative costs.

5. Staff information

	Notes	Group		Parent Company	
		Total 2020 £m	Total 2019 £m	Total 2020 £m	Total 2019 £m
Gross salaries and taxable benefits		286.9	272.4	278.9	266.3
Employer's national insurance costs		32.7	31.4	31.8	30.7
Apprenticeship levy		1.3	1.2	1.2	1.2
Employer's defined contribution pension costs		27.6	26.0	26.9	25.4
Payments made against unfunded pension liability	3	-	0.2	-	0.2
Net interest on defined benefit pension scheme	17	1.7	3.8	1.7	3.8
Permanent staff costs		350.2	335.0	340.5	327.6
Temporary		3.8	3.4	3.8	3.4
Seconded		0.8	1.0	0.7	0.8
Contractors		26.1	25.0	25.5	24.5
Short-term resource costs		30.7	29.4	30.0	28.7
Total staff costs		380.9	364.4	370.5	356.3

Of which the following was capitalised during the year:

	Group		Parent Company	
	Total 2020 £m	Total 2019 £m	Total 2020 £m	Total 2019 £m
Staff costs	7.0	7.7	7.0	7.7

Staff numbers comprise:

The average number of full-time equivalent employees (including executive directors and fixed-term contractors) during the year to 31 March is presented by division below:

	Group		Parent Company	
	Total 2020	Total 2019	Total 2020	Total 2019
Supervision - Retail & Authorisation	885	859	885	859
Supervision - Investment, Wholesale and Specialist	610	541	610	541
Enforcement and Market Oversight	729	693	729	693
Strategy and Competition	578	565	578	565
Sub-total	2,802	2,658	2,802	2,658
Operations	779	723	779	723
Other central services	292	274	292	274
PSR	91	76	-	-
Total	3,964	3,731	3,873	3,655

As at 31 March 2020, there were 4,003 (2019: 3,826) full-time equivalent employees of which 3,906 (2019: 3,742) were FCA and 97 (2019: 84) were PSR.

The average number of short-term resources utilised during the period to 31 March by type was:

	Group		Parent Company	
	Total 2020	Total 2019	Total 2020	Total 2019
Temporary	86	78	82	77
Secondees	19	19	18	16
Contractors	119	123	118	120
Total	224	220	218	213

As at 31 March 2020, there were 182 (2019: 243) short-term resources of which 179 (2019: 238) were FCA and 3 (2019: 5) were PSR.

Exit packages

Redundancy and other departure costs incurred in accordance with the redundancy policy are set out below. A compulsory redundancy is any departure resulting from a restructure or other change leading to a role ceasing to exist. Other departures are those mutually agreed with the individual concerned. Long-term ill health settlements are credited back to the FCA by our insurers.

Exit package cost band £'000	Number of compulsory redundancies 2020	Number of other departures agreed 2020	Number of Long-term ill health settlements 2020	Total 2020	Number of compulsory redundancies 2019	Number of other departures agreed 2019	Number of Long-term ill health settlements 2019	Total 2019
0 -10	-	2	1	3	1	-	-	1
>10 - 25	2	2	2	6	4	2	-	6
>25 - 50	6	2	2	10	11	3	-	14
>50 - 100	1	1	-	2	11	-	-	11
>100	-	-	-	-	-	-	-	-
Total number	9	7	5	21	27	5	-	32
Gross costs	£0.3m	£0.2m	£0.1m	£0.6m	£1.3m	£0.1m	£0.0m	£1.4m

6. Administrative and general costs

	Notes	Group		Parent Company	
		Total 2020 £m	Total 2019 (as restated) £m	Total 2020 £m	Total 2019 (as restated) £m
IT running costs		62.5	63.0	62.3	62.8
IT project scoping costs		14.2	18.7	14.2	18.7
Professional fees		46.8	40.5	44.5	39.1
Professional fees: s166 ¹		1.6	1.7	1.6	1.7
Accommodation and office services		23.5	39.0	23.4	39.0
Amortisation of intangible assets	8	24.3	22.6	24.3	22.6
Impairment of intangible assets	8	-	0.7	-	0.7
Depreciation of property, plant and equipment	9	10.4	10.6	10.4	10.6
Depreciation of the ROU assets	9	12.8	12.8	12.8	12.8
Loss on disposal of tangible assets		-	0.1	-	0.1
Recruitment, training and wellbeing		13.6	14.3	13.2	14.1
Travel		3.6	3.6	3.6	3.6
Other costs		3.8	2.3	3.7	2.2
Total		217.1	229.9	214.0	228.0

1 These Professional fees are the costs of the s166 ('skilled person') reports recharges to the firm in questions. overall this has a net zero impact on the statement of Comprehensive income for the FCA as the recharges for these costs are recognised in other income.

Auditors

The Comptroller & Auditor General was appointed as auditor on 1 April 2013 under FSMA. The auditor's total remuneration for audit services is set out below:

	Group		Parent Company	
	Total 2020 £'000	Total 2019 £'000	Total 2020 £'000	Total 2019 £'000
Fees payable to the National Audit Office for the audit of the financial statements	126	120	105	100

The National Audit Office has not provided any non-audit related services to FCA group in 2020 (2019 : £nil)

7. Interest payable and other similar expenses

	Group		Parent Company	
	Total 2020 £m	Total 2019 (as restated) £m	Total 2020 £m	Total 2019 (as restated) £m
Interest on lease liability	5.8	5.6	5.8	5.6

8. Intangible assets

The PSR does not hold intangible assets.

	Internally generated software £m	Other software costs £m	Work in progress £m	Total £m
Cost				
At 1 April 2018	186.8	25.3	19.3	231.4
Additions	-	0.1	42.1	42.2
Transfers	15.3	2.2	(17.5)	-
Disposal	(10.9)	(6.0)	-	(16.9)
Impairment	-	-	(0.7)	(0.7)
Reclassification	(0.1)	0.1	-	-
At 31 March 2019	191.1	21.7	43.2	256.0
Additions	-	-	52.3	52.3
Transfers	30.3	0.5	(30.7)	0.1
Disposal	(4.6)	(0.1)	-	(4.7)
Reclassification	-	(2.0)	2.0	-
At 31 March 2020	216.8	20.1	66.8	303.7
Amortisation				
At 1 April 2018	132.0	24.2	-	156.2
Charge for year	22.1	0.5	-	22.6
Disposal	(10.9)	(6.0)	-	(16.9)
At 31 March 2019	143.2	18.7	-	161.9
Charge for period	23.8	0.5	-	24.3
Disposal	(4.6)	(0.1)	-	(4.7)
At 31 March 2020	162.4	19.1	-	181.5
Net carrying value				
At 31 March 2019	47.9	3.0	43.2	94.1
At 31 March 2020	54.4	1.0	66.8	122.2

Internal software development costs of £52.3m (2019: £42.1m) have been capitalised as additions during the year. Internally developed software is designed to help the FCA carry out its various statutory functions, such as holding details relating to regulated firms. These functions are particular to the FCA, so this internally developed software generally has no external market value. Management judgement has been applied in quantifying the benefit expected to accrue to the FCA over the useful life of the relevant assets. Those expected benefits relate to the fact that such software allows the FCA to carry out its functions more efficiently than by using alternative approaches (for example, manual processing). If the benefits expected do not accrue to the FCA (for example, if some aspect of its approach to discharging its statutory functions changes) then the carrying amount of the asset would require adjustment.

Of the net carrying amount of internally generated software of £54.4m:

- i.** £14.9m relates to INTACT, a case management tool for authorising firms and individuals (three years useful life remaining)
- ii.** £7.7m relates to Cloud Datacentre, an online platform to store data (two years useful life remaining)
- iii.** £4.0m relates to Gabriel, a system for submitting regulatory data online (two years useful life remaining)

Of the net carrying amount of work in progress of £66.8m:

- i.** £20.0m relates to the replacement of TARDIS and Gabriel, the systems used for submitting regulatory data and the master registry for authorised firms, permissions, individuals and collective investment schemes.
- ii.** £19.1m relates to INTACT, including £13.7m relating to EU Withdrawal related developments.
- iii.** £7.3m relates to the replacement of FCA operating systems.

9. Property, plant and equipment, and Right of Use Assets (as restated)

Property, plant and equipment, and Right of Use Assets are stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated to write off the cost less estimated residual value on a straight-line basis over the expected useful economic life. The principal useful economic lives used for this purpose are:

Right of Use Assets (leased office in Stratford)	Lease term - 20 years
Right of Use Assets (leased office in Edinburgh)	Lease term - 2 years
Leasehold improvements	Up to lease term - 20 years
Furniture and equipment	10 years
Computer equipment (excluding software)	Up to 5 years

	Right of Use Assets £m	Leasehold improvements £m	Computer equipment £m	Furniture and equipment £m	Work in progress £m	Total £m
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Cost						
At 1 April 2018	-	25.7	51.6	15.0	84.3	176.6
ROU Assets - implementation	231.4	-	-	-	-	231.4
Additions	3.8	0.4	-	-	19.3	23.5
Transfers	15.2	64.2	9.1	10.2	(98.7)	-
Reclassification	-	-	-	-	-	-
Disposal	-	(25.6)	(33.0)	(13.4)	-	(72.0)
At 31 March 2019 (as restated)	250.4	64.7	27.7	11.8	4.9	359.5
Additions	-	-	-	-	3.2	3.2
Transfers	-	0.9	2.9	0.4	(4.3)	(0.1)
Reclassification	-	(2.3)	4.4	-	(2.1)	-
Disposal	-	-	(3.8)	-	-	(3.8)
At 31 March 2020	250.4	63.3	31.2	12.2	1.7	358.8

Depreciation						
At 1 April 2018	-	24.8	48.0	13.4	-	86.2
Charge for year	12.8	4.2	5.0	1.4	-	23.4
Disposal	-	(25.6)	(33.0)	(13.1)	-	(71.7)
At 31 March 2019	12.8	3.4	20.0	1.7	-	37.9
Charge for year	12.8	3.5	5.8	1.1	-	23.2
Disposal	-	-	(3.8)	-	-	(3.8)
At 31 March 2020	25.6	6.9	22.0	2.8	-	57.3

Net book value						
At 31 March 2019	237.6	61.3	7.7	10.1	4.9	321.6
At 31 March 2020	224.8	56.4	9.2	9.4	1.7	301.5

Of the ROU assets cost of £250.4m, £249.8m relates to the property based in Stratford and £0.6m to the transitional carrying value of the property that is based in Edinburgh. Leasehold improvements relate to the cost of fitting out the Stratford property.

The PSR does not hold property, plant and equipment or RoU Assets.

10. Current assets

Trade receivables are recognised initially at amortised cost. The group has applied the simplified approach to impairment of financial assets by providing for expected credit losses on trade receivables as described by IFRS 9. This requires the use of lifetime expected credit loss provisions for all trade receivables. These provisions are based on an assessment of risk of default and expected timing of collection, and an allowance for loss is made for potentially impaired receivables during the year in which they are identified based on a periodic review of all outstanding amounts. Allowance losses are recorded within administrative costs in the statement of comprehensive income when there is objective evidence that an asset is impaired.

Cash and cash equivalents comprise cash and short-term fixed-rate bank deposits with a maturity date of 12 months or less and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates to their fair value. Of the £209.2m (2019: £257.8m), £12.9m (2019: £16.5m) related to fees collected on behalf of other financial regulatory organisations (disclosed in trade creditors, note 11).

The FCA currently has a £100m (2019: £50m) unsecured overdraft facility with Lloyds Banking Group. The facility is reviewed on an annual basis. The PSR does not have, or require, its own credit facilities.

	Notes	Group		Parent Company	
		Total 2020 £m	Total 2019 £m	Total 2020 £m	Total 2019 £m
Fees receivable		2.9	1.7	2.8	1.7
Net penalties receivable	13	0.1	34.4	0.1	34.4
Other debtors		1.7	1.8	1.7	1.8
Prepayments and accrued income		11.8	10.9	11.8	10.9
Trade and other receivables		16.5	48.8	16.4	48.8
Cash deposits		167.9	244.6	164.4	240.1
Cash at bank		41.4	13.2	35.3	9.3
Cash and cash equivalents		209.3	257.8	199.7	249.4
Total current assets		225.8	306.6	216.1	298.2

The average credit period is 40 days (2019: 39 days).

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

All of the fees and other receivables have been reviewed for indications of impairment. The provision has been determined by reference to past default experience:

	Group		Parent Company	
	Total 2020 £m	Total 2019 £m	Total 2020 £m	Total 2019 £m
At 1 April	0.9	0.7	0.9	0.7
Increase in provision for fees receivable	0.1	0.2	0.1	0.2
Total at 31 March	1.0	0.9	1.0	0.9

In addition, some of the unimpaired fees receivable are past due as at 31 March. The age of fee receivables past due, but not impaired, is as follows:

	Group		Parent Company	
	Total 2020 £m	Total 2019 £m	Total 2020 £m	Total 2019 £m
Not more than three months	0.4	0.3	0.4	0.3
Between three and nine months	1.3	0.4	1.3	0.4
Total unimpaired fees receivable	1.7	0.7	1.7	0.7

The FCA policy is to review receivables systematically for recoverability when they are more than three months past due.

11. Current liabilities

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Notes	Group		Parent Company	
	Total 2020 £m	Total 2019 £m	Total 2020 £m	Total 2019 £m
Trade creditors and accruals	93.5	98.7	92.0	97.5
Other taxation and social security	12.3	12.4	12.3	12.4
Net penalties payable 13	53.8	140.4	53.8	140.4
Fees received in advance	186.1	185.2	180.7	180.3
Intragroup payable - PSR	-	-	0.7	1.7
Trade and other payables	345.7	436.7	339.5	432.3
Short-term provisions	1.7	2.5	1.7	2.5
Lease liabilities	-	0.3	-	0.3
Total current liabilities	347.4	439.5	341.2	435.1

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade payables is 23 days (2019: 23 days).

Intragroup payable includes fees collected by the FCA but not paid over to the PSR at 31 March, less services charged by the FCA on a provision of services agreement between the two entities (which sets out the services supplied and the respective costs of those services). The costs are based on charges the FCA has incurred and have been eliminated in the consolidated figures.

As at 31 March, the group and FCA (parent company) current liabilities have contractual maturities which are summarised below:

	Within 6 months		6 to 12 months	
	2020 £m	2019 £m	2020 £m	2019 £m
Trade creditors and accruals	89.8	96.2	3.7	2.6
Fees received in advance	186.1	185.2	-	-
Other liabilities	67.8	155.4	-	0.1
Total current liabilities	343.7	436.8	3.7	2.7

Of the amounts due within 6 months, Trade creditors and accruals include £1.4m (2019: £1.2m), and Fees received in advance include £5.4m (2019: £4.9m) for the PSR.

12. Non-current liabilities

As at 31 March, the Group and FCA (parent company) had non-current liabilities consisting of:

	Notes	2020 £m	2019 (as restated) £m
Long-term provisions for dilapidations	18	17.0	17.1
Lease liabilities		242.5	236.7
Total non-current liabilities		259.5	253.8

The non-current lease liabilities relate to the lease of the office at 12 Endeavour Square. The lease commenced on 31 March 2018 with a twenty year term. The initial rent free period ends in September 2021. The contract provides for rent reviews every five years with the minimum and maximum charge specified for the first review in 2023. Subsequent reviews will reflect market rates.

The statutory basis for the FCA fees is described in note 4. The annual charges in respect of the depreciation of the underlying ROU asset and the finance charge related to the lease are part of the Ongoing Regulatory Activities of the FCA and form part of the underlying costs on which fees are based. The liquidity risk of not being able to meet the lease payments as they fall due is assessed as minimal.

The interest rate used to discount the lease for IFRS 16 purposes is 2.46% as quoted by the Public Works Loan Board. Of the carrying value of the discounted future cash flows, £242.5m relates to the office at 12 Endeavour Square.

Lease liabilities movements:

	Total 2020 £m	Total 2019 (as restated) £m
Value of discounted future cash flows on ROU assets brought forward/at implementation	237.0	231.6
Payments in year	(0.3)	(0.2)
Interest expense on lease liabilities	5.8	5.6
Lease liabilities at 31 March	242.5	237.0

Lease liabilities fall due as follows:

	Total 2020 £m	Total 2019 (as restated) £m
Within one year	-	0.3
Within two to five years	60.9	43.1
Within six to ten years	77.8	77.8
Greater than ten years	103.8	115.8
Lease liabilities at 31 March	242.5	237.0

Subsequent to the year end the FCA signed a new fifteen year lease for offices in Edinburgh. The Right of Use asset, and related lease liability have been measured at the present value of the lease payments at circa £5.9m, discounted using an expected interest rate of 2.21% based on a fifteen year loan from the Public Works Lending facility. The lease arrangements vary by floor, but have a rent free period of between eighteen and twenty four months. The lease provides for rent reviews every five years.

13. Penalties

Penalties issued and not yet collected as at 31 March are included in both current assets and current liabilities and are subject to an assessment of recoverability.

A liability to the FCA fee payers arises when a penalty is received. This liability is limited to the sum of the enforcement costs for that year agreed with the Exchequer and these retained penalties are returned to the fee payers through reduced fees in the following year. Once total penalties collected during the year exceed this amount, a liability to the Exchequer arises.

Recognition of enforcement expenses: all costs incurred to the end of the year are included in the financial statements but no provision is made for the costs of completing current work unless there is a present obligation.

In the course of enforcement activities, indemnities may be given to certain provisional liquidators and trustees. Provisions are made in the accounts for costs incurred by such liquidators and trustees based on the amounts estimated to be recoverable under such indemnities.

Net penalties receivable

	Notes	Group	
		Total 2020 £m	Total 2019 £m
Penalties receivable at 1 April		123.2	10.1
Penalties issued during the period		224.4	227.7
Write-offs during the period		(6.4)	-
Penalties collected during the period		(258.8)	(114.6)
Penalties receivable at 31 March		82.4	123.2
Allowance for bad debts		(82.3)	(88.8)
Net penalties receivable at 31 March	10	0.1	34.4

Allowance for bad debts¹

Penalties receivable were also reviewed for impairment and an allowance made as set out below. These allowances reduce the amounts receivable.

	Total 2020 £m	Total 2019 £m
At 1 April	88.8	8.7
(Decrease)/ Increase in allowance for bad debts	(6.5)	80.1
Total at 31 March	82.3	88.8

¹ Allowance for bad debts includes £76.0m in respect of one penalty issued in 2018/19. A contingent debt was included in the individual's 2013 sequestration (Scottish form of bankruptcy). To date, the trustee in sequestration has identified no assets for distribution to creditors. The FCA is ensuring that steps are taken to identify any potentially recoverable assets.

Penalties collected during the period

	Total 2020 £m	Total 2019 £m
Retained penalties to be returned to fee payers	52.2	47.6
Penalties paid to Exchequer during the period	206.1	16.0
Penalties payable to Exchequer	1.8	58.4
Payable to Exchequer from previous years	(1.3)	(7.4)
Penalties collected during the period	258.8	114.6

Net penalties payable

	Notes	Group	
		Total 2020 £m	Total 2019 £m
Retained penalties to be returned to fee payers		52.2	47.6
Penalties over released to fee payers		(0.3)	-
Penalties payable to Exchequer		1.8	58.4
Net penalties receivable		0.1	34.4
Net penalties payable	11	53.8	140.4

The PSR did not issue any penalties during the year ended 31 March 2020.

14. Losses and Special Payments

The Accounts Direction from the Treasury requires a statement showing losses and special payments by value and by type where they exceed £300,000 for the year to 31 March 2020 only (no comparative figures required).

There are no losses and special payments to report for 2019/20.

15. Operating lease arrangements

At the reporting date, the FCA had outstanding commitments for future minimum lease payments under non-cancellable operating leases for low value items which fall due as follows.:

	2020 £m	2019 £m
Within one year	0.3	0.1
In the second to fifth years inclusive	0.1	0.3
Total	0.4	0.4

Lease expenses recognised in the Statement of Comprehensive Income in respect of short term and low value leases are:

	2020 £m	2019 £m
Short term leases (properties at Canary Wharf)	-	7.8
Low value leases	0.1	0.1
Sublease income	-	(0.1)

16. Capital commitments

The FCA had entered into contracts at 31 March 2020 for future capital expenditure totalling £10.1m relating to intangible assets (2019 £4.1m). These commitments are not provided in the financial statements.

There were no capital commitments for the PSR.

17. Retirement benefit asset/ (obligation)

The FCA operates a UK registered occupational pension scheme, the FCA Pension Plan (the Plan). The FCA is the Plan's Principal Employer. The Financial Ombudsman Service (FOS) also participates in the Plan. The Plan was established on 1 April 1998. It has two sections, the Money Purchase (defined contribution) Section which is open to all employees of the FCA and FOS, and a Final Salary (defined benefit) Section, which is closed to new members and to future accruals. The disclosures have been prepared for the purposes of reporting under IAS19, revised 2011 on the understanding that there is no impact from IFRIC14 or any requirement to recognise an additional liability in respect of any minimum funding requirements.

The governance of the Plan is primarily the responsibility of the Trustee of the Plan. The Trustee has an established governance framework in place to support the operation of the Plan and to ensure legislative and regulatory requirements are complied with under the Master Trust regime. The FCA is consulted on key areas such as investment strategy and funding requirements. The Plan is exposed to several key areas of risk.

These risks primarily relate to interest rate and inflation risk, longevity risk, asset return and liquidity risk. In addition, there may be changes in the Plan provisions or applicable law that could impact the Plan's funding. The FCA is exposed to these risks to the extent that if the deficit in the Plan were to worsen due to these factors, additional deficit contributions may be required.

On balance, the Plan's funding level reached its predefined target in line with the pre-agreed de-risking strategy due to the allocation of assets being updated last year. This change has reduced the exposure to equities and diversified growth funds and increased the liability-driven investment (LDI) funds.

The Money Purchase Section forms part of a wider flexible benefits programme where members can, within limits, select the amount of their overall benefits allowance that is directed towards their pension plan.

Payments to the Money Purchase Section of the Plan are recognised in the statement of comprehensive income, as they fall due. Pre-paid contributions are recognised as an asset to the extent that a cost refund or a reduction in future payments is available.

The total expense recognised in the statement of comprehensive income of £27.6m (2019: £26.0m) represents contributions payable to the Plan by the FCA at rates specified in the rules of the Plan.

The Final Salary Section has no active members and the benefits of the deferred members are calculated based on their final pensionable salary, calculated at the date they ceased accruing benefits.

The net liabilities of the Final Salary Section of the Plan are calculated by deducting the fair value of the Plan assets from the present value of its obligations and they are disclosed as non-current liabilities in the statement of financial position.

The obligation of the Final Salary Section of the Plan represents the present value of future benefits owed to employees in respect of their service in prior periods. The discount rate used to calculate the present value of those liabilities is the balance sheet date market rate of high quality corporate bonds having maturity dates approximating to the average term of those liabilities. The calculation is performed by a qualified actuary using the projected unit credit method at each reporting date.

Actuarial gains and losses arising in the Final Salary Section of the Plan (for example, the difference between actual and expected return on assets, effects of changes in assumptions and experience losses due to changes in membership) are fully recognised in other comprehensive income in the period in which they are incurred.

Past service cost (including unvested past service cost) is recognised immediately in the profit or loss.

Guaranteed Minimum Pension (GMP) is the minimum pension which a United Kingdom occupational pension scheme has to provide for those who were contracted out of the State Earnings Related Pensions Scheme (SERPS). SERPS was a UK Government pension arrangement, to which employees and employers contributed between 6 April 1978 and 5 April 2002, when it was replaced by the State Second Pension.

Where pension schemes have members with a GMP, the GMP accrual rate for females is generally higher than for males which has caused unequal benefits between males and females. On 26 October 2018 the High Court ruled in the Lloyds Banking Group case that UK pension schemes that have contracted out of SERPS will need to equalise benefits between men and women. The equalisation is retrospective and the period to be reviewed is GMP accrued between 17 May 1990 and 5 April 1997 (after which GMP stopped accruing). The FCA'S GMP equalisation adjustment is 0.15% of the defined benefit obligation for 31 March 2020 and this has been included within the Defined Benefit Obligation. A past service cost was recognised in respect of introducing this allowance as part of the 2018/19 report and accounts.

The most recent Scheme Specific Valuation (SSV) of the Plan was carried out as at 31 March 2019 by the Scheme Actuary. The results of this valuation have been taken into account for the purpose of the IAS 19 retirement benefit as at 31 March 2020, allowing for any changes in assumptions and movements in liabilities over the period.

The key assumptions concerning the future uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the assets and liabilities within the next financial year, are:

- Pension asset/ (obligation) – the quantification of the pension asset/ (obligation) is based on assumptions made by the directors relating to the discount rate, retail price inflation (RPI), future pension increases and life expectancy
- Level of annual pension increases – generally the rate for annual pension increases awarded by the Plan for pensions in payment is the annual increase in RPI, or 5.0% a year if lower, although some of the pension rights transferred in from the FCA's predecessor organisations receive different levels of pension increases.
- The Plan asset held in property comprises an investment in a pooled property fund. The investment manager of that fund has reported this value on the basis of "material valuation uncertainty" in light of the significant reduction in level of property market activity due to coronavirus and consequently, less certainty should be attached to their valuation than would normally be the case. No adjustment has been made to the valuation provided by the investment manager, which is assumed to be a best-estimate of fair value given the market restrictions in place at the disclosure date.

The major assumptions and dates used for the purpose of actuarial assumptions were as follows:

At 31 March	2020	2019
Discount rate	2.20%	2.30%
Retail price inflation (RPI)	2.70%	3.40%
Future pension increases	2.60%	3.10%
Plan membership census dates	31/03/2019	31/03/2016

The discount rate is used to calculate the Defined Benefit Obligation (DBO). The DBO is the present value of the cash flows of expected future payments required to settle the obligation to provide benefits resulting from employee service in the current and prior periods. The discount rate was chosen with reference to the duration of the Plan's liabilities (around 19 years). The choice of discount rate does not directly affect the funding of the Plan or the ability of the Plan to meet its obligations to pay benefits to participants. The discount rate determines the DBO disclosed in the FCA's accounts at the fiscal year end and has a follow-on impact in terms of the Net Benefit Cost for the following fiscal year.

As part of the 31 March 2019 funding valuation, a full mortality study was carried out and the base tables were updated to Club VITA 2018 tables, which are based on actual Plan experience. The mortality assumptions for 2020 are based on CLUB VITA tables and reflect an update to the CMI 2018 mortality improvements on the mortality assumptions from 2019.

The table below illustrates the assumed life expectancies in years of members when they retire:

	2020 Males	2020 Females	2019 Males	2019 Females
Retiring today aged 60 (years)	28.1	29.4	27.0	29.8
Retiring in 15 years aged 60 (years)	29.1	30.5	28.1	30.9

The results of the pension valuation are sensitive to changes in all of the assumptions referred to above. The table below provides an estimate of the sensitivity of the present value of pension obligations, and the cost of servicing those obligations, to small movements in those assumptions.

Assumption	Sensitivity	Increase/(decrease) in pension obligation at 31 March 2020	
		£m	%
Present value of funded obligation	Assumptions as above – no change	805.3	-
Discount rate	10 bps increase to 2.30%	(14.1)	(1.8)%
Discount rate	10 bps decrease to 2.10%	14.5	1.8%
Inflation	10 bps increase to 2.70%	13.5	1.7%
Longevity	Life expectancy for a 60 year old increases by 1 year	25.7	3.2%

There has been significant volatility in asset values and bond yields due to the coronavirus pandemic. The corporate bond yields that were used for the IAS 19 disclosures as at 31 March 2020 were significantly higher than those from the months leading up to 31 March 2020 and those seen subsequently. This reflects the heightened sense of uncertainty as at 31 March 2020.

The table below illustrates the volatility in the assumptions used to value the fund assets, and the costs of servicing those obligations since the heightened sense of uncertainty at 31 March 2020. A 10 percent sensitivity in property valuations in the U.K. market has been applied to reflect the material valuation uncertainty in the property fund in the Plan.

Since the year end, the coronavirus pandemic has impacted the assumptions used in the valuation of invested assets and estimates in the inflation and discount rates underpinning the defined benefit obligation at 31 March 2020. Revised assumptions and estimates based on general market movements after 31 March 2020 have been used to reflect the possible change in the disclosure at 31 March 2020 and are illustrative only.

Assumption	Change in Assumptions	Decrease in surplus in the Plan at 31 March 2020	
		£m	%
Surplus in the Plan	Assumptions as above – no change	24.0	-
Property fund valuation	10% decrease in valuation	(6.0)	(25.0)%
Illustrative potential impact of the coronavirus on discount rate, inflation and asset valuations	75 bps decrease in discount rate to 1.45%, 20 bps increase in inflation rate to 2.9% and 11% increase in value of invested assets	(52.2)	(217.5)%

The amounts recognised in the statements of financial position are:

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Fair value of Plan assets	829.3	803.0	742.7	712.5	590.1
Less: Present value of funded obligations	(805.3)	(886.7)	(858.7)	(886.6)	(724.2)
Surplus / (Deficit) in the Plan	24.0²	(83.7)	(116.0)	(174.1)	(134.1)
Unfunded pension liabilities	(3.3)	(3.4)	(3.4)	(3.4)	(3.0)
Asset/ (obligation) recognised on balance sheet¹	20.7	(87.1)	(119.4)	(177.5)	(137.1)

1. The pension asset at 31 March 2020 reflects contributions made to the pension scheme deficit and positive investment returns as a result of The Plan's pre-agreed de-risking strategy which has minimised the impact of volatility in equities and diversified funds and fluctuations in assumptions such as falling inflation rates, slightly offset by falling bond yields.

2. The surplus in the Plan at 31 March 2020 has been recognised in full on the balance sheet.

Amounts recognised in the statement of comprehensive income in respect of the defined benefit plan are as follows:

	Notes	2020 £m	2019 £m
Net interest on the net defined benefit liability		(1.6)	(2.5)
Past service cost ²		-	(1.3)
Other net finance costs	5	(1.6)	(3.8)

2. Past services cost relates to GMP equalisation.

Actuarial gain of £85.6m (2019: £7.1m) is recognised in the period in which it occurs as part of other comprehensive income. Cumulative actuarial losses recognised in other comprehensive income are as follows:

	2020 £m	2019 £m
Losses at 1 April	(248.6)	(255.7)
Net actuarial gain recognised in the year	85.6	7.1
At 31 March	(163.0)	(248.6)

Changes in the present value of the defined benefit obligation are as follows:

	2020 £m	2019 £m
Opening obligation	(886.7)	(858.7)
Benefits paid	24.2	29.0
Interest cost on Plan liabilities	(20.1)	(20.3)
Past service cost	-	(1.3)
Actuarial gains/(losses)	77.3	(35.4)
Closing obligation	(805.3)	(886.7)

Actuarial gains/ (losses):

	2020 £m	2019 £m
Experience gains/ (losses) arising on the Plan liabilities	18.3	(2.3)
Losses arising from change in discount rate	(15.9)	(16.7)
Gains/ (losses) arising from change in assumptions linked to price inflation	87.0	(21.5)
(Losses)/ gains arising from change in demographic assumptions	(1.0)	5.1
Losses from changes to cash commutation factors	(11.1)	-
Total actuarial gains/ (losses)	77.3	(35.4)

Changes in the fair value of the Plan assets are as follows:

	2020 £m	2019 £m
Opening fair value of plan assets	803.0	742.7
Expected return on plan assets	18.4	17.8
Actuarial gains	8.3	42.5
Contributions by the employer	23.8	29.0
Benefits paid	(24.2)	(29.0)
Closing fair value of Plan assets	829.3	803.0

The fair value of the Plan assets and asset allocation at 31 March were as follows:

	Asset allocation 2020 %	Fair value 2020 £m	Asset allocation 2019 %	Fair value 2019 £m
Equity securities	8.5	70.2	13.9	111.5
UK Equity	2.3	18.9	3.9	31.4
European Equity	2.0	17.0	3.3	26.2
Japanese Equity	1.3	10.4	1.9	14.9
Pacific Rim Equity	0.8	6.2	1.2	9.9
US Equity	2.1	17.7	3.6	29.1
Debt securities	58.1	481.7	50.4	404.6
Absolute Return Bond Fund ²	16.0	132.6	17.0	136.5
LGIM Liability-Driven Investment Fund (LDI) ³	42.1	349.1	33.4	268.1
Real estate/property	7.2	59.7	7.4	59.7
Diversified Growth Fund²	10.2	84.3	11.2	89.6
Buy-in asset¹	13.5	112.3	15.4	123.5
Other	2.5	21.0	1.7	14.1
Sterling Liquidity Fund	1.7	14.3	1.3	10.6
Cash	0.8	6.8	0.4	3.5
Closing fair value of Plan assets⁴	100	829.3	100	803.0

- 1 In September 2016 and February 2019, the Trustee of the Plan completed the purchase of an insurance contracts to cover the pension payments for a tranche of the Plan's pensioner members. Under these policies the insurer makes pension payments to the Plan that match the payments due to the members covered and are an asset of the Plan.
- 2 The absolute return bond funds and Diversified Growth Funds will hold a mixture of quoted and unquoted assets. Underlying assets held within these funds are typically expected to be quoted, although the managers have discretion to hold some unquoted assets.
- 3 The Plan uses gilts and gilt based derivatives within the LDI portfolio to hedge some of the interest rate and inflation risk associated with the liabilities. The derivatives used to achieve this can be unquoted, and the Plan's exposure to these instruments will change over time depending of the level of leverage in the LDI portfolio (about 1.9x as at 31 March 2020). The value of the derivatives (and other unquoted assets) is not expected to be material in the overall context of the Plan assets.
- 4 The remaining underlying assets held within these funds are all quoted except for the buy-in asset and real estate/property.

The Trustees' investment strategy includes investing in liability-driven investments and bonds whose values increase with decreases in interest rates (and vice-versa). This is done within a broad liability driven investing framework that uses cash, gilts and other hedging instruments like swaps in a capital efficient way. These funds help to manage the interest rate and inflation risks in the Plan. In combination, this efficiently captures the trustee risk tolerances and return objectives relative to the Plan's liabilities.

There are no deferred tax implications of the above asset/(obligation).

The disclosures are only in respect of the FCA's portion of the liability/asset. The Plan assets do not include any of the FCA's own financial instruments, nor any property occupied by, or other assets used by the FCA. The FCA is the principal employer of the Plan and retains ultimate responsibility for payment of any debt due in event of a wind-up. FOS is an associated employer and would be liable for payment of a debt should they cease to participate, calculated in line with section 75 debt provisions. Our understanding is that surplus can, ultimately, be returned to the principal and associated employers on wind-up, but there is currently no agreement in place that sets out how this would be achieved.

As the Plan closed to future benefit accrual with effect from 31 March 2010 no accrual funding contributions were paid after that date. A Recovery Plan was put in place following the Scheme Specific Valuation as at 31 March 2016 and required an annual deficit contribution to be paid over ten years with the aim of reducing the Plan deficit by 31 March 2027. FCA's deficit contribution in the year was £24.8m (2019: £29.0m) and Financial Ombudsman Service's deficit contribution was £1.0m (2019: £1.0m).

In order to inform the decision of the appropriate combination of contributions and investment strategy to meet the statutory funding objective, the Trustees commissioned a financial review in conjunction with the valuation. This review involved a stochastic asset and liability modelling exercise.

Together with an understanding of sponsor support, this has helped to underpin the agreed contributions and investment strategy, ongoing monitoring and contingency plans. As part of the valuation the Trustee and the Sponsor have agreed to implement the next de-risking trigger, increasing inflation and interest rate hedging to broadly 77% of liabilities (previously 66%) on a gilts + 0.3% basis.

The Trustee also manages the risk by receiving regular updates on the performance of the Scheme's investments.

18. Provisions and contingent liabilities

	End of lease obligations		
	<1 year £m	>1 year £m	Other short term provisions £m
At 1 April 2019	1.6	17.1	0.9
Additional provision in year	-	-	-
Utilised in year	-	-	(0.9)
Reclassified in year	0.1	(0.1)	-
Closing provision at 31 March 2020	1.7	17.0	-

Lease provisions

End of lease obligations are in respect of Right of Use properties.

The lease for 12 Endeavour Square requires that the building is returned to the Landlord at the end of the lease term with any building alterations and additions removed. This obligation is therefore expected to crystallise in 2038. As with any provision of this nature with an extended timeline there are a number of uncertainties and necessary assumptions to determine a likely provision value. The provision is included as an End of lease obligation > 1 year and is currently assessed as £17.0m (2019: £17.0m), which is based on a survey completed by professional advisors in 2019 and assumes that the final obligation will be the result of a negotiated settlement taking account of the actual final build and fit out, the obsolescence of building fabric (and related components), and the future intention for the building at that time. The provision and underlying assumptions will be reassessed on a regular basis through the lease term and adjustments made if required.

Contingent liabilities

The FCA is subject to a variety of claims that arise from time to time in the ordinary course of business and there is a risk of further claims following the conclusion of the ongoing independent reviews. Provisions are made when claims are justified, reliably measurable and payment is expected to be made. As at 31 March 2020, there are a number of open complaints and claims made against the FCA. However, the FCA does not expect the ultimate resolution of any of the claims to have a significant adverse effect on its financial position, performance or cash flows. We are currently consulting on the Complaints Scheme which sets out a more detailed description of our approach to ex-gratia compensatory payments. However, as stated in the consultation, we do not expect this clarification of our approach to compensatory payments to substantially change the proportion of cases in which we make such payments, nor the amounts paid in general.

19. Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Key management personnel include the chairman, executive board members and directors that report directly to the CEO or COO. This includes senior management acting in the role of director for more than 3 months. Of this group, 17 (2019:16) personnel received remuneration of £100k or more for the year (for further information see the Remuneration report on page 108).

	Group		Parent Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Short-term benefits	4.9	5.6	4.2	5.0
Post-employment benefits	0.4	0.4	0.4	0.4
Total	5.3	6.0	4.6	5.4

There were no other transactions with key management personnel in the year.

Significant transactions with other financial services regulatory organisations

The FCA enters into transactions with a number of other financial services regulatory organisations. The nature of the FCA's relationship with these organisations is set out in FSMA. The FCA considers all of the below organisations to be related parties.

The FCA is required under various statutes to ensure that each of the Financial Services Compensation Scheme, the Financial Ombudsman Service, and the Money Advice Service can carry out their functions. The FCA has the right to appoint and remove the directors of these organisations, with the approval of HM Treasury. However, the appointed directors have to exercise independent judgement in accordance with the Companies Act 2006. IFRS 10 Consolidated Financial Statements defines control as 'the ability to use power to vary returns'. On the basis of this, the FCA does not control these entities and hence is not required to prepare consolidated financial statements including these organisations.

During the year, the FCA provided agency services to collect tariff data, issue levy invoices and collect levy monies. In addition to these services, the FCA also provides services relating to information systems, enforcement and intelligence services, contact centre and data migration to the Prudential Regulation Authority.

The charge for the services, and net amount of fees collected that remained to be paid over at 31 March were as follows:

	Service charge		Fees collected not remitted	
	2020 £m	2019 £m	2020 £m	2019 £m
The Financial Services Compensation Scheme	0.3	0.4	10.6	10.2
The Financial Ombudsman Service Limited (FOS)	0.1	0.1	0.5	4.4
Money Advice Service	-	0.1	-	0.1
The Prudential Regulation Authority	7.1	8.4	1.5	1.4
Her Majesty's Treasury	0.3	0.1	0.3	0.3
Pensions Guidance Service	-	0.1	-	0.1

The service charges to Her Majesty's Treasury for 2019/20 include charges in respect of the collection of Money and Pensions Service Levy and the Devolved Authorities Debt Advice Levy, which is in addition to the Illegal Money Lending Levy included in prior years.

The FCA is a guarantor to a lease agreement for FOS's premises in Exchange Tower, Harbour Exchange, London, E14. The lease is for a 15 year term commencing 1 September 2014.

FOS is also a participating employer in the FCA Pension Plan described in note 17 and makes contributions at the same overall rate as the FCA.

The Office of the Complaints Commissioner (OCC)

Following legislative changes which took effect on 1 April 2013, the OCC deals with complaints against the FCA and PRA, and the Bank of England in respect of its oversight over the recognised clearing houses and payment schemes. It has been agreed that the FCA will continue to fund the OCC until 31 March 2021.

The FCA funds the activities of the OCC through the periodic fees it raises. During 2019/20, the FCA transferred £0.4m (2019: £0.4m) to the OCC to cover running costs, which have been expensed in the FCA group financial statements. At 31 March 2020, the balance owing to the FCA from the OCC was £0.0m (2019: £0.1m).

By virtue of certain provisions contained in FSMA, the FCA (together with the Bank of England and HM Treasury) has the right to appoint the Complaints Commissioner, who is both a member and a director of the company and as such has the ability to control the OCC. However the OCC activities are immaterial compared to those of the FCA and have been accounted for at fair value through the statement of comprehensive income.

20. Events after the reporting period

The coronavirus pandemic has resulted in a number of measures being taken to contain the spread of the virus, including travel restrictions, social distancing, quarantines and closure of non-essential services. The FCA has determined that these events are non-adjusting events. Accordingly, the financial position and results of operations as of and for the year ended 31 March 2020 have not been adjusted to reflect their impact. The duration and impact of the coronavirus pandemic remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as the impact on the financial position and results of the FCA for future periods.

There are no other material events after the reporting period.

The Board authorised these Financial Statements for issue on 10 September 2020.

Appendix 1

Exercise of sub-delegated powers by the Financial Conduct Authority under the European Union (Withdrawal) Act 2018

FINANCIAL CONDUCT AUTHORITY

EXERCISE OF SUB-DELEGATED POWERS BY THE FINANCIAL CONDUCT AUTHORITY UNDER THE EUROPEAN UNION (WITHDRAWAL) ACT 2018 – REPORT FOR THE YEAR ENDING 31 MARCH 2020

Presented to Parliament pursuant to Schedule 7 paragraph 32(2)(a) of the European Union (Withdrawal) Act 2018

EXERCISE OF SUB-DELEGATED POWERS BY THE FINANCIAL CONDUCT AUTHORITY UNDER THE EUROPEAN UNION (WITHDRAWAL) ACT 2018 – REPORT FOR THE YEAR ENDING 31 MARCH 2020

Introduction

1. The European Union (Withdrawal) Act 2018 (EUWA) requires the Financial Conduct Authority (FCA) to report to Parliament annually if it exercises relevant sub-delegated powers. Sub-delegated powers in this context are powers delegated to the FCA to:
 - a. make changes to FCA rules and EU regulations containing binding technical standards (BTS), to ensure they work effectively in the United Kingdom (UK) after exit from the European Union (EU) and
 - b. make directions under the temporary transitional power (TTP) to help firms adjust after exit.
2. For each reporting year when a relevant sub-delegated power is exercised, we must lay a report before each House of Parliament. Once it is laid, we must provide a copy of it to a Minister of the Crown and publish it as we consider appropriate.
3. The relevant powers in relation to the FCA (the 'Powers') arise under:
 - a. regulation 3 of The Financial Regulators' Powers (Technical Standards etc) (Amendment etc.) (EU Exit) Regulations 2018 – the making of EU Exit instruments relating to FCA rules and BTS (the 'deficiency fixing power') and
 - b. regulation 198 of The Financial Services and Markets Act 2000 (Amendment) (EU Exit) Regulations 2019 – the making of directions under the TTP.
4. This report covers our use of the Powers in our annual reporting year ending 31 March 2020.
5. We have published detailed information on the use of the Powers on our [website](#).
6. Where the FCA is an appropriate regulator, the deficiency fixing power allows us to amend:
 - a. existing EU BTS (as listed in The Financial Regulators' Powers (Technical Standards etc) (Amendment etc.) (EU Exit) Regulations 2018) which will be incorporated into UK law by the EUWA; and
 - b. EU-derived provisions (as defined in those regulations) made by the FCA.

How we used the Powers in the reporting year ending 31 March 2020

7. The European Union (Withdrawal Agreement) Act 2020 has been enacted and the Withdrawal Agreement has been ratified and given effect in UK law. Under the Withdrawal Agreement, the UK exited from the EU on 31 January 2020 at 11pm.
8. The European Union (Withdrawal) Act 2018, as amended by secondary legislation, defines 'exit day' by reference to this time. The UK has entered an implementation period (IP) which will last until 31 December 2020 at 11pm, and the European Union (Withdrawal Agreement) Act 2020 defines 'IP completion day' by reference to this time. During the implementation period, EU law will continue to apply in and to the UK. The implementation period is also being called the 'transition period'.
9. The European Union (Withdrawal Agreement) Act 2020 automatically deferred the commencement of amendments that have already been made to Handbook rules and BTS in connection with the UK's exit from the EU from exit day to IP completion day. To the extent that the European (Withdrawal Agreement) Act 2020 does not defer the commencement of the exit instruments we made last year, or certain provisions within them, such as in relation to guidance, we have made a further instrument that will do this. The combined effect of this is that the amendments we have so far made to FCA rules (and guidance etc) and to EU regulations containing BTS will apply from the end of the transition period.
10. Many of those amendments refer to 'exit day', and may need to be changed to refer to 'IP completion day'. At this stage, we have not yet corrected those references, and plan to address them later this year.
11. We consulted on further instruments to be made under powers on which would we need to report, in Chapter 7 of the Quarterly Consultation No 25 (CP19/27) (September QCP) and Chapter 8 of the Quarterly Consultation No 26 (CP19/33) (December QCP). Given that there is now a transition period until 31 December 2020, we have deferred the decision on making those instruments until later this year.

Temporary transitional power (TTP) directions

12. The TTP was created to temporarily empower the FCA to make transitional provisions to minimise the disruption for firms and other regulated entities after the UK left the EU.
13. Now that the UK has left the EU it has now entered a transition period which is due to operate until December 2020. During the transition period, EU law continues to apply in the UK. As a result, the TTP Directions previously made by the FCA were not required at this stage and were revoked in January 2020. They did not come into force at 11pm on 31 January 2020. In this reporting year the FCA made minor amendments to the annexes to the previous TTP directions in April 2019 which were then revoked in January 2020 as stated above.
14. On 25 March 2020, the Treasury confirmed that it would retain the regulators' TTP, which was introduced via the Financial Services and Markets Act 2000 (Amendment) (EU Exit) Regulations 2019, and shift its application such that it is available for use by the regulators for a period of 2 years from the end of the transition period.
15. The FCA made a statement on 30 April 2020 confirming that, after the transition period, it intends to apply the TTP on a broad basis. The statement also confirmed that the FCA intends to grant transitional relief from the end of the transition period until 31 March 2022.

Appendix 2

Use of our Section 166 power

Section 166 of FSMA (s166) gives the FCA the power to get an independent view of aspects of a firm's activities that cause us concern or if we need further analysis. Either the firm or, under the Financial Services Act 2012, the FCA can appoint the skilled person firm(s) to do this. In each case, we set the scope of the review and the firms pay the costs.

Key activities

In 2019/20, we used the s166 power in 59 cases; in 4 of those cases we appointed the skilled person firm. A total of 20 different skilled persons firms were appointed to undertake these reviews.

The aggregate cost incurred by regulated firms for s166 work undertaken in this financial year, including reviews that remain in progress from previous years, was £31.5m.

The reviews examined a number of regulatory issues, including:

- financial crime
- adequacy of systems and controls
- corporate governance and senior management arrangements
- adequacy of advice
- complaints handling
- client money and client asset arrangements.
- risk management

FCA Sectors	Number of Skilled Person Reports Commissioned in 2019/20
Retail Banking	14
Retail Lending	18
Retail Investments	5
General Insurance & Protection	4
Pensions & Retirement Income	1
Investment Management	9
Wholesale Financial Markets	8
Total	59

Lots	FCA Firm Supervision Category		Total
	Dedicated Supervision	Portfolio Supervision	
Client Assets	1	5	6
Governance and individual accountability	3	2	5
Controls and risk management frameworks	5	8	13
Conduct of Business	2	13	15
Financial Crime	5	11	16
Prudential – credit, market, pension and liquidity risk within investment firms, intermediaries and Recognised Investment Exchanges	0	1	1
Technology and Information Management	1	1	2
CBEST Penetration Testing	1	0	1
Total	18	41	59

The tables above cover reviews where we exercised our powers under s166 for 2019/20. For PRA information please refer to its publications.

Notes

1. The number of 2019/20 cases includes reviews where a Requirement Notice has been issued but work has not yet started and so no costs have been incurred.
2. Costs quoted are net of VAT except where reviews are directly appointed; the costs of directly appointed s166 reviews are reported gross. One review constitutes a significant proportion of the total costs quoted. The Financial Statements (Note 6) give information about costs related to directly appointed s166 reviews.
3. Lots is a term used to describe the different subject areas in which a skilled person review can be carried out.
4. FCA Firm Supervision Category refers to the way the FCA supervises firms. Most are supervised as members of a portfolio of firms that share a common business model; those firms with the greatest potential impact on consumers and markets are assigned a dedicated supervision team.
5. The updated costs in relation to the 15 reviews of Interest Rate Hedging Products first stated in the 2013/14 Annual Report, some of which are still ongoing, now stands at £420.5m. These costs are as at 31 March 2020.

Appendix 3

RDC Annual Review of the year to 31 March 2020



Introduction from Tim Parkes, Chair of the Regulatory Decisions Committee

This is the fifth annual review published by the Regulatory Decisions Committee (RDC) of the Financial Conduct Authority (FCA). As in prior years, we look back at what the RDC has done in the last 12 months and look forward briefly to some of the things we might expect to see over the next year.

As you will see from the overview section of this report, 383 cases were referred to the RDC and 382 cases completed in the period, compared to 516 and 539 in the previous year. Most cases we have dealt with over the past year have come from the FCA's Enforcement and Market Oversight Division (EMO). They ranged from complex cases involving allegations of very serious misconduct to cases where firms or individuals had failed to submit returns or pay fees due to the FCA. We also dealt with a number of contested cases which came to us from the FCA's Authorisations and Supervision Divisions.

During the year 7 RDC members retired. Following an exercise last year to recruit new members to fill the vacancies on the committee, 4 of the new members started on 1 February 2019. 5 additional members started on 1 July 2019.

The RDC always aims to make fair and appropriate decisions on the FCA's behalf and to do its work efficiently. Panels – ordinarily comprising 3 members – or the Chair or a Deputy alone in straightforward cases, are responsible for assessing both the material produced by the FCA in support of its proposed action and the material (including representations) provided by the subject of the proposed regulatory action. We continue to deal with cases as expeditiously as possible and, in recent years, have significantly improved timeliness on straightforward case processing. In addition, in the past year, we have continued to increase the degree to which we deal with cases electronically.

As in prior years, we have decided in some cases not to follow the proposal for regulatory action made by the relevant division of the FCA or to impose different sanctions in light of representations received from the subjects of proposed action.

During 2019/20 we saw a marked increase in urgent supervisory matters, reflecting the FCA's focus on 'early intervention' work to prevent or reduce harm to consumers at the earliest possible stage.

In addition, the RDC received its first contested authorisation case in relation to a claims management firm with temporary permission. We expect to see more of these cases in the coming year.

The year 2019/20 also included the first contested case dealt with jointly by the FCA and Prudential Regulation Authority (PRA). The RDC panel, which I chaired, liaised closely with the Enforcement Decision Making Committee panel at the PRA on procedural aspects, with a view to reducing the burden on the subject of two sets of parallel regulatory proceedings.

I should also note that the committee and secretariat have been working to mitigate the impacts on our work of the coronavirus pandemic and resulting restrictions. We will continue to do so in the future, to ensure we are able to continue to work as effectively as possible.

Looking forward, I expect a largely similar mix of cases to those we have seen over the last year but with a focus which reflects the FCA's own priorities for 2020/21.

I meet each member of the committee every year to provide feedback on individual and collective performance and to receive feedback on how we can continue to improve our procedures, training and recruitment processes.

I have also continued to take opportunities both inside and outside the FCA to communicate what the RDC does and to answer questions about and listen directly to any concerns about the RDC.

I summarise below our review of the FCA's enforcement settlement process during the past year, and present our conclusions and recommendations.

As usual, I would like to thank the RDC's members for their hard work over the last year – especially those who have retired – and to recognise the excellent support provided by our secretariat which includes our own legal advisers, case-handlers and administrator. As I have said before, without their collective dedication and commitment, the RDC would not be able to meet its objectives.



Tim Parkes

Overview

The RDC is a committee of the FCA Board and makes specific decisions on its behalf. The Board appoints the RDC's Chair and members although, apart from the RDC Chair, RDC members are not FCA staff. While the RDC is a part of the FCA, it is operationally independent and separate from the FCA's executive management structure.

The RDC Chair reports quarterly to the FCA Board's Risk Committee on resourcing and performance, such as how long it takes to complete cases. The RDC Chair does not report on individual decisions made by the RDC.

Case work

The RDC made 550 decisions on cases (at either the first or final stage) during the year. Most of these were about enforcement action against firms for failing to pay regulatory fees or submit regulatory returns. This figure is a decrease on the previous year, which was 770.

The Committee also makes decisions on:

- enforcement and supervisory actions alleging serious breaches, which the relevant firm or individual is contesting
- applications for authorisation or approval which the Authorisations team proposes to refuse and which are contested
- whether to give the FCA authority to bring civil or criminal proceedings

Making decisions

The RDC is supported by a secretariat of FCA staff, made up of case management, legal and administrative functions. These staff work in a separate division from the FCA staff involved in conducting investigations and making recommendations to the RDC; they report through the Company Secretary to the FCA Chair. The RDC's dedicated legal function advises the RDC Chair and members on the legal and evidential soundness of cases. This assures an objective and independent approach to issues from cases brought to the RDC.

The secretariat also monitors case inputs and timeliness. It helps ensure that cases are progressed appropriately, taking into account their complexity the requirements of the subjects as well as resourcing.

The FCA's website includes a detailed [description](#) of what the RDC's role is in contested cases and explains the different notices which the RDC may issue. The RDC takes decisions based on its understanding of the issues, and assesses the evidence and legal basis for any recommendation for regulatory action.

The process allows those who are the subject of the action or their legal representative to make both written and oral representations to the RDC. The Financial Services Lawyers Association may provide them with [pro-bono legal assistance](#). When appropriate, the RDC will depart from the recommendations made to it, for example, to:

- change the basis of a case from deliberate to negligent misconduct, or vice versa
- change the amount of a proposed financial penalty
- decide that no disciplinary action is appropriate
- decide that the FCA should grant an application for authorisation of a firm or approval of an individual

The RDC's decision-making remit includes cases where the firm or individual only wants to contest part of the case against them, rather than all of it.

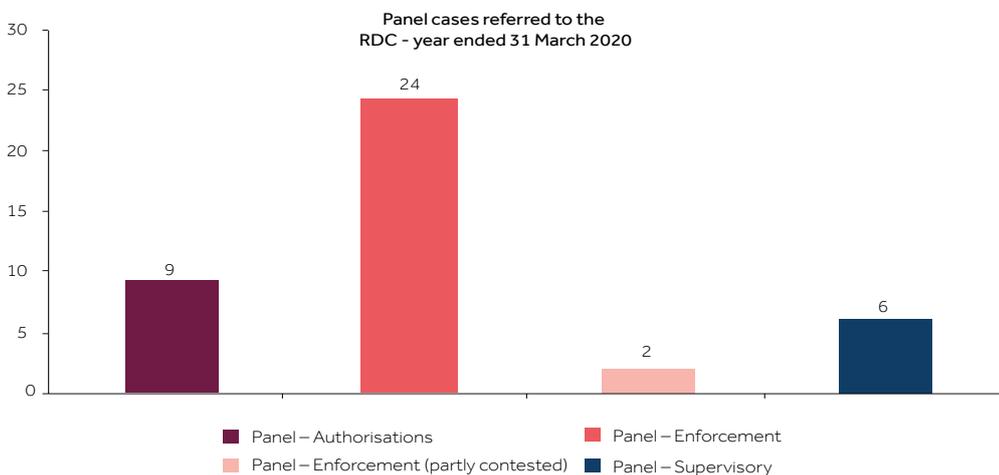
RDC decisions are decisions of the FCA. This means they can only be challenged by the subject of the action, who may refer the matter to the Upper Tribunal for a re-hearing.

Operational performance

Cases received

Cases to the RDC during the year have decreased by 26% since the previous year. The largest decrease was in straightforward enforcement actions against firms that do not submit returns or pay fees. These actions may ultimately result in the FCA cancelling a firm's permissions. However, in approximately 33% of cases the RDC considered last year, the firms either voluntarily cancelled their permissions, or took the required steps during the process, so ending the regulatory action and enabling the firms to continue trading.

Figure 1: Panel cases referred to the RDC during the year by case type²



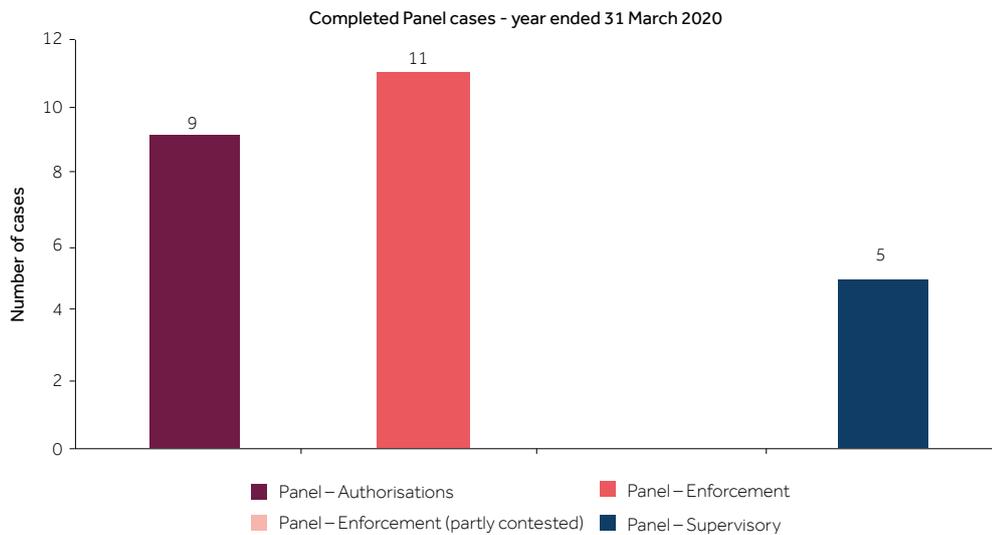
In addition to the cases shown in the above graph, the RDC received 342 straightforward cases last year. These were: 8 Civil, 5 Criminal, 306 Straightforward – Enforcement and 23 Straightforward – Supervisory.

Outputs and outcomes

The RDC also completed fewer cases during the year, compared to the previous year. This reflects the reduction in cases brought to the RDC, most of which were referred and closed within the same reporting year.

² Panel – Enforcement/Supervisory: enforcement or supervisory actions, other than straightforward cases, against firms/individuals for regulatory breaches.
 Straightforward – Enforcement: enforcement actions decided by the RDC Chair or a Deputy Chair alone where the use of a panel is not necessary or appropriate (the majority being for failure to pay regulatory fees or submit regulatory returns). Whether a decision is straightforward is based on a number of factors including the novelty of the decision and the complexity of the relevant considerations.
 Straightforward – Supervisory: supervisory matters decided by the Chair or a Deputy alone where the use of a panel is not necessary or appropriate (for example, due to urgency).
 Civil/Criminal: cases where permission is sought from the RDC Chair or a Deputy Chair alone for the FCA to begin proceedings against firms or individuals in the civil or criminal courts.
 Panel – Authorisations: cases where it is proposed to refuse an application by a firm for authorisation or for an individual to be approved.

Figure 2: Panel cases completed during the year by case type



As well as the cases in Figure 2 above, the RDC completed 357 straightforward cases last year. These were: 8 Civil, 5 Criminal, 323 Straightforward – Enforcement and 21 Straightforward – Supervisory.

Outcomes of completed Panel cases

The outcomes of the 25 completed Panel cases were:

- the RDC decided to impose 2 financial penalties alongside prohibitions preventing the individuals from performing functions related to regulated activities
- the RDC decided to issue 1 further prohibition order preventing an individual from performing functions related to regulated activities
- the RDC decided to impose financial penalties on 2 individuals
- the RDC decided to impose a financial penalty on 1 firm
- the RDC decided to cancel the Part 4A permission of 1 firm
- 1 case relating to an application to revoke a Prohibition Order was withdrawn by the applicant.
- the RDC decided not to issue Decision Notices in 2 cases
- the RDC issued 5 Second Supervisory Notices to firms varying permissions and/or imposing requirements
- 3 applications by firms for authorisation were refused
- 1 application for approval of an individual was refused
- 1 case regarding an application for authorisation was withdrawn following the oral representations meeting
- 3 applications by firms for authorisation, and 1 application for approval of an individual, were withdrawn prior to substantive papers being received
- 1 Enforcement case was withdrawn prior to substantive papers being received

Timing

The average time the RDC took to complete a Panel – Enforcement case was 8.1 months from receiving the case papers until either giving a Decision Notice or deciding not to give a notice. This compares with 11 months last year.

Panel – Supervisory cases were completed in, on average, 2.3 months during 2019/20. Last year the RDC only dealt with one Panel – Supervisory case, which was completed in 5 months.

Panel – Authorisations cases were completed in 2.3 months on average, a decrease on last year's average of 3 months.

Upper Tribunal decisions

Where there are disagreements between the FCA and firms or individuals about the FCA's regulatory decisions, the firm or individual can refer the RDC's decision to the Upper Tribunal (Tax and Chancery Chamber) for a re-hearing. The Tribunal is an independent judicial body established by the Tribunals, Courts and Enforcement Act 2007.

Tribunal proceedings involve a full re-hearing of the case, not an appeal. They also involve different evidence – most notably live witness evidence, including cross-examination before the Tribunal. The RDC does not have any role in the proceedings. The FCA's case is presented by EMO, which can choose to present the case to the Tribunal on a different basis from that presented to the RDC, such as by arguing for a higher financial penalty.

For these reasons, the RDC does not and cannot directly assess the quality of its decisions in these cases based on whether the Tribunal reaches the same conclusion as the RDC. Tribunal decisions are often informative and illuminating, and the RDC actively reviews them for any lessons either about the specific case or about RDC processes and procedures more generally.

During the year, there were 4 substantive Tribunal decisions on cases decided by the RDC (Linear Investments Ltd, Andrew Tinney, North London Van Centre Ltd and PF International Ltd). These covered a wide range of issues, including liability and sanction, the appropriate level of financial penalty, and cancellation for failure to satisfy the threshold conditions. In 3 of those cases the Tribunal agreed with the RDC's action (in the case of PF International the reference against the contested supervisory action was struck out as the firm's permission had already been cancelled through separate action). In the other case (Andrew Tinney), the Tribunal agreed with the RDC that Mr Tinney, the former Chief Operating Officer of Barclays Wealth and Investment Management, had acted without integrity by recklessly giving the impression that a document which contained critical findings about the culture within Barclays Wealth Americas did not exist, and had also made a misleading statement to the Institute of Chartered Accountants in England and Wales. However, the Tribunal did not agree with the RDC that Mr Tinney had also acted without integrity by making false or misleading statements about the same document on another occasion, or with the RDC's finding that Mr Tinney had misled the FCA. The RDC had decided that it was appropriate to publicly censure Mr Tinney and to prohibit him from performing any senior management function. The Tribunal agreed with the RDC that a public censure was appropriate, but concluded that Mr Tinney should not be prohibited.

The Tribunal also made a decision in the case of Sussex Independent Financial Advisers Limited, where the RDC had varied the permission of a firm of financial advisers so that the firm could no longer carry out regulated activities. The firm applied to suspend the effect of those decisions, which otherwise take immediate effect. In this case, the Tribunal refused to grant the suspension because it would potentially have prejudiced consumers' interests.

11 RDC cases referred to the Tribunal were awaiting decisions at the year-end (31 March 2020).

Ongoing case loads

At the end of the period of this review (31 March 2020), the RDC had 51 ongoing cases:

- 13 open Panel – Enforcement cases
- 1 open Panel – Partly-contested Enforcement case
- 1 open Panel – Supervisory case
- 18 open Straightforward – Enforcement cases
- 1 open Straightforward – Supervisory case
- 6 stayed cases

- 11 cases due to be opened imminently that had been notified to the RDC (including 9 Panel – Enforcement, 1 partly-contested Enforcement and 1 Criminal case)

The RDC's membership

The RDC's members are current and recently retired financial services industry practitioners and non-practitioners. Members are appointed for a fixed term which is normally 3 years, but can be extended to 6. There are currently 18 members on the committee. There have been changes in the RDC's composition during 2019/20, as some members' terms came to an end and new members joined. We considered the composition of the RDC when recruiting new members, as it is important that it reflects the different sectors of the regulated industry and consumers. There are currently 7 practitioners (Kevin Brown, Julie Hepworth, Charles Laughton-Scott, Caroline Ramsay, Peter Jones, Tanya Castell and E. Noel Harwerth) and 11 non-practitioners (Tim Parkes, Elizabeth France, John Hull, Karen Johnston, Robin Mason, Philip Marsden, Sidney Myers, Jeremy Newman, Malcolm Nicholson, Anne Heal and Stephen Mount). 6 members of the Committee, including the Chair, are lawyers (Tim Parkes, John Hull, Karen Johnston, Philip Marsden, Sidney Myers and Malcolm Nicholson) and 3 are accountants (Jeremy Newman, Caroline Ramsay and Stephen Mount). The FCA's website gives further [details](#).

RDC members are selected on the basis of their:

- experience of making independent, evidence-based decisions
- work in senior and expert positions in financial services, or other relevant sectors
- knowledge and understanding of consumers and other users of financial services

This range of skills and experience aims to improve the objectivity and balance of the FCA's decision-making and to help achieve fairness and consistency across cases.

The full RDC usually meets 3 times each year. The object of these meetings is to: enhance the effectiveness of the committee by sharing insights and experience for decided cases, undertake training in relevant technical aspects of regulation by the FCA and keep members informed of likely workloads and areas of focus.

Review of the enforcement settlement process

Each year the RDC, as the FCA's decision maker in contested cases, reviews the FCA's process for settling enforcement cases. During 2019/20 the RDC sent surveys to 5 firms and 1 individual, and received responses from 2 firms. Considering the small number of recipients and the low response rate, the RDC has adopted a cautious approach to drawing conclusions from what is a very small data-set. The comments below should be read with that in mind.

Those who answered the questionnaire said that they had received adequate information about the settlement process, that it progressed quickly enough and they were given enough time to consider the FCA's proposals and respond. They were both satisfied with the clarity and fairness of the documentation received, although one felt it lacked conciseness.

Both had a pre-settlement meeting which they found helpful: one felt it helped in managing timetable, resources and senior management availability; and the other found it useful to understand the concerns and have an opportunity to respond before the settlement process began, and appreciated the clarity of the case team about the likely timing of entering the settlement process.

Both firms believed that FCA staff conducted themselves well, and that staff of the right level were involved.

Both firms said they were made aware of the partly-contested procedure, whereby it is possible to agree certain elements of a case while contesting other elements, but that they did not pursue it because it was not appropriate to their case.

One firm also raised a general point that in their view the settlement process would benefit from increased consistency between cases in the application of the FCA's penalty policy. They noted that greater consistency might be achieved by more cases being dealt with under the partly-contested case process.

On reviewing the responses, the RDC did not identify specific concerns that would require a change to the settlement process.

In addition to the survey responses on settled cases, one firm of solicitors offered general comments on the process for partly-contested cases. They felt there was a lack of oversight of the decision by FCA staff to accept or reject an offer by the subjects of regulatory proceedings to enter into a focused resolution agreement. They also considered that more time should be given for possible settlement where partial settlement is under consideration, due to the greater complexity of the process in such cases. It is not possible to draw general conclusions from these comments, but we have passed them on to EMO and recommended that they keep them in mind for the future when there is a greater body of information about how the process is working.

The next 12 months

The most immediate challenge for the RDC in the coming months is ensuring it continues with its work while taking appropriate steps with regard to the coronavirus pandemic. This has had, and will continue to have, a number of impacts on the committee and secretariat. This will no doubt take careful management, but we are confident that the committee and its support staff can work flexibly to ensure that the RDC is able to remain effective and efficient.

In terms of case work, we expect to see a continued increase in the use of 'early intervention' powers by the FCA through the use of supervisory notices. We expect the impact of the Senior Managers and Certification Regime to be felt more widely during 2019/20, now that it has been extended to almost all firms the FCA regulates. Both these developments could potentially bring greater numbers of cases to the RDC over time. We also expect to see more use made of the partly-contested case procedure, as well as further cases where both the FCA and PRA are taking action following a joint investigation. In addition, we expect to see more contested authorisation cases in relation to claims management firms. Otherwise, the RDC expects to see cases reflecting the priorities set out in the FCA's Business Plan for 2020/21.

Appendix 4

Sustainability report

The FCA's Environmental Impact

The global pandemic has transformed the way we work. Along with many other companies we have moved to remote working in response to coronavirus. This has greatly influenced our environmental impacts, some have significantly declined over this time, some have moved from the office to people's homes. Our priority for the coming year is to ensure we continue to adapt to meet our sustainability goals and ensure the wellbeing of our workforce.

We are committed to becoming a more sustainable organisation and playing our part to achieve the United Nations Sustainable Development Goals (UN SDGs). Effective environmental management and using our resources prudently also aligns with the Financial Services and Markets Act's remit in so far as it supports one of the principles of good regulation: to make the most efficient and economic use of resources. As a regulator, we also have a firm commitment to UN SDG 8 Decent Work and Economic Growth to encourage and expand access to banking and financial services for all.

Since 2009/10 we have made considerable steps towards this aim, providing value for money by reducing costs and delivering in the public interest by being more environmentally friendly. In the last 10 years we have reduced:

- carbon emissions from energy use and business travel by 82%
- energy use by 53%
- paper for printing by 79%
- total waste by 36%, over 180 tonnes per year
- waste to landfill by 100%

We have met our commitment to continuous improvement over the past year by:

- using resources wisely to deliver both environmental and financial benefits
- promoting sustainability through our employee Eco Network
- measuring, reporting and reducing our impact on the environment wherever practicable
- setting objectives and targets for each of our key impacts and reviewing them regularly to ensure that they remain achievable
- working with our suppliers to ensure that they reflect our commitments to sound environmental practice and good corporate responsibility
- maintaining certification to international standard ISO14001.

The following report provides details of our sustainable buildings, operations and procurement policies.

Note: Figures for 2018/19 represent a period of dual-running while moving from Canary Wharf to Stratford. Cost are exclusive of VAT.

Sustainable Building

Our 2 offices are in Stratford, London and in Edinburgh; most of our employees are based at the head office in London. The Stratford office has achieved Building Research Establishment Environmental Assessment Method (BREEAM) 'Excellent'. It benefits from chilled beam heating and cooling which uses less power and is more efficient and environmentally friendly. Heating and cooling is provided by a district energy system operating in the Olympic Park which is more sustainable and resilient as it is primarily powered by biofuel. There is an automatic LED lighting system throughout, with presence detectors located on all office floors and absence detectors located in all meeting rooms to ensure reduced energy usage. Energy use is actively monitored through our building management system to ensure optimal efficiency.

Blinds within the windows are integrated with the building management system and operate to aid heating and cooling based on the internal temperatures and the sun's trajectory, light intensity and heat, reducing the running costs of heating and cooling. The glazing installed around the building allows more sunlight to the office floor and this actively dims the perimeter LED lighting to the floor when needed.

Greenhouse Gas Emissions

Greenhouse gas emissions from energy consumption have fallen for a number of reasons:

- energy consumption has reduced due to energy-efficiency and energy-saving measures
- electricity is sourced from 100% renewable, carbon neutral sources – wind, solar and biomass
- heating and cooling is provided by the efficient, low carbon district energy scheme in the Olympic Park, Stratford

In addition, there has also been a reduction in scope 3 emissions from business travel due to less travel. This is partially due to the impact of coronavirus.

		2019/20	2018/19	2017/18
Greenhouse Gas¹ (CO²e tonnes)	Scope 1	11	22	50
	Scope 2	284	1,235	4,439
	Scope 3	1,308	1,793	1,664
	Total	1,603	3,050	6,153
Energy consumption (kWh)	Electricity (renewable)	2,657,318	7,110,688	11,638,810 ²
	Gas	61,197	139,257	268,885
	Cooling	2,968,690	2,257,287	n/a
	Heating	865,602	616,866	n/a
	Total	6,552,807	10,124,098	11,907,695
Cost (£'000)	Energy	874	1,056	1,310
	CRC offsetting payments	30	80	87

1 Scope 1 – Gas, Scope 2 – Electricity, Heating and Cooling, Scope 3 – Business travel

2 Non-renewable

Business Travel

FCA staff visit regulated firms across the UK and globally. To minimise the impact of our business travel, we have a policy that encourages sustainable travel and prioritises the use of public transport.

There has been a decrease in emissions from all modes of travel. The reduction during 2019/20 is in part due to the current coronavirus situation. Air travel is the biggest contributor to our total carbon footprint. Where possible we offset a portion of our emissions through airline loyalty schemes.

	Mode of travel	2019/20	2018/19	2017/18
Air (CO ² e)	Air – Domestic	403	535	445
	Air – Europe (>3,700 km)	89	105	107
	Air – International (3,700km+)	764	1,008	1,091
Rail (CO ² e)	Rail/ Eurostar	29	93	99
Road (CO ² e)	Car hire/ taxi/ mileage	23	53	29
Total CO²e tonnes		1308	1,794	1,771
Carbon offset	Via airline travel partner	12	-	-
Cost (£'000)	Business travel (excluding accommodation and expenses)	1,235	1,681	1,604

Water Usage

The water in our office comes from the mains water supply and through rainwater harvesting. Rainwater is collected in the building and filtered for use in the bathrooms. This reduces our mains water consumption and water costs.

To support the UN SDG 14 'Life Below Water' both our catering and cleaning teams reduce the use of chemicals in their cleaning products using a cleaning agent added to water to effectively clean without releasing harsh chemicals into the water system

	2019/20	2018/19	2017/18
Water consumption (m ³)	22,763	54,508	52,698
Cost (£'000)	15 ¹	137	109

¹ Due to supplier error, the billing for the supply of water only commenced in December 2019.

Waste

We follow the waste hierarchy (prevent, reuse, recycle, recover, disposal) to lower our costs and reduce environmental impacts, in line with our commitment to UN SDG 12 Responsible Consumption and Production.

Office waste has reduced again as we use less resources (such as paper) and discourage use of single-use items. To encourage further waste reduction, we sell a range of reusable containers in our restaurant and charge for disposable items.

We continue to operate a policy of zero waste to landfill. Organic waste produced in our kitchens is converted into biogas and liquid fertiliser through aerobic digestion.

		2019/20	2018/19	2017/18
Waste (tonnes)	Energy from waste	113	109	79
	Recycled	211	357	482
	Hazardous	1	2	2
	Total waste	325	468	563
Cost (£'000)	Energy from waste	179 ¹	51	41
		-		
	Recycled		98	89
	Hazardous	25 ²	11	12
	Total disposal cost	204	160	142

1 Energy from waste and Recycled waste are not charged separately by the landlord.

2 Hazardous waste costs include the full service, not limited to disposal.

Paper Consumption

The introduction of hybrid devices and improved wifi in our buildings has enabled us to take our computers to meetings. This has significantly reduced our reliance on printed documents. In addition, 'Follow Me' print solution across all multi-functional device (MFD) printers means we continue to be more efficient and less paper intensive. Printers are configured to black & white and double-sided by default to ensure the most efficient use of paper. The MFDs saved an additional 627,039 sheets of paper (equivalent to approximately 55 trees) as they automatically delete jobs that are not released to print by the user.

Our printer paper is made from recycled material meeting FSC (Forest Stewardship Council) and EU 'Ecolable' standards, in support of the UN SDG 15 Life on Land and sustainable management of forests. All printer equipment and consumables are disposed of and/or recycled in accordance with best practice print industry guidelines.

Printing		2019/20	2018/19	2017/18
Total Sheets	A4	6,087,513	8,761,299	17,537,181
	A3	26,865	45,403	66,832
Cost (£'000)		22	37	69

Sustainable Procurement

Our Supplier Environmental, Diversity and Inclusion and Social Policy Statement supports UN SDG 12 Responsible Consumption and Production. It requires suppliers to meet our commitment to sound environmental practice. It encourages them to develop and supply goods and services that help improve both our and their environmental performance.

To support this, we launched the FCA Supplier Code of Conduct, available on our website, which expresses our expectation that suppliers be aware of, and support, the FCA in complying with all relevant environmental legislation and work with us in achieving the aims of the FCA Environmental Policy Statement. Our suppliers help us to understand and reduce supply chain impacts and aim to reduce their impact on climate change, reduce waste and follow the waste hierarchy, reduce the use of finite resources, limit pollution and promote energy efficiency.

The FCA is committed to limiting our impact on the environment. We work with our suppliers to seek and implement sustainable practices, and it is expected that suppliers help us accurately report on product or service use and continually assess environmental impacts, by being open and transparent. The FCA's Supplier Management Framework which will be rolled out fully in the next 12 months, seeks to work with our key Tier 1 and 2 suppliers to, ensure they implement a Sustainable Procurement Policy. In addition, we are working to ensure our supply chain has policies and procedures promoting greater

environmental responsibility, including: encouraging the development and diffusion of environmentally friendly technologies, lifecycle assessment, carbon footprint, water footprint, systems to reduce energy use, emissions and waste, recycling and the use of recycled materials.

Our catering provider ensures that food is sourced locally, regionally and seasonally to help support UK producers. Seafood, including caught and farmed fish and shellfish, follows the Marine Conservation Society's 'Good fish guide'. They are members of Planet First with a demonstrated commitment to sustainability.



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