Financial Conduct Authority

Annual Report and Accounts 2014/15

(for the year ended 31 March 2015)

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Financial Conduct Authority

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Contents

Chairman's statement

It has been another busy year for the FCA, one in which we have faced some tough challenges but also grown a great deal in both scope and experience. As we reflect on the last 12 months, I believe we can look to the future with confidence that we have learnt important lessons, but that we have also delivered a number of notable achievements.

Our Annual Report brings together those achievements. We have played a central role in improving the conduct of the UK's financial industry, thereby contributing to its long-term objectives. Fundamentally we remain committed to ensuring that we meet our overriding objective to ensure financial markets work well.

When we came into being our approach was designed to advance our three operational objectives: to protect consumers, enhance market integrity and promote competition, with around 26,000 firms within our scope. In a short time, that scope has nearly trebled. Now at the start of our third year, we have seen the number of firms we regulate increase to over 73,000, largely due to us taking over the regulation of the consumer credit industry. As a Board, we are acutely aware of the fact a number of these firms are new to us and our rules, so it has been vital that as an organisation we have engaged and communicated effectively with them, ensuring that we provide clarity in what their obligations are and what they can expect of us as a regulator.

Engaging and effective communication continues to be an important focus for us in establishing our visibility and credibility as a regulator. Our second year of annual research with external stakeholders has shown that most have shifted from a position of uncertainty about the FCA as a new and 'untested' regulator, to feeling more confident about us and our objectives this year, particularly in the area of consumer protection. The research also gave us useful insight into how we can improve engagement with all our stakeholders, which alongside our regular dialogue with the Consumer, Practitioner, Markets Practitioner and Smaller Business Practitioner Panels, ensures that we receive the challenge and advice essential for us to regulate in a balanced and effective manner.

Both inside and outside the financial sector, people understand it is vital that we hold firms and individuals accountable for their conduct, while recognising the need to be proportionate and predictable. We take appropriate steps where we find risks or issues that threaten our objectives, but we aim to work with the industry and communicate transparently to ensure not only that our expectations are clear, but that firms and individuals are reasonably able to meet them. Ultimately, maintaining relationships of trust and mutual respect with regulated entities to ensure that UK markets are fair and effective both benefits consumers and makes the UK an attractive marketplace for international business.

Measurement of regulatory outcomes is not an exact science, but there are some indicators of a positive direction of travel highlighted in this report. Credit for this lies with the firms that we regulate, who have embraced the conduct agenda.

Of course, we have been reminded of our own influence and accountability, and the need to take stock when mistakes are made. Last year my Board commissioned an independent inquiry by Simon Davis into the events surrounding the publication of last year's Business Plan. We published the resulting report in December, which raised a number of points for us to consider, and put forward recommendations for the future. We have fully accepted all of these recommendations and have already made important changes to our internal processes and operating model since to sharpen our focus. Highly regrettable as the incident was, both the Board and I believe that we have learned many important lessons that will improve how we go about our day-to-day business.

My Board has seen some notable changes this year. It was with deep sadness that we acknowledged the passing of David Harker in March. He was a remarkable man who made a considerable contribution to the organisation in his short time on the Board; we miss him a great deal. Lesley Titcomb left us to take up the position of Chief Executive at The Pensions Regulator after 20 years at the FCA and its predecessor bodies, and Clive Adamson also moved on after nearly 18 years of service. I am grateful to both of them for their commitment; we wish them all the best in their new endeavours. In August we were pleased to welcome Catherine Bradley, who joined us with a wealth of experience in European and international financial services.

Our priorities this year have significantly contributed to achieving our long-term ambitions. The next 12 months will see further change in the financial sector and we look forward to continuing to work with both the firms we regulate and the consumers we protect as we move forward as an organisation with growing strength and vigour.

John Griffith-Jones
Chairman

Chief Executive's statement

As a regulator we accept that, in an industry as dynamic as the UK's financial sector, change is a constant. Whether it be responding to the latest innovation in the market or new Government initiative, we have to demonstrate that we can respond to whatever challenge is presented.

The last 12 months have seen our remit expand to include the radical new pension changes, new competition powers and the responsibility for consumer credit, which we assumed in April last year. As well as evolving to meet the challenges of our expanding conduct remit, we have also continued to embed our approach to the prudential supervision of around 23,000 wholesale and retail firms.

That in itself is a considerable body of work, but it is a measure of the importance of the objectives set out for us that it is a fraction of what we undertook last year, which also included the growth of our innovation hub, a review into competition in the wholesale sector, work on the cash savings market and the retirement incomes market as well as our enforcement activity on LIBOR and the Forex markets.

The regulatory landscape is always changing as it responds to the challenges and expectations of the financial sector, and we have adapted accordingly.

But as we know, effective financial regulation is not done simply within our own borders. Finance is global and so too must be regulation. We have worked hard to ensure that we have a strong voice at the international table working with ESMA for example, on dealing commissions to promote competition between brokers and providers of independent research.

And this year we host the 40th annual IOSCO conference in London – a clear example of the key role we play in the new regulatory world. But there is always more we can do and more improvements we can make.

Our expanded remit now means that every important financial decision an individual makes or that a firm is involved in must have a clear emphasis on good conduct. And I welcome that every CEO and Chairman I meet sees conduct as a central pillar of how their business must operate and, by extension, how they can regain the trust of the British people. This is unquestionably a good thing for consumers but also for firms and I look forward to working with them in the year ahead to implement the recommendations from the Parliamentary Commission on Banking Standards that will ingrain this still further.

Work is well underway to implement these recommendations, especially around the Senior Managers and Certification Regime, that will see individual accountability take centre stage. This is long overdue. For trust to return to the sector, it is vital that individuals are held responsible for the decisions they make and the behaviour they demonstrate.

The UK's economy needs the financial sector to be working effectively and we have worked with the wholesale sector across a variety of issues that I believe can improve conduct and protect the market's integrity. We launched our first competition market study into the wholesale sector and will continue to play our part in the implementation of the Fair and Effective Markets Review. It is vital that we restore confidence in our wholesale markets given the impact they have on almost every aspect of the global economy. The review will seek to ensure that there is clear accountability for the decisions taken by those who operate in them, both here at home and internationally, and that we have the correct market structure in place.

One of the most significant changes that I have been particularly proud of has been the increased activity of our Project Innovate initiative. Regulation can be portrayed as a barrier to the entrepreneurial spirit of individuals and start-ups with rules, checks and balances that prevent burgeoning ideas from flourishing. I don't think it needs to be that way.

I believe that to ensure that financial markets remain vibrant and offer consumers the best outcome is through newcomers entering the market, challenging the established order and keeping costs low.

Project Innovate allows us to work with them and help navigate a path, hopefully to market. I look forward to seeing how this grows in the year ahead.

This sits with the new competition powers we have been given. Breaking down those barriers that have prevented firms coming into sectors, like banking, is an essential part of our role.

Working with the PRA, we are giving firms who want to enter the market more tailored support as well as lowering the capital and liquidity requirements and granting authorisation where they have a developed business plan and key senior managers in place. It brings certainty for these firms and as a result 14 new banks have been authorised in the UK since 2013. Another 20 are in the pre-application stage.

This is just a selection of the key pieces of work we undertook and it demonstrated to us a need to look at how we were structured to meet these considerable challenges.

In December we announced that we would restructure key parts of the organisation, enabling us to have a sharper focus on the firms we regulate and delivering the right outcome for consumers and the markets we regulate. Key to this will be to take a more markets based approach and conducting fewer but more focused pieces of work.

We will continue to invest in our staff, as having the best people with the right skills is crucial to us meeting our objectives. Last year saw the launch of our master's degree in financial regulation in association with the Henley Business School and the Chartered Institute for Securities and Investment. This is a very exciting initiative and underlines our commitment to the FCA being a place that can develop our own people whilst being an attractive destination for talent outside of regulation.

Change is a given in the financial sector and we must change with it, and at times with considerable speed. We have learned from our experiences, including where we have made mistakes, and evolved to better meet the challenges ahead and the expectations placed upon us. The year ahead promises to be as demanding as the two that have preceded it and we are now well placed to meet those challenges and expectations.

M. Wheatley

Martin Wheatley
Chief Executive Officer


PRET A MANGER

Overview of the year

Our Annual Report sets out how we have progressed over the financial year and delivered against our objectives and priorities from our 2014/15 Business Plan. It shows a significant range of activity that lays the foundations for a positive future for UK financial services and their customers.

Regulation has a crucial role to play in the financial services sector. It is a key driver of reform, and a critical means of establishing confidence in financial markets, allowing consumers to have confidence and firms to prosper and support economic growth. We are judgement-based, forward-looking, proportionate and pre-emptive in assessing potential or emerging risks, responding promptly and effectively to wrongdoing that threatens our objectives.

Our strategic objective is to ensure that the relevant markets function well. To support this, we deliver our work through three operational objectives:

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

Over the last year we have taken on several new, high profile responsibilities, which will have a significant long-term impact on the future shape and direction of the UK's financial services sector. Those include the regulation of consumer credit firms, as well as working towards the implementation of recommendations from the Parliamentary Commission on Banking Standards (PCBS), and preparation for the operational launch of the Payment Systems Regulator and competition concurrency.

Some key events from the last year

2014

April
We become responsible for regulating consumer credit

May
New listing rules implemented

June
Final rules to improve the protection of client money and assets

July
Dealing commission review

August
Payment Protection Insurance (PPI) update

September
Mortgage Credit Directive consultation

October
Project Innovate launched

November
Five banks fined £1.1bn for FX failures

December
Credit broking rules published

January
Cash savings competition study final findings

February
Vulnerable consumers research published

March
MIFID discussion paper

2015

As part of the PCBS recommendations, we have taken significant steps towards implementing the new Senior Manager and Certification Regime for deposit-takers and PRA-designated investment firms. The new regime will increase accountability of senior leaders in firms, raise overall standards of governance, and help improve confidence in the UK financial markets.

As we regulate a diverse range of firms, sectors and markets, we take a risk-based approach to identify where we should take action, intervene or continue to monitor. As part of this, we have published 25 in-depth thematic reviews to assess what is, and what could be, causing poor outcomes for consumers and market participants, drawing on data analysis, information from our financial crime and enforcement investigations, market intelligence and input from our supervisory work. Our annual Risk Outlook (published this year as part of our Buisness Plan) sets out the forward-looking areas of risk that we see in the markets.

Protecting consumers

We have carried out work to understand the behaviour of consumers, to tackle the firms and individuals who had abused consumer trust, and to prioritise improvements in key markets such as consumer credit, insurance and savings. In recognition of this we were awarded the Which? Positive Change award for 2014, for shifting the regulatory culture of financial services and for committing to put consumers first.

For example, since taking over the regulation of consumer credit we have sought to raise standards, particularly in high-cost short-term credit, credit broking and debt management. Our new rules restrict the use of continuous payment authorities and limit rollovers, as well as putting a cap on the total cost of credit for payday loans.

In the 2014 Budget the Government announced extensive changes to the pensions system. We have developed standards to ensure that consumers receive appropriate guidance on their choices at retirement, and conducted reviews of the pension market.

In February 2015, we published the results of an investigation into how vulnerable customers are treated by financial services firms; working alongside banks to address several key issues related to areas like power of attorney and service flexibility. We have also published our consumer segmentation model and launched our ScamSmart campaign to help consumers avoid investment fraud.

Enhancing market integrity

We carried out a number of in-depth reviews over the last year that provided clear findings and recommendations for change to address cultural and behavioural issues in markets. These examined risks in the wholesale markets around conflicts of interest, information flows, electronic trading platforms, trading culture, effectiveness of front office supervision, front office controls, automation of trade execution and financial crime. We also analysed changes in market structure and firms' business models.

The Fair and Effective Markets Review – which is a joint project between the FCA, the Bank of England and the Treasury – increased the number of benchmarks that come under our regulatory scope, and our EU policy work has implemented a series of European Directives that aim to enhance and build a European-wide model of regulation.

In enforcement, we continued our credible deterrence approach by attributing responsibility not just to firms, but also to individuals. We demonstrated that, where firms and individuals do not play by the rules, we will take action. For example, we have concluded some significant enforcement cases, such as LIBOR and FOREX, together with levying substantial fines, which have sent a clear message to the market about expected standards of conduct.

"In enforcement, we continued our credible deterrence approach by attributing responsibility not just to firms, but also to individuals"

Promoting competition

We acquired concurrent competition law powers on 1 April 2015 and have continued to embed and promote competition through an extensive range of activities. These are supported by a team of around 50 competition specialists who:

- improve our ability to identify competition concerns and markets where weak competition is contributing to poor consumer outcomes
- help ensure that the measures we take to promote market integrity and consumer protection are the most pro-competitive solutions available (our competition duty)
- respond to competition concerns raised by complainants and through our supervisory activities

Our market studies are our main tool for identifying competition concerns. Over the last year we completed market studies into general insurance add-on services, cash savings and retirement income, which set out remedies on how to make competition work better for consumers. We launched a study into credit cards. We have also published a review on the operational effectiveness of the current account switch service after its first year in operation and worked with the Competition and Markets Authority on a range of retail banking issues. As a result, we are improving the information given to consumers with savings and making it easier to switch.

We completed a competition review of the wholesale sector, off the back of which we launched a market study into investment banking. Later this year we will launch a market study into asset management. We have also worked with the PRA to implement changes designed to reduce barriers to entry in the banking sector.

As part of our Project Innovate, we have recognised the critical contribution that innovation can have on competition by establishing an Innovation Hub, dedicated to supporting innovation among new market entrants and existing market participants.

Working with our national and international partners

We have helped to shape EU policy-making positively for both consumers and firms, such as in the implementation of MiFID II, which has an impact on retail and wholesale investment markets. At a global level we have played a significant role, particularly in the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB).

The number of international enforcement requests for assistance has continued to grow. In 2014/15, we received 1,047 formal requests for assistance from our overseas counterparts. We have conducted interviews on behalf of overseas investigators, compelled information and provided assistance to multiple overseas enforcement investigations. We also receive assistance from our overseas counterparts.

Strengthening the organisation

We are committed to improving the skills and expertise of our staff. In 2014/15 we launched the FCA Academy and embarked on a series of strategic partnerships with Said Business School at Oxford University, Cranfield School of Management and Henley Business School, with whom we have developed and launched an MSc in Financial Regulation.

We are in the third year of a five year £150m investment programme to improve our infrastructure, refresh core system components and build IS capability. This will contribute to significantly improving the way we collect and analyse data from firms.

"As part of our Project Innovate, we have recognised the critical contribution that innovation can have on competition by establishing an Innovation Hub, dedicated to supporting innovation among new market entrants and existing market participants"

The Davis review

In December 2014, Simon Davis of Clifford Chance delivered a report following events surrounding a media story about our planned life assurance review. We fully accepted Mr Davis' analysis and have introduced a number of changes to our structure, processes and operating model. Good progress has been made in a number of areas, which were identified by Mr Davis as particularly important.

For example, we have introduced substantial improvement in the procedures relating to the identification, control and release of price sensitive information. We have informed staff of the revised policies, procedures and guidance. Central training about these revised procedures has been provided to all managers and further training and awareness initiatives have been rolled out to all staff.

In March 2015 the Treasury Committee published its report: *Press briefing of the FCA's Business Plan for 2014/15*. We will respond in due course.

Looking ahead

In December 2014 we announced our new strategy, which is an evolution of our regulatory approach, in light of new developments in financial services and the continued expansion of our remit.

The last two years have seen significant changes in the scope of our regulatory responsibilities, but resourcing has remained largely fixed, so we are now sharpening our use of data analysis, regulatory intelligence and resource to focus on key priorities, while remaining flexible enough to respond to emerging issues. More details about our new strategy and our work programme for this financial year can be found in our *Business Plan 2015/16.*

HBOS review

The PRA and FCA are preparing a report into the failure of HBOS plc. We and the PRA are committed to publishing the report as soon as possible but the legal process of Maxwellisation and consent can be lengthy.

Maxwellisation is the process, required by law, whereby anyone subject to potential criticism is given an opportunity to see those references, comment in response and have those comments considered by the person preparing the report. Following this, we will need to obtain consent from various parties to publish in the report any information deemed confidential by law.

Our regulatory approach

When exercising our general functions we have regard to the following regulatory principles for good regulation:

- Efficiency and economy
- Proportionality
- Sustainable growth
- Responsibility of consumers
- Openness and disclosure
- Recognising the differences in businesses carried on by different regulated persons
- Responsibility of senior management to comply with the regulatory framework
- Transparency

Figure 1: Measuring performance against the statutory objectives

Statutory objectives	Ensuring that financial services markets function well					
	Securing an appropriate degree of protection for consumers		**Promoting effective competition in the interests of consumers**		**Protecting and enhancing the integrity of the UK financial system**	
Outcomes	Consumers have access to fair products and services, which deliver what they promise	Consumers can be confident that firms treat them fairly and fix problems promptly	Competition contributes to improved consumer outcomes	Firms compete on clear costs and consumers have the information they need	Consumers can trust firms to be fit and proper and for financial markets to be clean	A respected regulatory system that lets good firms know where they stand
Outcomes indicators	Fair products and services	Building trust and engagement	Value for money products and services	Competitive markets	Clean regulated markets	Attractiveness of market
	Improved consumer experience	Effective remedies	Getting better service	Clear and useful information	Low financial crime	Respected, joined-up regulation

Our performance: outcomes

We have an outcomes-based performance framework, which measures different aspects of our performance. Part of this focuses on our performance against our statutory objectives.

To assess whether we are advancing our objectives we break down our statutory objectives into outcomes that we would like to see in the industry, indicators of these outcomes and performance measures. These outcomes are aspirational and achieving them will take time; however, they tell us if we are heading in the right direction.

Examples of some important indicators we use to help us measure our performance against these outcomes are included in this report.

This analysis should not be seen as an absolute measure of performance, and our success should not and cannot be measured by it on its own. The measures cover some dimensions of the market outcomes that the FCA and our stakeholders care about. They are not direct measures of the FCA's performance, but rather bring together measures that serve as proxies for whether or not markets are moving in the right direction. As such, the analysis will not and cannot capture the complexity of the markets we regulate, or encompass all the risks, activities and outcomes we seek.

Considering the diversity of financial services and consumer needs, and the scope of a typical FCA action or industry initiative, it is clear that these outcomes can only be achieved through the cumulative effects of our and others' actions. We analyse our operational performance and monitor value for money, service standards and enforcement activity.

Outcome indicators

Improved consumer experience

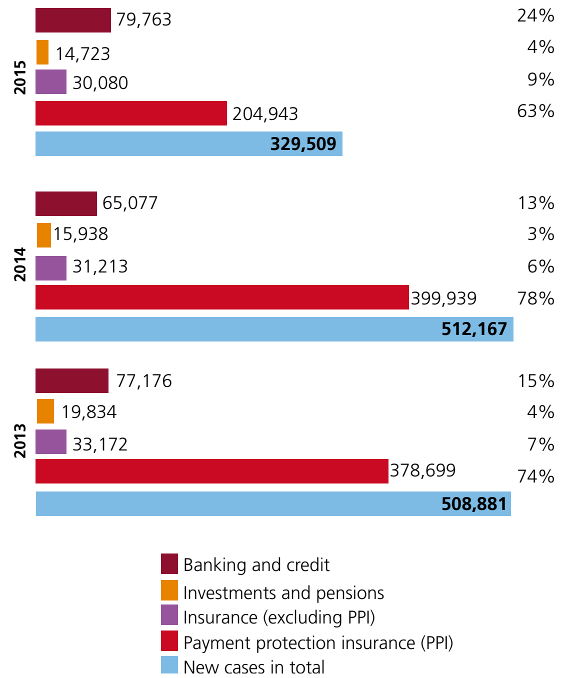
We look at consumer complaints to the Financial Ombudsman Service, particularly complaints upheld, as a proxy for problems consumers face and the advice and services they receive from firms. We consider trends in complaints made about advice provided by firms for purchasing financial products and of charges applied by these firms over the life of the product. Between 2014 and 2015 the number of new complaints fell by over 35%, due to a significant decrease in complaints to the Financial Ombudsman Service relating to payment protection insurance.

Clean, regulated markets

The market cleanliness statistic for takeover announcements is a simple indicator of the proportion of potential insider trading cases, measured on the basis of abnormal price movements observed before takeover announcements of publicly traded companies, relative to the sum of all takeovers in a given period.

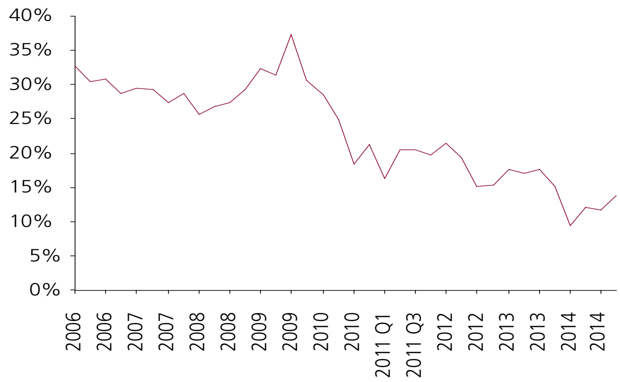
The statistic does not provide a perfect measure of the level of insider trading, but the observed significant decline in the incidence of potential insider trading cases suggests that insider trading has become rarer.

Figure 2: What the complaints were about



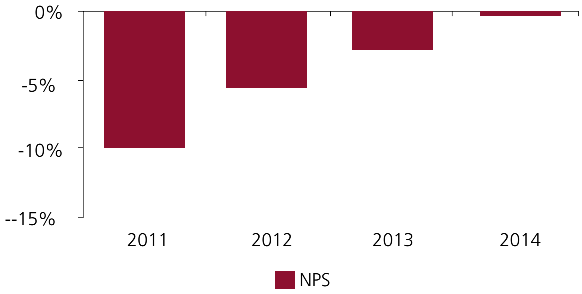
Source: Financial Ombudsman Service complaints (data excludes PPI) as of April 2015

Figure 3: Market cleanliness statistics*



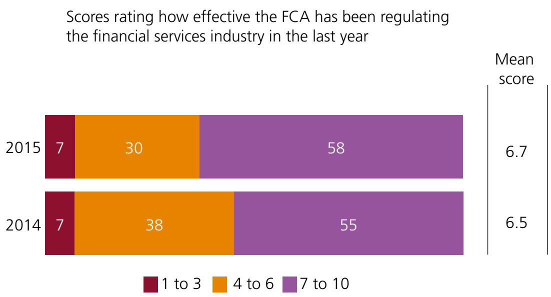
* please also see pages 32 and 33

Figure 4: Net promoter scores



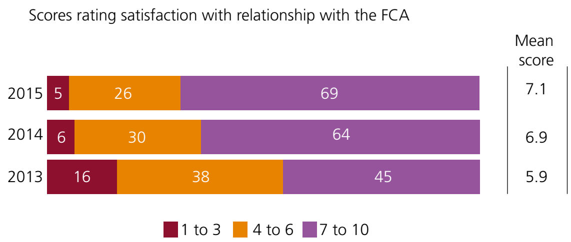
Source: 2014 GfK's Financial Research Survey

Figure 5: Practitioner ratings on FCA as effective regulator



Source: Q2 – Overall, from your firm's perspective, how effective has the FCA been in regulating the financial services industry in the last year (since April 2014)? Base: All firms – 2015 (4,055); 2014 (3,146)

Figure 5.1: Practitioner satisfaction with FCA relationship



Source: Q1 - Taking into account all of your firms dealings with the Financial Conduct Authority, how satisfied are you with the relationship?Base: All firms – 2015 (4,055); 2014 (3,146); 2013 (1,470); 2010 (4,187); 2008 (4,407)

Getting better service

Net Promoter Score (NPS) measures willingness of customers to recommend products or services. It is used as a proxy for gauging overall satisfaction with firms' products or services.

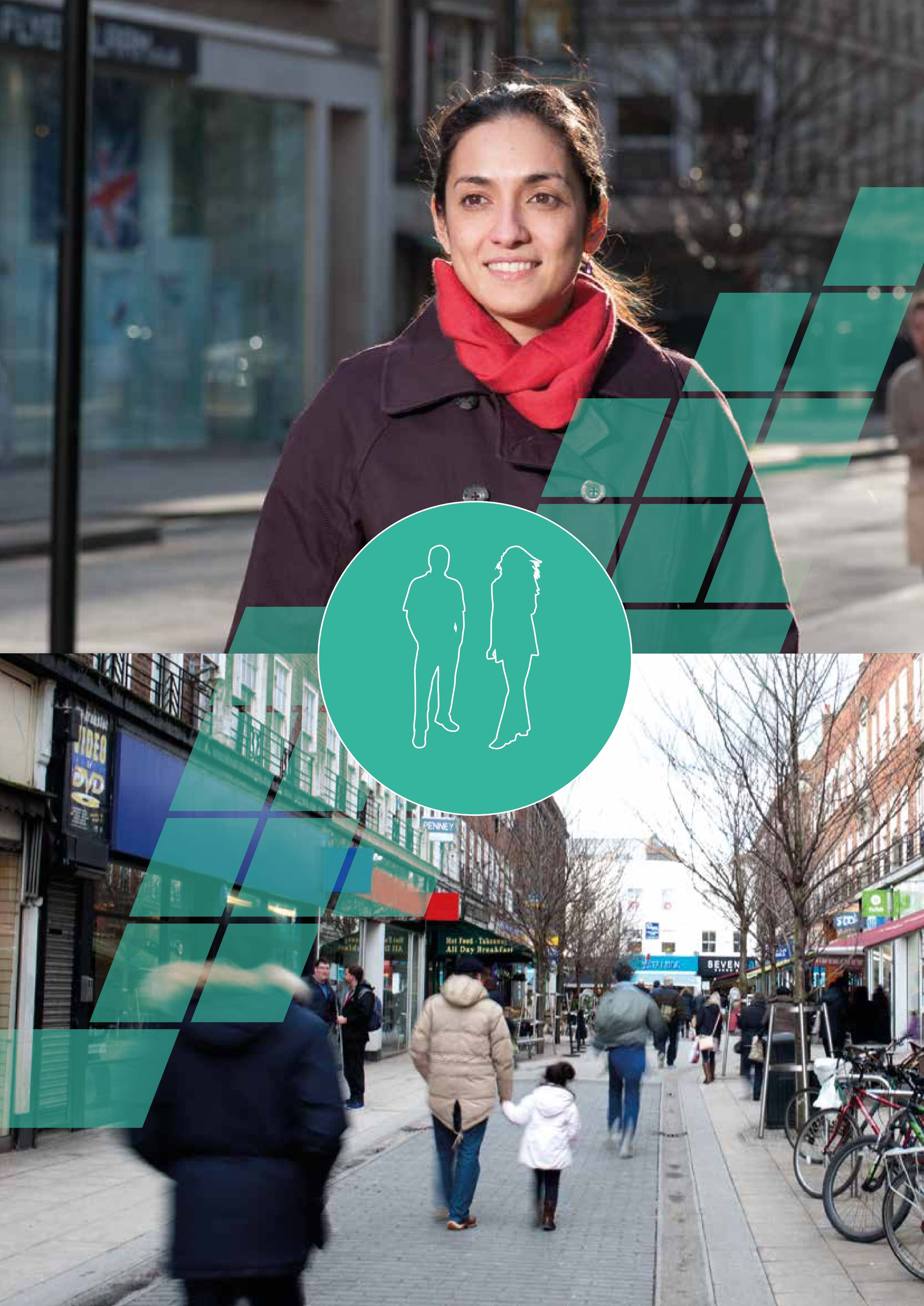
Our measure shows the proportion of customers who are 'promoters' (those who say they would recommend the firm) minus the proportion of those who are 'detractors'.

There continues to be improvement, which shows that customers are becoming more satisfied with the services they receive from financial services firms.

Respected, joined-up regulation

Research undertaken by BritainThinks demonstrates growing confidence in our consumer protection work among opinion formers including trade bodies, consumer organisations, parliamentarians and the media that we are delivering against our objectives.

The financial services Practitioner Panel survey 2015 asked firms to score their thoughts on the perceived 'effectiveness of the regulator' and 'satisfaction with the regulatory relationship'.


VIDEO
DVD
PENNEY
All Day Breakfast
SEVEN

1 Protecting consumers

One of our central responsibilities is to protect consumers from the firms and individuals in the financial industry that may cause them harm. We expect firms to have their customers at the heart of how they do business and provide them with appropriate products and services.

In 2014/15 we said that to protect consumers we would:

- build our understanding of financial consumers, testing the way they make financial decisions and designing behaviourally informed interventions
- communicate via consumer bodies and third parties or directly with firms and consumers
- identify and understand current and emerging risks
- take action to address issues identified through firm supervision, thematic reviews and market studies
- secure redress

To ensure consumers are protected and treated fairly, we monitor which firms and individuals are able to enter the financial markets, making sure that they meet our standards before we authorise them. We then supervise how they work and stop those that are not meeting our standards from carrying out regulated activities.

Where we find that firms are not following our rules, or unauthorised firms are doing business in the UK, we intervene where appropriate. This can take many forms, such as stepping in to impose penalties, stopping them from carrying out certain types of business, requiring improvements in controls or management, or securing redress. We discuss our enforcement work in more detail in Chapter 4 and Appendix 2.

Case study:
Consumer Spotlight and ScamSmart

We launched a microsite for our consumer segmentation model, Consumer Spotlight, in January 2015. It demonstrates how people in the UK deal with money and financial services, with a unique focus on the capabilities and potential vulnerabilities of different groups.

This will help the industry to understand the behaviours that certain consumer groups exhibit, so they can design products that are fair and appropriate. The model is a key tool in helping us to assess the effect particular issues may have on different types of consumer and it helps ensure that we choose our interventions accordingly

Consumer Spotlight played an integral role in the development and execution of our first consumer-facing communications campaign, ScamSmart. Using our research, we identified that the 'retired with resources' segment was three times more likely to become a victim of investment fraud. Our research enabled us to target our campaign effectively so we could reach the most vulnerable consumers. We also tested campaign messages and materials in consumer focus groups to inform our creative approach.

Consumer Spotlight

www.fca-consumer-spotlight.org.uk

ScamSmart communications campaign

Building our understanding of financial consumers

We use consumer and market insights to improve outcomes for consumers. We achieved this through our own research, data and analysis, behavioural economics and through working with consumer organisations and partners.

Working with others

We work with a number of consumer organisations across the UK. This network provides us with an invaluable source of intelligence and information that helps to embed the consumer perspective into our work.

Our consumer network includes:

- Age UK
- Citizens Advice
- Money Advice Scotland
- Money Advice Service
- Money Advice Trust
- MoneySavingExpert
- Scope
- Shelter
- StepChange
- Which?

Through this network we are able to gather a wide range of consumer perspectives and a host of interesting and vital intelligence. We want to identify the early indicators that may alert us to issues or trends that could harm consumers. For example, our collaboration with Citizens Advice highlighted the consumer harm that was being created by credit brokers.

The Financial Services Consumer Panel monitors how far we fulfil our statutory objectives in relation to consumers. It is independent and free to publish its views on our work and to commission research on consumers' views, which this year included research on:

- cross-subsidisation in the market for personal current accounts
- how information about enforcement action against regulated firms and individuals, and other public information about firms' behaviour, can empower consumers to make more informed decisions

The Financial Policy Committee (FPC) recommended that the Treasury, the Bank of England, the FCA, UK government agencies and the industry work together to enhance firm resilience to cyber-attacks and improve information sharing across sectors. We monitor technological trends and associated risks so that when reviewing firms' practices we ensure that consumers do not lose out as a result of cybercrime, that firms protect the integrity and confidentiality of the data they rely on, and that firms have adequate controls and provide redress where required.

The Money Advice Service

We oversee the work of the Money Advice Service, which is responsible for providing free, impartial money advice across the UK, and for funding and coordinating the provision of free debt advice.

During 2014/15, Money Advice Service received more than 20 million customer contacts online, by phone and face to face, and helped customers take more than 11 million actions to manage their money more effectively. Through its partners across the UK, it has funded the delivery of more than 200,000 free face-to-face debt advice sessions.

The Farnish review of the Money Advice Service was published in March 2015. The review recognised the important role the Money Advice Service plays in helping those who face problem debt and in helping consumers understand financial services and make informed decisions.

The review proposed a number of recommendations that have called for major changes to the scope of the Money Advice Service's money advice work. We will work with the Money Advice Service to carry out a detailed assessment of practicalities of implementing the suggested changes. The Money Advice Service has also convened an independent panel of senior stakeholders to advise it in addressing these changes.

We welcome the recommendations on debt advice, in particular that the Money Advice Service adopts more of a coordinating role to ensure a collaborative, joined up approach. The Money Advice Service is setting up a Steering Group to oversee this work.

We have agreed to submit our proposed action plans on the Farnish review to the Treasury in the autumn 2015.

Communicating directly with consumers

We launched a national ScamSmart campaign to warn people about investment fraud and how to spot a potential scam. Investment scams generally involve high-pressured selling, using boiler room tactics, for products that often do not exist, including land-banking schemes, carbon credits and rare earth metals.

The average investor who suffers fraud loses around £20,000 and we receive around 5,000 calls a year about suspected investment fraud. Investment scams are difficult to spot and are designed to look like genuine investments. We have seen examples of fraudulent websites that mimic those of legitimate firms and investment brochures that could convince even an experienced investor that the product was genuine. Those most at risk are people in retirement who are actively seeking an investment opportunity.

Since launching in October 2014, 100,000 people have visited the dedicated ScamSmart website, with 20% of visitors checking an investment through the warning list. Evaluation shows our targeted approach is working, with a 67% increase in visits from the retired with resources segment to our scams digital content since the campaign started.

Case study:
Vulnerable consumers

In February 2015, we published the results of an investigation into how vulnerable consumers are treated by financial services firms. We called on firms to improve their approach as a 'key test of conscience for the City'.

We highlighted a number of key problem areas, including a frequent failure of firms to adapt to the needs of consumers in vulnerable circumstances. We also published a practitioners pack, which includes a number of helpful tips and ideas for firms to use.

Case study: Consumer pilot, Scotland

Consumers' experience can be affected by where they live, so we conducted a pilot in Scotland to help us understand experiences and issues facing Scottish consumers.

We focused on how young consumers interact with credit, working closely with key intermediaries such as Young Scot, Citizens Advice Scotland and Money Advice Scotland. We also worked with Scottish local authorities, student money advisers and front line debt advisers, building on our existing network and giving us access to new sources of intelligence.

The pilot gave us a more granular view of the issues affecting consumers in Scotland. We intend to run similar studies in different areas of the UK, ultimately helping us to build a UK network, dedicated to understanding consumers across the country.

Case study: Advice when switching pension schemes

We continued our review of firms that advise customers to switch their personal pensions or occupational pension schemes to self-invested personal pensions (SIPPs) to invest wholly or primarily in high-risk, highly illiquid, unregulated investments, such as overseas property developments, forestry and storage units. We looked at whether consumers were being adequately advised and found that adviser firms either did not give advice on the unregulated investment or gave generally poor advice.

Due to the poor standard of sales identified during these reviews, we issued an alert on 28 April 2014 reminding advisers of their obligations when advising in this area, together with an alert aimed at consumers warning them of the risks of dealing with unregulated introducers, or of being cold-called and offered a 'free pension review'.

Identifying risks and taking action

Retail banking

We have focused on ensuring the **culture in firms** continues to change. We looked in-depth at a number of areas, such as performance incentives in retail banking, mortgage sales culture, digitisation in firms, including the governance of digitisation programmes, the launch of new online products, and the use of outsourcing in firms, ranging from product governance to mortgage intermediation. Where necessary we have used enforcement sanctions.

Modern banking depends on effective, reliable and resilient IT systems. We carried out a Dear Chairman Exercise II[1], as well as firm-specific reviews. We have backed this up with enforcement action when banks have failed to put resilient systems in place.

We have also worked on issues related to **everyday banking**. This has included ensuring that unauthorised payments are appropriately refunded to customers. We have reviewed firms' judgements on unauthorised transactions and will publish our findings in 2015.

Long-term savings and pensions markets

We have worked closely with the Treasury, the Department for Work and Pensions and The Pensions Regulator following the Government's reforms. In particular we have worked with the Government to define our role in relation to the Pension Wise service.

Under FSMA (as amended through the Pension Schemes Act 2015) we are required to make standards for the provision of pensions guidance through the Pension Wise guidance service, which is a free Government advice service on defined contribution pensions, and to monitor compliance with these standards. We consulted on this in 2014 and the standards came into force on 6 April 2015.

If we consider that a designated guidance provider has failed to comply with our standards then we may make recommendations to that designated guidance provider and to the Treasury. We are required to have a policy in place regarding the making of these recommendations and we consulted on our draft recommendations policy

1 'Dear chairman' or 'dear CEO' letters are often the result of in-depth work in a particular sector when we want to highlight something to a number of firms that we think is serious enough to point out, but where we're not necessarily taking specific action against individual firms.

in March 2015. In addition, as required under FSMA, we have during this period consulted on and made rules in terms of raising fees for Pension Wise on behalf of the Treasury.

We have conducted reviews of **pension advice**, focusing on making our expectations clear for dealing with clients. We have also identified and taken action against several producers and marketers of promotional material that may be related to scams.

We have worked with other agencies to tackle risks to consumers through enforcement actions and awareness campaigns. We are targeting **unauthorised pension introducers**, who appear to play an integral role in pension transfers to high-risk unregulated assets. We have assisted with criminal investigations conducted by partner agencies and continue to identify opportunities for joint operations targeting pension fraudsters. The second phase of our ScamSmart campaign is also focused on warning consumers about pension scams.

We consulted on strengthening the requirements on giving advice on pension transfers to support the Government's introduction of a legislative requirement for advice to be taken on transfers involving safeguarded benefits.

We have increased our **communications with advisory representatives**, for example through conferences and seminars. We consider this a particularly effective way of engaging with them and we have received positive feedback from participants. Over the last year we have been involved in many external engagements, for example compliance workshops, risk awareness workshops and various conferences, which has seen us present to around 13,000 firms, helping to make our expectations of them clear.

In December 2012, we introduced new rules arising from the **Retail Distribution Review (RDR)** to make the retail investment market work better for consumers. These raised the minimum level of adviser qualification, removed commission payments to advisers and platforms from product providers and aimed to improve the transparency of charges and services.

We completed the first phase of a post-implementation review of the RDR in 2014, which assessed the extent to which the RDR was on course to deliver its original aims. This was an in-depth review, led by an independent economic consultancy and informed by research with both firms and consumers and modelling work.

They concluded that while in many respects the longer-term effects of the RDR were yet to become clear, the evidence showed a positive picture overall, with encouraging signs that the RDR is on track to deliver its objectives in many areas.

In particular, the review found that the removal of commission paid by providers to advisers and platforms has reduced product bias from adviser recommendations. This is reflected in a decline in the sale of products that paid higher commissions pre-RDR. It has also made it easier for consumers and advisers to compare platforms, increasing competitive pressure and leading to a significant reduction in direct-to-consumer platform charges. Product prices have also fallen by at least the amounts paid in commission pre-RDR, and there is evidence some product prices may have fallen even further.

The review found that the vast majority of advisers are now qualified to the new minimum standards and there has been an increase in the number of advisers going beyond these minimum standards.

In other areas it found the market is adjusting and more time will be needed for the full effects of RDR to become apparent. We will undertake a more complete analysis of the medium-term impacts of the RDR and aim to publish the next phase of the review in 2017.

In January 2015, we published guidance to clarify the different types of **retail investment sales models**, the boundaries between them and the associated regulatory requirements. It provides a clear framework for firms that wish to develop new models and services.

"We have conducted reviews of pension advice, focusing on making our expectations clear for dealing with clients. We have also identified and taken action against several producers and marketers of promotional material that may be related to scams."

Mortgages and consumer credit

We identified a number of key priorities in the **consumer credit** market, including in the high-risk subsectors, where there was evidence or risk of significant consumer harm. We have carried out a programme of visits and analysed a number of key sub-sectors.

We have investigated issues and concerns identified through intelligence and where we have found rule breaches and unfair practices, we have intervened early and swiftly to ensure that failings are addressed and that firms have improved their practices. The overwhelming majority of these outcomes have been achieved through voluntary agreements with firms.

We have secured 45 formal voluntary commitments from firms to put matters right and/or to compensate customers. In 17 cases we required firms to engage an expert third party at their own expense to oversee and verify such measures.

We undertook extensive research and analysis to explore how introducing a price cap for payday lenders would affect firms and their lending decisions, what effect there would be on consumers who no longer have access to high-cost short-term credit, and whether as a result consumers would be better or worse off. We found that excessive charges for high-cost short-term credit were harming significant numbers of consumers.

We put in place a **price cap for payday lenders** that means no borrower will ever pay back more than twice what they borrowed.

We designed our rules so that they complied with our competition duty to secure an appropriate degree of protection for borrowers against excessive charges, while also promoting effective competition in the interests of consumers. We recognised that price caps are not generally a pro-competitive regulatory tool, so we considered a number of options and chose the most pro-competitive in each case and as a whole.

We plan to review the price cap in 2017. In the meantime we are monitoring whether there are any unintended consequences emerging for firms or consumers, including the impact on people who are no longer able to get this type of credit. We worked with firms whose affordability assessments were not adequately assessing customers' ability to make repayments in a sustainable manner. This included ensuring that, where

FCA price cap for HCSTC loans

0.8% per day

When loans are taken out or rolled over, the interest and fees charged must not exceed 0.8% per day of the amount borrowed.

£15 default fees

If borrowers default, fees must not exceed £15. Firms can continue to charge interest after default but not above the initial rate.

TOTAL COST CAP
100% of amount borrowed
(applying to all interest, fees and charges)

Borrowers must never have to pay more in fees and interest than 100% of what they borrowed.

appropriate, customers will receive redress for any harm caused.

Over 40% of the consumer credit complaints we received related to **credit brokers** and 80% of these related to firms that charge upfront fees. We responded rapidly to this issue, which led to the voluntary imposition of requirements on 19 firms to review and improve their business practices. In a majority of cases firms have agreed to take down their websites or not to take on any new customers until they have made improvements. Early analysis based on our own information, and that provided by consumer bodies, suggests that there has been a significant drop in complaints volumes and issues across the sector following our interventions.

We published new rules on **credit broking** on 1 December 2014. We did so without consultation, under section 138L of FSMA, on the grounds that the delay involved in consulting would be prejudicial to the interests of consumers. The rules came into force on 2 January 2015. The rules banned credit brokers from charging fees to customers, and from requesting customers' payment details for that purpose unless they meet FCA requirements. These include:

- credit brokers must make sure customers are given clear information about who they are dealing with, what fee will be payable, and when and how the fee will be payable
- fee-charging brokers need to notify the FCA, quarterly, of the websites they operate
- all brokers need to include their legal name (as it appears in the FCA Register) in all advertising and all correspondence with customers
- advertising must clearly state that the firm is a credit broker and not a lender; if the firm is both a credit broker and a lender, the advertising needs to make clear that they are advertising their broking services, not their lending
- there were additional rules on cancellation rights for distance contracts (for example, online credit broking), including rights to a refund

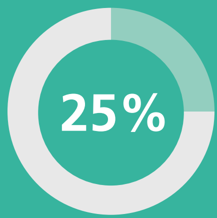
Financial promotions

In 2014 we reviewed over

1,500

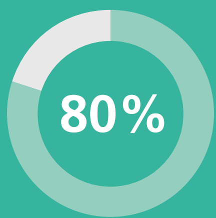
financial promotions for consumer credit products to ensure they were clear, fair and not misleading.

As a result we opened over **200** cases about non-compliant promotions for products such as payday loans, debt management services and credit brokers.



of these cases relate to advertisements for high-cost short-term credit, with many not prominently displaying a risk warning or representative APR.

Around



relate to digital media, such as websites, emails and text messages.

Firms have been quick to make changes

In the **debt management** sector we found that a number of firms were operating unfair charging practices and were also falling well short of our high-level standards and Principles for Businesses. In 16 cases firms agreed to close to new business and work with us to address our concerns while others have decided to leave the industry. We have also taken steps to protect client money where this was at risk, including freezing the bank accounts of seven debt management firms. We are looking into the quality of advice in debt management firms and will publish results in summer 2015.

The **Mortgage Market Review (MMR)** was implemented on 26 April 2014. We are continuing our assessment of how firms are implementing our post-MMR rules this year, including completing our advice and distribution review in the summer, and reviewing responsible lending from April 2015. We also continued to monitor the interest-only maturity risk to ensure that firms work with customers to help them understand the need to have adequate repayment strategies in place to repay the mortgage at the end of the term.

We analysed a firm's product offering, which they agreed to review due to duplicated product benefits.

As a result

two add-on products

were removed from sale,

670,000

customers were contacted to notify them of the duplication, and a redress programme was secured.

In March 2015 we published our final rules for the implementation of the **Mortgage Credit Directive (MCD)**, which introduces an EU-wide framework of conduct rules for mortgage firms. Our approach is intended to cause the least possible disruption to the market, while ensuring consumers are appropriately protected.

The Government decided that second charge mortgages should be brought out of our consumer credit regime and into mortgage regulation when the MCD was implemented. The changes largely take effect on 21 March 2016. We published the rules a year early to give firms time to prepare.

The Government has chosen to use an exemption in the MCD that means Member States do not have to apply the Directive's requirements to buy-to-let mortgage activity, provided there is an appropriate regulatory framework in place, which the UK has established. We do not have the power to modify the standards that firms must follow, but we have been given powers to register, supervise and take action against firms. We consulted in February on our approach to implementing the framework.

General insurance and protection

We want consumers to feel confident in getting access to insurance products and services they can trust, and insurance markets that are sound, stable, resilient and competitive. Where we have found poor practice in these markets we have intervened, taking enforcement action where necessary. For example:

- We agreed a compensation package for consumers sold card security products through reaching an agreement with Affinion International and 11 high street banks and credit card issuers.
- We analysed a firm's product offering, which they agreed to review due to duplicated product benefits. As a result two add-on products were removed from sale, 670,000 customers were contacted to notify them of the duplication, and a redress programme was secured.
- We identified and corrected a £17m client money deficit in a medium-sized motor insurance broker.
- Working collaboratively with the Federal Financial Supervisory Authority (BaFin), we intervened and prevented 1,300 small law firms renewing their Professional Indemnity Insurance cover, worth over £20m with a small insurer. Investigations highlighted that the firm had become insolvent and ceased paying for claims. Our failure to act could have left the laws firms without effective insurance cover and unable, under SRA rules, to continue to practice.

- An insurance provider identified a historic over charging of premiums to a number of customers, SMEs and corporates. Following engagement with the supervisory team we agreed that the firm could establish a redress programme, which had to include third party oversight to oversee the process and controls. The programme saw £27m repaid to affected consumers. The firm also agreed to a wider product governance review to minimise the risk of repetition and to look at its systems and controls that are in place.

Cross-sector/other

We introduced temporary product intervention rules restricting the distribution of **contingent convertible securities (CoCos)** to retail consumers, which came into force on 1 October 2014 and will remain in force until 1 October 2015. We set permanent rules imposing restrictions on the retail distribution of CoCos and placed certain requirements on the sale of mutual society shares to ordinary retail investors.

Mutual societies are able to issue new types of share instruments to strengthen their capital base. We were concerned that these shares may be offered to consumers without experience in direct investment in shares, which generally carries a high level of risk. Such consumers are at particular risk of misunderstanding what is on offer. We proposed that firms selling these investments will need to ensure the investor has read specified risk warnings and committed not to invest more than 5% of their net assets. These requirements only apply to sales to retail investors who have not been certified as sophisticated or high net worth.

In accordance with Section 339B of the Financial Services and Markets Act 2000, we are required to meet, at least once a year, the auditor of any firm designated by the PRA to be important to the stability of the UK financial system. The PRA may determine that a firm meets that criteria at any point. By the end of the year up to 31 March 2015, 37 firms fell within this category, and we had held 38 meetings with the auditors of 36 of those firms. For two of those firms, two meetings were held during that period. For one firm, no meeting was held during that period. It was not designated by the PRA until October 2014 and we intend to meet with that firm's auditor before October 2015.

Securing redress

Securing appropriate redress for consumers when they have been treated unfairly is a key aim for us and so we are striving to be more transparent about our processes.

We continue to progress three major redress schemes into PPI, Interest Rate Hedging Products (IRHP) and Card Protection. We have now secured over £20 billion since starting the first of these schemes, PPI in 2011. This scheme has now secured £19.2 billion in total for consumers, with £5.6 billion being secured in 2014/15.

In 2012, we identified failings in the way that some banks sold structured collars, swaps, simple collars and cap products, which we collectively refer to as IRHPs. The banks involved agreed to review their sales of IRHPs made to unsophisticated customers since 2001. The full review started in May 2013 is nearing completion, having so far secured £1.9 billion in redress, of which £1.3 billion was paid in 2014/15.

In August 2013, we reached an agreement with Card Protection Plan Limited (CPP) and 13 high street banks and credit card issuers that paved the way for redress to be paid to customers who were mis-sold CPP's card protection and identity protection policies. The scheme has secured a further £451m of redress for 2.37 million consumers.

"Securing appropriate redress for consumers when they have been treated unfairly is a key aim for us and so we are striving to be more transparent about our processes"


Entertainer

2 Enhancing integrity

We aim to support and empower a healthy and successful financial system, where financial markets are efficient and transparent, firms can thrive and consumers of all types can place their trust in transparent and open markets. This means that the markets need to be supported by resilient infrastructure, with appropriate access and transparency to satisfy the needs of the consumers, corporates and other wholesale clients that use them.

In 2014/15 we said we would enhance market integrity by:

- improving wholesale conduct through our proactive supervisory work and market level intervention
- engaging in international and European policy debates
- protecting markets against abuse through monitoring markets and appropriate interventions
- delivering our responsibilities as the UK's listing authority (UKLA)
- extending our anti-money laundering (AML) assessments
- enhancing our whistleblowing activity

We have carried out a programme of work to deliver this, including the following key elements.

We want senior managers in regulated firms to take responsibility for ensuring that strong risk management is in place, accountability is clear and rests with individuals, conflicts of interest are managed and the institutions are not used for financial crime. So firms need to have a culture that focuses on customers and integrity.

Where we find that firms are not following our rules, we respond appropriately and proportionately. We have concluded some significant enforcement cases, such as LIBOR and FOREX, and we discuss our enforcement work in detail in Chapter 4 and Appendix 2.

> We have continued to work on defining the regulatory rules that will underpin EU legislation and preparing for their implementation, as well as continuing our ongoing work on improving wholesale markets

We have taken significant steps towards implementing the new Senior Manager and Certification Regime for deposit-takers and PRA-designated investment firms. This will increase the accountability of senior leaders in firms, raise overall standards of governance, and help improve confidence in the UK financial markets. The Treasury announced in March 2015 that the new regime would also apply to UK branches of foreign banks as well as UK domestic firms, and we are currently consulting on how we propose to apply the regime to these firms.

In July 2014, we and the PRA jointly consulted on the policy and rules for the new regime (CP14/13). In November 2014, we consulted on the transitional arrangements, including how firms will transfer existing approved persons to the new senior management functions. We also consulted on new forms established by the new regime as well as changes to existing forms. In March 2015 we consulted on the presumption of responsibility and published a roadmap to implementation, with details of key milestones between now and the start of the new regime in 2016.

As was evident during the financial crisis, the integrity of the UK financial markets is heavily reliant on the security and activity of the wider European and international financial system. Influencing and shaping international policy is therefore critical and much of our markets and wholesale regulation is shaped by European policy developments. We have continued to work on defining the regulatory rules that will underpin EU legislation and preparing for their implementation, as well as continuing our ongoing work on improving wholesale markets.

Improving wholesale conduct

Wholesale conduct refers to how market participants interact with each other and conduct their business in wholesale markets, and the behaviour of regulated firms when dealing with 'non-retail' clients. This year, we increased the intensity of our supervision in this area.

Over 2014/15 we looked at risks around conflicts of interest, information flows, electronic trading platforms, trading culture, effectiveness of front office supervision, front office controls, automation of trade execution and financial crime. We also identified risks by analysing changes in market structure and firms' business models and we continued to increase our external engagements with key industry associations and other regulators.

Annual remuneration round

We are coming to the end of our second annual review of the 20 largest deposit takers and investment firms that we undertake jointly with the PRA. Our focus has been to make sure that pay practices at firms do not encourage inappropriate behaviours or excessive risk taking and that variable remuneration is only paid or allowed to vest where justified by performance.

We found that firms were adopting increasingly sophisticated approaches to measuring performance and adjusting awards. Specific action taken by firms in cases of misconduct included reducing group bonus pools, making targeted reductions for groups of staff and reducing or cancelling awards for an increasingly wide range of individuals.

Wholesale banking

As evidenced by the scale of fines levied against the wholesale banking sector in recent years, the range of conduct risks that exist within the sector are varied and considerable.

We identify the key risks and ensure that firms play an active and full role in managing and mitigating their conduct risks themselves. There are four risk themes and expected behaviours, which are central to our supervisory strategy.

- **Managing conflicts of interest associated with business models and activities**. Across all business lines and activities, firms must identify and manage conflicts of interest effectively, particularly those that arise from complex or changing business models. This covers situations where the firm is acting as agent, as well as those where it acts as principal. It includes the appropriate management of information flows (covering both market sensitive and client confidential information) as well as appropriate risk mitigation strategies around lack of transparency, inappropriate costs and poor valuations. It encompasses activities such as investment banking advisory services, custody, asset management and product governance.

- **Controls/behaviours**. Firms' senior management are expected to set the tone from the top and are responsible for robust controls over their banking and securities activities in support of good conduct of business and market conduct outcomes, including market abuse, market manipulation and their financial crime responsibilities (such as money laundering, terrorist funding, sanctions evasion or tax evasion). Employees on the frontline should take on accountability and act as the first line of defence against misconduct.
- **Infrastructure resilience**. Key market infrastructures and principal market participants must uphold market integrity by putting in place robust IS systems and business continuity planning.
- **Protection of client assets**. Firms should embed appropriate systems and controls when dealing with client assets.

We apply three primary strategies for addressing these risks and improving the ability of firms to manage them responsibly.

- We **assess** firms' business models, key personnel, control environment, and increasingly culture and its impact on conduct. We engage with firms and carry out 'deep dive' assessments to judge the nature of the primary risks we have identified. We put in place risk-mitigation programmes and we ask firms to participate in thematic reviews to understand the risks. Where those are characteristic to the firm, we seek to address these with the firm themselves; where issues are industry-wide, we seek to engage more widely to secure appropriate solutions.
- We **supervise** the programmes that firms themselves have put in place to manage the risk of poor conduct – many of which are known as Wholesale Conduct Risk Frameworks. We compare progress consistently across the industry and share best practice as firms identify the most effective ways of improving the conduct of their staff.

"Firms' senior management are expected to set the tone from the top"

- We carry out in-depth thematic **reviews** where we proactively engage with firms on wider topics or potential risk issues often with teams that include a broad range of regulatory expertise and industry experience.

We are currently following up with firms to ensure they make timely changes to strengthen controls and oversight. Our review of 'dark pools' reflects our focus on current and future risks in the structure of equity markets, the transparency of trading processes, not just prices, and the management of conflicts of interest by dark venue operators.

Clarity of fund charges

It is important for investors to be able to understand and compare charges because of their impact on overall fund returns and investors' ability to exert competitive pressure on the firms.

This year we worked with a number of firms, which manage about 29% of funds sold in the UK retail market, to ensure that they are providing a consistent and combined charge. We found that using annual management charges (AMC) in some instances and ongoing charges (OCF) in others may confuse investors, so we encouraged firms to use the OCF in all marketing material for UCITS[2] funds. The forthcoming implementation of regulations concerning Packaged Retail and Insurance-based Products (PRIPs) and of MiFID II should also ensure better clarity.

In November 2014 the Financial Services Consumer Panel made some technical proposals to improve cost transparency. In particular, the recommendations around the disclosure of costs and charges are a useful contribution to our current joint work with the Department for Work and Pensions on delivering transparency of transaction costs in the work place pensions market. We are also planning to launch a market study on asset management in 2015/16.

2 Undertakings For The Collective Investment Of Transferable Securities – UCITS. A public limited company that coordinates the distribution and management of unit trusts amongst countries within the European Union.

Focusing on fair use of client dealing commission by investment managers

We finalised rule changes to clarify that investment managers should only use client dealing commission[3] to pay for substantive research or execution costs, and that they cannot be used to pay brokers for arranging meetings with corporate issuers (corporate access). We also provided new guidance for investment managers to help ensure that they only pass on costs for substantive research that is in their customers' best interests.

We have published findings from a wider review of our dealing commission regime where we found that too few firms properly assess the value and cost of research paid for using client dealing commission. The review also found that if brokers bundle execution and research services together it prevents effective price formation for research, reducing the ability of independent providers to compete in the market and for investment managers to assess the value of research.

Based on these findings, we announced our support for potential European reforms under MiFID II that could require a further separation of the supply of research from order execution services, to encourage greater competition and transparency over the price of research, and to make investment managers more accountable to customers for research costs. The final EU MiFID II reforms will apply to firms from January 2017.

Benchmarks, trading firms and trading infrastructures

We supervise trading firms, market infrastructure firms and benchmark administrators and submitters. As of April 2015 we supervise the benchmark administrators and benchmark data submitters for eight benchmarks: LIBOR, SONIA, RONIA, IsdaFix, WM Reuters London 4pm Fix, ICE Brent Index and the Gold and Silver fixes.

Market infrastructure firms (including Recognised Investment Exchanges (RIEs), Recognised Overseas Investment Exchanges (ROIEs) and Multilateral Trading Facilities (MTFs)) and trading firms (including high-frequency trading firms, agency brokers and commodity firms among others) are critical to the integrity and functioning of UK financial markets. So we carry out risk assessments for the higher-impact firms and regulated infrastructure firms every 12 to 18 months, focusing on governance, culture, business strategy and systems.

In 2014 we completed 'deep dive' assessments that focused on:

- Pre and post-trade controls on direct electronic access, market abuse and risk management. Findings varied by firm and ranged from effective well-set controls that were monitored and reviewed appropriately to ineffective controls that were set at inappropriate levels and rarely reviewed.
- Anti-money laundering (AML) and financial crime controls. Again results varied by firm and we found a lack of sanctions and Politically Exposed Person (PEP) checks in some areas as well as effective controls elsewhere.
- Compliance controls and culture, where we found robust controls and an improved cultural message being distributed across a global group.

We are currently carrying out a thematic review assessing the robustness of front office traders and broker controls.

We also track trends in financial markets. A key focus for us this last year has been investors' search for yield, liquidity in the corporate bond market and the increasing popularity of connected products. To inform and influence in this area we sit on the European Systemic Risk Board's expert group on market liquidity.

Overseeing primary and secondary market activity

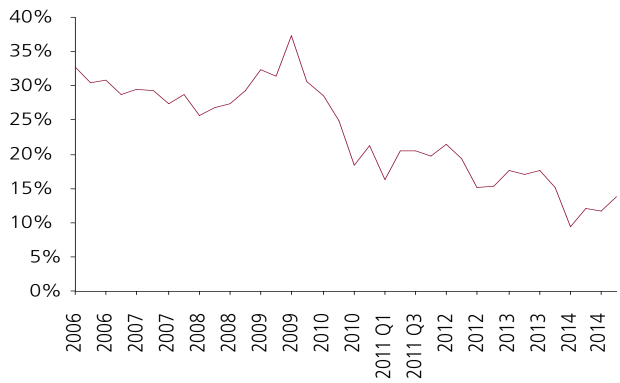
Protecting markets against abuse

Our supervisory and educational activities remind market participants of their obligations under the market abuse regime, with the ultimate intention of reducing market abuse.

> "We also track trends in financial markets. A key focus for us this last year has been investors' search for yield, liquidity in the corporate bond market and the increasing popularity of connected products."

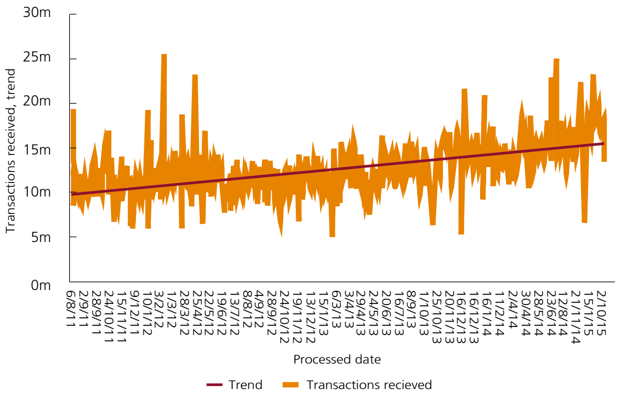
3 Dealing commissions are the charges paid by consumers when an investment manager executes trades and acquires external research, and amounts to £3bn a year in the UK.

Figure 6: Market cleanliness statistics*



* please also see pages 16 and 17

Figure 7: Transactions recieved trend



This year we have:

- educated firms through forums, speeches, thematic studies and publications such as *Market Watch*
- visited firms to assess market abuse systems and controls
- continued with our enhanced suspicious transaction reporting (STR) supervision program, including assessments of firms' surveillance capabilities and following up on incidences of poor or insufficient STR reporting
- contributed to the development of European surveillance best practice through ESMA and bilateral relationships with other competent authorities

Technology is a key tool in monitoring for market abuse. We have continued to grow our surveillance capabilities to increase detection and enhance our investigations into abusive behaviour.

For the four years prior to 2009, the market cleanliness statistic for takeover announcements remained close to 30%. From 2010 onwards, we saw a significant decline to an average of 13.88% across 2014 (15.1% in 2013). This provides a simple indicator of the proportion of potential insider trading cases, measured on the basis of abnormal price movements observed before takeover announcements of publicly traded companies, relative to the sum of all takeovers in a given period.

The statistic does not provide a perfect measure of the level of insider trading as many factors other than insider trading could cause an abnormal price movement ahead of a takeover announcement. For example, financial analysts or the media correctly assessing which companies are likely takeover targets, or significant non-abusive trades that just happen to fall before an announcement.

It is not always possible to determine which of these factors is behind each abnormal price movement and whether any insider trading might have taken place. Still, the observed significant decline in the incidence of potential insider trading cases suggests that insider trading has become rarer.

Transaction reporting

Since November 2007, MiFID has required firms to provide us with transaction reports for all executed trades in all financial instruments admitted to trading on a regulated market or prescribed market. Accurate and complete transaction reporting by firms is an essential tool. We use these reports in a number of ways – including identifying and investigating suspected market abuse, such as insider trading and market manipulation.

We have seen increasing numbers of transaction reports submitted to us over the years, and we are currently averaging 13 million transaction reports a day.

Figure 8: Submission rates by type of behaviour reported

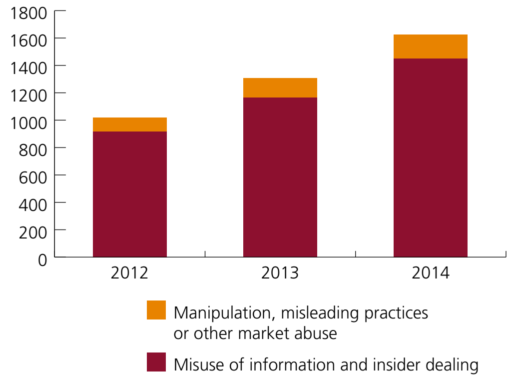


Figure 9: STR submission quality

In February 2015, we started offering transaction reporting workshops for investment firms, to help educate their staff on the importance of accurate and complete transaction reports. We have also contributed significantly to the development of regulatory technical standards for MiFIR.

In August 2014 we fined Deutsche Bank £4.7m for failing to properly report 29,411,494 Equity Swap CFD (contracts for difference) transactions between November 2007 and April 2013. The failure, which affected all Deutsche's Equity Swap CFD transaction reports in this period, breached our rules on transaction reporting.

Suspicious transaction reporting

The Market Abuse Directive (MAD) was implemented in the UK in July 2005. One of the major new features of MAD was the requirement for firms to report suspicious transactions to the FCA in the form of a Suspicious Transaction Report (STR). We continue to focus on improving the quality, timeliness and completeness of this regime, which has seen an improvement in a number of key metrics.

Our regime is important for regulators across the world. Last year, we disclosed the content of 698 STRs received to the competent authorities of other countries.

Together with continued year-on-year increases in reports, we have seen a rise in those concerning potential manipulation. This has traditionally been a more complex behaviour to survey. We have also seen an improvement in the timeliness of STR submissions - 80% of STRs made in 2014 were submitted within 30 calendar days of the suspicious events occurring.

When we receive an STR, we assess the quality of the report submitted, drawing on the STR itself and other information and intelligence available to us and determine what action, if any, it is appropriate for us to take. Despite the substantial increases in numbers, we have also seen consistently strong reporting quality.

Where we believe the reasonable suspicion test has not been met, we will generally provide feedback to the submitting firms.

Promoting high-quality primary markets

Clear and timely disclosure of share dealings

Clear and timely disclosure of share dealings is vital to ensure that markets are, and are seen to be, fair.

On 20 January 2015, we issued a final notice against Reckitt Benckiser Group Plc, the consumer products group, for having inadequate systems and controls to monitor share-dealing by senior executives in its own shares. These failures meant that two senior directors were able to deal in shares of the company without the market being properly notified of their dealings. This reinforced the importance of issuers having the right controls and training in place.

Sponsors

Sponsors play an important role in the primary market landscape and it is crucial that firms are aware of issues that could affect their ongoing competence.

In September 2014 we published a call for views on sponsor conflicts. The purpose of the call for views was to encourage debate among stakeholders on whether our rules and guidance on sponsor conflicts are operating effectively. The call for views posed a number of questions designed to elicit a debate on this subject, and we received a number of responses that we are considering.

We have published our feedback and final policy on sponsor competence. This followed a period of consultation with many important stakeholders and challenged sponsors to consider the importance of specific areas of expertise in being able to demonstrate competence to carry out the role of a sponsor. The changes are expected to result in a more transparent and objective approach to both oversight of ongoing approvals and for new applicants wishing to apply for approval.

Retail bond guidance

In light of the new and growing market in the UK for bonds aimed at retail investors, we completed our guidance consultation on retail bonds.

Bond markets in the UK have historically been focused on wholesale investors. The new retail bond markets were developing on the assumption that wholesale market disclosure conventions would be adequate. We intervened with a guidance note to practitioners which clarified that the bond prospectuses should be easy to analyse and understand by their target audience. We also carried out a series of educational sessions with law firms to ensure that the changes were fully embedded.

Document approval changes

We pre-approve many of the shareholder circulars issued by premium listed companies. These circulars are issued to seek shareholder approval for a range of matters and are driven by company law or regulatory requirements. Examples range from major acquisitions to small capital raisings.

During the year, we consulted on new rules designed to limit our involvement to circulars only where there is a demonstrated need for our intervention and to ensure listed companies are clear on when we will need to pre-approve documents. These changes ensure that we are acting proportionately and using our resources efficiently. They will also make the process whereby a premium listed company issues certain circulars clearer. The new rules came into force on 1 April 2015.

Fee policy

We published a discussion paper on the fees and funding model for primary market activity performed by us as the UK Listing Authority (UKLA). As well as clarifying our fee structure in a way that is more transparent, we have also raised some more fundamental questions about where our fees should fall and have invited views on possible options for recovering the costs we incur when carrying out our duties. We expect to consult on our proposals towards the end of 2015.

UKLA metrics – service standards

	2013/14		2014/15	
	H1	H2	H1	H2
New applicants	99.4%	98.2%	98.8%	99.5%
Further issues	98.9%	98.5%	97.0%	99.9%

We review and approve draft circulars and prospectuses under the Listing Rules and Prospectus Rules. So issuers can plan transactions with certainty we seek to respond with comments on transaction documents within set timeframes (service standards). We aim to meet these service standards on 95% of occasions.

Anti-money laundering

Firms must ensure they have effective systems and controls in place to minimise the risk that their business can be used for financial crime. We have worked closely with international and domestic partners in Government, law enforcement, other regulators and the industry to combat current and emerging financial crime threats. We focused our own financial crime work particularly on anti-money laundering (AML) and anti-bribery and corruption (ABC), developing and embedding the AML supervision strategy we launched in 2013/14.

"Firms must ensure they have effective systems and controls in place to minimise the risk that their business can be used for financial crime"

Joint Money Laundering Intelligence Taskforce (JMLIT)

Since April 2014 we have played a key role in helping to establish a mechanism for improved information-sharing between financial institutions and law enforcement organisations.

Working in collaboration with the Home Office and the Bank of England, plus a range of banks and other organisations, we developed the JMLIT, a new 12-month pilot project. Its aim is to improve intelligence-sharing arrangements to help fight money laundering and financial crime. We attend the management board and strategic group and engage with the Financial Sector Forum, the group that drives this initiative.

Although the emphasis of the group is on making the UK a more difficult place to launder the proceeds of crime, discussions have also focused on improved information-sharing covering cybercrime and terrorist financing. The JMLIT consists of three tiers – an operational group, a strategic group and a financial crime alerts service.

Policy developments

We continued to support the Treasury in the negotiation of the Fourth Money Laundering Directive and the revised Funds Transfer Regulation. We also contributed to the development of EU-level guidance that will support the Fourth Directive.

We are aware that some banks are no longer offering financial services to entire categories of customers that they associate with higher money laundering risk. This process is known as 'derisking'. Banks have told us that this helps them comply with their legal and regulatory obligations in the UK and abroad. However, we have been clear that effective money laundering risk management need not result in wholesale derisking. We published a statement on derisking on 27 April 2015.

> "Working in collaboration with the Home Office and the Bank of England, plus a range of banks and other organisations, we developed the JMLIT, a new 12-month pilot project."

We believe other factors, such as profitability, ethical decisions and reputational risk, are also drivers. We are working with the Government and the banking industry to emphasise that a risk-based approach is not simply focused on risk avoidance, but requires firms to make risk judgements. At the same time, we have continued to challenge the poor AML practice we find in firms.

Specialist supervision work

We carry out deep dive assessments of major retail and investment banks as part of our Systematic Anti-Money Laundering Programme (SAMLP) and have reviewed four banks this year under the scheme. In September 2014 we started a new inspection regime for a group of smaller firms, mostly banks, which present higher inherent money laundering risk. We have so far inspected 20[4] firms. This work runs on a two-year cycle.

Where we find serious weaknesses in financial crime systems and controls, we take appropriate action. In 2014/15 we carried out six early interventions on AML and two on ABC systems and controls, restricting high-risk business in firms with inadequate controls. We also increased our use of attestations on financial crime issues with large and small firms.

Whistleblowing

We are a prescribed person under section 43F of the Employment Rights Act 1996. We published our *Approach to whistleblowing* in February 2015. Some relevant interventions this year have included the report of the Parliamentary Commission on Banking Standards, the Enterprise and Regulatory Reform Act 2013 and the Small Business, Enterprise and Employment Act 2015.

Parliamentary Commission on Banking Standards (PCBS)

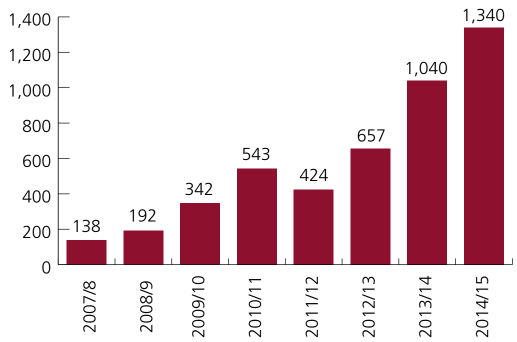
The PCBS recommended that banks put in place mechanisms to allow their employees to raise concerns internally (blow the whistle), and that we and the PRA ensure these mechanisms are effective.

Together with the PRA we consulted on our proposals for firms, which included requirements to:

- put internal whistleblowing arrangements in place (if they are not already), and inform their UK-based employees about these arrangements

4 As of 25 May 2015

Figure 10: Number of whistleblowing cases per financial year



- inform their UK-based employees that they can blow the whistle to us or the PRA
- offer protections to all whistleblowers, whatever their relationship with the firm and whatever the topic of their disclosure
- include a passage in new employment contracts and settlement agreements clarifying that nothing in that agreement prevents an employee, or ex-employee, from making a protected disclosure
- allocate the prescribed responsibility for whistleblowing under the Senior Managers Regime and Senior Insurance Mangers Regime to an individual (whistleblowers' champion) with responsibility for:

  a. overseeing the effectiveness of internal whistleblowing arrangements, including arrangements for protecting whistleblowers against detrimental treatment

  b. preparing an annual report to the board about their operation

  c. reporting to us where, in a case before an employment tribunal contested by the firm, the tribunal finds in favour of a whistleblower

Whistleblowing disclosures from outside the FCA

We have a dedicated team to handle the whistleblowing disclosures we receive. In the past year we processed 1,340 intelligence cases containing sanitised information from whistleblowers. We shared information with external stakeholders – including National Crime Agency, police forces, HMRC, Solicitors Regulatory Authority, other UK and overseas regulators – in over 160 cases.

Information from whistleblowers has contributed to firms and individuals being fined, permissions being varied or withdrawn, warning letters being issued and a range of other early intervention actions, such as asking a firm for clarification about their activities. We have also used information from whistleblowers to inform our supervisory strategy.

2014/15 saw the upward trend continue with a 28% increase on 2013/14. The number of cases has more than trebled over the last five years and highlights the greater importance we have placed on whistleblowing and increased awareness across the sector.

We have a dedicated team to handle the whistleblowing disclosures we receive. In the past year we processed

1,340

intelligence cases containing sanitised information from whistleblowers.

Figure 11: Classifications issued by recipients of whistleblowing intelligence 2014/15

Classification	Number
Intelligence directly contributed to FCA enforcement activity or the protection of consumers through other intervention	10
Intelligence was of significant value to the FCA and contributed to the discharge of its functions	172
Intelligence was, or may be, of value to the FCA but is not currently actionable or does not meet current regulatory risk thresholds	468
Intelligence was of little value and is unlikely to assist the FCA in the discharge of its functions	107
Total*	**757**

**We conduct a full assessment of all intelligence provided to us. Out of the 1,340 whistleblowing cases, 759 have been fully assessed and actioned accordingly. The remainder are still under assessment and the cases remain open. Full assessment can take time depending on the nature and complexity of the case.*

Figure 12: Subject of whistleblowing disclosures 2014/15

Subject	Count
Fitness & Propriety	247
Culture of organisation	201
Consumer Detriment	167
Systems & Controls	134
Crime	119
Consumer credit specific concerns	86
Market Activity	76
Pressure on sales staff	73
Treating customers fairly	68
Non-regulated products	65
Pension	39
FX-related	20
Competition	3
Other / Not stated*	42
Total	**1340**

**Some reported cases are not sufficiently specific to identify a sector.*

Figure 13: Cases by sector

Sector	Count
Financial Advisers	271
Consumer Credit	208
Retail Banking	156
Retail Insurance	155
Unauthorised Business	126
Markets	113
Investment Banking	93
Asset Management	35
Commercial Insurance	24
Mutuals & Credit Unions	18
SIPP	10
Mortgage Intermediary	7
Building Societies	6
Payment Services	3
Friendly Societies	2
E Money	1
Other / Not stated*	112
Total	**1340**

**Some reported cases are not sufficiently specific to identify a sector.*

What whistleblowers tell us

The vast majority of our whistleblowing cases relate to conduct issues in regulated firms.

Analysis of the data from our whistleblowing cases in 2014/15 indicates that:

Consumer credit is a current issue. We received disclosures even before we assumed responsibility for regulating consumer credit firms in April 2014. In the financial year 2014/15, we received 208 disclosures from individuals concerned about this sector.

Whistleblowers have increasing concerns about pressure on sales results, including the setting of sales targets. In March 2013 we published *GC15/1 Risks to customers from performance management at firms*. This document drew on information provided by a number of whistleblowers.

Whistleblowers most frequently express concerns about fitness and propriety. Whistleblowers may record multiple concerns within one 'case', but the most consistently raised issue is concerns about the honesty, integrity and ability of persons performing key roles in regulated firms.

Whistleblowers are concerned about consumers. In the financial year 2014/15, 13% of whistleblowers reported concerns over consumer harm. Many of these reports also contained specific references to 'treating customers fairly'.

Whistleblowers are helping us to understand financial crime. Whistleblowers are a key source of intelligence on financial crime with notable reports highlighting money laundering risks.


SALE

3 Promoting competition

We contribute to developing markets that will benefit consumers through effective competition. When competition is effective, engaged and active consumers are able to choose between suppliers, which stimulates rivalry to offer better value, new products, innovative methods of delivery and better quality of service.

We work to identify and tackle market features or firm behaviour that impedes competition, blocks or impedes new and innovative entrants or stops consumers from exercising choice.

In 2014/15 we said we would promote competition by:

- continuing to embed competition into our regulatory approach
- reflecting competition considerations in our Handbook
- studying markets for competition weaknesses
- promoting innovation
- working with other competition authorities and preparing for concurrency powers

Embedding competition

We have made important progress in promoting competition internally and gaining a better understanding of what our competition mandate means for our overall approach. The importance of market-based tools and analysis was reflected in our revised strategy as an organisation, which we published in December 2014.

We have significantly increased our capacity to identify and address competition issues both within the competition division and across the rest of the organisation. Actions we take to promote competition are increasingly built into activities across the organisation, for example recent cross-office work on the Fair and Effective Markets Review.

We also ensure that an understanding of how competition could be strengthened in the markets we regulate is incorporated into our overall assessment of risk to our objectives.

As part of our new strategy we are bringing together the intelligence we collect across the organisation to form a house view of each of the markets and sectors that we regulate. This intelligence – from firms, consumers, market research and other sources – forms a full picture of the markets we regulate and ensure that risks to each of our objectives are considered and assessed alongside each other. These house views are a significant step forward in embedding the competition perspective and becoming a more markets-based regulator.

We also take concrete steps to ensure that the interventions we make are compliant with our competition duty. This means that we must look to achieve our desired outcomes using solutions that promote competition, regardless of which of our statutory objectives we are pursuing. As a matter of policy we aim to choose the most pro-competitive measure open to us, provided that it is compatible with our duties as a whole.

To comply with our competition duty, a consideration of competition is factored into all significant regulatory developments, in particular whenever we make rules or guidance or formulate policies and procedures. Decisions at executive level on any significant regulatory initiative or development are informed by an analysis of the implications for competition.

Barriers to competition can and do arise as a result of our regime. We have made progress towards making specific regulations more competition-friendly, and we continue to work towards achieving our objectives in a proportionate way that does not impose unnecessary barriers to competition. In particular, we look at our regime to identify and address barriers to competition, which includes reviewing the proportionality and unintended consequences of regulation, bearing in mind that the impact of regulation might evolve over time as markets develop. Nonetheless we recognise that there is more work to do in this area, for example the Business Plan for 2015/16 includes looking at the impacts of the mortgage market review.

"We completed market studies on cash savings and retirement income, as well as completing our review of potential competition issues in wholesale markets and launching a market study on credit cards."

Studying markets

Our market studies look at the operation of the markets we regulate in the round, covering firm behaviour (including entry and exit), consumer behaviour (including exercise of choice), innovation and the impact of regulation. If needed we design remedies that work at the level of the market, rather than in relation to individual firms.

Interventions at this level mean we can respond comprehensively to issues and promote competition in the interest of consumers, while also addressing the potential effects of poor conduct on consumers and other firms in a sector. It is an effective and powerful way of identifying and mitigating problems and addressing these across a large number of firms, which in turn benefits a large number of consumers.

We completed market studies on cash savings and retirement income, as well as completing our review of potential competition issues in wholesale markets and launching a market study on credit cards. We also completed a study into SME banking, together with the Competition and Markets Authority (CMA), and analysed the effectiveness of the Current Account Switch Service.

Cash savings

In January 2015, we published the final findings of our cash savings market study and our proposed remedies, which indicated that the market is not working well for many consumers.

We found that providers have significant amounts of consumers' savings balances in accounts opened more than five years ago, yet these accounts pay lower interest rates than those opened more recently. We also found that providers need to improve the transparency of their practices, as little information is currently being given to consumers about alternative products.

We proposed remedies in four main areas:

- Giving consumers sufficiently clear and targeted information at the right time so that they can easily and quickly compare their savings accounts with alternative ones and know how to switch if they want to do so.
- Making the switching process as easy as possible so that it does not put consumers off moving their money to another savings provider or to another savings account with the same provider.

- Removing some of the advantages of the large providers by making it easier for firms to provide a way for consumers to view and manage accounts with different providers in one place.

- Being more transparent about the way in which providers are reducing interest rates on variable rate savings accounts the longer a consumer holds the account.

Retirement income

In March 2015 we published the outcomes of our study into retirement income. Our key findings were that many consumers are missing out by not shopping around for an annuity and switching providers, and some do not buy the best annuity for their needs.

We also found that consumers are deterred from engaging with their options by the length and complexity of wake-up packs, or because they do not believe the sums involved make shopping around worthwhile.

As a result we are:

- requiring firms to provide an annuity quotation ranking so that consumers can easily identify if they could be getting a better deal by shopping around

- redesigning and behaviourally trialling the information that consumers receive from their providers, such as wake-up packs, in the run up to their retirement

- creating a dashboard so consumers can see all their pension pots in one place

We want firms to frame the options available to help consumers make good decisions, rather than to drive sales of certain products. We will be monitoring the market and tracking consumer outcomes, as well as the take-up of the Pension Wise service. We also remain on high alert for scams targeting consumers.

Wholesale sector competition review

Wholesale financial markets play a crucial role in the economy, so it is important that they are not only clean but also competitive.

We launched a review of competition in the wholesale sector to identify any issues, publishing a call for inputs in July 2014, and our findings in February 2015. We have announced a market study into investment and corporate banking, which will be launched in May 2015. We also intend to look into asset management and related services from early 2016.

Retail banking

Competition in retail banking continues to be a major theme across our work. The retail banking markets have attracted a number of new entrants in recent years. The new banks have grown substantially during 2014, but all together still constitute a minority of the market, with the big five accounting for 80%.

Calendar of published market studies

July 2014
Wholesale sector competition review launched

Banking services for small businesses published

General insurance add-ons market study published

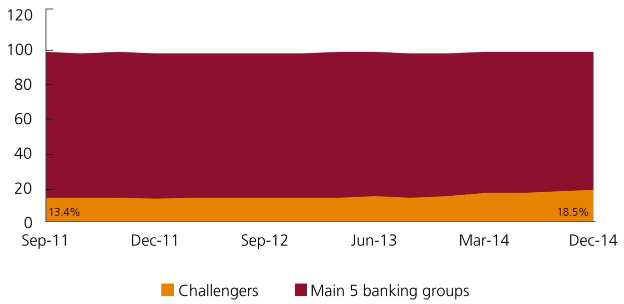
November 2014
Credit cards launched

January 2015
Cash savings published

March 2015
Retirement income published

All published documents relating to our market studies are available on our website, at: www.fca.org.uk/about/what/promoting-competition

Figure 14: Challenger banks and competitive markets



Source: GfK - Current Account Market Report; Data ending September 2014

At the beginning of the year we helped set up the Payments Systems Regulator, now an FCA subsidiary. We also reviewed progress on regulatory barriers to entry, undertook work on SME banking jointly with the CMA, and reviewed the effectiveness of the current account switching service.

In November 2014, the CMA launched an investigation into how well the retail banking markets are working. This will look broadly at the drivers of and impediments to consumer engagement and action in relation to their banking services. If the CMA finds that the market is not working effectively, it will assess what steps to take to address the barriers to competition it identifies and we will work closely with the CMA in that regard.

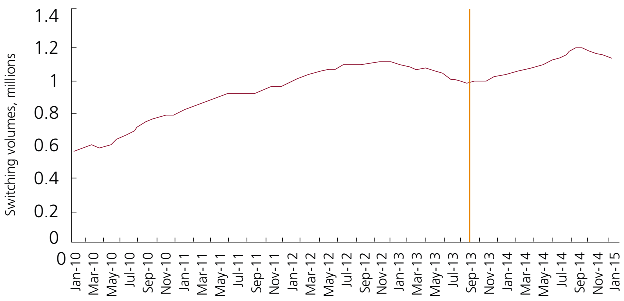
Regulatory barriers to entry into the banking sector

In March 2013 our predecessor, the Financial Services Authority, and the Bank of England published their review of requirements for firms entering or expanding into the banking sector. That review set out changes in two key areas: reforms to the authorisation process for bank applicants and a major shift in the approach to the prudential regulation of banking start-ups. These changes were designed to reduce the barriers to entry and expansion in the banking sector and enable increased competitive challenge to existing banks.

We and the PRA have worked together to implement these changes, and in July 2014 we published a review of developments in the first year. This included:

- A substantial increase in the number of firms discussing the possibility of becoming a bank. In the 12 months following the publication of the original review the PRA authorised five new banks.
- Both we and the PRA have greatly increased the level of pre-application support we offer firms.
- In the 12 months to 31 March 2014 the regulators held 47 pre-application meetings with over 25 potential applicants.
- The application pack for banks has been reviewed and restructured and both regulators have streamlined the material and information applicant firms have to submit.
- A new 'mobilisation' option — where authorisation is granted when a firm has met essential elements but with a restriction on its activities due to some areas needing to be completed — has been advantageous for applicant firms that would previously have faced challenges in seeking additional capital or investing in IT systems. The first new bank to use this option has now opened. There are also a number of other new banks in the mobilisation stage and significant interest from firms in pre-application discussions with both regulators.
- Capital and liquidity requirements for new entrants deemed resolvable with no systemic impact are now lower than before. These changes, which in themselves represent a tangible reduction to the barriers to entry, have been supplemented by a reduction in the minimum amount of initial capital required by small credit institutions and an assessment of a new bank's capital requirement on an annual basis.

Figure 15: Current Account Switching Service



Source: Bacs Current Account Monthly Switching

We and the PRA remain committed to working closely with all interested parties to build on the positive developments since these measures were introduced. We aim to ensure that the regulatory requirements and the authorisation process remain proportionate and fair, and to reduce further the barriers to entry and expansion.

Banking services for small businesses

In July 2014 we published a joint market study with the Competition and Markets Authority (CMA) on banking services for small and medium-sized businesses (SMEs).

We focused on the supply of core banking services, the nature and effectiveness of competition in SME banking markets, willingness to shop around, and the level of switching and transparency, including SMEs' ability to make effective comparisons across providers and informed decisions about products that best meet their needs.

The evidence presented in this report formed part of the evidence base the CMA used to refer the market for retail banking for in-depth investigation by the CMA.

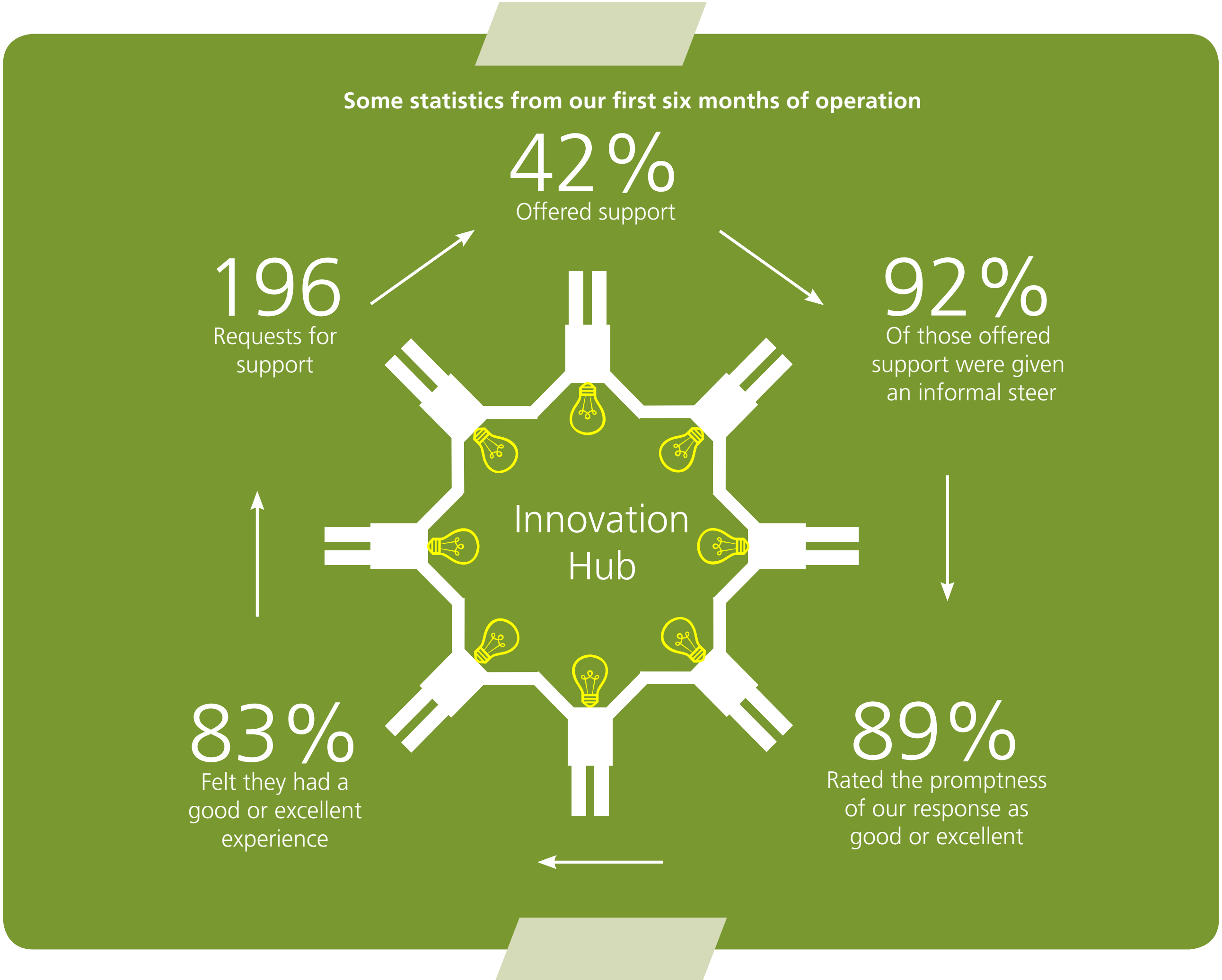
Current Account Switch Service

In September 2014, we launched a review of the effectiveness of the Current Account Switch Service. The results of our review were published in a report in March 2015.

We found that one year on from the launch of Current Account Switching Service, there had been a small uplift in switching of approximately 22% compared to switching volumes under the previous process, however this level of switching is only slightly higher than the peak achieved using that process. This level of switching needs to be seen in the context of the other significant barriers to switching which still exist, such as consumer inertia. We found there had been some limited changes in provider behaviour, particularly in relation to the development of current account products.

We found that the vast majority of switches are completed within seven days and without error and most consumers who have used the service rated it positively. However, we found that consumers lack awareness and confidence in Current Account Switching Service. We also uncovered a small number of operational issues associated with it and the switching process more broadly. We have recommended measures to address these points.

Alongside our review we gathered evidence on other measures, including ANP, which could make switching simpler and easier for customers by allowing them to change banking service providers without changing their bank account number. These included Account Number Portability (ANP) which could allow consumers to change banking service providers without changing their bank account number. We recommended that the new Payment Systems Regulator (PSR) use the findings we have gathered in relation to ANP, alongside other possible innovations in payment systems, as part of their work.



Promoting innovation and targeting regulatory barriers to entry

Project Innovate

We recognise the importance of innovation and disruptive challenge for competitive markets, and also recognise that regulation can be a significant barrier for new business models. A major step in pursuit of our competition objective was the establishment of the Innovation Hub in 2014. This offers:

- a dedicated contact point for queries from innovators
- additional support for up to a year after authorisation
- help to understand the regulatory framework and how it applies to them

We also identified policy challenges we wanted to tackle. For example:

- We are aware that innovator businesses are experiencing difficulties in obtaining access to bank accounts. We won't interfere with legitimate commercial decisions by banks, but we want to understand what more we can do to try to resolve this difficult issue. This has included publishing a statement on de-risking.
- The Innovation Hub provides innovators with informal steers, which they rely on at their own risk, but that have proved positive from feedback.

We believe that, through better competition, consumers will benefit from more choice. Not just choice of provider, but choice of products, services and channels, and that these choices will create a virtuous cycle where innovators encourage followers among market incumbents. This in turn encourages more innovation and competition in the interests of consumers.

In the first six months the Innovation Hub received 196 requests for support. Feedback from businesses has been positive so far, with 90% of respondents agreeing that their overall experience with the Innovation Hub has been good or excellent. The figures are similar for the effectiveness of our communications, the promptness of our response and our ability to understand the need for support.

Reviewing our existing rules from a competition perspective

When developing our rules we consider the competition implications. When we came into being, a significant number of rules were carried over from our predecessor organisation, the Financial Services Authority, which did not have an explicit competition objective or duty. So we have been reviewing the rules we inherited and considering where pro-competitive changes could be made. This review has excluded rules driven by European directives and regulations as we would have limited ability to make changes.

The review did not identify any significant competition issues in the areas of the Handbook that we have discretion to change, but some areas need further assessment. Wherever possible we are aligning our work with existing or planned projects to make the best use of our resources. For example, as part of the post-implementation review of RDR, we have considered the competition implications of the rules and whether any changes could be made that would benefit consumers. In addition:

- we are considering a number of issues in the context of potential changes under MiFID II
- we have captured concerns in relation to disclosure requirements as part of the smarter consumer communications discussion paper

In the meantime, we will continue to examine the impact of the regulatory regime on competition through our market studies. And we will continue to engage with market participants. In particular, we welcome the views of new entrants and smaller players on whether aspects of our regulatory regime constrain their ability to enter and compete.

Preparing for new concurrent competition powers

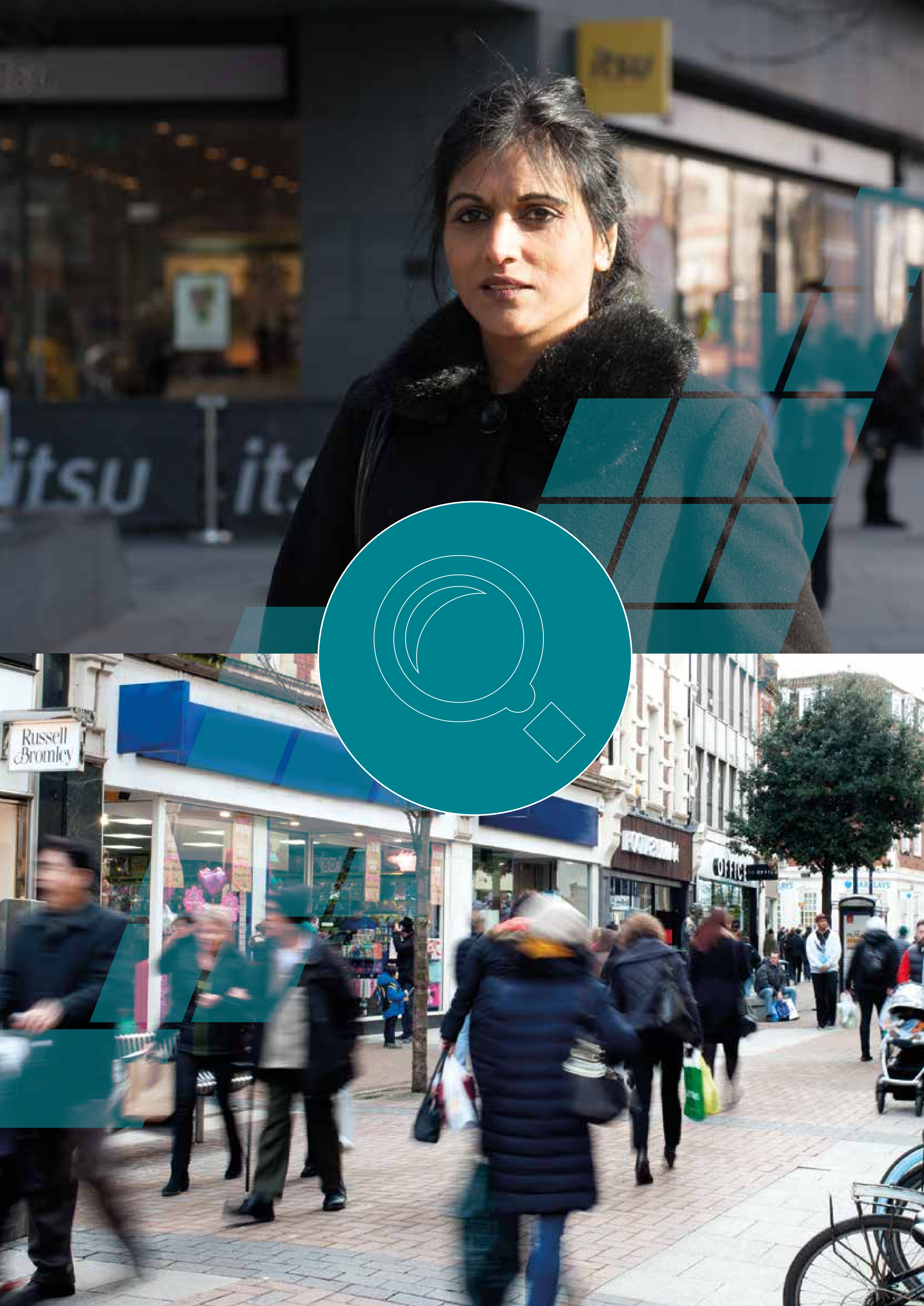
On 1 April 2015, we obtained additional functions under two sets of legislation:

- We can enforce against breaches of the prohibitions on anti-competitive agreements and abuses of dominance set out in the Competition Act 1998 and Article 101 and 102 of the Treaty on the Functioning of the European Union.
- We can conduct market studies and make market investigation references under the Enterprise Act 2002.

We have consulted on:

- our enforcement processes under the Competition Act 1998
- how we will carry out market studies and make market investigation references under the Enterprise Act 2002
- clarifying the obligations on regulated firms to notify us of an infringement of competition law

These powers put us on an equal footing with other concurrent regulators, such as Ofgem or Ofcom. We must consider if it is more appropriate to use our competition enforcement powers before we use some of our FSMA powers.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4 Our performance: how we regulate

We take a proportionate regulatory approach, prioritising our work on the areas that pose the highest risk to our objectives

Monitoring financial markets and the firms that enter them

Firms and individuals that want to carry out regulated financial business have to be authorised by us to do so lawfully, unless they are exempt. [5] We assess firms as they apply to us to be authorised to ensure that they meet our threshold conditions, using all the relevant information available to explore their internal culture, business models and the way they treat their customers.

We prevent firms from entering the market where we believe they pose a significant risk to consumers or to the market itself through poor behaviour. By assessing firms as they set up their business, we can ensure they embed a culture of putting customers at the heart of their business from the outset.

We have sought to be proportionate and aid competition through communicating directly with firms as they prepare to apply for authorisation. For example, we have worked to ensure that firms engaged with our Innovation Hub have access to the expertise and advice they need.

Authorising firms and individuals

During 2014/15 we received:

- 1,134 applications for non-consumer credit authorisation
- 1,803 variations of permissions applications
- 156 payment services and e-money applications
- 498 waiver applications

Applications are assessed and determined as either authorised, refused or withdrawn.

5 Exempt firms are usually those who undertake some regulated activities as incidental services in addition to their normal professional services, such as solicitors, accountants and chartered surveyors.

Figure 16: Application outcomes

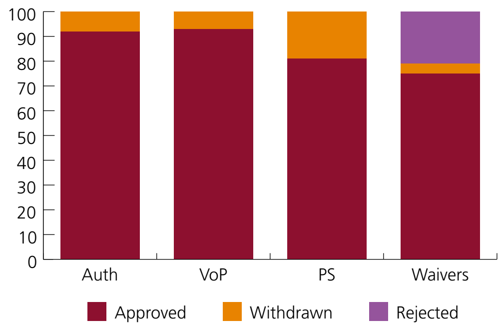


Figure 17: Length of time to process applications

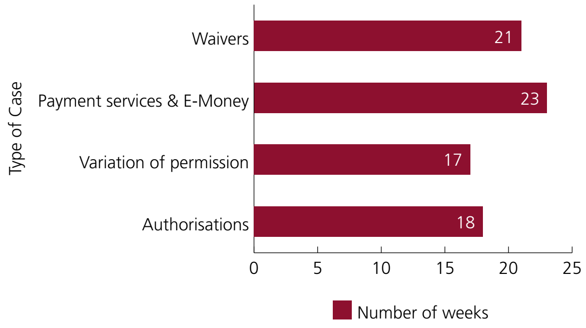
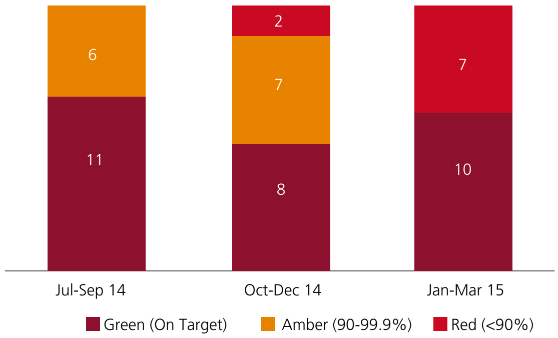


Figure 18: Percentage of service standards met per quarter



We aim to process applications as effectively and efficiently as possible to ensure that those firms that are suitable to enter the market are not held up from providing services. We analyse how quickly we process applications from different types of firms as an indication of our efficiency. We have a number of service standards that we use to measure our efficiency and effectiveness across the various authorisation processes. We publish these every six months.

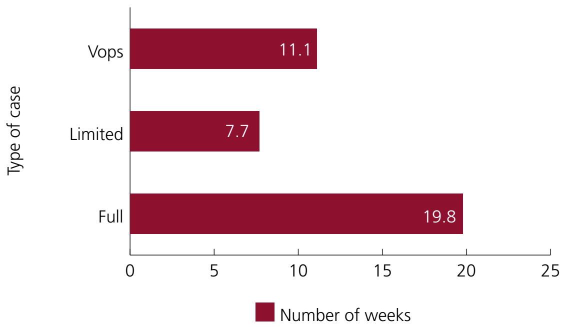
We monitor cases against 17 service standards. If compliance with a standard is 100% it is considered on target, if compliance is between 90-99.9% it is considered amber whereas if compliance is less 90% it is given a red status. Since late 2014 there has been an emphasis on the daily tracking of cases, continuous feedback to case officers, and deprioritising non-urgent work streams. This resulted in an improvement in the overall number of service standards being met. The increase in standards being missed was due to resourcing issues, exacerbated by implementation issues with INTACT, that have now been resolved.

Integrating consumer credit firms into our regime

Successfully integrating consumer credit firms into our regime is a key priority for us. Around 50,000 firms registered with us for interim permission. In May 2014 we contacted these firms to let them know when they should apply to us for authorisation. We have two broad categories of authorisation for consumer credit firms; 'limited permission' and 'full permission'. Firms requiring full permission will carry on activity likely to be higher risk, so they will be subject to more checks and have more conditions to meet.

The rolling programme of authorisation assessments started in October 2014. Each firm has a three-month period in which to apply and all firms need to have applied by April 2016. We have up to 12 months from their application to decide whether they meet our standards.

Figure 19: Average processing time for consumer credit applications (Oct 2014 to Feb 2015)



By the end of March 2015, 19,533 firms had submitted an application. This includes both new applications and variations of permissions (VoPs). Of these, we have decided in 11,079 cases. Of the applications we had determined by the end of March 2015, we have authorised 10,286 firms and refused 18. 775 firms have withdrawn their application.

It takes us longer to process a full permission application than other types of cases. Complex cases and business models that pose higher risks to consumers will take longer to assess. The average time taken in different periods is not directly comparable as the mix of cases varies across application periods.

Driving cultural change through our supervision approach

We supervise the conduct of financial firms operating in the UK, as well as carrying out prudential supervision for firms not supervised by the PRA. We look at a firm's management of risk and question whether the interests of consumers and market integrity are at the heart of how it is run.

We are risk-based and proportionate in our approach to supervision[6], which we base on three pillars, recognising the diversity among firms and markets.

We currently categorise UK-authorised firms into four groups:

C1
Groups with the largest number of retail customers, and wholesale firms with the most significant market presence. They have a named supervisor and a high level of firm-specific supervision.

C2
Firms and groups with large retail customer numbers and wholesale firms with a significant market presence. They have a named supervisor and a high level of firm-specific supervision.

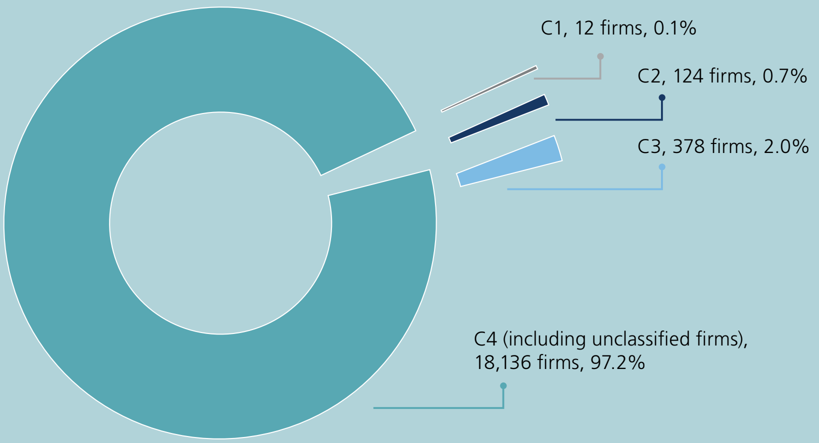
C3
Retail and wholesale firms with a medium-sized customer base. They are supervised with a sector-based approach, with less frequent firm-specific engagement.

C4
Retail and wholesale firms with a small number of customers. They are supervised with a sector-based approach, with less frequent firm-specific engagement.

6 In our Business Plan 2015/16 we highlight that our supervision model will be subject to some changes. We will communicate with firms about what this means for them in due course.

UK-authorised firms – group-level breakdown

In practice many financial services firms in the UK are formed of groups of legal entities, for example St Andrew's Insurance Plc and Halifax Financial Brokers Limited are both parts of Lloyds Banking group. For C1 firms the 161 legal entities are part of 12 groups, which are mostly banking and insurance groups. These banking groups contain a variety of different legal entities which sell different financial products and have different permissions.



Source: FCA Data Bulletin - October 2014 edition. This chart does not include consumer credit firms.

Pillar 1: Proactive firm supervision

For retail and wholesale firms with a medium or large customer base or market presence, we carry out business model and strategy analysis (BMSA), which includes analysing product profitability, prudential issues and data about customers. This, together with ongoing firm engagement and other intelligence, informs 'deep dive' assessments, which examine particular risks we have identified.

Pillar 2: Event-driven, reactive supervision

We discover risks or problems in a number of ways, including through information from firms, as well as data analysis, whistleblowers and consumer complaints. Our response to an event depends on the nature and size of the problem and we focus on the issues that most affect our objectives.

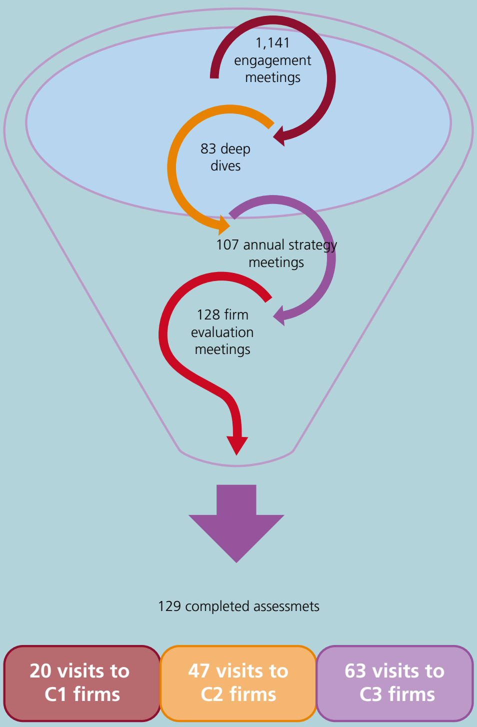


Figure 20: Proactive supervision

Engagement meetings are proactive engagement where our supervisors build and maintain an up-to-date understanding of a firm's business model, governance, operations and culture to identify emerging risks.

Deep dives are focused, in-depth assessments of specific strategies, policies or processes such as product design or governance. We use them to identify root causes of risk, and test how firms manage and mitigate these at every level of the business. Following a deep dive, firms receive a feedback letter outlining our findings and the actions to be taken.

Annual strategy meetings are used for structured engagement with firm's executives, discussing key aspects of its business model, strategy and operations. The outcome of the meeting is used to shape the ongoing supervision strategy for each firm.

Firm evaluation meetings are an internal meeting used to debate and determine an overall view of the firm and the risks the firm poses to our objectives and agree the supervision strategy and firm work programme for the future. We then write to firms to outline the findings of the evaluation of their firm and outline the risks we see and action we require of them.

Calendar of thematic work

(23 published between 1 April 2014 and 31 March 2015)

Apr 2014
Supervising retail investment firms: being clear about adviser charges and services

Clarity of fund charges

May 2014
Insurers' management of claims – household and retail travel

Commercial insurance intermediaries

Jun 2014
Best execution

Enhanced transfer values (ETV)

Self-investment personal pensions (SIPP) operators

Price Comparison Websites (PCWs) and GI add-ons

Non-advised and simplified investment advice

Aug 2014
PPI complaint handling and proactive consumer contact

Sept 2014
Mobile banking and payments

Nov 2014
Conflicts of interest in wealth management firms

Managing bribery and corruption risk in commercial insurance broking

How small banks manage money laundering and sanctions risk

Complaint handling

Dec 2014
The Retail Distribution Review (RDR) post-implementation

Non-advised annuity sales practices

Feb 2015
Asset management firms and the risk of market abuse

Mar 2015
Governance over mortgage lending strategies

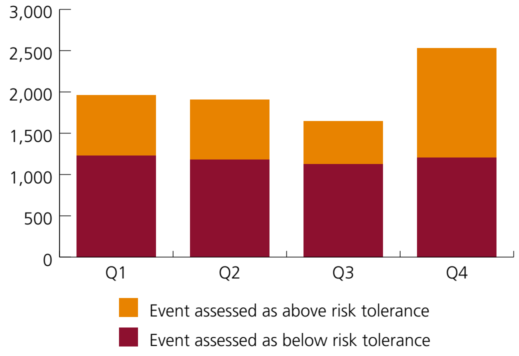
Infrastructure firm supervision: Fixed income MTFs

Arrears and forbearance in high-cost short-term credit (HCST)

Structured products: Review of product development and governance

Managing the performance of staff – guidance consultation and thematic review

Figure 21: Event-driven and reactive work - C4 supervision (not including consumer credit firms)



Over 2014/15 we carried out **8,179** C4 assessments, of which **1,262** were face-to-face and **6,917** were online.

We tackle the events with the potential to cause the most harm. Approximately 80% of harm is within those events above the risk tolerance. This year we have seen 8,046 events, which is a decrease of 31% from last year when there were 11,716. We took action on 3,304 (41%) of the events in 2014/15 compared to 4,275 (36%) in 2013/14.

Pillar 3: Issues and products supervision

Our Pillar 3 work is based on our in-depth thematic reviews, where we examine emerging risks, new products and other issues that are common to multiple firms or sectors. For more detail on these please see Chapter 1 and our website.

Prudential supervision

We have embedded our approach to the prudential supervision of 23,000 wholesale and retail firms, proactively overseeing the largest and reactively dealing with the smallest, to use our resources efficiently to continually ensure that they are meeting their obligations under the relevant prudential regime, and that they have enough liquidity and capital available for a wind-down should they fail.

To safeguard consumers, and the integrity of UK financial markets, larger or more complex financial institutions need to be able to wind-down their operations if required, particularly in a severe financial stress or failure scenario.

We expect firms to maintain credible crisis management arrangements and wind-down plans, as highlighted in our *Approach to Supervision*. We have successfully initiated several prudential crisis management groups (PCMGs) as part of our non-zero failure (pillar 2) approach. These cross-functional expert groups provide enhanced supervisory oversight during a firm crisis and have enabled us to minimise the damage to consumers and financial markets from distressed and failing firms.

Client assets supervision

Protecting custody assets and client money (collectively referred to as 'client assets') is fundamental to consumers' rights and the trust they place with firms that are often acting as their agents, fiduciaries and/or counterparties. It is at the heart of ensuring a well-functioning and robust market place.

In 2014/15 we finalised changes to the client money and custody assets rules (CASS). These changes, introduced in three stages in 2014 and 2015, affect approximately 1,500 FCA-regulated firms that carry out investment business, from the largest investment banks to the smallest investment adviser, who collectively hold over £100bn of client money and £10tn of custody assets. The final rules address lessons learned from recent insolvencies, feedback from firms themselves and observations from our specialist Client Assets Department.

Client asset metrics

Part of our approach to protecting client assets is through visiting those firms with CASS responsibilities to assess their systems and controls for protecting client money and/or custody assets.

During the year we conducted visits to 159 firms (see Figure CASS 1) representing an increase from the number of visits conducted in previous years. This increase has come about as a result of shorter, more-focused visits concentrating on key risk areas as well as broadening our scope into consumer credit.

Figure 22: Number of CASS visits

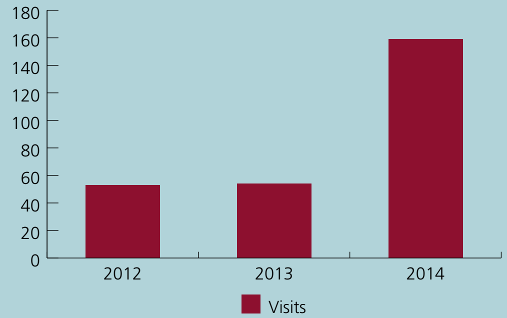
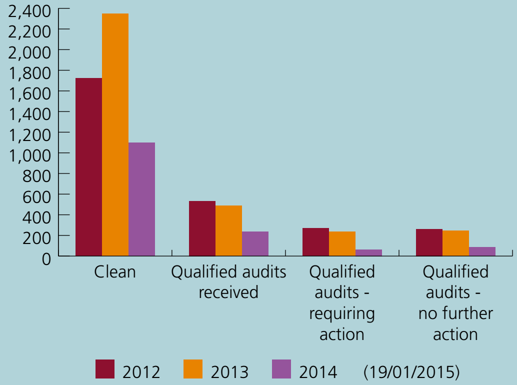


Figure 23: Number of client asset (CASS) audit qualifications



All firms with client assets responsibilities are required to commission external audits to assess their CASS compliance. For designated investment firms these are submitted to the FCA. All qualified ('adverse' and 'except for') audits are reviewed and considered for further action (e.g., call, letter, visit, private warning, s166 or enforcement action). More recent years have seen a gradual increase in the percentage of clean audits received and we expect this trend to continue for 2014 year-end audits once we have received all of the data.

Enforcing our rules

Enforcement is probably the most visible part of our work and it is important that it is used fairly, effectively and proportionately.

Our approach is one of credible deterrence – our aim is for those who engage in misconduct to believe they will be held to account and that meaningful sanctions will follow. This helps to protect consumers, enhance the integrity of UK markets, and increase the stability of our financial system. Furthermore, robust enforcement action on cultural and governance issues helps to drive our forward-looking agenda, by publicising to the industry the consequences of failing to ensure that consumers are at the heart of their business.

In December 2014, the Treasury published its review of the institutional arrangements and processes for enforcement decision-making at the FCA and PRA. We believe that these recommendations will strengthen our continued efforts to ensure fair, efficient and transparent enforcement decision-making. We intend to consult on how best to implement the recommendations in summer 2015.

The outcomes that we have delivered over 2014/15 show how the failures in retail and wholesale conduct can undermine the integrity of the market, cause systemic harm and have a serious impact on wider confidence in the UK financial system.

We took action against 28 firms and 27 individuals, imposed 43 penalties totalling £1.4bn, issued 55 final notices (excluding threshold condition notices) and secured 95 outcomes using our enforcement powers. We achieved outcomes in 67% of the cases we opened (excluding threshold condition cases). Penalties imposed by us are not treated as income, so we do not retain them, we pay them to the Treasury after deducting our enforcement costs. For further details on how we treat penalties, please refer to the strategic report and financial statements.

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and 27 individuals,

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Figure 24: Enforcement Case movements

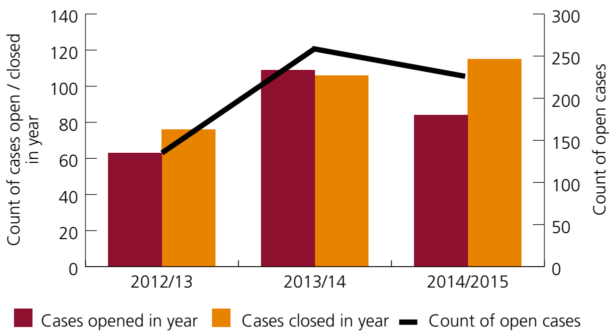
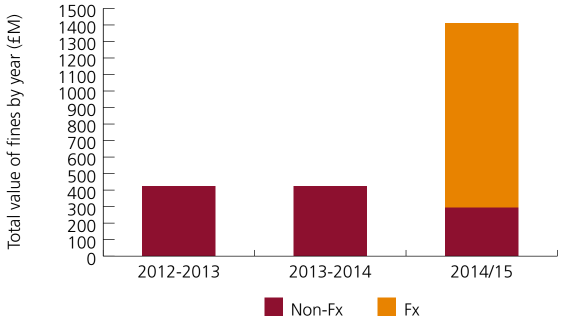


Figure 25: Financial penalties levied



Meeting our threshold conditions

The threshold conditions are the minimum conditions that a firm is required to satisfy, and continue to satisfy, in order to be given and retain its regulatory permissions. If a firm has failed to meet our basic standards to carry out regulated activities we take action against them. Over the last year we have cancelled:

- the permissions of 16 firms and secured remedial steps to address breaches from a further 173
- the registration of 33 payment services firms and secured remedial steps to address breaches in a further 48
- the interim permission of three consumer credit firms and secured remedial steps to address breaches in a further two
- the registration of three firms under the Third Money Laundering Directive for the non-payment of our fees

We have also continued to focus on firms that repeatedly fail to meet basic regulatory obligations, such as failing to submit regulatory reports. We took action against five of these firms: one had its permission varied and cancelled, one had its permission cancelled, one applied to cancel its permission, and two firms committed to a formal agreement to comply promptly in future.

Senior management responsibility and Significant Influence Functions (SIFs)

Ensuring that senior management are held to account is a key priority for us, but pursuing enforcement cases against individuals is resource intensive and can take a number of years to conclude. In 2014/15, we took action against 31 individuals, 20 of whom held SIF functions, imposing £6.6m in fines and 26 prohibitions (including threshold condition notices).

In April 2014, we fined two partners of One Stop £490,100 for failing to assess the suitability of high-risk SIPP products. Uniquely, the two partners would have been fined a total of £490,100 but they have instead agreed to pay that amount to the Financial Services Compensation Scheme (FSCS), which is investigating claims that redress may be payable to one Stop customers. In November 2014, we fined three former senior executives of Swinton Group Limited a total of £928,000 for treating customers fairly failings relating to Swinton's sales culture and mis-selling of insurance add-ons.

Treating retail customers fairly

Enforcement action has played an important role in both disciplining firms and securing consumer redress. We concluded cases in 2014/15 that have resulted in fines of over £180.2m and the banning of 18 individuals from the retail financial sector. We also used our suspension power for the first time, banning two of the Financial Group's subsidiaries, Financial Limited and Investments Limited, from recruiting new appointed representatives and individual advisers for four and a half months.

On 30 October 2014 we fined Sesame Limited £1.5m for breaches relating to its arrangements with product providers. The firm set up a 'pay-to-play scheme' that meant the range of products recommended to its clients under its restricted advice service was influenced by the amount of services it had sold to product providers.

On 20 November 2014 we fined Royal Bank of Scotland Plc, National Westminster Bank Plc and Ulster Bank Ltd ('the banks') £42m for failing to maintain appropriate IT systems. Failures had occurred in June 2012 that meant customers could not access banking services. This was the first time we took joint enforcement action with the PRA. The PRA fined the banks £14m.

Sponsors

On 6 January 2015 we fined sponsor firm Execution Noble & Company Limited £231,000 for breaches of the listing rules in relation to sponsors. This was the first time we used our power to fine sponsors.

Conflicts of interest

On 24 February 2015, we fined Aviva Investors Global Services Limited (Aviva Investors) £17.6m for systems and controls failings that meant it failed to manage conflicts of interest fairly. These weaknesses led to compensation of £132m being paid to ensure that none of the funds Aviva Investors managed were adversely affected.

Benchmarks

We fined a further two firms a total of £105.6m for misconduct relating to the London Interbank Offered Rate (LIBOR) in 2014/15.

On 15 May 2014, we fined Martin Brokers (UK) Ltd (Martins) £630,000 for misconduct relating to LIBOR. Martins would have been fined £3.6m but for the fact that the firm was able to show that it could not pay a penalty of this amount in addition to the other regulatory fines that Martins faces in relation to LIBOR.

On 22 January 2015, we fined two former senior executives of Martins for compliance and cultural failings. David Caplin, the former chief executive for Martins and Jeremy Kraft, the former compliance officer for Martins were the first individuals holding Significant Influence Functions to be fined for failings that contributed to LIBOR misconduct. They were fined £210,000 and £105,000 respectively and have been prohibited from performing any significant influence functions.

On 28 July 2014, we fined Lloyds Bank Plc and Bank of Scotland Plc, both part of Lloyds Banking Group, £105m for serious misconduct relating to the Special Liquidity Scheme (SLS), the Repo Rate benchmark and LIBOR. £70m of this related to attempts to manipulate the fees payable to the Bank of England for the firms' participation in the SLS, a taxpayer-backed government scheme designed to support the UK's banks during the financial crisis.

On 23 May 2014, we fined Barclays Bank Plc (Barclays) £26m for failing to adequately manage conflicts of interest between itself and its customers, as well as systems and controls failings, in relation to the Gold Fixing.

We also imposed fines totalling £1.1bn on five banks for failing to control business practices in their G10 spot foreign exchange (FX) trading operations in November 2014. These fines are among the largest ever imposed by us or the FSA. This was the first time we pursued a simultaneous settlement with a group of banks in this way working in conjunction with overseas regulators.

Transaction reporting

Accurate and complete transaction reporting is essential to enable us to protect and enhance the integrity of the UK financial system. On 28 August 2014, we fined Deutsche Bank £4.7m for failing to properly report millions of transactions.

Protecting client assets

Protecting client assets is fundamental to consumers' rights and the trust they place with firms that are often acting as their agents, fiduciaries or counterparties. It is at the heart of ensuring a well-functioning and robust market place.

Firms that hold client assets should ensure they continue to strengthen their management, oversight and controls in this area.

In September 2014 we fined Barclays Bank Plc (Barclays) £37.7m for failing to properly protect clients' custody assets worth £16.5bn. Our rules are there to protect custody assets if a firm becomes insolvent. Barclays failed to properly apply these rules when opening 95 custody accounts in 21 countries. As a result, Barclays' records did not correctly reflect which company in its Investment Banking Division was responsible for the custody assets in the accounts. Barclays also failed to set up appropriate legal arrangements with these companies.

We also took action against a stockbroking firm, Pritchard Stockbrokers Limited, for recklessly failing to protect client money and committing a number of specific breaches of the FCA's client money rules. Fines were also levied against individual directors.

Financial crime

Financial services firms are at risk of being abused by those seeking to launder the proceeds of crime or to finance terrorism. This undermines the integrity of the UK financial services sector. Firms are obliged to take appropriate and proportionate steps to manage such risks effectively in order to reduce the risk of financial crime.

On 5 March 2015, we fined the Bank of Beirut (UK) Limited £2.1m for repeatedly providing the regulator with misleading information after it was required to address concerns regarding its financial crime systems and controls. We also stopped the bank acquiring new customers from high-risk jurisdictions for 126 days. This is the second time we used our suspension or restriction powers. In addition, we fined the former compliance officer and internal auditor, both of whom had been approved persons at the bank, and failed to deal with us in an open and cooperative way.

"Financial services firms are at risk of being abused by those seeking to launder the proceeds of crime or to finance terrorism. This undermines the integrity of the UK financial services sector. Firms are obliged to take appropriate and proportionate steps to manage such risks effectively in order to reduce the risk of financial crime"

Criminal action and market abuse

Over the last year we secured three criminal convictions for insider dealing.

On 3 March 2015, Paul Coyle, the former Group Treasurer and Head of Tax at WM Morrison Supermarkets plc, pleaded guilty to two counts of insider dealing and was sentenced to 12 months imprisonment. He was also ordered to pay £15,000 towards prosecution costs and a Confiscation Order of £203,234.

Julian Rifat, a former senior execution trader at Moore Capital Management LLC pleaded guilty to an indictment reflecting eight instances of insider dealing and, on 19 March 2015, was sentenced to 19 months imprisonment, given a £100,000 fine and ordered to pay legal costs of £159,402. Rifat passed inside information, obtained during the course of his employment, to an associate, Graeme Shelley, who then traded for their joint benefit. Graeme Shelley, previously a broker at Novum Securities, pleaded guilty to insider dealing with Rifat and with another associate, Paul Milsom. In March 2014 Shelley received a two year suspended sentence. Paul Milsom, an execution trader at Legal and General Insurance Management Ltd, pleaded guilty to insider dealing and in March 2013 was sentenced to two years imprisonment for disclosing inside information. Rifat is the third individual to plead guilty to insider dealing offences arising out of Operation Tabernula, our largest and most complex insider dealing investigation.

Ryan Willmott, the former group reporting and financial planning manager for Logica Plc, pleaded guilty to three counts of insider dealing on 26 February 2015 and was sentenced to ten months imprisonment. Willmott admitted dealing on the basis of inside information he obtained during the course of his employment relating to the takeover of Logica Plc by CGI Group, as publicly announced on 31 May 2012. Willmott set up a trading account in the name of a former girlfriend, without her knowledge, to carry out the trading. He also admitted disclosing inside information to a family friend, who then went on to deal on behalf of Willmott and himself. He was ordered to pay £6,122 towards prosecution costs and a Confiscation Order of £23,239.75.

Non-criminal market abuse outcomes

On 27 May 2014 the Upper Tribunal upheld our decision to fine Mr Hannam £450,000 for engaging in market abuse by improperly disclosing inside information. The Upper Tribunal's decision emphasised the importance of careful handling of inside information and clarified key elements of the market abuse regime.

Recovery of proceeds

We obtained nine confiscation orders against individuals with a value of almost £3.5m. We participate in the Asset Recovery Incentivisation Scheme, which means that of the money confiscated, half goes to the Home Office while the other half is divided between the investigating, prosecuting and enforcement agencies.

In 2014/15 we received 37.5% or about £819,000 of the confiscation proceeds, as we are both the investigator and prosecutor in insider dealing cases. We used this money to drive up performance on asset recovery and to fund initiatives to fight financial crime. For example, we used the money to support our educational and awareness work to prevent UK consumers from falling victim to financial crime, and to support ongoing investigations, secondments to other regulators, software and staff training.

Unauthorised business work

We continued to take action against unauthorised investment businesses, including share frauds, landbanking and 'get rich quick' investment scams in 2014/15. We received over 8,000 reports of potential unauthorised activity in the UK. The vast majority of these were related to consumer credit. We identify the most serious matters posing the greatest risk to consumers and seek to stop them in a number of ways, including bringing civil or criminal legal proceedings against the perpetrators, disruption tactics such as taking down websites, and publishing consumer warnings.

Since taking over the regulation of consumer credit we received more than 4,500 reports about potential unauthorised consumer credit activity and made enquiries into 220 separate entities. This resulted in us publishing 83 consumer alerts about individual unauthorised firms, the majority of which were about bogus entities operating advance fee scams offering non-existent loans to UK consumers. On 30 April 2014, we published a list of just under 13,000 firms that had held a consumer credit license under the old regime with the OFT but had not applied for interim permission with us, nor indicated to us that they were no longer involved in the credit market.

Over the last year we have also secured three criminal convictions against individuals that operated without our authorisation.

Case study:
Unauthorised investment scheme

In July 2014, Phillip Harold Boakes was charged with 13 offences relating to an unauthorised investment scheme he operated between 1 October 2004 and 4 June 2013. Boakes ran a scam through his company CurrencyTrader Ltd, which claimed to carry out foreign exchange spread betting for its customers. The scam encouraged people to invest on the promise of guaranteed annual returns of 20% or more. In reality, Boakes was not authorised by the FCA to accept deposits and the pledge of guaranteed returns was a sham. The 'returns' were funded from the deposit itself or from funds received from new investors. In total, at least 30 investors entrusted Boakes with over £3.5m. The sums lost by the individuals ranged from approximately £10,000 to £700,000. Eventually the scheme collapsed and investors lost over £2.5m. Approximately £1.3m was spent by Boakes on his lifestyle, of which £175,218 was spent on cars and £213,659 on foreign holidays.

Boakes' trading was unsuccessful; of the total £2.1m actually traded by him, almost £1m was lost. Boakes admitted that between October 2002 and January 2013 he failed to trade investors' money as promised, lied about the value of funds and the returns they would generate, and used client funds for his own benefit. In addition, he used forged documents to support the fraud.

Boakes pleaded guilty to two counts of fraudulent trading, three counts of using a forged instrument and having previously admitted an offence of accepting deposits without authorisation on 31 October 2014. Boakes received a custodial sentence of ten years. This is the longest sentence ever imposed in respect of a prosecution brought by the FCA or FSA. In sentencing, HHJ Lorraine-Smith said 'This was a classic Ponzi scheme over a number of years with a large number of victims. Lives have been changed and life savings have been lost. Boakes and his family lived a lavish lifestyle that he could not begin to afford but for his fraudulent activities'. The Judge also remarked on Boakes' attempts to stop investors from assisting the FCA's investigation.

In January 2015, Alex Hope was sentenced to a total of seven years' imprisonment for defrauding investors of significant sums and operating a collective investment scheme without authorisation. Hope's co-defendant, Raj Von Badlo, was sentenced to a total of two years' imprisonment for recklessly making false representations to investors and promoting a collective investment scheme without authorisation.

We have commenced five civil actions and four criminal prosecutions, as well as securing two restraint orders under the Proceeds of Crime Act (POCA) regime to protect assets valued at over £370,000. The FCA currently has assets valued at approximately £3.99m under restraint in relation to unauthorised business cases. Additionally, we have published consumer warnings on 232 unauthorised firms.

We look out for emerging trends in investment frauds and remain concerned by the number of customers receiving offers of 'free pension reviews' and reports of customers handing over £60 to £100 when applying for a loan or credit they do not ultimately receive. We continue to work hard to raise consumer awareness about the risks posed by such products.

In May 2014, we published a consumer alert to educate consumers on the potential risks posed by unregulated introducers who offer a free pension review and encourage consumers to move their existing personal or occupational pensions into high risk, unregulated products. In September 2014 we published an alert in relation to a loan fee fraud also known as 'advance fee fraud', where consumers were charged a fee when applying for a loan or credit that they never received.

In Operation Broadway, a multi-agency partnership to stop investment fraud, we alongside the City of London Police, City of London Trading Standards and Metropolitan Police visited a number of office premises in the Square Mile, Canary Wharf and Westminster as part of a long-term, coordinated, intelligence-led drive to uncover suspected boiler rooms and inform the virtual and serviced office providers that are unknowingly providing criminals with prestige addresses from where to work and promote their scams.

Early intervention

We take early action to mitigate ongoing or potential risks to consumers and markets. While this might involve formal disciplinary action, in the interests of securing a good consumer outcome quickly, we often reach a voluntary agreement with a firm without conducting a full investigation or using our formal statutory powers of investigation or discipline. In some cases we cannot publish details of the misconduct, but we aim to be as transparent as we can so that firms know what behaviours are unacceptable, and consumers have the information they need to make the right decisions.

Our early intervention work has spanned a number of issues and sectors. The outcomes of these early interventions vary from redress exercises, ceasing business activities such as lending and, in one case, preventing a firm from using a misleading name.

We have used this early intervention approach to significant effect since we took over consumer credit regulation from the Office of Fair Trading on 1 April 2014. This has resulted in 12 firms exiting the consumer credit market, 22 requirements to cease or amend lending/debt collection practices, six consumer redress schemes and action taken against 24 debt management firms, including securing at-risk client money. This early intervention approach has also been used by us in other sectors.

In 2014/15 we intervened early to tackle ongoing risks to customers and markets in 16 cases. Examples of outcomes include:

- In June 2014, Wonga agreed to pay compensation of over £2.6m to around 45,000 customers for unfair and misleading debt collection practices, when it was found to have sent letters to customers in arrears from non-existent law firms, threatening legal action.
- In October 2014, Wonga agreed to a redress scheme for over 375,000 customers who were affected by inadequate affordability assessments. Customers who were 30 days or more in arrears on their loans had the balance completely written off, while all customers who were in arrears of up to 29 days had the interest and charges on their loans written off.
- In July 2014, Dollar Group agreed to refund over £700,000 of interest and default charges to 6,247 customers who, due to a systems error, received a loan amount that exceeded Dollar's own lending criteria. It also committed to improving its approach to assessing affordability and to appoint an independent skilled person to review its lending decisions.

- In May 2014, Cheque Centres agreed to stop selling single instalment payday loans (i.e. loans that must be repaid in one lump sum) and promised to change the way it offers loans and treats customers struggling to repay their debts. Cheque Centres also agreed to suspend debt collection telephone calls to customers until it could demonstrate to the FCA that improvements to debt collections had been made. A number of other actions were also agreed, including appointing a skilled person to test the changes.
- A trading platform that was not performing adequate customer checks, agreed to carry out due diligence before clients deposited money in future.
- An insurance company where we found poor culture and governance arrangements was signing customers up to policies without properly obtaining their consent. We secured an agreement from the firm that it would stop all regulated activities.

The enforcement process

Not all the cases that we investigate will result in a public outcome. In some cases we may issue a private warning and in the past year we did so on 52 occasions (nine were issued by Supervision, 33 by the UK Listing Authority, one by Market Monitoring and nine by Enforcement). Private warnings may be issued where we have concerns about the behaviour of a firm or approved person, but we decide it is not appropriate to bring formal disciplinary action.

We expect to conclude some cases without taking further action. This may be because we decide that there is insufficient or no evidence of wrongdoing, or because in all of the circumstances of the case we do not consider it appropriate and proportionate to take disciplinary action. In 2014/15, 33% of the cases commenced (excluding threshold conditions cases) closed with no further action being taken.

Cases may be settled at any stage of the process. If a settlement has not been agreed by the Warning Notice stage, the Regulatory Decisions Committee (RDC) is asked to issue a Warning Notice, which sets out the details of further action.

In the vast majority of cases where a Warning Notice is issued, we will go on to issue a Decision Notice. This reflects the controls that we have in place, such as the independent legal review carried out by a lawyer who has not been part of the investigation team and the separate check undertaken by the RDC's own legal advisers, as well as the scrutiny applied by the RDC.

> "Not all the cases that we investigate will result in a public outcome. In some cases we may issue a private warning and in the past year we did so on 52 occasions."

In every settled case, both a Warning Notice and Decision Notice are issued (more information on cases concluded by Executive Settlement can be found in Appendix 2. In contested disciplinary cases[7], the figures for 2014/15 show that in the 15 cases where a Warning Notice was issued, nine Warning Notices remain undetermined, of which one is currently stayed pending SFO investigation, three were settled before RDC consideration, two were withdrawn and the RDC issued a Notice of Discontinuation for one case. In 2014/15, 13 Warning Notices are currently stayed pending SFO investigation.

In October 2013, we published our policy statement (PS13/9) on publishing information about warning notices. Publication of information about warning notices creates a more transparent enforcement process as:

- consumers, firms and market users will be able to understand the types of behaviour that we consider unacceptable at an earlier stage
- by showing at an earlier stage that we are taking action, confidence in the regulatory system should be enhanced
- there will be more openness in respect of the enforcement process, which will generally be in the public interest

In 2014/15 we published six statements about warning notices in relation to interest rate benchmarks, the submission of mortgage applications containing false and misleading information and a sale and rent back firm breaching Principle 6.

7 For the purpose of these figures we have only included disciplinary cases (e.g. breaches of FCA rules and the imposition of prohibitions).

Figure 26: Tribunal statistics as at end-March 2015

Types of cases/references	Live	Outcome: Tribunal decision	Outcome: Dismissed without substantive hearing	Outcome: Withdrawn
Threshold conditions	4	0	0	1
Authorisation	1	0	0	0
Market Abuse	0	1	0	0
Regulatory	21	11	2	2
TOTALS	**26**	**12**	**2**	**3**

- Threshold conditions: these cases involve regulated firms that fail to meet the FCA's minimum standards
- Authorisation: these cases relate to refusals to authorise firms or to approve individuals.
- Market abuse: these cases relate to allegations of market abuse against individuals.
- Regulatory: these are regulatory disciplinary cases against authorised firms or individuals, including referrals relating to prohibition orders of non-approved persons.

This year we have included litigation before the First Tier Tribunal (i.e. for consumer credit cases) as well as cases before the Upper Tribunal.

Tribunal statistics

Once a decision notice has been issued by our Regulatory Decisions Committee, the subject of the notice may choose either to accept the outcome, in which case a final notice will be issued, or refer it to the Tribunal. The Tribunal is independent of the FCA and will consider the case afresh.

In 2014/15, the Tribunal published decisions in relation to 12 references made by firms and/or individuals. All decisions made following a substantive hearing of the reference by the Tribunal were found fully or partially in favour of the FCA. The Tribunal decided against the FCA in one case on a preliminary point about whether the FCA should have given third party rights to an individual and in another related case, a third party reference was allowed to be made out of time.

Transparency

To encourage and help restore confidence, we place a strong emphasis on greater transparency, not just for the industry we regulate, but also for ourselves.

For industry, transparency means clear pricing and clear information helping consumers make informed decisions. This leads to a healthier marketplace for the consumer, with firms competing to supply services that consumers want, and greater efficiency for the industry, with less time spent handling complaints.

For us transparency refers to both how we communicate with businesses and consumers, as well as how firms communicate. If firms find it easier to communicate with us, to understand us, then they will find it easier to understand what they have to do.

Where possible, we aim to be transparent as possible about how we make decisions and how we operate. This means we regularly make public the record of decisions made at FCA Board meetings, edited in line with exemptions in the Freedom of Information Act and not including information that, in our opinion, would be against the public interest.

Since last year we have seen a 24% increase in Freedom of Information Act (2000) requests and we have a dedicated team working to consider and respond to such requests. Further details on how we have handled information requests can be found in the 'how we operate' chapter. We have added information to our disclosure log where the information is of wider public interest.

We have focused on publishing more about our enforcement activities, including being open about the complexity of our cases and the challenges we have faced. We now combine our Enforcement performance with our Annual Report. We also publish early warning notices, outlining the firms and individuals we are taking action against and warning consumers against interacting with them.

Our data strategy

We are committed to changing the way we specify, collect, manage and use data to ensure it meets our needs in a proportionate way. In October 2014 we set out what we have done so far and the changes we have made to ensure that the way we collect and manage data is effective and transparent.

In addition, we have started to publish our new quarterly data bulletins. Our first two editions included data on issues such as compensation, complaints about firms, policy data implications, FCA events, financial promotions and authorisations efficiency. We also continue to publish our statutory and voluntary service standards twice a year so stakeholders can hold us to account.

We started publishing monthly data on Interest Rate Hedging Products on a bank-by-bank basis in November 2013, at the request of MPs. Since then, we have seen a dramatic improvement in the performance of the banks in this area. In December we also consulted on our proposed rule changes.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5 Working with our international partners

European and international committee engagement

In 2014/15 we continued to engage fully with the European Securities and Markets Authority (ESMA). We chair a number of committees and taskforces, and actively participate in a wide range of groups developing policy and regulatory rules at the EU level, and groups monitoring market trends and developments. Our Chief executive is a member of both the Board of Supervisors, and the Management Board.

We have also continued to actively participate in the work of the European Banking Authority (EBA) and European Insurance and Occupational Pensions Authority (EIOPA) on issues within our competency, and in joint work undertaken by all three authorities. This has included significant roles on a variety of committees and groups, including those around consumer protection, financial innovation, and payment services.

Following the conclusion of the European Commission's consultation on its review of the European System of Financial Supervision, we have worked with the three European Supervisory Authorities to react to the recommendations set out in the Commission's report.

We have played a significant role at global level particularly in the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB). We are represented at all levels and our delegation is led, in IOSCO, by our Chief Executive and, in the FSB, by our Chairman. We have also continued our involvement in the International Association of Insurance Supervisors (IAIS), the International Financial Consumer Protection Organisation (FinCoNet), the Organisation for Economic Co-operation and Development (OECD) and have worked with the International Monetary Fund in preparation for the Financial Sector Assessment Programme (FSAP) review of the UK.

Bilateral relationships

Our senior executives engage regularly with counterparts and policy makers from the rest of Europe and across the globe to discuss issues of common interest, to share best practices and to look for ways of enhancing cooperation. This has included some of our senior executives visiting regulatory counterparts including in the US, Hong Kong, Singapore and Australia, as well as key EU stakeholders in Brussels and in other EU Member States.

We hosted visiting delegations from among others the US, Japan, China and India in addition to numerous visits by EU stakeholders. In November 2014, we hosted visitors from over 45 different authorities at our International Regulators Seminar, which gave us an opportunity to share best practices and common experiences.

Cooperating with other agencies on enforcement matters

The number of international enforcement requests for assistance has continued to grow throughout this last financial year. In 2014/15, we received 1,047 formal requests for assistance from our overseas counterparts in relation to their investigations. In meeting these requests we have conducted interviews on behalf of overseas investigators, compelled information and provided assistance to multiple overseas enforcement investigations. We also receive assistance from our international counterparts.

We continue to work very closely with our international regulatory colleagues on both criminal and regulatory cases. The most notable case this year was Operation Dovercourt, our FX investigation. This involved close cooperation with the US Commodities and Futures Trading Commission, the US Department of Justice, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency and New York Department of Financial Services, as well as the Swiss Financial Market Supervisory Authority. Other agencies such as the Australian Securities and Investment Commission and the Securities and Exchange Commission were also involved. We will continue to build on existing relationships and expertise, working together to tackle misconduct that often crosses borders.

We continue to work extensively with the International Organisation of Securities Commissions (IOSCO) especially in matters of international cooperation and the improving of global enforcement standards. We currently chair both IOSCO's Committee 4 on Enforcement and Cooperation and IOSCO's Screening Group, which assesses applications to sign the IOSCO MMoU.

In the last year Committee 4 has finalised a report on credible deterrence. The report identifies and promotes awareness of factors that may credibly deter misconduct in securities and investments markets. The report was formally launched at the 40th IOSCO Annual Conference which we hosted this year in London, bringing together 600 senior delegates from the UK and around the world.

We continue to contribute to the drafting of the IOSCO Enhanced Multilateral Memorandum of Understanding (EMMoU) which aims to replace the current MMoU. The MMoU is the basis on which most international requests for assistance are made. The EMMoU will introduce new minimum powers which jurisdictions will be required to have before being accepted as new signatories. Some of these powers may require many jurisdictions to introduce legislative changes to comply with the new regime.

Together with colleagues from the Polish Financial Supervision Authority and the Quebec Autorite des Marches Financiers (QAMF), we have jointly drafted the cyber risks report for Committee 4. The report focuses specifically on the interaction between the current MMoU and cybercrime. The report was prepared in response to the growing threat of global cyber-attacks on the financial industry and as preparation for a wider paper to be published by IOSCO on cyber risks later in the year.

International and European policy

Fair and Effective Markets Review (FEMR)

This year, the Treasury announced a review it would co-chair with the Bank of England and the FCA, to conduct an assessment of the way wholesale financial markets operate, help to restore trust in those markets in the wake of a number of recent high profile abuses, and influence the international debate on trading practices.

Following FEMR recommendations and Treasury consultation in 2014, the following seven benchmarks were brought within our regulatory scope on 1 April 2015:

- Sterling Overnight Index Average (SONIA)
- Repurchase Overnight Index Average (RONIA)
- ICE Swaps Rate (formerly known as ISDAFIX)
- WM/Reuters London 4 pm Closing Spot Rate
- LBMA Gold Price (this has replaced the London Gold Fixing)
- LBMA Silver Price
- ICE Brent Index

In line with Government policy, we proposed that the entire supervisory framework – including applicable Handbook provisions that currently apply to the LIBOR administrator and submitters – should apply to firms that administer or submit to these additional benchmarks.

We have consulted on and implemented changes to MAR 8, which sets out the rules for benchmark administrators and submitters in our Handbook. Implementing the FEMR recommendations will be an important step in restoring confidence in the fairness and integrity of major UK benchmarks.

Alternative Investment Fund Managers Directive (AIFMD)

The AIFMD was transposed into UK law on 22 July 2013. On 31 October 2014 a key milestone for the AIFMD programme was reached. This was when firms who are quarterly reporters are mandated under the directive to return data to us on the alternative investment funds (AIFs) that they manage.

From 31 January 2015 all alternative fund managers marketing their funds in the UK had to report to us under AIFMD. We are now evaluating this information, which includes broader data for the first time – such as levels of liquidity and redemptions, gross exposure, leverage and counterparty exposure, among other aspects – that will allow us much greater levels of scrutiny over these types of investment funds.

> "We have done initial work to assess and prepare for the changes that we will need to make to our systems and processes and rules to implement MiFID II"

Markets in Financial Instruments Directive (MiFID) II

MiFID II provides a wide ranging package of important reforms covering both retail and wholesale investment markets, with new obligations for the full range of firms providing investment services. Firms affected include financial advisers, stockbrokers, asset managers, investment banks and exchanges. MiFID II will take effect on 3 January 2017.

In September 2014 we held a MiFID II conference, which highlighted the need for firms to make early preparations to implement the many changes the legislation will bring. There was also discussion involving market participants about implementation challenges and some of the main unresolved issues concerning the MiFID implementing measures which we have been working on in ESMA.

We have done initial work to assess and prepare for the changes that we will need to make to our systems and processes and rules to implement MiFID II. In March 2015 we established a formal implementation project to manage the process of making the necessary changes with workstreams covering transaction reporting, commodity position limits, information to calibrate pre and post-trade transparency thresholds, authorisation and supervision and policy.

In March 2015 we also published a paper exploring policy choices we need to make in implementing some of MiFID II's conduct of business and organisational requirements. This paper requested views from stakeholders on a number of topics, such as standards for adviser independence, inducements and whether and how we extend certain obligations to non-MiFID firms.

The Markets Practitioner Panel provides us with external and independent input from the point of view of financial market participants. We have welcomed the Panel's contribution on the Fair and Effective Markets Review, Capital Markets Union as well as input on MiFID II.

6 How we operate

We are growing stronger as an organisation by:

- supporting and investing in our people, infrastructure and systems
- using the resources available to us in an economic, effective and efficient manner
- delivering on our corporate responsibilities
- transparently measuring and monitoring our performance

Supporting our people

In 2014 we launched the FCA Academy, which is an extensive education programme, comprising technical academies, management training and the development of a new FCA diploma. This provides the education and training our people need to deliver our statutory objectives. We have established the core curriculum required for our regulatory remit and this is now reinforced through our induction and performance management practices.

To support this we embarked on a series of strategic partnerships with a number of leading business schools; Said Business School at Oxford University, Cranfield School of Management and Henley Business School with whom we have created the world's first MSc in Financial Regulation. These partnerships are helping to ensure our leaders are fully connected to emerging thinking on global economic and social trends. Our work with Said Business School in particular has actively informed our strategic priorities for the coming year.

As a result of this we have seen through our staff survey that our people remain motivated by our purpose as an organisation (85%, compared to 81% in November 2013 and 79% in February 2013). 96% of respondents are personally committed to achieving our objectives, and support for our cultural characteristics is at 97%.

We have improved our retention ability achieving a steady reduction in turnover from over 15% at the start of the year to 8.9% at the end of the year. This has directly addressed and satisfied the National Audit Office (NAO) recommendation that regulators should work to develop long-term strategies to attract and retain the best talent.

We have over 40,000 followers on LinkedIn, which is allowing us to greatly improve and reduce the cost of our recruitment. We are continuing to invest in attracting, motivating and retaining the top talent in our market sector.

Coordinating with the Prudential Regulation Authority (PRA)

We are required by FSMA to coordinate with the PRA. Much of that is through day-to-day communication at working level, in addition to which there is regular more senior-level interaction. The PRA CEO and FCA CEO are members of the boards of the respective organisations.

We formally monitor the effectiveness of our coordination through a Memorandum of Understanding (MoU) with the PRA. This covers how we carry out our responsibilities and supports our commitment to working in an independent but coordinated way. It sets out a number of areas where we measure our performance through detailed quarterly reporting. Relationships have been developed further for this purpose, especially within policy decision-making.

> "We have over 40,000 followers on LinkedIn, which is allowing us to greatly improve and reduce the cost of our recruitment. We are continuing to invest in attracting, motivating and retaining the top talent in our market sector."

The PRA and FCA continue to have senior level ownership of coordination performance on a quarterly basis. The process of coordination performance has been reviewed to ensure the demands on senior management time is effective and to address the tension between conduct and prudential regulation. The surrounding documentation will be reviewed to ensure it is as effective as possible in identifying key issues. Both regulators recognise that with differing objectives and responsibilities, it is sometimes appropriate to take different approaches. Divergence is acceptable where justified by the differing statutory mandates of the two bodies and material differences should be highlighted at an early stage.

The regulators have coordinated effectively on policy issues such as CRD IV, structural reform (ring-fencing of banks) and remuneration, and have continued to build close relationships at a working and management level. Coordination between supervisory and specialist teams has seen continual improvement and no substantive breaches of the MoU have been reported. Despite continuous improvement, the two areas that have been most challenging in terms of coordination are policy and rule-making, where our differing objectives have led to some delays, and authorisations of firms and approvals of individuals, where there continue to be some systems issues that have caused delays to information-sharing.

The PRA has the power of veto where it considers that action we are taking may threaten financial stability or cause the failure of a PRA-authorised person in a way that would adversely affect financial stability. At end-March 2015 it had not used this power.

The PRA and FCA are updating the MoU to reflect the FCA's new competition powers. Other non-substantive changes and updates will also be made to the MoU to reflect changes in the reporting process and the end of the quarterly meetings. These changes will be discussed by both regulators' Executive Committees and will need to be approved by the FCA and PRA Boards.

We have continued to cooperate with the PRA to share relevant information relating to areas of common interest being discussed in EU and international committees. This has included EU regulatory forums where one authority is a member but where issues under discussion fall within the remit of both (such as the European Banking Authority, European Insurance and Occupational Pensions Authority, European Securities and Markets Authority) and other global forums (such as the Basel Committee on Banking Supervision and International Organisation of Securities Commissions (IOSCO)).

We have regularly consulted each other to seek to agree positions that reflect the views of both authorities, in a way that is consistent with each authority's objectives.

Improving our infrastructure and systems

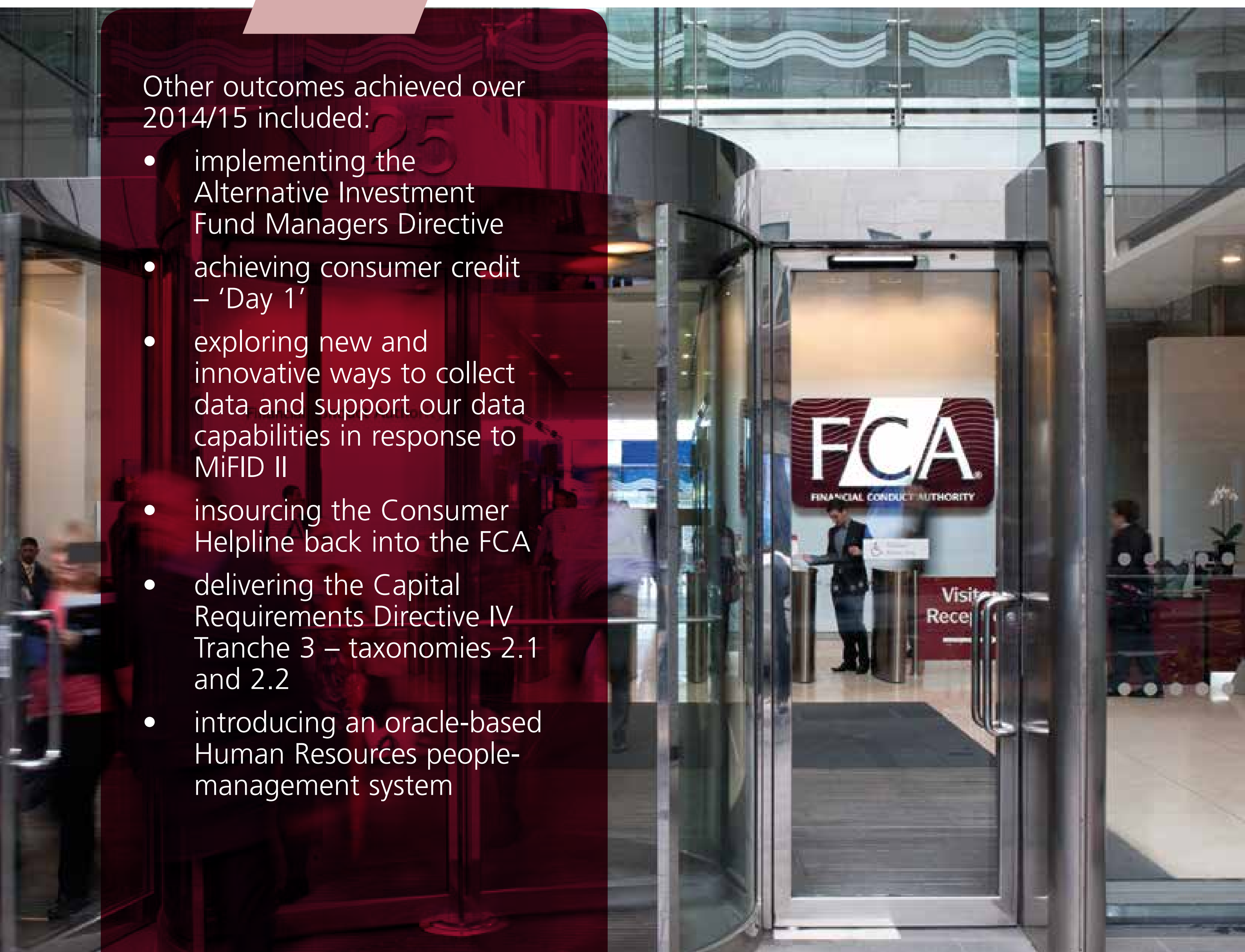
We have continued to invest in delivering major change and improving the infrastructure that supports our business. All major change projects and programmes are managed as part of our change delivery portfolio.

Our INTACT programme continues to deliver improved capabilities within our authorisations and supervision business areas. It has introduced the new CONNECT portal to support external submissions along with internal capability to support the increased regulation of the consumer credit market. The successful delivery of this programme was recognised within the UK IT Industry as winner of the 'Best Use of Cloud Technology' award. This reflects our strategy to increase the use of cloud-based services. Work is underway to replace the current Register and complete the replacement of the ONA system during 2015.

We successfully established the Payment Systems Regulator (PSR), which included delivering a website to support its objectives.

We use a wide variety of information systems and technology platforms to support our work. 43 core systems underpin our key business capabilities. Our ongoing monitoring and management of these systems has ensured their availability has remained above 99% during the year. We have invested in our infrastructure to ensure the platform on which these core systems operate has improved in terms of both stability and performance. These improvements include upgrades to our network infrastructure, legacy hardware and our database platform.

> Our INTACT programme continues to deliver improved capabilities within our authorisations and supervision business areas.



Other outcomes achieved over 2014/15 included:

- implementing the Alternative Investment Fund Managers Directive
- achieving consumer credit – 'Day 1'
- exploring new and innovative ways to collect data and support our data capabilities in response to MiFID II
- insourcing the Consumer Helpline back into the FCA
- delivering the Capital Requirements Directive IV Tranche 3 – taxonomies 2.1 and 2.2
- introducing an oracle-based Human Resources people-management system

Our Information System Investment Programme (ISIP) is a five-year £150m investment programme to improve our infrastructure, refresh core system components and build our capability. This year, we started work to re-tender our supplier contracts to deliver improved value for money and adopt new technology opportunities.

The key deliverables from this third year of the ISIP programme included:

- Investment in additional capacity and performance upgrades to the GABRIEL system (used by external firms to submit regulatory returns) and to our Business Intelligence platform (used by both us and the PRA to analyse crucial market and firm data). These investments are to ensure a more reliable and scalable performance in response to increased demands from Consumer Credit regulation.
- The introduction of a new print service across our London and Edinburgh offices that will reduce our environmental impact, deliver better value for money and improve security of our document management. This is expected to reduce print volumes by 20% in addition to associated cost savings.
- Embedding our agile delivery methodology with associated training for project teams (as used within INTACT).
- 24 maintenance and improvement projects across 20 core systems (including server upgrades, network component replacement and internet upgrade).

"We have signed an agreement for lease for our new building in the International Quarter, Queen Elizabeth II Olympic Park"

Demonstrating value for money

In March 2014, the National Audit Office (NAO) published *Regulating financial services*, which examined the progress both we and the PRA made in 2013/14 in developing and implementing our regulatory approaches.

The report did not formally assess value for money, but it did set out five high-level recommendations. These include:

- recommendations on developing a more structured approach to evaluation
- establishing a body of evidence from our experience of managing potential issues between prudential and conduct regulation
- reviewing the effect that staff turnover rates are having in practice
- improving knowledge retention
- refining our performance management framework

To review the affect staff turnover rates are having in practice, we draw on data from Office of National Statistics research. External turnover is reviewed monthly by divisions alongside other metrics such as sickness and stretch. The Executive Operations Committee review turnover, sickness, high-performing leavers (which has decreased from 2013 to 2014) and stretch (among others) on a quarterly basis. Also, divisional directors were asked to specifically consider whether there is more that could be done to mitigate the risks arising from turnover and knowledge retention as part of our internal risk management activity.

Moving to Stratford

We have signed an agreement for lease for our new building in the International Quarter, Queen Elizabeth II Olympic Park. Our lease will run for 20 years and we anticipate moving from April 2018 onwards. This move offers us a mix of good facilities and excellent value for money, together with the right infrastructure to meet our needs.

Enhancing our contact centre

Over 2014/15 we handled in excess of 300,000 contacts from firms and consumers and saw significant change for both the firm and consumer contact centres. These included:

- the introduction of consumer credit
- the introduction of a new portal for firms called 'Connect'
- preparing to support the Payment Systems Regulator
- multi-skilling our people to increase flexibility of resources
- insourcing the Consumer Helpline to improve service and insight

We identified 1,979 consumer risk events that we went on to investigate. In March 2015 we were re-accredited for the Customer Contact Association Global Standard, including gaining two 'leading practice' awards.

Measuring our performance

Accountability and transparency are fundamental to how we work, and a key part of this is how we measure performance and success and report on our achievements.

Post-implementation reviews

Post-implementation reviews are tartgeted evaluations that tell us whether our interventions have had the desired effect, whether we used the right tool and how we can inprove. For example, we completed the first phase of a post-implemtation review of teh RDR in 2014

Outcomes-based performance framework

We have an outcomes-based performance framework made up of a number of elements designed to measure different aspects of our performance. We discuss our performance against our statutory objectives in detail in the Overview section.

Figure 27: Consumer calls – Top five subjects (April 2014 – March 2015)

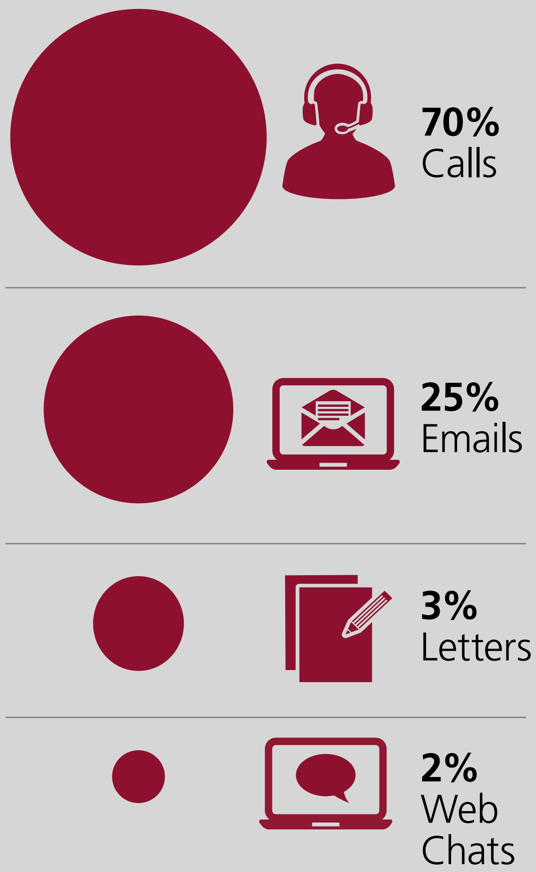
Consumer credit	29,276
Non-product enquiry*	22,687
Insurance – General	15,298
Investment products	12,790
Scams	11,935

* Examples of non-product enquires include unregulated products such as buy-to-let mortgages, debt collectors acting on behalf of mobile phone companies and where we capture feedback about firms where the feedback doesn't relate to a specific regulated product.

Figure 28: Firms calls – Top 5 subjects (April 2014 – March 2015)

Connect	37,379
Authorisations/registration	35,571
Handbook	16,896
Gabriel	13,398
ONA	12,462

How do consumers interact with the FCA?



Although outcomes measurement is challenging, part of this framework focuses on our performance against our statutory objectives.

This analysis should not be seen as an absolute measure of performance, and our success should not and cannot be measured by it on its own. The measures cover some dimensions of the market outcomes that the FCA and our stakeholders care about. They are not direct measures of the FCA's performance, but rather bring together measures that serve as proxies for whether or not markets are moving in the right direction. As such, the analysis will not and cannot capture the complexity of the markets we regulate, or encompass all the risks, activities and outcomes we seek.

Operational

We monitor and report on our finances, people and systems. We also measure the economy, efficiency and effectiveness with which we use our resources and our employee engagement. This enables us to identify areas that need more focus, opportunities for development, and where things are working well and improving.

Service standards

We track and report on our performance against our service standards for performing our regulatory functions, which we publish on our website at six monthly intervals.

Freedom of Information

The Freedom of Information Act 2000 requires us to respond to requests for information within 20 working days in most circumstances. During 2014/15, we received 789 requests, of which 586 were progressed as formal FoIA requests. This is an increase of around 24% since 2013/14. We closed 579 of these requests – 92% within the statutory deadline.

The most frequent topics related to high profile, complex and sensitive issues that attracted media coverage, such as information about complaints, mortgages, alleged market abuse, payday loans and investigations such as LIBOR.

We disclosed material in 41% of cases where we held the information requested, compared to 50% in 2013/14. We have also added more information to our disclosure log where the information is of wider public interest. This is published on our Publication Scheme Guide to Information.

Appeals against our decisions about disclosure

If a requester is unhappy with the response we provide, or the way in which their request has been handled, we review the case. Once our internal review process has been exhausted, the requester can appeal to the Information Commissioner's Office (ICO) if they are still not satisfied.

If any party is unhappy with the ICO's decision they can appeal to the First Tier (Information Rights) Tribunal and, following that, if still dissatisfied, to the Upper Tribunal (but only on a point of law and with permission).

In 2014/15 the First Tier (Information Rights) Tribunal dismissed two appeals from complainants against decisions by the Information Commissioner that ruled in our favour, in deciding that information requested was exempt from disclosure.

Volume of requests made under the Data Protection Act 1998 (DPA)

We are required to notify the ICO each year of how we process personal data. We submitted our notification in November 2014, which is published on the ICO's website. We must respond within 40 calendar days to subject access requests made by individuals who want to know what information we hold about them.

Over 2014/15 we received 93 subject access requests (compared to 88 in 2013/14) and responded to 95 (including several carried forward from 2013/14) - 98% within the statutory period.

Costs

Complying with FoIA and the DPA cost us just under £937,000 in 2014/15 (compared to £853,000 for 2013/14), which includes processing requests under both pieces of legislation, time spent by business areas and the cost of appeals to the Information Commissioner. We estimate that the average cost to process each case is £792.18 compared to £847.41 in 2013/14.

We cannot recover this expenditure from requesters because there is very limited scope within FoIA and the DPA to charge for information. We did not incur any costs for external lawyers on appeals compared to £32,000+VAT in 2013/14.

Figure 29: FOIA requests closed during 2014/15

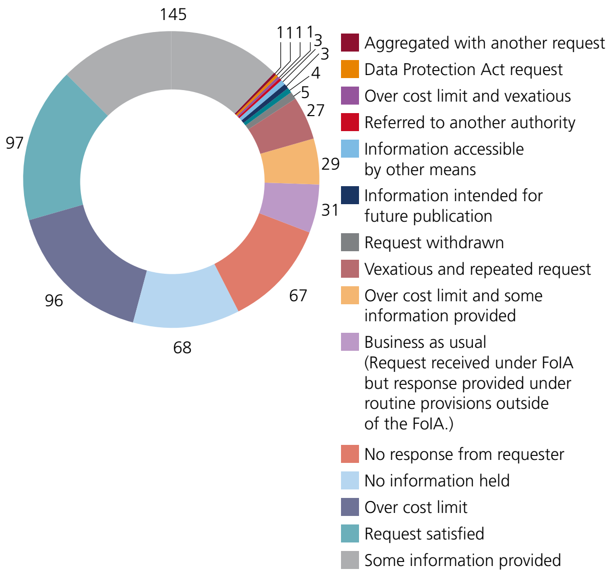
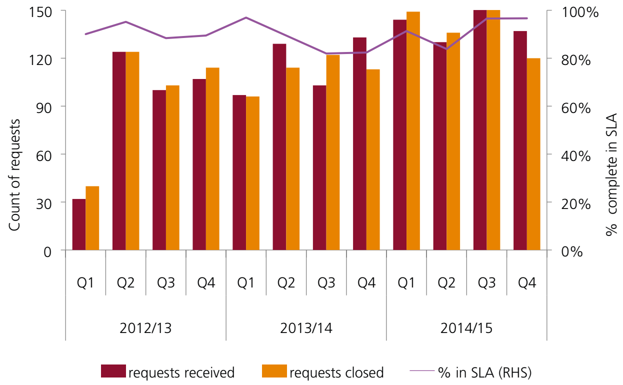
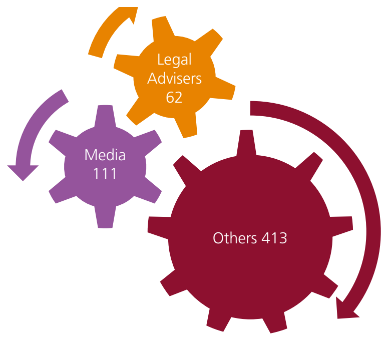


Figure 30: Our performance against statutory requirements under FOIA



There were 586 FOIA requests closed during the year.

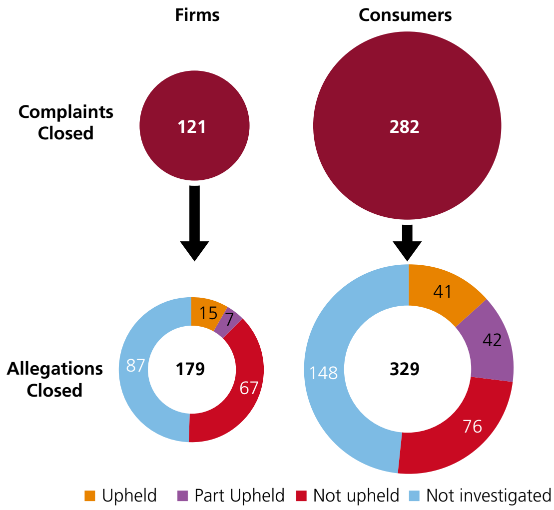
Figure 31: Breakdown of requests received summarised by requester



The top requesters are:

- Consumers = 218
- Service providers / management consultancies = 44
- MPs = 43
- PR companies = 22
- What do they know.com = 20
- The Times = 17

Figure 32: Complaints closed during 2014/15[8]



Complaints against the FCA

We have seen an increase in both firm and consumer complaints received and closed within 2014/15, a 21% and 64% (from 171 to 282) increase respectively on the 2013/14 numbers. The main reason for this increase is that we have seen consumer credit complaints start to come in and we also received a high number related to the press briefing of information in our Business Plan 2014/15.

8 A single complaint can have a number of associated allegations within it.

Figure 33: Volume of MPs' letters recieved

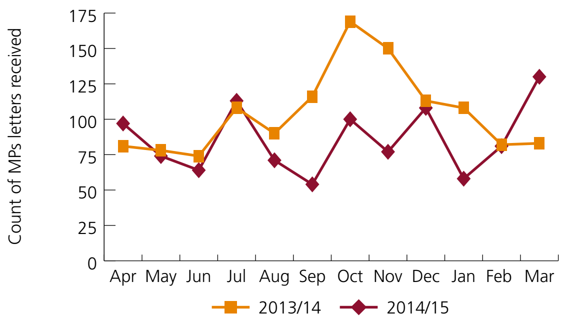
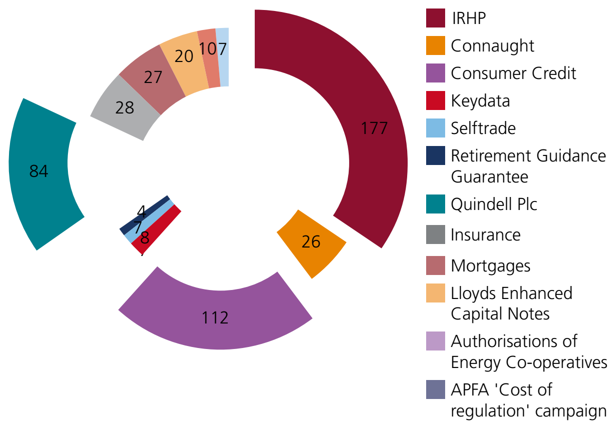


Figure 34: MP letters subjects



MPs' letters

We have an obligation to respond to MPs' letters in a timely and effective manner. To ensure this happens we have standard processes in place. We aim to respond to 50% of letters within 15 working days of receipt and 100% of letters within 30 working days of receipt.

We responded to 54.3% within 15 working days and 94.3% within 30 working days. We received 1,027 letters, which was a small reduction on the previous year. The peak in March was as a result of the pre-election purdah period that was coming into effect.

Interest rate hedging products, consumer credit and Quindell Plc were the main issues, totalling 373 requests, equating to 36% of all letters.

MPs' letters

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54.3%

within 15 working days and

94.3%

within 30 working days.

We received 1,027 letters, which was a small reduction on the previous year

Corporate responsibility

Diversity and inclusion

We aim to be a fully inclusive employer, where we value difference in our people and use these differences to make us a stronger and more effective regulator. Our managers are central to our approach and this year we held our first managers' conference in which diversity and inclusion was a key discussion topic.

Our senior leaders remain committed to our diversity agenda and this is driven forward by our Executive Diversity Committee. We also believe that we should draw on the diversity of our people to understand our consumers and better represent the communities that we serve.

This year we have worked to support the Contact Centre to be able to manage a more diverse range of callers, including launching a translation service, a partnership agreement with the Samaritans and a call-back service for vulnerable consumers.

This work is supported by our external partners who include the 30% Club, Stonewall, Business Disability Forum and Inclusive Employers. These organisations help provide us with opportunities to network, benchmark ourselves and also share best practice.

Key achievements this year:

- Stonewall Workplace Equality Index – We joined the top 100 employers for the first time in this index, which is a benchmarking tool used to identify the UK's most LGBT-friendly employers. This year Stonewall received the highest number of submissions (397) so we were pleased to be awarded the position of 82.

- Unconscious bias training – We launched and rolled out an e-learning module across the whole organisation. We believe it is very important to challenge the way we make decisions so we made it mandatory for all our people.
- Diversity monitoring – Our new HR system has enabled us to ask new questions, such as educational background, caring responsibilities and whether people are transgender. Diversity information helps us better understand who our people are and how we can best support their individual and collective needs.
- Inclusion fortnight – We ran our first Inclusion Fortnight in July 2014. Designed to explore the different aspects of diversity and inclusion, the fortnight highlighted how crucial this is in our day-to-day operations.
- Staff *network groups* – We currently have four staff network groups: Women's Network, Embrace (disability), Spectrum (ethnicity) and InsideOut (LGBT). All our groups have increased in membership in the past year and have run awareness and supported events. A Staff Network Leads Forum to encourage greater collaboration and cross working between the groups was also established.

"In 2014, 37% of our people gave over 9,000 volunteering hours to support their local communities. Over 600 volunteers worked in teams in local organisations, including at homeless shelters and community centres, to share their skills and give hands-on support."

Environment

Our environmental principles are reflected in our Environmental Policy Statement on our website.

Recent work on sustainability issues has included:

- establishing the Environmental Policy Statement
- development of the Environment Management Strategy (EMS)
- health check of our suppliers and their environmental credentials
- setting challenging objectives based on our environmental aspects and impacts register
- reviewing our procurement policy to ensure our activities and suppliers enable us to achieve the aims of the Environmental Policy Statement
- In 2014/15 we increased our general waste recycling to 73.9%.

Community contribution

In 2014, 37% of our people gave over 9,000 volunteering hours to support their local communities. Over 600 volunteers worked in teams in local organisations, including at homeless shelters and community centres, to share their skills and give hands-on support.

Volunteers also shared their expertise as school governors, placing us in the top 20 supporting companies with our partner SGOSS. Other volunteers gave time, energy and experience to local schools and charities as board members, reading and number partners, volunteering in employment clinics and assisting in food banks.

Charitable donations

As we are funded by industry, we do not donate money from the fees we levy to any particular charity. Instead we encourage our employees to donate their own time and money to charitable causes.

We have a Charity Committee to support our people with their charitable ideas and initiatives. In 2014, £22,000 was collectively raised for Contact the Elderly and Cancer Research UK and over £100,000 was given through the workplace giving programme to a range of charities chosen by our people. Our charity partners for 2015/16 are Shelter and Haven's Hospice, and we will be undertaking a range of fundraising and awareness raising activities for them.


hotter
KEY CUTTING
SHOE REPAIRS
ENGRAVING
LUSH
FRESH

7 Payment Systems Regulator

After a year of concentrated activity, the Payment Systems Regulator (PSR) became a fully operational, independent economic regulator on 1 April 2015.

In 2014/15, activity focused on putting in place the policies, processes and people needed to become an effective regulator from the first day of operation. A substantive programme of consultation, both with the industry and the people and organisations that use payment systems, gathered insight that was used to inform the PSR's overall objectives of promoting competition, promoting innovation, and promoting the interests of service-users.

A team of around 40 permanent members of staff was recruited, bringing together experience and expertise to take the PSR's plans forward. The PSR's policy statement was published in March 2015 – the first time such a comprehensive set of measures has been developed to regulate the payments industry and address the needs of its users.

As the PSR is now fully operational, the focus changes from effective set-up to effective regulation. It is now time for the organisation to fulfil its purpose and make payment systems work well for those that use them. It's an important purpose: from consumers receiving their salary or pension, to major institutions transferring large sums of money, payment systems touch everyone – it is vital they are accessible, reliable, secure and offer value for money.

More information about the PSR's work can be found at www.psr.org.uk, including a copy of its 2014/15 Annual Report.

8 Consolidated Strategic Report

Purpose

This report helps our stakeholders assess how the directors have performed their duty to promote the success of the FCA under section 172 of the Companies Act 2006 for the benefit of its members as a whole. It also provides further insight into the financial statements and adds a forward–looking perspective to the FCA's consolidated financial position.

The UK's new Payment Systems Regulator

The Financial Services (Banking Reform) Act 2013 set out the creation of the Payment Systems Regulator (PSR), the new independent economic regulator for the £75 trillion payment systems industry in the UK. The PSR, a wholly-owned subsidiary of the FCA, was incorporated on the 1 April 2014, incurring set up costs during the financial year ending 31 March 2015 of £11.5m. The PSR became fully operational on the 1 April 2015 and will be levying fees from 2015 onwards.

Strategy

The FCA's strategy

The FCA's strategic objective under the Financial Services and Markets Act 2000 (FSMA) is to ensure that the relevant markets function well.

In December 2014 the FCA's new strategy was announced. This incorporates an evolution of our regulatory approach, in light of new developments in financial services and the continued expansion of our remit. Our core strategic objective remains unchanged but our new approach better fits the world we work in, with more emphasis on sector and market- wide analysis.

The FCA Business Plan 2015/16 sets out how we will implement this strategy and the activities that we intend to carry out to protect consumers, enhance market integrity and promote competition.

The PSR's strategy

The PSR's strategic objective as set out in the Financial Services (Banking Reform) Act 2013 is to make payment systems work well for the people and organisations that use them.

Business model

The FCA's business model

The FCA regulates the financial services industry in the UK, supervising the conduct of around 73,000 firms and the prudential standards of those firms not covered by the Prudential Regulatory Authority.

Consumer credit: The FCA took over regulation of the consumer credit industry from the Office of Fair Trading on 1 April 2014, effectively doubling the number of firms the FCA regulates. This will affect approximately 50,000 consumer credit firms, including payday lenders and debt-management companies, who will be new to our regulatory regime.

By 31 March 2016 all these firms must either have applied for FCA authorisation, become an appointed representative or have stopped consumer credit activity. During the course of 2014/15, we authorised 11,000 firms for consumer credit activities, being a mixture of firms already having interim permission and others new to the market.

In 2014/15, the FCA received £9.8m (2013/14: £11.3m) in consumer credit fees.

Set-up costs: Cumulative set-up costs of £44.9m for consumer credit will be recovered over a ten year period from 2016/17.

The FCA also incurred set-up costs on behalf of the PSR in 2013/14, pre-incorporation of the new legal entity that is the PSR. These costs were transferred to the PSR in 2014/15.

This strategy of incurring set-up costs and recovering them later or over a longer-time frame has and will continue to impact the financial results. This is particularly the case in 2015/16 because of the timing differences between costs being incurred and recovery of such costs through levies, for both consumer credit and the PSR.

Penalties: When the FCA levies penalties (on a firm or an individual), the amount the FCA is entitled to retain on behalf of its fee payers, is limited to the enforcement costs for that financial year as agreed with HM Treasury. This amount is returned to fee payers through reduced fees in the following financial year. Penalties collected by the FCA over and above the agreed enforcement costs are not retained by the FCA rather they are passed over to HM Treasury.

The PSR's business model

The PSR is responsible for regulating the main interbank payment systems: Bacs, CHAPS, Cheque & Credit, Faster Payments Scheme, LINK and Northern Ireland Cheque Clearing as well as Mastercard and Visa Europe, the two largest card payment systems in the UK.

The PSR is co-located in the FCA's building at Canary Wharf and is operationally supported by the FCA through a Provision of Services Agreement (PSA). The aim is to fully maximise the FCA's existing resources and infrastructure to enable the PSR to operate efficiently and effectively.

The PSR will recover its set-up costs of £11.5m from the organisations it regulates in 2015/16.

Analysis of performance during the year

The financial statements have been prepared on a consolidated basis and include the PSR.

The consolidated and parent company **statements of comprehensive income** for the years to 31 March 2015 and 2014 are summarised in Table 1 and further analysed in the body of the report.

Results for the year ended 31 March 2015 (Statement of Comprehensive Income)

	Consolidated	FCA (Parent Company)		
Table 1: Statement of Comprehensive Income	**2015 £m**	**2015 £m**	**2014 £m**	**Movement £m**
Fee Income	451.2	451.2	435.4	15.8
Other income	50.0	50.6	35.4	15.2
Administrative expenses	(533.5)	(522.6)	(469.8)	(52.8)
Other interest/finance costs	(4.1)	(4.1)	(3.9)	(0.2)
Loss for the year	**(36.4)**	**(24.9)**	**(2.9)**	**(22.0)**
Net actuarial loss re pension	(33.4)	(33.4)	(26.4)	(7.0)
Total comprehensive loss for the year	**(69.8)**	**(58.3)**	**(29.3)**	**(29.0)**

The **FCA made a loss of £58.3m** for the year ended 31 March 2015 in line with expectations. This was driven by two key factors:

- A **deficit of £24.9m** (2014: £2.9m), principally caused by the timing delay between set-up costs (or scope change) incurred during the year of £30m for consumer credit activities and the recovery of those costs over a ten year period from 2016/17. This loss was anticipated due to the FCA's chosen strategy for recovering such costs from its fee payers;
- an **actuarial loss of £33.4m** (2014: £26.4m) in respect of the defined benefit pension scheme. The increase in the actuarial loss was due mainly to the **discount rate** decrease from 4.40% to 3.40% over the year.

The **consolidated loss of £69.8m** includes £11.5m of PSR set-up costs which will be recovered in 2015/16.

Fee income

The FCA does not receive funding from the UK government as it funds the cost of delivering its objectives by raising fees from the firms it regulates. It is given the powers to raise fees under FSMA.

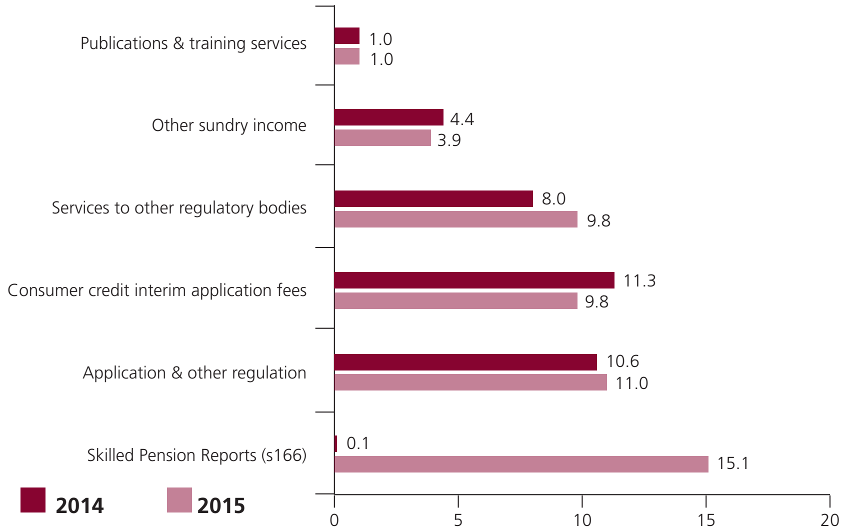
FCA fee income increased year on year by £15.8m from £435.4m to £451.2m. The increase is driven by changes to the FCA's scope and responsibilities leading to headcount increases, coupled with the FCA returning £10.0m to fee payers in 2014/2015 compared to £19.5m in respect of 2013/14 (accounting for £9.5m of the £15.8m increase year on year). Fees are raised to cover the FCA's budgeted costs and (historically) have been adjusted the following year to accommodate any variance against budget.

The FCA is given its powers to levy fees to recover the PSR's costs under the Financial Services (Banking Reform) Act 2013. The FCA will begin levying fees to recover the PSR's costs in the financial year ending 2015/16. The PSR thus had no income in the financial year ending 2014/15.

Other income

Other income (FCA only) analysed in Table 2 below, increased during the year by £15.2m, from £35.4m to £50.6m. This was primarily driven by the income received from *Skilled Person Reports* (£15.1m) for which there is an equivalent increase in professional fees (included in administrative costs). From 1 April 2013, the FCA can itself appoint a *Skilled Person Report* and settle the professional fees, recovering them by charging a corresponding fee to the firm.

Table 2: Other income



Consolidated income was £50.0m in 2014/15, which excludes the £0.6m re-charge to the PSR under the PSA.

Penalties: the FCA levies penalties on firms following disciplinary action, although as noted earlier, it does not budget for these, treat them as income or use them to fund its activities. Penalties of £1.417bn were received in 2014/15 (2013/14: £432.1m), of which £1.363bn (2013/14: £318.2m) was paid to the Exchequer. A deduction is retained by the FCA to cover agreed enforcement costs of £42.6m (2013/14: £39.1m) which will be returned to fee payers the following year.

No penalties were issued for the PSR.

Fee raising responsibilities for other bodies: The FCA also raises fees on behalf of the Prudential Regulatory Authority (PRA); the Financial Services Compensation Scheme (FSCS); the Financial Ombudsman Service (the ombudsman service); the Money Advice Service (MAS); the Financial Reporting Council (FRC) and from 2015/16 onwards, Pension Wise, the pension guidance service on behalf of HM Treasury. This means that firms can see, in one place, their total regulatory costs resulting in collective efficiencies for fees collection. These fees are paid over to each of the bodies according to detailed Service Level Agreements (SLAs) and are not recognised as income in the FCA's financial statements. The fees charged to each of the bodies under these SLAs, are recognised in other income in the FCA's financial statements.

Administrative expenses

Consolidated administrative expenses include £11.5m of PSR set-up costs incurred in 2014/15.

FCA administrative expenses increased during the year by £49.6m (10.6%), principally driven by an increase in the average number of FCA full-time equivalents (FTE). FTE increased by 420 (16.3%) from 2,580 to 3,000 leading to a corresponding increase in permanent staff costs of £43m (19.9%), £216.6m to £259.6m. The increased headcount is to accommodate increased responsibilities such as consumer credit (scope change) and Competition (new objective).

Net costs

Ongoing Regulatory Activities (ORA): reflect the net costs (after offsetting Other Income) of the FCA's and PSR's core operating activities to be recovered in fees each year. Net ORA costs can be reconciled to the financial statements as follows:

Table 3: Reconciliation of Actual Net ORA Costs to Net Costs per Financial Statements	2015 £m	2014 £m	Movement £m
Actual net ORA costs for the year	**452.7**	**434.5**	**18.2**
Difference between accounting charge and cash cost:	**(13.8)**	**(14.7)**	**0.9**
Pension scheme	(14.2)	(14.7)	0.5
UKLA and TRS	0.4	–	0.4
Scope change	**37.2**	**18.5**	**18.7**
Scope change – Consumer Credit	30.1	11.4	18.7
Scope change – Other	7.1	3.7	3.4
Scope change – Regulatory Reform	–	3.4	(3.4)
Parent company net costs	**476.1**	**438.3**	**37.8**
PSR costs	11.5	–	11.5
Consolidated net costs	**487.6**	**438.3**	**49.3**

The overall increase in consolidated net ORA costs of £49.3m, (11.3%) from £438.3m to £487.6m is driven primarily by headcount increases (detailed in Administrative Costs) resulting from changes to the FCA's scope and responsibilities.

Scope change: under certain circumstances, including when legislation is introduced by Parliament, there may be changes to the scope of the FCA's regulated activities (including new responsibilities). Material activities resulting from this scope change are controlled separately so they are individually identifiable from a cost and fee perspective. These activities are included as part of the cost of ORA once the scope change activity has been fully embedded into on-going responsibilities.

Pension costs: the FCA recovers fees on the basis of the cash costs of pension contributions, rather than on the basis of the accounting charges for pension provisions. There are plans in place to reduce the pension scheme deficit of £145.6m (2013/14: £126.4m) to nil over the period to 31 March 2023. Every three years the Trustee carries out a scheme specific valuation (SSV) and a recovery plan is then agreed with the Trustees to close any funding gap identified. The next SSV will be carried out using data as at 31 March 2016.

Financial position

The **statements of financial position** at 31 March 2015 and 2014 are summarised below:

	Consolidated	FCA (Parent Company)		
Table 4: Statement of financial position	**2015 £m**	**2015 £m**	**2014 £m**	**Movement £m**
Retained deficit at 31 March	**(185.5)**	**(174.4)**	**(116.6)**	**(57.4)**
Comprising:				
ORA reserves	23.5	23.5	30.3	(6.8)
Cumulative scope change costs	(51.9)	(51.9)	(20.5)	(31.4)
PSR	(11.5)	-	-	-
Retained (deficit)/reserves before pension deficit	(39.9)	(28.4)	9.8	(38.2)
Pension deficit	(145.6)	(145.6)	(126.4)	(19.2)
Total accumulated deficit	**(185.5)**	**(174.0)**	**(116.6)**	**(57.4)**

The increase in the accumulated deficit to £185.5m at 31 March 2015 (2014: £116.6m deficit) is driven primarily by the increased pension deficit of £145.6m (2014: £126.7m) and the cumulative scope change costs: consumer credit cumulative scope change costs of £44.9m and PSR set-up costs of £11.5m, although as noted above, some of this will reverse over the next and future financial years.

Excluding the pension deficit, the FCA had an accumulated deficit of £28.4m at 31 March 2015, (2014: £9.8m accumulated surplus). The pension liabilities will not crystallise for many years and the approach to managing and funding the pension deficit is explained in Note 15 to the financial statements.

As at 31 March 2015 the FCA had £11.8m of cash and cash equivalents (2014: £95.7m). Of this balance £20.6m (2014: £67.8m) represented cash owed to the Exchequer.

The main reason for the decrease in cash is that the FCA is funding the cumulative costs for Consumer Credit (£44.9m) and the set-up costs for the PSR (£11.5m) in advance of recovering these costs through the levy process – consumer credit over the 10 years from 2016/17 and the PSR in the year to 31 March 2016.

Movement in reserves

The FCA's accumulated deficit of £174.0m includes the retirement benefit obligation of £145.6m. The consolidated accumulated deficit of £185.5m includes the £11.5m PSR retained loss. The movement in reserves is analysed in Table 5:

Table 5: Statutory Reserves Summary	ORA Reserves £m	Scope Change £m	Advanced Funding £m	FCA Retained Deficit £m	Pension Deficit* £m	FCA Total Accumulated Deficit £m	PSR £m	Consolidated Accumulated Deficit £m
At 1 April 2014	**24.4**	**(20.5)**	**5.9**	**9.8**	**(126.4)**	**(116.6)**	**–**	**(116.6)**
Transfer	5.9	–	(5.9)	–	–	–	–	**–**
PSR pre-incorporation costs**	–	0.9	–	0.9	–	0.9	–	**0.9**
PSR costs	–	–	–	–	–	–	(11.5)	**(11.5)**
Returned to fee payers	(10.0)	–	–	(10.0)	–	(10.0)	–	**(10.0)**
Over-spend vs. Budget	(1.0)	–	–	(1.0)	–	(1.0)	–	**(1.0)**
Additional fees/scope change levies	4.2	4.9	–	9.1	–	9.1	–	**9.1**
Scope change (net costs)	–	(37.2)	–	(37.2)	–	(37.2)	–	**(37.2)**
Pension movement	–	–	–	–	(19.2)	(19.2)	–	**(19.2)**
At 31 March 2015	**23.5**	**(51.9)**	**–**	**(28.4)**	**(145.6)**	**(174.0)**	**(11.5)**	**(185.5)**

* The pension liability figure includes £3m for the unfunded pension element.
** These costs were incurred in 2014 by the and transferred to the PSR on incorporation.

Principal risks and uncertainties

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

FCA key risks

The **FCA's key risks** are set out in more detail in the FCA's *Business Plan* 2015/16, which, this year, incorporates the *Risk Outlook*. The FCA is focused on taking a more strategic approach to risk, placing more emphasis on sector and market-wide analysis. This will put the FCA in a stronger position to identify the key risks set out below and prioritise its resources and efforts appropriately to mitigate those risks.

- **External Regulatory Risk:** The risk to operational objectives from the activities and conduct of the firms and markets the FCA regulates, which could cause markets not to work in the interest of consumers, harm the integrity of the financial system or leave consumers with an inadequate degree of protection.
- The **FCA's seven forward-looking areas of focus** are:
  - Technology may outstrip firms' investment, consumer capabilities and regulatory response;
  - Poor culture and controls continue to threaten market integrity, including conflicts of interest;
  - Large back-books may lead firms to act against their existing customers' best interests;
  - Pensions, retirement income products and distribution methods may deliver poor consumer outcomes;
  - Poor culture and practice in consumer credit affordability assessments could result in unaffordable debt. This risk may increasingly affect younger people;
  - The range of issues that need to be considered in unfair contract terms is given sharper focus by developments over the last year in legislation and legal precedents; and
  - The importance of firms' systems and controls in preventing financial crime.

PSR key risks

The PSR's **key risk** is that payment systems will not work well for the people and organisations that use them. The PSR's *Annual Plan and Budget 2015/16* sets out its key risks below:

- Payment systems are not open, transparent and accessible;
- Payment systems are not fast, easy to use, secure, reliable and do not provide value for money;
- Payment systems are not responsive to current and future needs and do not promote innovation and competition;
- There is no improvement in the representation of the people and organisations that rely on services provided by payments systems;
- Payments systems do not function in the best interests of the people and organisations that use them and the services they support.

FCA and PSR: Other key risks

- **Internal Operational Risk:** Like any organisation, the FCA and PSR face significant operational risks which may result in financial loss or disruption. This can result from human factors (people risks); inadequate or failed internal processes, governance or systems including the availability, resilience and security of our core IT systems;
- **Reputational Risk:** The risk of damage to the reputation of the FCA and PSR where it limits or impacts the organisations' credibility and constrains their ability to deliver against their objectives; or from inappropriate judgements, decisions and actions taken (or inaction) perceived by stakeholders as inappropriate;
- **Environmental Risk:** The risk in the operating environment for the FCA and the PSR, in particular, political, legislative or socio-demographic change.

The key financial risks (liquidity, credit, counter-party and final salary pension scheme risk) are set out in more detail below.

Going concern

The directors have considered the FCA's *Business Plan 2015/16* and the *PSR Annual Plan and Budget*, in particular, the following risks and uncertainties in assessing the FCA as a going concern as set out below:

i. **Liquidity risk:** can be assessed by looking at the following three key areas:

a. 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 one hundred are responsible for 53.9% of those fees;

b. the FCA's current liquidity position reflects the fact that it is funding cumulative scope change costs for consumer credit (£44.9m) and the PSR (£11.5m), which will start to unwind from 2016/17 for consumer credit and in 2015/16 for the PSR as its set-up costs are recovered from its fee-payers;

c. the FCA is well placed from a liquidity perspective, with an available overdraft facility of £50m.

ii. Credit risk: falls into two 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; and

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

iii. Significant Accounting Judgments and Key Sources of Estimate Uncertainty that have been considered by the directors are the estimated useful economic life of internally developed software and the assumptions underpinning the pension deficit as set out in Note 2 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

18 June 2015

9 Directors' report

The directors present their report for the year ended 31 March 2015. The directors use the Strategic Report (pages 80-87) to explain how they have performed their duty to promote the success of the FCA under section 172 of the Companies Act 2006.

Directors' responsibilities in respect of the Annual Report and accounts

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

As far as the directors are aware:

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

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

Qualifying indemnity provisions

Qualifying third party indemnity provisions for the purposes of section 232 of the Companies Act 2006 were in force during the course of the financial year ended 31 March 2015 and remain in force at the date of this report.

Auditor

FSMA requires the Company's accounts to be examined, certified and reported on by the Comptroller and Auditor General. Accordingly the National Audit Office was auditor throughout the year.

By Order of the Board

S Pearce
Secretary

18 June 2015

Corporate governance statement for the year ended 31 March 2015

The Financial Services and Markets Act (FSMA) 2000 requires the organisation to have regard to generally accepted principles of good corporate governance. The FCA's Board is committed to meeting high standards of corporate governance and this report sets out how the FCA is governed in line with the principles of the UK Corporate Governance Code (the Code). The Board considers that the FCA complies with the Code as far as it is appropriate.

FSMA requires the FCA to be accountable to its stakeholders through a number of ways including via an Annual Public Meeting and to report to the Treasury on the extent to which its regulatory objectives have been met. The FCA is funded by the industry it regulates through its statutory fee-raising powers and it operates independently of Government, but is accountable to Government and Parliament through obligations set out in FSMA. The FCA ensures it consults with consumers and practitioners on rules and general policy, including through engagement with the Consumer Panel and each of the Practitioner, Markets Practitioner and Smaller Business Practitioner Panels.

The Board sets the FCA's strategic aims and ensures the necessary financial and human resources are in place for the FCA to meet its statutory objectives. It provides leadership of the organisation within a framework of prudent and effective controls which enables risk to be assessed and managed. The membership of the Board is stipulated by FSMA and, consistent with those requirements, comprised the following at the outset of the reporting period:

- a chair and a chief executive appointed by the Treasury
- the Bank of England Deputy Governor for prudential regulation
- two non-executive directors appointed jointly by the Secretary of State for Business, Innovation and Skills and the Treasury
- three executive directors and four non-executive directors appointed by the Treasury

During the reporting period, Catherine Bradley was appointed as a non-executive by HM Treasury in August 2014. Two executive directors, Lesley Titcomb and Clive Adamson, left the Board in January 2015. David Harker, a non-executive member of the Board, sadly passed away in March 2015.

A majority of Board members are non-executive directors and all the non-executive directors are considered to be independent. Appointments to the Board are subject to the Code of Practice issued by the Office of the Commissioner for Public Appointments. The Board is of sufficient size to ensure that the requirements of the business can be managed.

In order to discharge its duties effectively, the Board and its committees met regularly during the year and details of the number of meetings held and attendance at those meetings are set out in Table 1. The membership of the various committees is set out in Table 2.

Table 1
Board and Committee Attendance

Name	Scheduled Board Meetings	Additional Board Meetings*	Remuneration Committee	Audit Committee	External Risk and Strategy Committee	Oversight Committee	Expiry of current term/date membership ceased
Clive Adamson	7/7	3/5					30/1/2015
Andrew Bailey	11/11	5/5					n/a
Catherine Bradley	6/6	3/3					01/08/2017
Amanda Davidson	11/11	5/5	5/5	5/5			31/3/2016
Amelia Fletcher	11/11	4/5			5/5		31/3/2016
John Griffith-Jones	11/11	4/5	5/5			5/5	31/3/2018
David Harker	6/10	4/5	3/4	2/4		1/1	02/03/2015
Mick McAteer	11/11	5/5		5/5	5/5	5/5	31/12/2015
Tracey McDermott	11/11	5/5					31/3/2016
Jane Platt	9/11	4/5	5/5		3/5		31/3/2016
Brian Pomeroy	11/11	4/5		5/5	5/5		31/3/2016
Lesley Titcomb	8/9	5/5					31/1/2015
Martin Wheatley	11/11	5/5					31/3/2016

Key

* Additional to those scheduled at the start of the year.

All directors, except Catherine Bradley who was appointed on 2 August 2014, were appointed to the FCA Board with effect from 1 April 2013. The chair was appointed for a five year term, until 31 March 2018, and all other directors were appointed for a three-year term with the exception of Mick McAteer and Andrew Bailey. Mr McAteer was appointed for a 15 month term due to expire on 30 June 2014 but this term has since been extended and will now expire on 31 December 2015. Mr Bailey was appointed to the Board by virtue of his position as the Bank of England Deputy Governor for prudential regulation in accordance with the requirements of FSMA.

The executive directors had continuous employment contracts with the FCA, subject to the following notice periods:

Director	Notice period
Martin Wheatley	12 months
Clive Adamson	6 months
Tracey McDermott	6 months
Lesley Titcomb	6 months

The following directors were previously directors of the Financial Services Authority:

Director	Original appointment date
Sir Brian Pomeroy	1 November 2009
Mick McAteer	1 November 2009
Amanda Davidson	1 May 2010
Martin Wheatley	1 September 2011
John Griffith-Jones	1 September 2012

Table 2
Committee membership during the year:

Audit Committee	External Risk and Strategy Committee	Remuneration Committee	Oversight Committee
Brian Pomeroy (Chair)	Mick McAteer (Chair)	Amanda Davidson (Chair)	John Griffith-Jones
Amanda Davidson	Amelia Fletcher	John Griffith-Jones	David Harker (until 2 March 2015)
David Harker (until 2 March 2015)	Jane Platt	David Harker (until 2 March 2015)	Mick McAteer
Mick McAteer	Brian Pomeroy	Jane Platt	Christopher Woolard FCA Director Strategy and Competition†

† This appointment maintained the requirement that the chief executive or his nominee be a member of the Oversight Committee

There is a clear division of responsibility between the running of the Board and the executive running of the organisation. John Griffith-Jones, as chair, leads the Board and ensures its effectiveness, and Martin Wheatley, as chief executive, is responsible for developing and delivering the strategy as agreed with the Board.

The non-executive directors have a variety of skills and experience that are appropriate for the requirements of the FCA. Where a conflict of interest arose during the year, whether personal or professional, appropriate steps were taken to protect both the director and the FCA and to ensure that all decisions were taken without any suggestion of undue influence. Sir Brian Pomeroy is the Senior Independent Director. During the year, the non-executive directors met privately both with and without the chair and without members of the Executive present.

The chair and company secretary ensure that the Board's agendas are set in line with the priorities of the organisation and review papers before their circulation to members to ensure that information is accurate and clear. Papers for Board and Committee meetings are normally circulated one week before meetings. Committee chairs reported to the Board on committee proceedings after each meeting.

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

The company secretary arranges an induction for new directors that is appropriate for their knowledge and experience. Members of the Board also receive ongoing professional development briefings on relevant issues. The chairman met with the non-executive directors to review their performance and agree their training and development needs.

Under 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 its statutory functions. This is supplemented with indemnities given by the FCA for the protection of individual employees, including directors. Accordingly, the FCA does not currently purchase Directors and Officers Liability Insurance.

In accordance with good governance, an externally facilitated review of the Board was completed in June 2014. This review developed considerations and recommendations for the continuous improvement of the Board.

Internal controls

The Board gained assurance that the FCA had a sound system of internal controls and risk management (internal risks being overseen by the Audit Committee and external regulatory risks by the External Risk & Strategy Committee). The Board's policy on internal controls and risk management included established processes and procedures for identifying, evaluating and managing significant risks. The Audit Committee reported at least quarterly to the Board on internal controls and internal risk management. The Audit Committee received regular reports from managers on financial, operational and compliance controls and the risk management systems. In addition it received and reviewed reports from the Director of Internal Audit summarising work undertaken, findings and actions by management.

The system was designed to provide reasonable but not absolute assurance against material misstatement or loss and to manage rather than eliminate risks to the FCA's statutory objectives.

Key features of the internal control system included the following:

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

- A review of the framework of controls to mitigate the key internal and external risks faced.

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

- The Audit Universe, which contained all the FCA's activities, systems and projects that contribute to controlling the risks to the organisation. Each unit within the universe was assessed appropriately to support the prioritisation of reviews by Internal Audit. The Audit Universe and priorities were revised periodically. Factors considered included risk, business criticality and materiality.

- The terms of reference of the Internal Audit function were reviewed during the year.

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

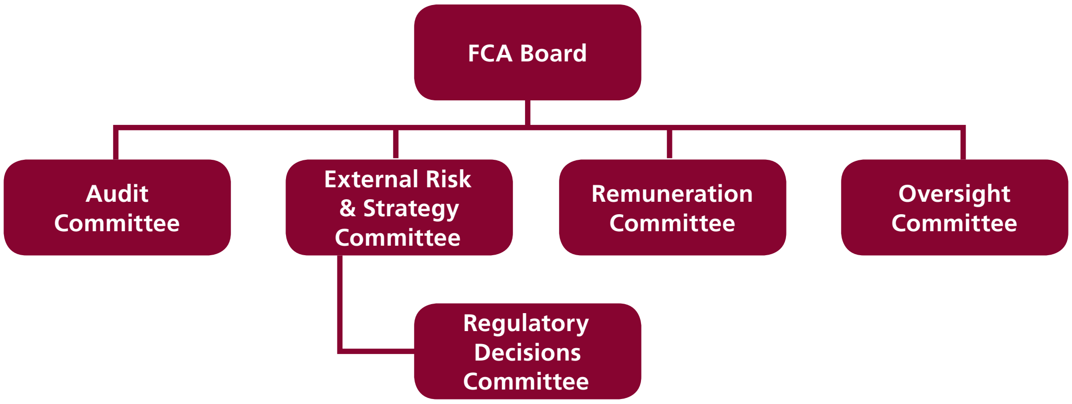
- The external audit, including interim and final audit, which provided assurance to the Board and senior management in relation to financial controls.

- Clear segregation between the FCA's regulatory function and those of the internal treasury function to avoid either endorsing or criticising any financial institution through investment activities.

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

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

Governance structure of the FCA



Committees of the Board

Audit Committee

The Audit Committee is responsible for reviewing and providing assurance to the Board on matters including the effectiveness of the FCA's internal controls, the internal risk management framework and mitigation strategies, the integrity of the financial statements in the annual accounts and the statements that relate to financial controls and internal risk, and for oversight of the external audit process.

Information on the committee's membership can be found on our website and details of its members' attendance at meetings can be found in Table 1.

The committee met on five occasions during the year. The FCA chief executive, chief operating officer, and respective Directors of Policy Risk and Research and Supervision each attended at least one session. The Director of Internal Audit and the Director – Financial Audit from the National Audit Office (NAO) or their alternate attended each of the meetings at the request of the committee chair. Private sessions were held with the internal and external auditors during the year without management present.

The committee also held private sessions on its own without management present.

To discharge its functions the committee carried out the following during 2014/15:

- Monitored the integrity of the financial statements.
- Reviewed the financial reporting judgments and disclosure issues.
- Reviewed pension plan arrangements.
- Reviewed the FCA's financial policies.
- Reviewed and challenged the identification of internal risks, including financial management risks, information systems risk and people risks, as reflected in the risk report and Risk Management Framework, and managements' mitigation of these risks.
- Reviewed potential and actual litigation against the FCA.
- Reviewed and approved the annual internal audit plan
- Reviewed quarterly reports from Internal Audit.
- Oversaw the FCA's relationship with the external auditor. Information on fees paid to the auditor is given on page 114;
- Considered the external auditor's audit strategy for the financial year.
- Reviewed the FCA chairman's expenses.
- Received updates from management on progress against the recommendations made in the NAO's Value for Money study of the new regulatory framework.
- Monitored completion of actions from the Davis Review

The committee believes the FCA has a sound system of internal controls. Further information on internal controls is set out in the Board's statement on pages 92-93. The committee has assured itself that the financial statements give a true and fair view and have been prepared with integrity.

External Risk and Strategy Committee

In November 2014 the Board reviewed the role of the Risk Committee and decided to change its name to the External Risk and Strategy Committee to better reflect the work of the committee. The committee has responsibility for the review and oversight of the external risks[1] to the achievement of the FCA's 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). The committee does not review internal risks, which is the responsibility of the Audit Committee.

In discharging its responsibility, the committee received regular reports from the FCA's executive, Head of Risk, Internal Audit Director and the Chair of the RDC. Throughout the year, the committee held sessions with the respective directors of the FCA's Markets, Supervision and Policy Risk and Research Divisions. It reported to the Board on its consideration of the risk areas and reports derived from each.

Information on the Committee's membership can be found on our website and details of its members' attendance at meetings can be found in Table 1.

The committee sought assurance from the FCA executive and actively pursued open dialogue with the executive on;

a. the major external risks to the FCA's statutory objectives, arising within the environment that the FCA regulates, were identified and prioritised appropriately; and

b. mitigation strategies in place to address these risks and that the scope and coverage of these mitigation strategies supported the delivery of the FCA's outcomes.

During the year, as part of its responsibilities, the committee:

- Discussed matters relating to the oversight and prioritisation of risk. In particular, the committee requested an update on potential implications arising from the Budget reforms to pensions and annuities, to understand issues for consumers and firms but also risks to FCA objectives; future risks arising from 2013/14 floods and storm damage; interest rate rises not being reflected in annuity rates and firms moving overseas. The committee also requested the views of FCA's Panels on the most pressing market-based risks to the FCA's objectives

- Requested a presentation on a case study of a firm attempting to implement cultural change and the challenge of driving cultural change throughout a firm

- Considered information on how divisions manage risk across their activities and questioned senior executives about how they maintained a cross divisional view of risk

- Looked in depth at the FCA's whistleblowing function in terms of developments in: number of cases; insights generated; case management, and whistleblowers' contribution to the discharge of the FCA objectives

- received regular reports from the RDC, including updates on key decisions and debated the risks and issues arising from those decisions

- Reviewed and contributed to the Risk Outlook section of the FCA Business Plan to reflect the clear links between the identification and analysis of risk, and the activities the FCA undertakes to address the risks.

The committee also reviewed the statements to be included in the Annual Report and Accounts concerning risks to the environment in which the FCA regulates; reviewed reports from the internal auditors; and kept under review the operation of the RDC. In both the case of internal audit and the RDC, a report was submitted to each meeting of the committee and its content discussed with senior representatives from the relevant areas.

1 Further information on the principal risks and uncertainties facing the FCA can be found in the Strategic Report (page 85-86).

Remuneration Committee

The Remuneration Committee's function is to determine the remuneration of the most senior members of the executive and to review and make recommendations to the Board in respect of the FCA's remuneration policy. The committee is also responsible for reviewing and making recommendations to the Board in respect of the remuneration payable to directors and members of various associated bodies. During the year, the committee met on five occasions.

Information on the committee's membership can be found on our website and details of its members' attendance at meetings can be found in Table 1.

Oversight Committee

The Oversight Committee was established for the purpose of providing support and advice to the Board on its relationship with the Money Advice Service (MAS) and its obligations under FSMA in respect of the MAS, such as approving its annual budget and business plan. Its Terms of Reference also allow the committee to carry out other assignments as specifically mandated by the Board, for example, to review the Plan and Budget of the Financial Ombudsman Service and/or the Financial Services Compensation Scheme from time to time if required.

During the year, the committee met on five occasions. Two meetings were convened to discuss the MAS annual budget and business plan and three to review the Plan and Budget of the Financial Ombudsman Service. Key individuals from the MAS and the Ombudsman attended these meetings.

Regulatory Decisions Committee

The Regulatory Decisions Committee (RDC) makes the final decisions on behalf of the FCA on certain contested matters.

The members of the committee represent the public interest and are appointed to use their experience and expertise in financial services to decide how the FCA should use particular authorisation, supervisory and enforcement powers. These include the power to stop firms or individuals providing regulated financial services and the levying of fines for breaches of the FCA's rules and legal requirements.

The RDC becomes involved 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 division will submit its proposal and the supporting evidence to the RDC. The RDC will review the evidence and, in most cases, seek the views of the relevant firm or individual, before coming to a decision.

The RDC is independent from the division that has conducted an investigation or considered an application for authorisation. This is required by law and helps to ensure that decisions are fair.

RDC members are selected on the basis of their experience of making independent evidence-based decisions, working in senior and expert positions in financial services, and/or their knowledge and understanding of consumers and other users of financial services. This range of skills and experience is intended to achieve fairness, enhance the objectivity and balance of the FCA's decision making and to assist in improving consistency across sectors and cases. A number of long-standing members of the RDC retired during 2014 and new members, including a chair, will be recruited during 2015.

The FCA's External Risk & Strategy Committee received quarterly reports from the RDC Chair, who also attended the meetings to discuss significant matters in those reports.

During 2014, the Treasury conducted a review of the enforcement decision-making process, including the RDC. The review has made some recommendations for change which will be implemented during the next twelve months.

Remuneration report

This section of the remuneration report is not subject to audit. The Remuneration Table, Median Pay Calculations Table, and their supporting notes have been subject to audit (pages 98-100).

Remuneration Principles

The FCA's remuneration principles are to attract and retain high calibre individuals and to provide them with clear objectives that are focused on results and behaviours clearly aligned with the FCA's cultural characteristics. Pay and incentives are differentiated based on performance and moderated across the organisation.

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

- basic pensionable salary;
- eligibility to be considered for performance-related pay;
- additional flexible benefits; and
- pension contribution.

Remuneration focus for 2014/15

During the year the executive has continued to focus on improving the quality of performance conversations and ensuring there is consistency in the use of the FCA's performance management tools. Reward has continued to focus on performance. The pay review principles reflect this and there has been continued HR presence in business moderation activity.

2014/15 Remuneration review

The Remuneration Committee determined the remuneration of the executive directors. To help with this, the Committee received information on, and assessment of, their individual performance. 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.

There were no automatic salary increases or incentive awards for staff in 2014/15, but this was a matter for managers' judgement against the FCA's common set of performance standards, to ensure that the best performing members of staff, at all levels, received appropriate recognition for their performance.

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

Basic pensionable salary

During the year, salaries of directors and senior executives were reviewed in line with the policy. When making decisions on base salary, the Remuneration Committee was mindful of the importance of remuneration packages being sufficient to retain staff while awarding any salary increases in a responsible manner, ensuring careful use of the FCA's resources.

Performance related pay

During the period under review, from 1 April 2014 to 31 March 2015, the executive directors were eligible to be considered for a performance-related award up to a maximum of 35% of average base pensionable salary applying during the previous year. Non-executive directors were not eligible to be considered for an individual award.

Other benefits

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

Pensions

The FCA Pension Plan (the Plan) has two sections, both of which are non-contributory; a defined benefits section (closed to new entrants and any future accruals) and a defined contribution section. John Griffith-Jones is not a member of the Plan and Martin Wheatley is a deferred member. Both were entitled to receive a non-pensionable supplement. The sums paid to the Chair and each of the executive directors are shown in the remuneration table.

Directors' remuneration

The following table is provided in accordance with statutory and/or regulatory requirements. The information set out in pages 98 to 100 has been audited by the National Audit Office. The table sets out the remuneration paid or payable to the Directors in respect of the years to 31 March 2015 and 2014.

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

	Basic salary		Performance-related pay			Other benefits		Total FCA Remuneration (excluding pension)		Pension		Total FCA Remuneration	
	2015 £'000	2014 £'000	2015 £'000 Paid in 2015 re: performance year 2015	2015 £'000 Paid in 2015 re: performance year 2014	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Chair													
John Griffith-Jones [1,14]	**170**	170	**–**	**–**	–	**2**	2	**172**	172	**20**	20	**192**	192
Executive Directors													
Martin Wheatley [2,14]	**460**	460	**92**	**–**	–	**108**	109	**660**	569	**41**	41	**701**	610
Clive Adamson [4]	**350**	291	**–**	**–**	–	**34**	30	**384**	321	**53**	43	**438**	364
Tracey McDermott [3]	**300**	271	**65**	**45**	–	**29**	26	**439**	297	**36**	32	**475**	329
Lesley Titcomb [3,5]	**250**	250	**–**	**34**	–	**24**	24	**308**	274	**30**	41	**338**	315

Non-Executive Directors [6]	FYE Fee awarded 2015 £'000	FYE Fee awarded 2014 £'000	Fee paid 2015 £'000	Fee paid 2014 £'000
Andrew Bailey [7]	–	–	–	–
Amanda Davidson [8]	35	45	35	35
Amelia Fletcher [14]	35	35	35	35
David Harker [9]	35	35	32	35
Mick McAteer [10]	45	45	45	44
Jane Platt [11]	35	35	35	35
Catherine Bradley [12]	35	n/a	23	n/a
Sir Brian Pomeroy [13,14]	65	65	65	65

Notes

Chairman

1 John Griffith-Jones is not a member of the FCA's Pension Plan and received a non-pensionable supplement in lieu of pension contributions. This amount is included under 'Pension' in the table above.

John Griffith-Jones is contracted to work 3 days a week.

Executive Directors of the FCA

2 Martin Wheatley is not a member of the FCA's Pension Plan and received a non-pensionable supplement in lieu of pension contributions. This amount is included under 'Pension' in the table above.

Included in Martin Wheatley's Other benefits is the value of the benefit-in-kind relating to the provision of a car and driver.

3 The Remuneration Committee had previously agreed not to award performance-related bonuses for the year to 31 March 2014, pending publication of the independent review's findings into the handling of the FCA's announcement of proposed supervisory work in the life insurance market. The findings of that review were published in December 2014 and the Remuneration Committee confirmed that Lesley Titcomb and Tracey McDermott would be paid a performance-related bonus for the year ending 31 March 2014 in the year ending 31 March 2015.

4 Clive Adamson resigned from the Board in January 2015. In line with his contractual entitlement, he continued to be employed until 31st May 2015. Clive Adamson's salary and benefits include these contractual amounts payable (£50,000 in salary and £4,000 in benefits) to 31 May 2015.

5 Lesley Titcomb resigned from the Board in January 2015, leaving the FCA on 31 January 2015 to commence her new role as Chief Executive of the Pensions Regulator with effect from 2 March 2015.

Non-executive Directors of the FCA

6 From 1 April 2013, FSMA passed responsibility for determining the remuneration for non-executive directors to the Treasury. The fee for non-executive directors remains unchanged at £35,000 per annum for 2015.

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 Andrew Bailey was appointed as non-executive director of the FCA on 1 April 2013 but has not received a fee.

8 Amanda Davidson was appointed Chair of the Remuneration Committee with effect from 25 April 2013 but waived her additional fee.

9 David Harker sadly passed away in March 2015.

10 Mick McAteer was appointed Chair of the Risk Committee with effect from 25 April 2013.

11 Jane Platt was appointed as non-executive director on 1 April 2013 but waived her fee for both 2013/14 and 2014/15. It was agreed that her fee would be paid to her primary employer, National Savings and Investments (NS&I).

12 Catherine Bradley was appointed as non-executive director on 2 August 2014.

13 Sir Brian Pomeroy was appointed Chair of the Audit Committee with effect from 4 July 2012 and Chair of the FCA's Pension Plan with effect from 1 June 2010.

The annual fee for chairing the Pension Plan was set at £20,000 with effect from 1 April 2008 and remains unchanged for 2015 as recommended by the Remuneration Committee and agreed by the Board.

14 John Griffith-Jones, Martin Wheatley, Amelia Fletcher & Sir Brian Pomeroy receive no separate fee for their respective roles on the PSR Board.

	Consolidated	FCA (Parent Company)	
Remuneration ratio	**2015**	**2015**	**2014**
Highest Paid Director's Total Remuneration	**£659,886**	**£659,886**	£569,123
Median Remuneration of Total Workforce	**£63,379**	**£63,052**	£63,199
Ratio (to Total Workforce)	**10.4**	**10.5**	9.0
Number of employees paid in excess of highest paid Director	**Nil**	**Nil**	Nil

Remuneration ratio

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 2015 and 2014.

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 as follows:

- **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.

This is the first year of the FCA preparing consolidated financial statements and the median pay calculations for 2015 reflect the consolidated position including the PSR. For comparative purposes however, we have shown and discuss below the 2015 median pay calculations for the FCA only (Parent Company). Where the calculations vary significantly due to the inclusion of the PSR in the consolidated position, we have explained these variances.

Parent Company (FCA only)

The remuneration of the highest-paid director in the financial year to 31 March 2015 was £659,886 (2014: £569,123). This was 10.5 times (2014: 9.0) the median remuneration of the total workforce which was relatively static at £63,052 (2014: £63,199).

The increase in the median remuneration ratio from 9.0 in 2014 to 10.5 in 2015 is mainly attributable to the payment of a performance-related bonus to the Chief Executive in 2015 (2014:nil).

In 2015, no employee received remuneration in excess of the highest-paid director (2014: nil). Remuneration ranged from £17,287 to £439,285 for the total workforce (2014: £15,623 to £390,000). The increase in the upper limit of the remuneration range in 2015 is attributable to the payment of performance-related bonuses to one of the FCA's executive directors for both the 2015 and 2014 performance years.

Consolidated

The consolidated median pay calculations include the PSR. The inclusion of the PSR slightly increases the consolidated median pay and reduces the median remuneration ratio. This is driven by the fact that the median pay for the PSR is £81,623 as it is a small team of experts and professionals at this early stage in its existence. The administrative and operational support for the PSR is also provided through a Provision of Services Agreement, utilising the FCA's infrastructure and resources. This means the PSR workforce has a limited number of administrators.

The Board of the FCA


John Griffith-Jones
Chair


Martin Wheatley
Chief Executive


Tracey McDermott
Executive Director


Sir Brian Pomeroy CBE
Non-executive Director

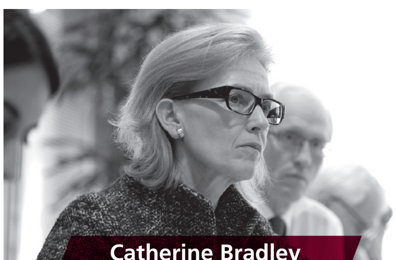

Amanda Davidson
Non-executive Director

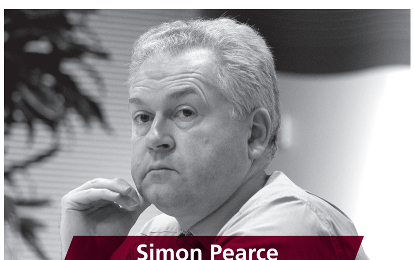

Mick McAteer
Non-executive Director


Jane Platt
Non-executive Director


Amelia Fletcher OBE
Non-executive Director


Andrew Bailey
Non-executive Director


Catherine Bradley
Non-executive Director


Simon Pearce
Company Secretary

10 Consolidated financial statements of the Financial Conduct Authority for the period ended 31 March 2015

Company Number 1920623

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

I certify that I have audited the financial statements of the Financial Conduct Authority and its related group for the year ended 31 March 2015 under the Financial Services and Markets Act 2000. The financial statements comprise: the Statements of Comprehensive Income, Financial Position, Cash Flows, Changes in Equity; and the related notes. 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. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Financial Services and Markets Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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. This includes an assessment of: whether the accounting policies are appropriate to the Financial Conduct Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Financial Conduct Authority; and the overall presentation of the financial statements.

In addition I read all the financial and non-financial information in the Annual Report and Strategic Report to identify material inconsistencies with the materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that 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.

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.

Opinion on consolidated financial statements
In my opinion:

- the financial statements give a true and fair view of the state of Financial Conduct Authority's affairs as at 31 March 2015 and of the deficit for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union;
- the financial statements have been properly prepared in accordance with the Companies Act 2006 and HM Treasury directions issued under the Financial Services and Markets Act 2000.

Opinion on other matters
In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury's directions made under the Financial Services and Markets Act 2000; and
- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception
I have nothing to report in respect of the following matters which 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; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report
I have no observations to make on these financial statements.

Sir Amyas C E Morse **Date: 23 June 2015**
Comptroller and Auditor General

National Audit Office, 157-197 Buckingham Palace Road
Victoria, London, SW1W 9SP

Consolidated statement of comprehensive income for the period ended 31 March

		Consolidated	FCA (Parent Company)	
	Notes	Total 2015 £m	Total 2015 £m	Total 2014 £m
Administrative costs	5	(533.5)	(522.6)	(469.8)
Other income	7	50.0	50.6	35.4
Interest on bank deposits		0.9	0.9	0.8
Other net finance costs	15	(5.0)	(5.0)	(4.7)
Net costs for year	4	**(487.6)**	**(476.1)**	**(438.3)**
Fee income		451.2	451.2	435.4
Loss for the year		**(36.4)**	**(24.9)**	**(2.9)**
Net actuarial losses for the year in respect of the defined benefit pension scheme	15	(33.4)	(33.4)	(26.4)
Total comprehensive loss for the year		**(69.8)**	**(58.3)**	**(29.3)**

Consolidated statement of changes in equity for the period ended 31 March

	Consolidated £m	FCA (Parent Company) £m
At 1 April 2013	**(87.3)**	**(87.3)**
Total comprehensive loss for the year	(29.3)	(29.3)
At 31 March 2014	**(116.6)**	**(116.6)**
PSR pre-incorporation costs[1]	0.9	0.9
At 1 April 2014	**(115.7)**	**(115.7)**
Total comprehensive loss for the year	(69.8)	(58.3)
At 31 March 2015	**(185.5)**	**(174.0)**

1. On 1 April 2014, pre-incorporation costs for the Payment Systems Regulator (PSR) were transferred from the FCA to the PSR. These costs are reflected in the total consolidated loss for the year to 31 March 2015.

Consolidated statement of financial position as at 31 March

Company Number: 1920623

	Notes	Consolidated Total 2015 £m	FCA (Parent Company) Total 2015 £m	FCA (Parent Company) Total 2014 £m
Non-current assets				
Intangible assets	9	89.3	89.3	72.9
Property, plant and equipment	10	32.5	32.5	39.8
		121.8	**121.8**	**112.7**
Current assets				
Trade and other receivables	11	20.0	20.0	34.2
Intercompany receivable	11	–	11.0	–
Cash and cash equivalents	11	12.1	12.1	102.9
Current tax asset	8/11	–	–	0.4
		32.1	**43.1**	**137.5**
Total assets		**153.9**	**164.9**	**250.2**
Current liabilities				
Trade and other payables	12	(182.1)	(181.6)	(224.8)
Short term provisions		(0.5)	(0.5)	(2.7)
		(182.6)	**(182.1)**	**(227.5)**
Total assets less current liabilities		**(28.7)**	**(17.2)**	**22.7**
Non-current liabilities				
Trade and other payables	12	(9.0)	(9.0)	(10.7)
Long term provisions	12	(2.2)	(2.2)	(2.2)
Net (liabilities)/assets excluding retirement benefit obligation		**(39.9)**	**(28.4)**	**9.8**
Retirement benefit obligation	15	(145.6)	(145.6)	(126.4)
Net liabilities including retirement benefit obligation		**(185.5)**	**(174.0)**	**(116.6)**
Accumulated deficit		**(185.5)**	**(174.0)**	**(116.6)**

The financial statements were approved and authorised for issue by the Board on 18 June 2015, and were signed on its behalf by:

John Griffith-Jones **Chairman**

Martin Wheatley **Chief Executive Officer**

Consolidated statement of cash flows for the period ended 31 March 2015

	Notes	Consolidated Total 2015 £m	FCA (Parent Company) Total 2015 £m	FCA (Parent Company) Total 2014 £m
Net cash used by operations	**19**	**(36.6)**	**(36.6)**	**(273.8)**
Investing activities				
Interest received on bank deposits		0.9	0.9	0.8
Expenditure on software development	9	(48.8)	(48.8)	(25.2)
Purchases of property, plant and equipment	10	(6.3)	(6.3)	(7.4)
Transfer of assets to PRA	9/10	-	-	16.5
Net cash used in investing activities		**(54.2)**	**(54.2)**	**(15.3)**
Net decrease in cash and cash equivalents		**(90.8)**	**(90.8)**	**(289.1)**
Cash and cash equivalents at the start of the year		102.9	102.9	392.0
Cash and cash equivalents at the end of the year		**12.1**	**12.1**	**102.9**

Notes to the financial statements

1. General information

The Financial Conduct Authority Limited (FCA) is a company incorporated in the United Kingdom under the Companies Act 2006 and is a company limited by guarantee with no share capital. The members of the company have agreed to contribute £1 each to the assets of the company in the event of it being wound up. The nature of the FCA's operations is set out in the Strategic Report.

These accounts have been prepared on a consolidated basis to include the Payment Systems Regulator Limited (PSR), incorporated on the 1 April 2014, a wholly-owned subsidiary of the FCA.

Under the FCA's Accounts Direction from Her Majesty's Treasury (HMT) in accordance with Schedule 1ZA, paragraph 14(1) of the Financial Services and Markets Act 2000 (FSMA), we are required to disclose additional information this year regarding Losses and Special Payments (no comparative data required), included in note 13.

The registered office is 25 The North Colonnade, Canary Wharf, London, E14 5HS.

The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the FCA operates.

2. Significant accounting policies

a. Basis of preparation

The 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 and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The principal accounting policies applied in preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

b. Changes in accounting policy

i. New and amended standards adopted:

There are no new or amended IFRS or International Reporting Interpretations Committee (IFRIC) interpretations that would be expected to have a material impact.

ii. New standards, amendments and interpretations issued but not effective for the financial year 1 April 2013 and not early adopted:

There are no other IFRS or IFRIC interpretations not yet effective that would be expected to have a material impact.

c. Statement of comprehensive income

The format of the statement of comprehensive income has been designed to show net costs before fees levied to cover these costs. It is considered that this format best represents the nature of the activities of the FCA, which involve carrying out statutory functions and levying fees to meet the net cost of those functions.

d. Revenue recognition

FSMA enables the FCA to raise fees to recover the costs of carrying out its statutory functions. Fee income represents the annual periodic fees receivable under FSMA for the financial year and is measured at fair value.

Other income is recognised when the services are provided and includes: income from other financial services regulatory organisations, publications, training, fees receivable under FSMA relating to applications for authorisation (including for Consumer Credit), recognition or registration and income from Skilled Person Reports.

Interest received on bank deposits is accrued on a time basis by reference to the principal outstanding and the effective interest rate applicable.

e. Property, plant and equipment

Property, plant and equipment 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 lives. The principal useful economic lives used for this purpose are:

Leasehold improvements	Ten years or lease expiry
Computer equipment (excluding software)	Up to five years
Furniture and equipment	Ten years
Motor vehicles	Four years

The assets' residual values and useful lives are reviewed and adjusted if appropriate at the end of each reporting period.

Subsequent expenditure is only capitalised when it increases the future economic benefits embodied in the specific asset to which it relates.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset, and is recognised in the statement of comprehensive income.

f. Intangible assets

In accordance with International Accounting Standards (IAS) 38: Intangible Assets, costs associated with the development of software for internal use are capitalised only where: the FCA can demonstrate the technical feasibility of completing the software; the FCA has adequate technical, financial and other resources available to it as well as the intent to complete its development; and, the FCA has the ability to use it upon completion. In addition, costs are only capitalised if 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. Expenditure on research activities is recognised as an expense in the period in which it is incurred.

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 it is then transferred from work in progress to the appropriate asset category.

Intangible assets are amortised on a straight-line basis over their expected useful lives, generally between three and seven years, with the expense reported as an administration expense in the statement of comprehensive income. Subsequent expenditure is only capitalised when it increases the future economic benefits embodied in the specific asset to which it relates.

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, development expenditure is charged to the statement of comprehensive income when incurred.

g. Impairment of property, plant and equipment, and intangible assets

During the financial year the FCA reviews the carrying value of its property, plant and equipment and intangible assets to determine whether there is any indication that those 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 recoverable amount is the higher of the fair value less costs to sell and 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.

When an impairment subsequently reverses, the carrying amount is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised for the asset in prior years. A reversal of an impairment is immediately recognised as income.

h. 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 its 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.

i. Penalties

A liability to our 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. This liability is returned to the fee payers through reduced fees in the following year. Once total penalties collected during the year exceed this sum, a liability to the Exchequer arises.

Penalties issued and not yet collected at 31 March 2015 are included in both current assets and current liabilities and are subject to an assessment of recoverability.

j. Financial instruments

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of comprehensive income when there is objective evidence that an asset is impaired. The allowance recognised is measured as the difference between an asset's carrying value and the estimated future cash-flows deriving from the continued use of that asset, discounted if the effect is material.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents comprise cash in hand, deposits and other short-term liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

k. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. There are no finance leases in place. All other leases are treated as operating leases.

Rentals payable under operating leases are charged to the statement of comprehensive income on a straight-line basis over the term of the lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the term of the lease term.

l. Provisions

The directors exercise judgement in measuring and recognising provisions related to pending litigation or other outstanding claims subject to negotiated settlement, mediation or arbitration. Judgement is necessary to assess the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of any financial settlement. The inherent uncertainty of such matters means that actual losses may materially differ from estimates.

m. Taxation

Under an agreement with Her Majesty's Revenue and Customs (HMRC), the FCA is not subject to corporation tax on income arising from its regulatory activities but is subject to corporation tax on investment income subject to deductions for amortisation of intangible assets.

n. Retirement benefit costs

The company operates a tax-approved occupational pension scheme, the FCA Pension Plan (the 'Plan'), which is open to all employees. The pension plan was established on 1 April 1998 and operates on both a defined benefit basis (the *Final Salary Section*), which is closed to new members and to future accruals, and a defined contribution basis (the *Money Purchase Section*).

Final Salary Section (defined benefit)

The Final Salary Section of the Plan is a defined benefit plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on rate of accrual, age, years of service in the plan and compensation.

The net liabilities of the Final Salary Section of the Plan are calculated by deducting the fair value of the assets from the present value of its obligations and they are disclosed as a non-current liability on the balance sheet.

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 market rate at the balance sheet date of high quality corporate bonds having maturity dates approximating to the terms of those liabilities. The calculation is performed by a qualified actuary using the projected unit credit method at each balance sheet 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 arising on scheme liabilities) are recognised in the statement of comprehensive income in the period in which they are incurred.

Past service cost (including unvested past service cost) is recognised immediately in the statement of comprehensive income.

Money Purchase Section (defined contribution)
The Money Purchase Section of the Plan is a defined contribution plan where the company pays contributions at defined rates to a separate entity.

Payments to the Money Purchase Section of the Plan are recognised as an expense in the statement of comprehensive income, as they fall due. Prepaid contributions are recognised as an asset to the extent that a cost refund or a reduction in future payments is available.

3. Significant accounting judgements, estimates and assumptions
In the process of applying significant accounting policies as described in note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimates, which are dealt with below):

a. Intangible assets: under IAS 38, internal software development costs of £48.8m (2014: £25.2m) 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 us to carry out our 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 our approach to discharging our statutory functions changes, perhaps due to the impact of implementing a European directive), then the carrying value of the asset would require adjustment.

One of the FCA's largest in-flight programmes currently is INTACT, a new case management system for handling queries from firms and consumers which replaces a number of existing systems within the FCA and will also support increased volumes of activity from Consumer Credit. INTACT is a Software as a Service model and is being developed using an iterative project methodology (there are a number of phases of delivery within the project). The forecast cost of INTACT is £45m and the project is due to complete in November 2015.

b. Preparation of consolidated financial statements: The PSR was incorporated on the 1 April 2014 as a private company, limited by shares (a single share with a £1 nominal value), and is wholly owned by the FCA. We have reviewed IFRS 10: Consolidated Financial Statements to determine that the PSR meets the definition of control (power and return) and hence need to prepare consolidated accounts.

c. Move to The International Quarter (TIQ): The FCA has signed an Agreement for Lease for 20 years to move to Stratford in 2018. The FCA will incur fit out costs (leasehold improvements) in late 2016 to get the building ready for occupation. In the run up to delivery of the building certain professional fees will be incurred relating to the move which meet the capitalisation definition in accordance with IAS 17 £1.3m of professional fees have been capitalised in the year to 31 March 2015.

Estimates and assumptions

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 discussed below:

- Pension deficit – the quantification of the pension deficit is based upon assumptions made by the directors (as listed in note 15) relating to the discount rate, retail price inflation (RPI), future pension increases and life expectancy.
- Generally, the level of 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.

4. Business and geographical analysis

IFRS 8 *Operating Segments:* requires operating segments to be identified on the basis of internal reporting on components that are regularly reviewed by the chief operating decision makers to allocate resources to the segments and to assess their performance. The chief operating decision makers have been identified as the executive directors.

The FCA's operating segments (prior to the restructure, see below) are: Authorisations; Enforcement and Financial Crime; Markets; Operations; Policy, Risk and Research; Supervision and other central services divisions.

Authorisations is responsible for the protection of the financial services perimeter to ensure that industry participants do not pose an unacceptable degree of risk to consumers. It assesses and processes applications made by individuals and entities in relation to applications for authorisations, registrations, variations of permission, cancellations, approved persons and changes in control.

Enforcement and Financial Crime (EFC) conducts investigations when firms breach our rules or the provisions of FSMA, and also includes a financial crime and intelligence department to support the FCA's strategic objectives. EFC carries out administrative, civil and criminal proceedings in the enforcement of FSMA, our rules and other regulatory requirements. It also works with other regulatory bodies and law enforcement agencies in the UK and abroad. EFC helps us to reduce the extent to which it is possible for a business to be used for financial crime. EFC comprises policy, intelligence, sector and operations teams who together deal with any issues involving money laundering, fraud or dishonesty, or market abuse.

Markets focuses on ensuring that financial markets are efficient, stable, fair and resilient, so that client money and assets are protected, and high standards of conduct are adhered to by all participants. This work combines all regulatory disciplines to deliver the FCA's responsibilities for the supervision of market infrastructures, the supervision of market trading firms, the formulation and negotiation of markets policy, the identification and investigation of market abuse, the functions of the UK Listing Authority and the activities of the Client Assets Unit.

Policy, Risk and Research acts as the FCA's radar. Its primary function is to gather and use a wide range of data, information and intelligence from across the organisation, firms and elsewhere to help identify and assess risks in financial markets, and to design strategies to solve these. This includes the development, negotiation and implementation of conduct policy, and delivery of the FCA's competition and consumer-focused approach to regulation. It is also responsible for the FCA's risk strategy and operation of our three lines of defence.

Supervision is responsible for the conduct supervision of financial services firms operating in the UK, as well as the prudential supervision for those firms not prudentially supervised by the PRA. The division is responsible for delivering the FCA's consumer-focused, forward-looking approach and, through its work, aims to secure an appropriate degree of protection for consumers, protect and enhance the integrity of the UK financial system, and promote effective competition in the interests of consumers.

Operations supports the FCA in delivering its statutory objectives. Included are costs for information systems, accommodation, depreciation, amortisation, pension and staff costs for Business and Technology Solutions, Finance, Facilities, Human Resources and the COO's office.

Other Central Services includes those divisions that report directly to the Chairman and Chief Executive, in addition to the costs of scope change activity such as consumer credit and the centrally held provision for performance incentive pay for the organisation. The aim of these departments is to ensure that the Chairman and the Board are able to fulfil their stewardship and corporate governance responsibilities; and to provide support to the rest of the organisation.

Payment Systems Regulator (PSR) is an independent economic regulator and a subsidiary of the FCA but has its own statutory objectives and governance, including a Managing Director and Board. The PSR was incorporated on 1st April 2014 and will become fully operational on 1st April 2015.

Restructure – In December 2014 the new FCA strategy was announced. This was an evolution of our regulatory approach, in light of new developments in financial services and the continued expansion of our remit. Our core strategic objective to ensure that the financial markets work well, remains unchanged but our new approach better fits the world we work in, with more emphasis on sector and market-wide analysis. This has resulted in the restructure of Authorisations, EFC, Markets, Policy Risk and Research, Supervision from 1 April 2015 into Strategy and Competition, Supervision – Retail and Authorisations, Supervision – Investments, Wholesale and Specialists and Enforcement and Market Oversight. This will be reflected in the 2015/16 Annual Report.

Geographical analysis

The FCA regulates entities that operate within the UK financial services industry, including foreign domiciled entities operating within the UK. The foreign domiciled entities account for less than 10% of the fee base of the FCA therefore no geographical analysis is presented.

Period ended 31 March 2015	Authorisations £m	EFC £m	Markets £m	Policy, Risk and Research £m	Supervision £m	Direct Costs Total £m	Operations £m	Other Central Services £m	FCA (Parent Company) Net costs for the year £m	Consolidated Net costs for the year £m
Administrative costs	(19.4)	(48.9)	(25.5)	(33.6)	(68.7)	(196.1)	(219.4)	(107.1)	(522.6)	**(533.5)**
Other income	0.2	1.0	5.6	–	15.5	22.3	10.4	17.9	50.6	**50.0**
Interest on bank deposits	–	–	–	–	–	–	0.9	–	0.9	**0.9**
Other finance costs	–	–	–	–	–	–	(5.0)	–	(5.0)	**(5.0)**
Net costs for the year	**(19.2)**	**(47.9)**	**(19.9)**	**(33.6)**	**(53.2)**	**(173.8)**	**(213.1)**	**(89.2)**	**(476.1)**	**(487.6)**

Period ended 31 March 2014	Authorisations £m	EFC £m	Markets £m	Policy, Risk and Research £m	Supervision £m	Direct Costs Total £m	Operations £m	Other Central Services £m	FCA (Parent Company) Net costs for the year £m
Administrative costs	(17.2)	(48.1)	(24.5)	(26.5)	(52.6)	(168.9)	(220.0)	(80.9)	**(469.8)**
Other income	5.1	1.2	6.5	–	0.7	13.5	9.0	12.9	**35.4**
Interest on bank deposits	–	–	–	–	–	–	0.8	–	**0.8**
Other finance costs	–	–	–	–	–	–	(4.7)	–	**(4.7)**
Net costs for the year	**(12.1)**	**(46.9)**	**(18.0)**	**(26.5)**	**(51.9)**	**(155.4)**	**(214.9)**	**(68.0)**	**(438.3)**

5. Administrative costs

The administrative costs for the period ending 31 March 2015 comprise the following:

		Consolidated	FCA (Parent Company)	
	Notes	Total 2015 £m	Total 2015 £m	Total 2014 £m
Permanent staff costs (excl. defined benefit pension scheme costs)	6	261.4	259.6	216.6
Short term resource costs	6	41.4	39.0	31.1
Other staff costs		12.1	7.7	13.3
Amortisation of intangible assets	9	32.4	32.4	29.0
Depreciation of property, plant and equipment	10	13.5	13.5	13.3
Impairment loss	9/10	0.1	0.1	1.7
Loss on disposal	9/10	–	–	2.3
Regulatory reform costs		–	–	3.4
Accommodation and office services		33.2	33.2	37.7
Professional fees[1]		43.8	41.6	25.5
IT costs		91.6	91.5	91.9
Other non staff costs		4.0	4.0	4.0
Total		**533.5**	**522.6**	**469.8**

1 The increase in professional fees is matched by an equivalent increase in income from Skilled Person Reports (£15.1m) included in sundry income (note 7) as the professional fees incurred by the FCA in conducting Skilled Person Reports are re-charged to the firms under-going the review.

Auditors

The Comptroller & Auditor General was appointed as auditor on the 1 April 2013 under FSMA.The auditor's total remuneration for audit services is set out below:

	Consolidated	FCA (Parent Company)	
	12 months to 31 March 2015 £'000	12 months to 31 March 2015 £'000	12 months to 31 March 2014 £'000
Fees payable to the National Audit Office for the audit of the FCA's annual accounts	101	78	78

6. Staff information

The average number of full-time equivalent employees (including executive directors and fixed-term contractors) during the year to 31 March 2015 is presented by division below:

	Consolidated	FCA (Parent Company)	
	Total 2015 £m	Total 2015 £m	Total 2014[1] £m
Authorisations	464	464	281
Enforcement and Financial Crime	508	508	451
Markets	283	283	268
Policy, Risk and Research	300	300	234
Supervison	632	632	601
Sub-total	**2,187**	**2,187**	**1,835**
Operations	576	576	528
Other Central Services	237	237	217
PSR	19	–	–
Total	**3,019**	**3,000**	**2,580**

1 The 2014 figures have been restated to include Fixed-Term Contractors (FTC). This was done for comparison purposes as FTC costs are included in the permanent staff costs table below.

As at 31 March 2015, there were 3,188 (2014: 2,663) full-time equivalent employees of which 3,155 were FCA and 33 were PSR.

The average number of short-term resources utilised during the year to March 2015 by type was:

	Consolidated	FCA (Parent Company)	
	Total 2015 £m	Total 2015 £m	Total 2014 £m
Temporary	147	144	132
Secondees	48	46	40
Contractors	187	179	140
Total	**382**	**369**	**312**

As at 31 March 2015, there were 343 (2014: 383) short-term resources of which 333 were FCA and 10 were PSR.

Staff costs (including executive directors) comprise:

		Consolidated	FCA (Parent Company)	
	Notes	Total 2015 £m	Total 2015 £m	Total 2014 £m
Gross salaries and taxable benefits	6	216.3	214.8	177.7
Employer's national insurance costs		24.7	24.5	21.2
Employer's defined contribution costs	15	20.0	19.9	17.6
Other employer's pension costs included in administrative costs		0.4	0.4	0.1
Permanent staff costs	5	**261.4**	**259.6**	**216.6**
Temporary		7.8	7.7	5.3
Secondees		2.7	2.5	2.8
Contractors		30.9	28.8	23.0
Short-term resource costs	6	**41.4**	**39.0**	**31.1**
Net pension finance costs (included in other finance costs)	15	5.0	5.0	4.7
Actuarial losses in respect of the defined benefit pension scheme	15	33.4	33.4	26.4
Total staff costs		**341.2**	**337.0**	**278.8**

Exit packages – consolidated and parent company

Redundancy and other departure costs incurred in accordance with the FCA 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.

Exit package cost band	Number of compulsory redundancies 2015	Number of other departures agreed 2015	Total 2015	Number of compulsory redundancies 2014	Number of other departures agreed 2014	Total 2014
£0 – £10,000	16	–	**16**	2	–	**2**
£10,001 – £25,000	14	3	**17**	7	4	**11**
£25,001 – £50,000	21	1	**22**	18	4	**22**
£50,001 – £100,000	11	2	**13**	14	4	**18**
£100,001 – £150,000	5	1	**6**	1	–	**1**
£150,001 – £200,000	–	1	**1**	1	–	**1**
£200,001 and above	–	–	**–**	1	–	**1**
Total number of exit packages	**67**	**8**	**75**	**44**	**12**	**56**
Total costs			**£2.9m**			**£2.8m**

7. Other income

	Consolidated	FCA (Parent Company)	
	Total 2015 £m	Total 2015 £m	Total 2014 £m
Skilled Person Reports (s166) income	15.1	15.1	0.1
Application fees and other regulatory income	11.0	11.0	10.6
Consumer credit fees	9.8	9.8	11.3
Services provided to other regulatory bodies	9.2	9.8	8.0
Publications and training services	1.0	1.0	1.0
Other sundry income	3.9	3.9	4.4
Total other income	**50.0**	**50.6**	**35.4**

8. Taxation

There is an unrecognised deferred tax asset of £25.6m (£19.0m) in relation to unused tax losses carried forward. The application of the corporation tax regime for intangible fixed assets resulted in a nil corporation tax charge for the year. It is not considered probable that taxable profits will be available to utilise the unused tax losses.

9. Intangible assets - consolidated and parent company

	Internally generated software £m	Other software costs £m	Work in progress £m	Total £m
Cost				
At 1 April 2013	**113.3**	**23.6**	**18.4**	**155.3**
Assets transferred to PRA	(12.9)	(0.8)	(0.9)	**(14.6)**
Additions	–	–	25.2	**25.2**
Transfers (note 10)	13.0	2.2	(17.0)	**(1.8)**
Disposals	(4.1)	(0.6)	(0.3)	**(5.0)**
At 31 March 2014	**109.3**	**24.4**	**25.4**	**159.1**
Additions	–	–	48.8	**48.8**
Transfers	33.9	1.3	(35.2)	**–**
Disposals	(2.8)	(0.2)	–	**(3.0)**
At 31 March 2015	**140.4**	**25.5**	**39.0**	**204.9**
Amortisation				
At 1 April 2013	**49.2**	**12.0**	**–**	**61.2**
Assets transferred to PRA	(0.6)	(0.1)	–	**(0.7)**
Charge for year	23.3	5.7	–	**29.0**
Disposals	(4.1)	(0.6)	–	**(4.7)**
Impairments	1.4	–	–	**1.4**
At 31 March 2014	**69.2**	**17.0**	**–**	**86.2**
Charge for year	28.4	4.0	–	**32.4**
Disposals	(2.8)	(0.2)	–	**(3.0)**
At 31 March 2015	**94.8**	**20.8**	**–**	**115.6**
Net book value				
At 31 March 2014	**40.1**	**7.4**	**25.4**	**72.9**
At 31 March 2015	**45.6**	**4.7**	**39.0**	**89.3**

Of the net book value of work in progress of £39.0m at 31 March 2015, £15.1m relates to INTACT (replacement of the FCA's Authorisation and other systems) and £12.3m to ISIP (Information Services Investment Programme) which is an upgrade to the FCA's main applications and infrastructure.

10. Property, plant and equipment – consolidated and parent company

	Leasehold improvements £m	Computer equipment £m	Furniture and equipment £m	Work in progress £m	Total £m
Cost					
At 1 April 2013	**26.8**	**53.0**	**15.7**	**4.5**	**100.0**
Assets transferred to PRA	–	(2.1)	(1.0)	–	**(3.1)**
Additions	0.1	–	–	7.3	**7.4**
Transfers (note 9)	1.2	5.5	0.7	(5.6)	**1.8**
Disposals	(5.6)	(8.0)	(1.2)	(0.3)	**(15.1)**
At 31 March 2014	**22.5**	**48.4**	**14.2**	**5.9**	**91.0**
Additions	–	–	–	6.3	**6.3**
Transfers	1.1	3.5	0.5	(5.1)	**–**
Disposals	–	(9.4)	(0.1)	–	**(9.5)**
Impairments	–	–	–	(0.1)	**(0.1)**
At 31 March 2015	**23.6**	**42.5**	**14.6**	**7.0**	**87.7**
Depreciation					
At 1 April 2013	**13.1**	**31.4**	**6.7**	**–**	**51.2**
Assets transferred to PRA	–	(0.1)	(0.4)	–	**(0.5)**
Charge for year	2.9	8.9	1.5	–	**13.3**
Disposals	(4.4)	(8.0)	(0.7)	–	**(13.1)**
Impairments	–	0.3	–	–	**0.3**
At 31 March 2014	**11.6**	**32.5**	**7.1**	**–**	**51.2**
Charge for year	2.9	9.1	1.5	–	**13.5**
Disposals	–	(9.4)	(0.1)	–	**(9.5)**
At 31 March 2015	**14.5**	**32.2**	**8.5**	**–**	**55.2**
Net book value					
At 31 March 2014	**10.9**	**15.9**	**7.1**	**5.9**	**39.8**
At 31 March 2015	**9.1**	**10.3**	**6.1**	**7.0**	**32.5**

Of the net book value of work in progress at 31 March 2015 of £7.0m, £3.0m relates to ISIP.

11. Current assets

	Notes	Consolidated Total 2015 £m	FCA (Parent Company) Total 2015 £m	Total 2014 £m
Fees receivable		6.0	6.0	2.3
Net penalties receivable		3.3	3.3	13.8
Other debtors		1.2	1.2	1.0
Prepayments and accrued income		9.5	9.5	17.1
Trade and other receivables		**20.0**	**20.0**	**34.2**
Cash deposits		–	–	27.1
Cash deposits: on behalf of the Exchequer		–	–	67.8
Cash		11.8	11.8	0.8
Cash: OFT rebate scheme		0.3	0.3	7.2
Cash and cash equivalents		**12.1**	**12.1**	**102.9**
Intercompany receivable – PSR		–	11.0	–
Current tax asset	8/11	–	–	0.4
Total current assets		**32.1**	**43.1**	**137.5**

The average credit period is 33 days (2014: 34 days).

All of the fees and other receivables have been reviewed for indications of impairment. Certain fee receivables were found to be impaired and a provision of £0.3m (2014: £0.5m) has been made for the estimated irrecoverable amounts from fees invoiced. This provision has been determined by reference to past default experience.

Penalties receivable were also reviewed for impairment and a provision made as set out below. These provisions are offset against the amounts receivable.

	Consolidated Total 2015 £m	FCA (Parent Company) Total 2015 £m	Total 2014 £m
At 1 April	23.3	23.3	15.5
(Decrease)/increase in provision for financial penalties	(6.0)	(6.0)	7.8
Total at 31 March	**17.3**	**17.3**	**23.3**

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Net penalties receivable – consolidated and parent company

	2015 £m	2014 £m
Penalties receivable at 1 April	37.1	59.8
Penalties issued during the year	1,409.8	420.9
Write-offs during the year	(9.3)	(11.5)
Penalties collected during the year	(1,417.0)	(432.1)
Penalties receivable	**20.6**	**37.1**
Provision for bad debts	(17.3)	(23.3)
Net penalties receivable at 31 March	**3.3**	**13.8**

Penalties collected during the year – consolidated and parent company

	2015 £m	2014 £m
Penalties to be returned to fee payers	42.6	39.1
Penalties payable to Exchequer	20.6	77.2
Penalties paid to Exchequer	1,363.2	318.2
Underpayment to Exchequer from previous years	(9.4)	(2.4)
Penalties collected during the year	**1,417.0**	**432.1**

The PSR did not issue any penalties during the period ending 31 March 2015.

Included in trade and other receivables balances above are amounts due from government bodies as follows:

	Consolidated	FCA (Parent Company)	
	Total 2015 £m	Total 2015 £m	Total 2014 £m
Balances with other central government bodies	–	–	–
Balances with local authorities	–	–	5.2
Balances with public corporations and trading funds	2.5	2.5	0.4
Intra-government balances	**2.5**	**2.5**	**5.6**
Balances with bodies external to government	17.5	17.5	28.6
Total trade and other receivables	**20.0**	**20.0**	**34.2**

In addition, some of the unimpaired fee receivables are past due as at 31 March 2015. The age of fee receivables past due, but not impaired, is as follows:

	Consolidated	FCA (Parent Company)	
	Total 2015 £m	Total 2015 £m	Total 2014 £m
Not more than three months	1.3	1.3	0.1

Our policy is to review receivables systematically for recoverability when they are more than three months past due.

Cash and cash equivalents comprise cash and short-term fixed-rate bank deposits with a maturity date of 12 months or less. The carrying amount of these assets approximates to their fair value.

Intercompany receivable is based on a provision of services agreement between the FCA and PSR which sets out the services supplied and the respective costs of those services. The costs are based on charges the FCA incurs and have been eliminated in the consolidated figures.

12. Current and non-current liabilities

12.1 Current liabilities

	Consolidated	FCA (Parent Company)	
	Total 2015 £m	Total 2015 £m	Total 2014 £m
Trade creditors and accruals	76.2	75.7	75.6
Other taxation and social security	10.6	10.6	8.7
OFT rebate scheme	0.3	0.3	7.2
Net penalties payable	70.4	70.4	130.1
Fees received in advance	24.6	24.6	3.2
Trade and other payables	**182.1**	**181.6**	**224.8**
Short term provisions	0.5	0.5	2.7
Total current liabilities	**182.6**	**182.1**	**227.5**

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and on-going costs. The average credit period taken for trade payables is 26 days (2014: 27.5 days). The directors consider the carrying amount of trade payables approximates to their fair value.

Net penalties payable – consolidated and parent company

	2015 £m	2014 £m
Penalties to be returned to fee payers	42.6	39.1
Penalties under-released to fee payers[1]	3.9	–
Penalties payable to Exchequer	20.6	77.2
Net penalties receivable	3.3	13.8
Net penalties payable	**70.4**	**130.1**

1 Each year the FCA returns the retained penalties to firms via reduced fees. Firms that penalties are levied against are excluded from this process resulting in variances particularly where large penalties are issued to firms that pay larger fees. Any variance arising is used to reduce fees in the following year.

Included in trade and other payable balances above are amounts due to government bodies as follows:

	Consolidated	FCA (Parent Company)	
	Total 2015 £m	Total 2015 £m	Total 2014 £m
Balances with other central government bodies	39.9	39.9	107.9
Balances with local authorities	5.3	5.3	4.7
Balances with public corporations and trading funds	3.8	3.8	0.6
Intra-government balances	**49.0**	**49.0**	**113.2**
Balances with bodies external to government	133.1	132.6	111.6
Total trade and other payables	**182.1**	**181.6**	**224.8**

As at 31 March 2015, the consolidated and parent company current liabilities have contractual maturities which are summarised below:

	Within 6 months		6 to 12 months	
	2015 £m	2014 £m	2015 £m	2014 £m
Trade creditors and accruals	72.3	80.3	4.2	2.5
Fees received in advance	24.6	3.2	–	–
Other liabilities	76.9	141.5	4.1	–
Total	**173.8**	**225.0**	**8.3**	**2.5**

Other liabilities maturing within 6 months include £0.5m for the PSR.

12.2 Non-current liabilities – consolidated and parent company

As at 31 March 2015, the non-current liabilities measured at amortised cost, have contractual maturities that are summarised below:

	1 to 5 years		Later than 5 years	
	2015 £m	2014 £m	2015 £m	2014 £m
Lease accrual	9.0	10.7	–	–
Long term provisions	2.2	2.2	–	–
Total	**11.2**	**12.9**	**–**	**–**

The lease accrual of £9.0m (2014: £10.7m), being the cumulative difference between cash paid and expense recognised on operating leases for land and buildings, is recognised as a long-term liability. Details of the FCA's operating leases are set out in note 17.

13. Losses and Special Payments – consolidated and parent company

The Accounts Direction from HMT requires a statement showing losses and special payments by value and by type where they exceed £300,000 in total, and those individually that exceed £300,000 for the year to 31 March 2015 only (no comparative figures required). This disclosure does not include losses already reflected in the financial statements such as provisions for bad debts and penalties receivable, bad debt write-offs or asset impairments.

Losses statement – consolidated and parent company

	2015 Cases	2015 £m
Constructive loss	1	3.2
Other	1,214	0.2
Total	**1,215**	**3.4**

In May 2014, the FCA entered into a one year contract to purchase a number of software licences. The contract involved the FCA making a prepayment in order to secure the licences at a significant discount to the list price. Utilisation of these licences by the FCA has not materialised as originally anticipated and thus £3.2m of the prepayment has been written off as a constructive loss. The contract expired in May 2015 and is not being renewed.

Other includes a pension contribution / other benefits calculation error affecting a large number of employees. This issue has since been rectified.

Special Payments – consolidated and parent company

	2015 Cases	2015 £m
Staff payments	27	0.3
Regulated firm payments	22	0.1
Total	**49**	**0.4**

There were no individual items over £300,000.

14. Credit facilities - consolidated and parent company

The FCA currently has a £50m unsecured overdraft facility with Lloyds Banking Group (LBG) available until further notice and reviewed periodically by LBG. The PSR does not have its own credit facilities currently.

15. Retirement benefit obligation - consolidated and parent company

The FCA operates the FCA Pension Plan (the Plan) which has both a defined benefit section (the Final Salary Section) and a defined contribution section (the Money Purchase Section).

The Final Salary Section has no active members and the benefits of the deferred members are calculated based on their final pensionable salary as at 31 March 2010, when the Final Salary Section closed to further accrual.

The Money Purchase Section is part of a flexible benefits programme and members can, within limits, select the amount of their overall benefits allowance that is directed to their pension plan.

Final Salary Section

The most recent actuarial valuation of the Plan was carried out as at 31 March 2013 by an independent actuary (Towers Watson), using the projected unit method. The results of this valuation have been updated for the purpose of the IAS 19 retirement benefit as at 31 March 2015, in order to allow for any changes in assumptions and movements in liabilities over the period.

The major assumptions and dates used for the purpose of actuarial assumptions were as follows:

At 31 March	2015	2014
Discount rate	3.40%	4.40%
Retail price inflation (RPI)	3.05%	3.45%
Future pension increases	2.85%	3.10%
Plan membership census dates	31/03/2013	31/03/2013

The discount rate was chosen with reference to the duration of the Plan's liabilities (around 21 years) and takes into account the market yields for corporate bonds of appropriate durations.

In assessing the value of funded obligations, the mortality assumptions for the Plan are based on current mortality tables and allow for future improvements in life expectancy. The mortality assumptions for 2015 are based on CLUB VITA tables and reflect an update to the mortality improvements.

The table below illustrates the assumed life expectancies of staff in years when they retire:

	2015 Males	2015 Females	2014 Males	2014 Females
Retiring today aged 60 (years)	28.5	30.7	28.5	30.8
Retiring in 15 years aged 60 (years)	29.9	32.2	29.9	32.3

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 in pension obligation at 31 March 2015 £m	%
Present value of funded obligation	Assumptions as above – no change	727.9	–
Discount rate	10 bps decrease to 3.30%	14.4	2.0
Longevity	1 additional year of life expectancy at age 60	19.1	2.6
Inflation	10 bps increase to 3.15%	13.4	1.8

The amounts recognised in the statements of financial position are:

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Fair value of Plan assets	585.3	487.2	461.9	375.9	339.7
Less: Present value of funded obligations	(727.9)	(610.9)	(574.0)	(480.7)	(451.9)
Deficit in the Plan	**(142.6)**	**(123.7)**	**(112.1)**	**(104.8)**	**(112.2)**
Unfunded pension liabilities[1]	(3.0)	(2.7)	(2.6)	(2.3)	(2.3)
Net liability	**(145.6)**	**(126.4)**	**(114.7)**	**(107.1)**	**(114.5)**

1 A small number of current and former employees have benefit commitments that cannot be delivered entirely through the tax-approved scheme described above.

Amounts recognised in the statement of comprehensive income in respect of the defined benefit plan are as follows:

	2015 £m	2014 £m
Net interest on the net defined benefit liability	(5.0)	(4.7)
Other net finance costs	**(5.0)**	**(4.7)**

Actuarial losses of £33.4m (2014: £26.4m) are recognised in the period in which they occur as part of the statement of comprehensive income.

Cumulative actuarial losses recognised in the statement of comprehensive income:

	2015 £m	2014 £m
Losses at 1 April	(183.4)	(157.0)
Net actuarial losses recognised in the year	(33.4)	(26.4)
At 31 March	**(216.8)**	**(183.4)**

Changes in the present value of the defined benefit obligation are as follows:

	2015 £m	2014 £m
Opening obligation	(610.9)	(574.0)
Benefits paid	13.3	10.9
Interest cost on Plan liabilities	(26.6)	(25.8)
Actuarial losses	(103.7)	(22.0)
Closing obligation	**(727.9)**	**(610.9)**

Changes in the fair value of the Plan assets are as follows:

	2015 £m	2014 £m
Opening fair value of plan assets	487.2	461.9
Expected return on plan assets	21.6	21.1
Actuarial gains/(losses)	70.3	(4.4)
Contributions by the employer	19.5	19.5
Benefits paid	(13.3)	(10.9)
Closing fair value of Plan assets	**585.3**	**487.2**

The fair value of the Plan assets and asset allocation at 31 March:

	Asset allocation 2015 %	Fair value 2015 £m	Asset allocation 2014 %	Fair value 2014 £m
UK equity securities	11.0	64.4	12.0	58.5
Overseas equity securities	38.4	224.8	38.0	185.1
Corporate bonds	21.9	128.1	21.7	105.7
Index linked gilts	21.3	124.7	21.2	103.3
Fixed index gilts	0.1	0.5	0.1	0.5
Real estate/property	6.4	37.5	6.3	30.7
Other	0.9	5.3	0.7	3.4
Closing fair value of Plan assets	**100.0**	**585.3**	**100.0**	**487.2**

There are no deferred tax implications of the above deficit as there is an unused tax loss carried forward, details set out in note 8.

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.

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 (SSV) as at 31 March 2013 and requires an annual deficit contribution of £19.8m (£19.5m for the FCA and £0.3m for the Financial Ombudsman Service) to be paid over 10 years from 1 April 2013 with the aim of removing the Plan deficit.

In order to mitigate the risks of significantly increased future annual pension deficit funding contributions, the FCA has agreed with the Trustee a set of triggers whereby the level of exposure to equity securities will be reduced in favour of debt securities (i.e. corporate bonds and index-linked gilts). These triggers have been determined to identify material improvements in the Plan's funding position, measured relative to its long-term funding target.

Money Purchase Section (defined contribution)

The total expense recognised in the statement of comprehensive income of £20.0m (2014: £17.6m) represents contributions payable to the plan by the FCA at rates specified in the rules of the Plan.

16. Capital commitments - consolidated and parent company

The FCA had entered into contracts at 31 March 2015 for future capital expenditure totalling £6.4m (2014: £6.5m), which is not provided for in the financial statements. There were no capital commitments for the PSR.

17. Operating lease arrangements – consolidated and parent company

At the balance sheet date, the FCA had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2015 £m	2014 £m
Within one year	17.7	19.5
In the second to fifth years inclusive	43.8	60.2
After five years	–	0.3
Total	**61.5**	**80.0**

Operating lease payments include rentals payable by the FCA for certain of its office properties. The FCA's significant lease arrangement is for 25 The North Colonnade, Canary Wharf.

The PSR occupies the FCA's building and has no lease commitments of its own.

18. Related party transactions - consolidated and parent company

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 includes the chairman, executive board members and directors that report directly to the CEO and COO. This includes senior management acting in the role of director for more than 3 months. Of this group, 16 (2014: 12) personnel received remuneration of £100k or more for the year.

	Consolidated	FCA (Parent Company	
	2015 £m	2015 £m	2014 £m
Short-term benefits	4.8	4.6	3.6
Post-employment benefits	0.4	0.4	0.4
Termination benefits	0.1	0.1	-
Total	**5.3**	**5.1**	**4.0**

Two members of the board, Amanda Davidson and Sir Brian Pomeroy held directorships with FCA regulated firms. Amanda Davidson was a director of Baigrie Davies & Company Ltd during the financial year and resigned on the 30 April 2015. Sir Brian Pomeroy is a non-executive director of QBE Insurance Group Ltd. The group itself is not a regulated entity but some of its subsidiaries are FCA regulated. Their respective remuneration is disclosed in the remuneration table.

There were no other transactions with key management personnel in either 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 (FSCS), the Financial Ombudsman Service (the ombudsman service) and the Money Advice Service (MAS) can carry out their functions. The FCA has the right to appoint and remove the directors of these organisations. However, the appointed directors have to exercise independent judgement in accordance with the Companies Act 2006. IFRS10 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.

a) The Financial Services Compensation Scheme Limited

During the year, the FCA provided an agency service to FSCS to collect tariff data, issue levy invoices and collect levy monies on its behalf. The charge for the service in 2015 was £0.3m (2014: £0.4m). The net amount of fees collected that remained to be paid over by the FCA to FSCS at 31 March 2015 was £2.0m (2014: £0.4m).

b) The Financial Ombudsman Service Limited

During the year, the FCA provided an agency service to the ombudsman service to collect tariff data, issue levy invoices and collect levy monies on its behalf. The charge for the service in 2015 was £0.1m (2014: £0.1m). The net amount of fees collected that remained to be paid over by the FCA to the ombudsman service at 31 March 2015 was £0.9m (2014: £0.1m).

The FCA is a guarantor to a lease agreement for the FOS's new premises in Exchange Tower, Harbour Exchange, London, E14. The lease is for a 15 year term commencing 1 September 2014.

The ombudsman service is also a participating employer in the FSA Pension Plan described in note 15 and makes contributions at the same overall rate as the FCA.

c) Money Advice Service

During the year, the FCA provided an agency service to MAS to collect tariff data, issue levy invoices and collect levy monies on its behalf. The charge for the service in 2015 was £0.1m (2014: £0.1m). The net amount of fees collected that remained to be paid over by the FCA to MAS at 31 March 2015 was £1.4m (2014: £0.2m).

d) The Prudential Regulation Authority (PRA)

In April 2013, the FCA entered into an agreement with the PRA to provide services under a Provision of Service Agreement (PSA). This includes issuing invoices and collection of levy monies, the provision of: information systems, enforcement and intelligence services, contact centre and data migration. The annual charge for these services in 2015 was £7.7m (2014: £7.6m).

The net amount of fees collected that remained to be paid over by the FCA to the PRA at 31 March 2015 was £2.4m (2014: £0.3m).

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, 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 2016.

The FCA funds the activities of the OCC through the periodic fees it raises. During 2014/15, the FCA transferred £0.6m (2014: £0.6m) to the OCC to cover running costs, which have been expensed in the FCA's statement of comprehensive income. At 31st March 2015, the balance owing to the FCA from the OCC was £0.1m (2014: £0.1m).

The FCA acts as guarantor to the lease agreement for the OCC's premises. The lease is due to end in October 2016.

By virtue of certain provisions contained in FSMA, the FCA (together with the Bank of England and HMT) has the right to appoint and remove the Complaints Commissioner, who is both a member and a director of the company. However, the scale of the activities of the OCC is immaterial compared to those of the FCA and has been accounted for at fair value through the statement of comprehensive income.

19. Notes to the cash flow statement

	Notes	Consolidated Total 2015 £m	FCA (Parent Company) Total 2015 £m	FCA (Parent Company) Total 2014 £m
Deficit for the year from operations		(36.4)	(24.9)	(2.9)
Adjustments for:				
Interest received on bank deposits		(0.9)	(0.9)	(0.8)
Amortisation of other intangible assets	9	32.4	32.4	29.0
Impairment of intangible assets	9	–	–	1.4
Loss on disposal of intangible assets	9	–	–	0.3
Depreciation of property, plant and equipment	10	13.5	13.5	13.3
Impairment of tangible assets	10	0.1	0.1	0.3
Loss on disposal of property, plant and equipment	10	–	–	2.0
(Decrease)/increase in provisions	12	(2.2)	(2.2)	4.9
Difference between pension costs and normal contributions	15	5.0	5.0	4.7
Payments made on unfunded pension liability	15	0.4	0.4	0.1
Additional cash contributions to reduce pension scheme deficit	15	(19.5)	(19.5)	(19.5)
Operating cash flows before movements in working capital		**(7.6)**	**3.9**	**32.8**
Decrease in receivables	11	15.4	4.4	35.9
Decrease in payables	12	(44.4)	(44.9)	(342.5)
Net cash used by operations		**(36.6)**	**(36.6)**	**(273.8)**

20. Events after the reporting period

On the 20 May 2015 the FCA signed an Agreement for Lease with Lendlease to move to the International Quarter in Stratford. The lease is for 20 years commencing in April 2018. The building, once constructed, will provide the FCA with 425,000 square feet of office accommodation. Building works are expected to commence in July 2015 and the FCA will start to incur fit-out costs in late 2016 as part of preparing the building for occupation.

Appendix 1 Skilled Person Report

Introduction

Section 166 of FSMA (s166) gives the FCA the power to obtain an independent view of aspects of a firm's activities that cause us concern or where we require further analysis. Appointment of the skilled person firm(s) can either be by the regulated firm, or (under the Financial Services Act 2012), directly by the FCA. In each case, the FCA sets the scope of the review and the costs are borne by the regulated firm.

Key activities

In 2014/2015, we used the s166 power in 53 cases of which 13 were contracted directly by the FCA. The total estimated cost to regulated firms for these 53 reviews was £38.3m with the median cost of reviews being £119,208; and with the average cost of these reviews being £722,229. The total cost of the 13 reviews where the FCA contracted directly with the skilled person was £1.8m. These costs are comprised of actual costs incurred by the firms and estimates where actual costs are not yet available.

The reviews examined a number of regulatory concerns including:

- past business and quality of advice
- adequacy of systems and controls, including the effectiveness of control functions
- corporate governance and senior management arrangements
- financial crime
- client money and client asset arrangements
- data and IT infrastructure

During 2014/15, the following skilled person firms were appointed to undertake s166 reviews:

- ATEB Business Solutions Ltd
- BDO LLP with Oxera
- Bovill Limited
- Broomfield and Alexander
- Deloitte LLP
- Ernst & Young LLP
- Eversheds LLP
- Grant Thornton UK LLP
- Hallidays
- Hogan Lovells International LLP
- Kinetic Partners LLP
- KPMG LLP
- Mazars LLP
- Moore Stephens LLP
- Promontory Financial Group
- PricewaterhouseCoopers LLP
- The Consulting Consortium

Metrics

The following table summarises which Lots[1] have been used over the past 12 months by conduct category:

Lots	Firm classification[2]				Total
	C1	C2	C3	C4	
Client Assets	3	0	0	5	**8**
Conduct of Business	1	3	7	18	**29**
Governance, Controls & Risk Frameworks	0	4	3	3	**10**
Conduct of Business	1	3	7	18	**29**
Data & IT Infrastructure	1	0	0	0	**1**
Financial Crime	1	1	3	0	**5**
Total	**6**	**8**	**13**	**26**	**53**

The information quoted above relates to reviews commissioned solely by the FCA. For PRA and Bank of England information please refer to their publications.

In 2013/2014, the FCA commissioned 50[3] skilled person reviews. The total costs to regulated firms for these reviews, including the cost of a review specifically highlighted in the FSA's 2012/2013 Annual Report (where reliable cost estimate had been unavailable at the time), is currently estimated at £146.8m.[4] That 2012/2013 review constitutes a significant proportion of the total 2013/2014 cost figure.

1 Lots is a term used to describe the different subject areas in which a skilled person review can be carried out and details of the different Lots can be found at www.fca.org.uk/your-fca/documents/skilled-person-panel-lot-descriptions

2 Definitions of the FCA's firm classifications can be found at www.fca.org.uk/firms/being-regulated/fca-firm-classification

3 One skilled person review commissioned in 2013/14 and reported in that year's Annual Report has subsequently been cancelled. Therefore, the total number of reviews which led to work being undertaken in 2013/2014 is 49.

4 In the 2013/2014 Annual Report the estimated cost of all reviews was reported as £145.7m.

Appendix 2 Enforcement activity

Executive settlement

The settlement policy enables us to conclude cases by settling on the basis of an agreement by two settlement decision makers (SDM), one of whom may be Head of Department level, with the other settlement decision maker to be of at least director level. In practice, the SDMs are both usually directors. The key features of the executive settlement procedure are the direct involvement of our executive management, strict timescales and a financial discount.

Executive settlement allows us to secure prompt redress in consumer-related cases, send timely messages to the industry, and achieve swift and effective outcomes. This enables us to use resources more efficiently and achieve prompt change in industry behaviour. This is especially important in cases where we are attempting to address a thematic issue. By contrast, contested cases (which may be more complex and/or multi-party cases) typically have significantly extended timescales.

Executive settlement has many benefits, but we will only settle if we are satisfied that it delivers the right regulatory outcome. We recognise the importance and significance of our published outcomes and the need to demonstrate clarity and consistency. We therefore meet regularly with the RDC (which has no involvement in settled cases) to discuss the reasons for our decisions.

In 2014/15, 115 cases were closed (excluding threshold condition cases), as set out in the table in Appendix 2 of the 2014/15 Annual Report, and 39 of these closed cases were concluded by executive settlement (out of 45 cases where executive settlement was attempted). Cases may involve multiple parties and both firms and individuals.

Transparency

To support our commitment to being a transparent regulator, we provide details around the length and cost our Enforcement activities.

Regulatory and civil case length

Contested cases take a significantly longer time to resolve than settled cases. Average case lengths closed in 2014/15 show a reduction of average case length times as compared to 2013/14.

The figures in the table below reflect the average length of time a case takes from the date the case was referred to enforcement to the date of closure whether it was settled, or if it was referred on to the RDC or Tribunal. We also include the average length of our civil and regulatory cases.

Year	Average length of cases that concluded as a result of settlement (months)	Average length of cases referred to RDC (months)	Average length of cases referred to Tribunal (months)	Average length of all cases (months)
2012/13	19.6	37.8	50.1	24.2
2013/14	20.4	31.8	62.2	21.8
2014/15	16.1	29.1	54.8	18.5

Regulatory and civil case costs

The figures in the table below reflect the average cost of our civil and regulatory cases. The resource required for each particular case will vary depending on a number of factors including scale and complexity. The cost of regulatory cases we have conducted can range from around £250 to over £5m.

Year	Average cost of cases that concluded as a result of settlement (£000s)	Average cost of cases referred to RDC (£000s)	Average cost of cases referred to Tribunal (£000s)	Average cost of all cases (£000s)
2013/14	208.1	310.2	681.6	267.0
2014/15	241.0	310.7	322.4	246.8

Criminal case length

The figures in the table below reflect the average length of time for a criminal case. Criminal cases take a significantly longer time to resolve than regulatory cases.

Year	Average length of criminal cases in the Wholesale area (months)	Average length of criminal cases in the UBD area (months)	Average length of all criminal cases (months)
2013/14	36.0	26.7	34.0
2014/15	26.5	37.0	31.7

Criminal case costs

The figures below reflect the average cost of criminal cases closed in 2014/15. Generally, far fewer criminal cases are pursued in comparison to regulatory action. However, the costs for individual criminal cases can be significantly much higher than those for our regulatory cases.

Year	Average cost of criminal cases in the Wholesale area (£000s)	Average cost of criminal cases in the UBD area (£000s)	Average cost of all criminal cases (£000s)
2013/14	2173.7	1044.0	1922.6
2014/15	289.7	321.6	305.6

Feedback meetings

At the conclusion of a disciplinary enforcement case, we give those who have been investigated the opportunity to comment on the practical and procedural aspects of our enforcement process, and the impact of enforcement actions more generally. These feedback meetings focus on the handling of the case by our staff and decision makers, not on the substantive facts or outcome of the investigation.

The opportunity to give feedback on all disciplinary cases that have closed, including those that were settled or discontinued, has been available since 10 October 2005.

However, feedback is not available for all investigations, such as unauthorised activity investigations.

In 2014/15 we received feedback from 12 firms and individuals. The key themes raised include:

- In relation to the pre-referral process from Supervision to Enforcement, firms commented that they received insufficient notice about the possibility of an investigation.
- Firms felt that scoping meetings were useful in addressing concerns they had about the referral.
- Firms felt that Enforcement did not fully appreciate the time and costs associated with responding to information requirements, which sometimes were wide in scope and duplicated material previously provided to the FCA.
- To reduce the duration of interviews, firms felt that Enforcement staff could be more responsive to answers and pose direct questions sooner rather than follow set questions.
- Some firms felt that the investigation process took too long.
- In relation to the settlement process, firms raised concerns about the ability to resolve issues satisfactorily during the Stage 1 period.
- Firms felt that Enforcement staff were generally professional and worked in a collaborative manner.
- Firms commented that they made compliance improvements as a result of enforcement action.

We have considered the key themes raised and are working to ensure that we take forward the lessons learned in light of the recommendations made in the Treasury review of the institutional arrangements and processes for enforcement decision-making.

Data and analysis

Case movements

Issue	Open at 1 April 2014	Opened during year	Closed during year	Open at 31 March 2015
Authorisations	2	0	2	0
Client Assets	2	5	1	6
Financial Crime	6	10	4	12
Fraud	6	2	4	4
Integrity	27	21	15	33
Market Abuse	60	4	15	49
Mis-selling/Customer Care (2)	57	15	33	39
Transaction Reporting	4	2	4	2
UKLA (UK Listing Authority)	7	1	1	7
Unauthorised Activities (2)	43	8	19	32
Wholesale Conduct	43	16	17	42
Totals (excluding TCT cases)	**257**	**84**	**115**	**226**
Threshold Conditions Team (3) (including RDR cases/including RMAR cases (4))	20	259	235	44
TCT PSD Cases (5)	30	91	112	9
3MLD Cases (6)	8	5	11	2
Consumer Credit Cases (7)	0	16	12	4
UKLA Cases (8)	0	2	0	2
International Requests (9)	445	1095	862	299

1. Cases may involve multiple parties and include both firms and individuals.
2. The open cases at 1 April 2014 have been restated to exclude one Mis-selling/Customer Care firm case which was found to be redundant as we were investigating the individuals but not the firm, and one Unauthorised Activities case which was found to be related to a generic project rather than a specific investigation.
3. TCT (Threshold Conditions Team) cases involve regulated firms that fail to meet the FCA's minimum standards i.e. Threshold Conditions.
4. The RMAR (Retail Mediation Activities Return) enforcement project began in October 2005. It focuses on ensuring that firms comply with our requirement to submit electronic returns.
5. PSD (Payment Services Directive) cases involve enforcement action against firms failing to comply with the Payment Services Regulations.
6. 3MLD cases involve enforcement action against firms who fail to comply with the Money Laundering Regulations.
7. Consumer Credit Cases involve action against firms that fail to meet the FCA's minimum standards.
8. UKLA cases involve companies whose listing of securities have been suspended and we are seeking to cancel the listing of those securities
9. The number of requests open at 31 March 2015 is net of 379 requests that were referred internally to other departments, which may or may not have been closed in the period.

Tribunal Statistics

Type of cases / references	Live	Outcome		
		Tribunal Decision	Dismissed without substantive hearing	Withdrawn
TCT	4	0	0	1
Authorisation	1	0	0	0
Market Abuse	0	1	0	0
Regulatory	21	11	2	2
Totals	**26**	**12**	**2**	**3**

Note: this year we have included litigation before the First Tier Tribunal (i.e. for consumer credit cases) as well as our cases before the Upper Tribunal.

Once a Decision Notice has been issued by the RDC, the subject of the Notice may choose either to accept the outcome, in which case a Final Notice will be issued, or refer it to the Tribunal. The Tribunal is independent of the FCA and will consider the case afresh.

In 2014/15, the Tribunal published decisions in relation to 12 references made by firms and/or individuals. All decisions made following a substantive hearing of the reference by the Tribunal were found fully or partially in favour of the FCA. The Tribunal decided against the FCA in one case on a preliminary point as to whether the FCA should have given third party rights to an individual (a decision that is under appeal) and in another related case, a third party reference was allowed to be made out of time but is currently stayed waiting for the Court of Appeal's decision.

Published outcomes financial year 2014/15

In these charts the financial year of a fine or prohibition is based on the date it was publicised.

Figure 35: Total value of fines

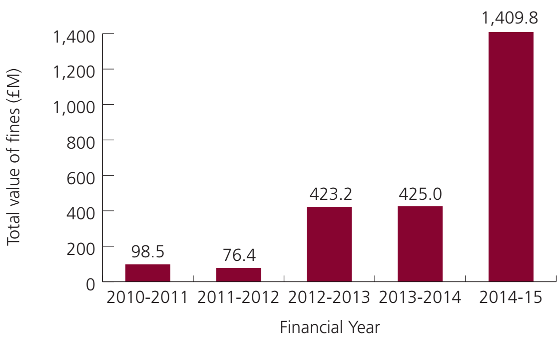


Figure 36: Number of fines

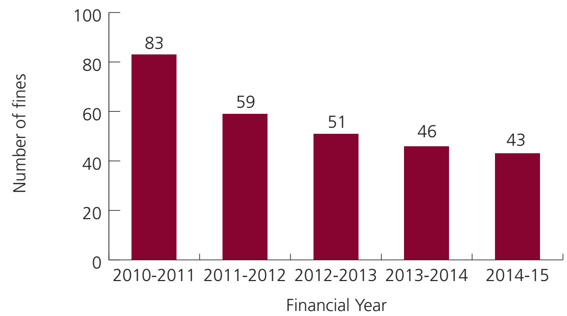


Figure 37: Number of prohibitions

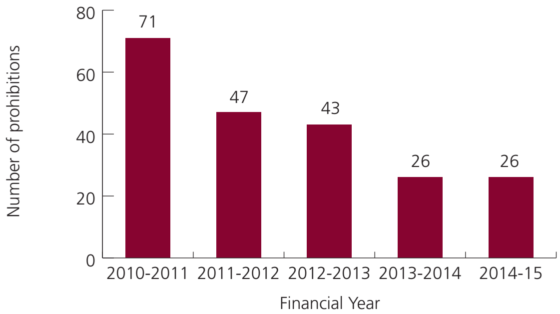


Figure 38: Use of powers – cases closed

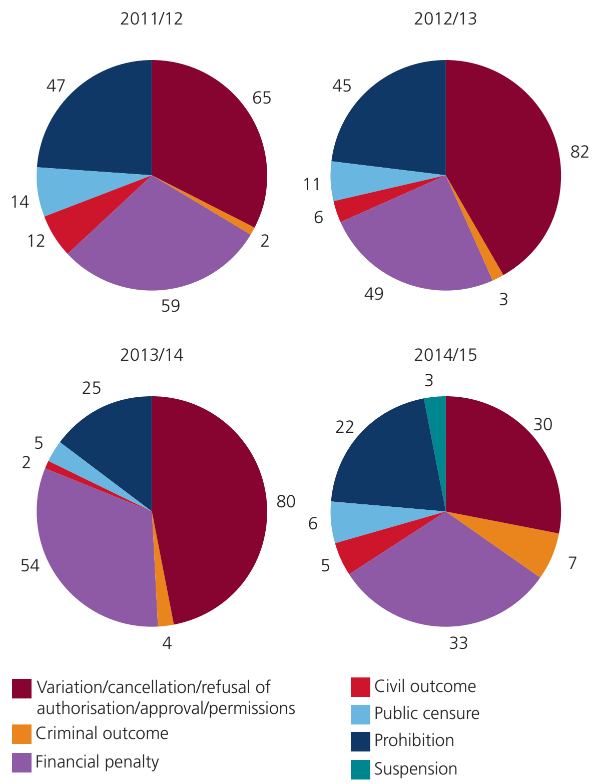
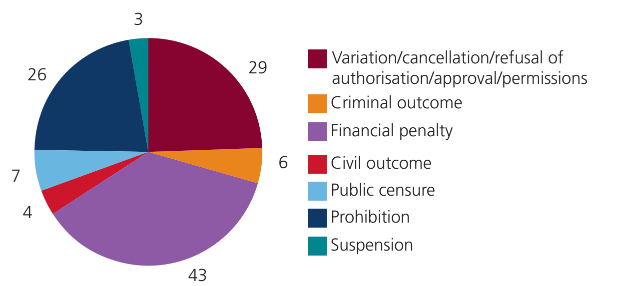
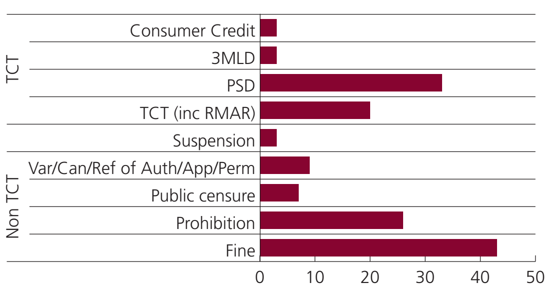


Figure 39: Use of powers – outcomes published 2014/15



Note 1: While the charts above detail the use of enforcement powers based on closed cases data, this chart shows the use of enforcement powers based on published outcomes in 2013/14, this includes TCT outcomes (including RMAR), but excludes PSD, 3MLD and Consumer Credit TCT cases.

Figure 40: Numer of outcomes published during 2014/15



Note 1: This bar chart shows the number of outcomes, split by TCT (including RMAR), PSD, 3MLD and Consumer Credit TCT outcomes, and other regulatory outcomes.

Note 1: In 2014/15, 177 cases were closed. 139 outcomes resulted from the use of powers. 9 private warnings were issued by Enforcement and 38 cases were closed with no further action being taken.

Note 2: PSD, 3MLD cases and Consumer Credit TCT are excluded from these graphs. RMAR cases are excluded from the 2011/12 to 2013/14 graphs, but included on the 2014/15 graph as RMAR cases are now merged with TCT cases on FCA systems.

Note 3: In these charts outcomes are counted in the financial year that the case is closed on FCA systems - this can differ to the year outcomes are published. In other charts the financial year is based on the date an outcome is publicised.

Note 4: The number of criminal outcomes (convictions) in this chart is based upon closed cases. Cases remain open while ancillary proceedings (such as confiscation and costs hearings) are ongoing. We publish details of convictions on our website.

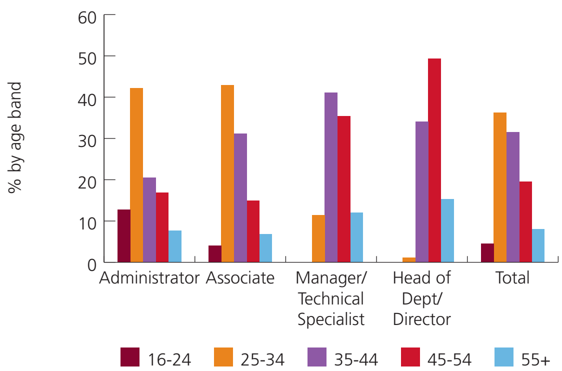
Appendix 3 Diversity

All employers and service providers have a responsibility under the law to treat their employees and service users fairly. The nine protected characteristics are the grounds upon which discrimination is unlawful and this appendix reports against each of them.

Doing this fulfils part of our Public Sector Equality Duty under the Equality Act 2010, however, our diversity and inclusion commitment goes far beyond meeting statutory obligations. We launched a new HR system in December 2014 with a revamped diversity questionnaire. We are encouraging employees to complete this to improve our understanding.

Age

Figure 41: Age



Our staff population is age diverse and well represented across our structure:

- more than 36% of our people are aged between 25-34 and work mainly across administrative and associate roles
- 35-44 year olds are represented consistently across the roles from associate to head of department / director (31-34%)
- the majority of heads of department and directors are within the 45-54 bracket
- 8% of our people are 55 and over

Gender reassignment

As part of our new diversity questionnaire, we now ask 'is your gender the same as your gender at birth'. We do not yet have enough respondents to state the numbers as the question is not mandatory.

Pregnancy and maternity

At present there are 82 women on maternity leave and 149 returned from maternity leave in this reporting period. This is an increase on last year when there were 72 women on maternity leave and 78 returned from maternity leave in the reporting period.

In September 2014 we launched a number of lifestyle policy changes, which included increases in maternity and adoption pay, paternity leave, time off for fertility treatment and a provision for surrogacy arrangements.

We also run quarterly pregnancy and parenthood clinics. These are drop-in sessions for pregnant women and new/expectant parents, including men. They provide an opportunity to discuss questions or concerns on parent related issues, flexible working, pay during maternity/paternity/adoption leave and other family friendly policies.

Marriage and civil partnership

We hold information for 36.5% of our people. Data confirms that across our employee population:

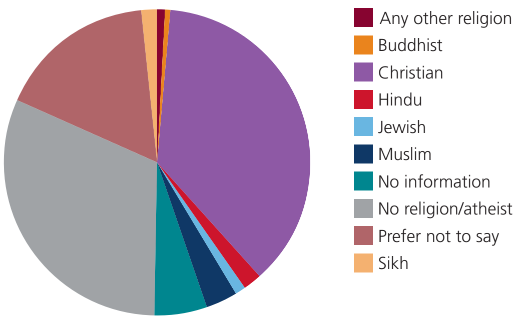
- 7.9% are single
- 27.1% are married/in civil partnerships
- 1.3% are divorced/widowed
- 0.2% are legally separated/other

Faith and belief

From our annual people survey, which took place in November 2014, we had a 78% completion rate and these people told us the following about their faith.

Religion	%
Any other religion	1.1
Buddhist	0.4
Christian	36.9
Hindu	2.1
Jewish	0.9
Muslim	3.4
No information	5.5
No religion/atheist	31.3
Prefer not to say	16.8
Sikh	1.5

Figure 42: Faith/Belief



The largest group is Christian at 36.9%.

Disability

In our last annual people survey, 4% of respondents said that they had a disability.

Diversity information is collected at all stages of the recruitment process, from application through to new starters. From this information we can confirm that 4.5% of applications that we received were from individuals who stated they had a disability

We remain committed to ensuring that we support people affected by mental and physical wellbeing issues and have a number of initiatives to deliver this commitment including:

- member organisation of national Two Ticks Scheme
- improved internal Workplace Adjustment Scheme as an end to end process
- support for the Staff Network Group Embrace in its representation of people affected by mental and physical wellbeing issues

Ethnicity

Figure 43 shows the ethnic breakdown of our people.

Figure 43: Ethnicity

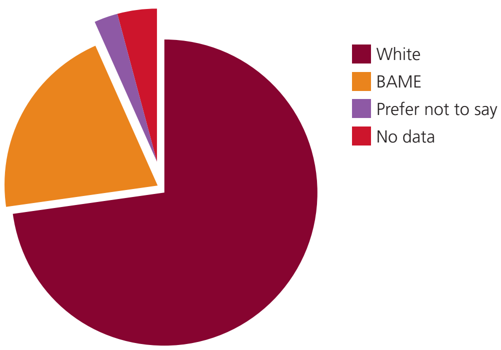


Figure 44 shows the breakdown of employees across all contractual grades, with the majority of Black, Asian and Minority Ethnic (BAME) employees in administrator and associate grades.

Figure 44: Structure by ethnicity

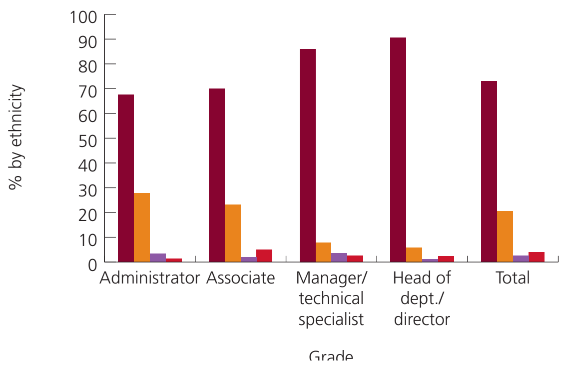
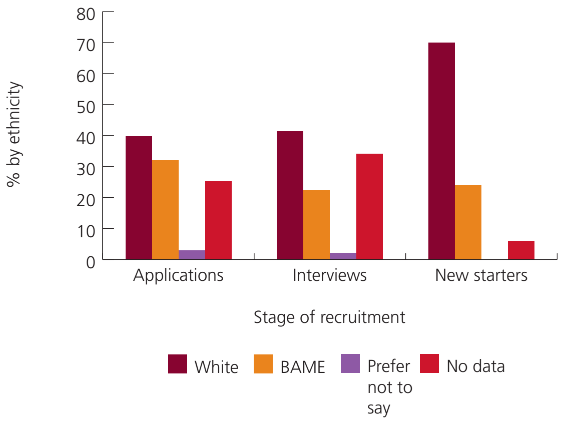


Figure 45: Recruitment by ethnicity



The recruitment data indicates a number of key findings:

- significant numbers do not state their ethnicity at application stage (28%) and interview stage (36%)
- 24% of our new starters were from the BAME community, which is 3.5% above our current headcount of 20.5% BAME employees.

We are exploring ways in which we can encourage people to state their ethnicity during the application process so we can better understand and support them.

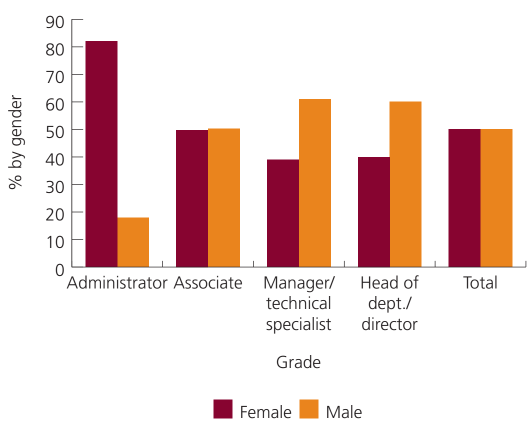
22.5% of promotions made in 2014/15 were from the BAME community, 2% above our 20.5% BAME employees.

Sex (Gender)

The overall gender split in the FCA is:

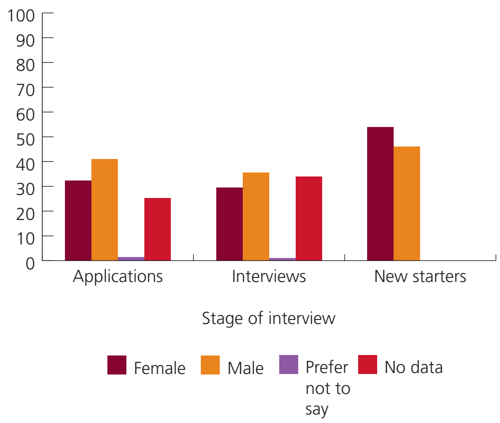
- Female – 50%
- Male – 50%

Figure 46: Structure by gender



Significantly more women (>80%) are employed in administrator roles than their male counterparts (<20%). Although there has been positive improvement in terms of women being promoted or recruited to mores senior roles, there are still more males than females at these levels.

Figure 47: Recruitment by gender

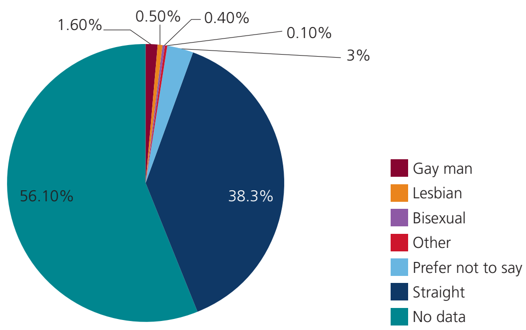


A significant number of applicants do not complete the gender question during the application process (26.5% at application and 35% at interview stage). In the past year our new starters were 54% female. 45% of people promoted in this period were female.

Sexual orientation

2.6% of our population stated their sexual orientation as LGB in 2014/15.

Figure 48: Structure by sexual orientation



We remain fully committed to supporting our people in feeling confident in stating their sexual orientation in the workplace. We are working closely with our Staff Network Group, InsideOut, to support and champion the rights and needs of our LGBT population. We remain active members of Stonewall as diversity champions and this year secured the position of 82 in the annual Workplace Equality Index Assessment.

It is not possible to report on recruitment or promotion data for the LBG population as declaration rates are too low.

Equality Impact Assessments (EIAs)

In 2014/15 there were 317 requests for advice to the Corporate Responsibility Team. Of these, 79 EIAs were completed (25% of decisions required an EIA following equality analysis). This has risen from 237 requests and 65 EIAs in the previous year.

In Focus – EIAs in action

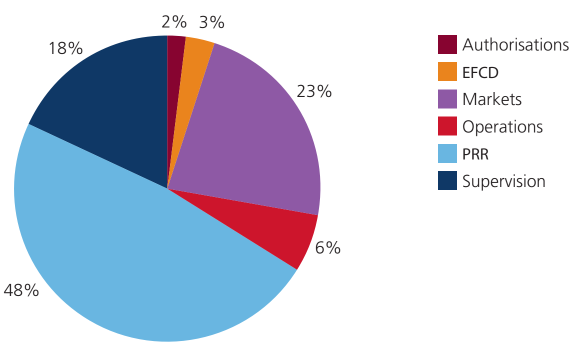
In our consultation paper in February 2015 on consumer credit – which proposed changes to our rules and guidance, we included an annex on EIAs.

Our credit broking rules, which we made without consultation under section 138L FSMA, did not require us to include an analysis of the equality impacts of those rules. However, we voluntarily published an assessment in the paper. Our initial finding, based on previous data collected on the high-cost short-term credit price cap, was that our credit broking rules affect users of HCSTC and our previous research shows these users are more likely to be male and from black and minority ethnic groups. As such, these groups may benefit from our rules.

We conducted an initial EIA to be sure that our proposed changes would not negatively impact any groups, paying particular attention to issues relating to gender and race in line with our existing evidence.

The EIA process is ongoing, and will not be completed until we develop and publish our final rules and guidance. In the consultation we have asked 'Do you agree with our initial assessment of the impacts of our proposals on the protected groups? Are there any potential impacts we should consider?'

Figure 49: EIAs - request for assistance by division



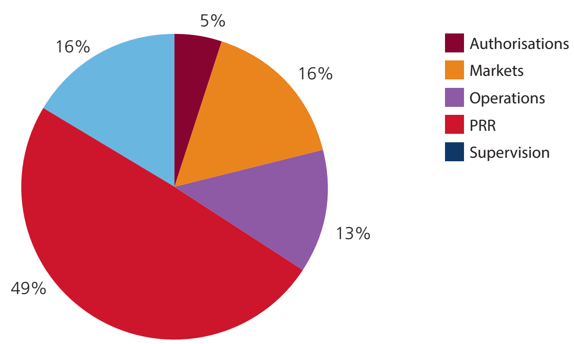
In Focus – Where we are making a difference

In July 2014 we published the consultation paper 'Strengthening accountability in banking: a new regulatory framework for individuals'. This outlines proposed changes to the way individuals working for UK banks, building societies, credit unions and PRA-designated investment firms are assessed and held accountable for the roles they perform.

As part of the EIA process, along with the PRA, we determined that we needed to allow more than one individual to perform a Senior Management Function or a function in scope of the Certification Regime at the same firm. Failure to do so might have meant that individuals who work as a job share arrangement would not have been accommodated in the new regime.

Together with a desire not to prescribe firms' business models unnecessarily, this concern about the impact on equality and diversity led us to reconsider our approach.

Figure 50: Completed EIAs by division



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