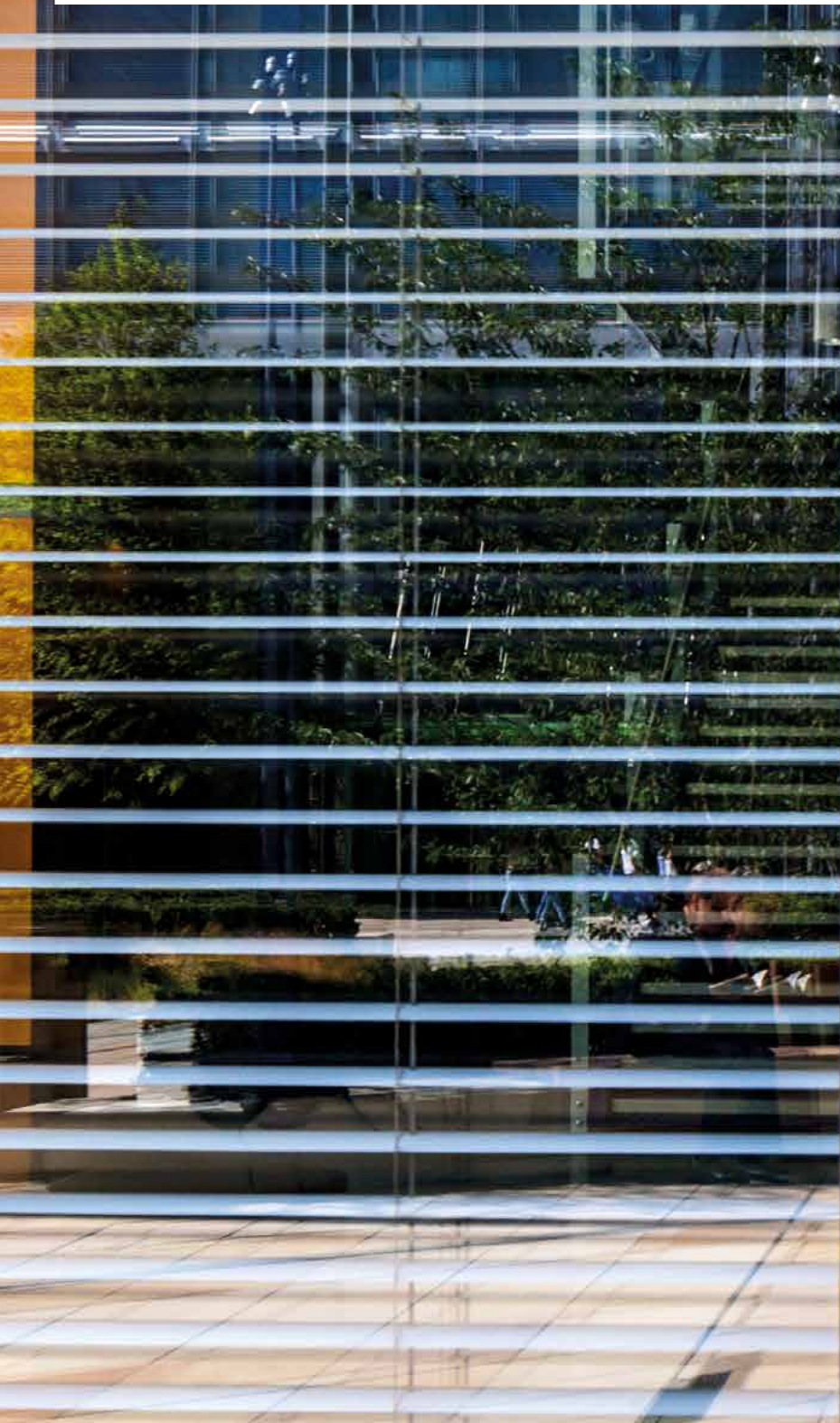


Annual Report and Accounts 2017/18

(for the year ended 31 March 2018)

HC 1202



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Financial Conduct Authority
Annual Report and Accounts 2017/18
(for the year ended 31 March 2018)

Presented to Parliament pursuant to paragraphs 11(4) and 15(3) of Schedule 1ZA of the Financial Services and Markets Act 2000 as amended by the Financial Services Act 2012 and the Financial Services (Banking Reform) Act 2013

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Chair's foreword

Charles Randell



Financial services affect the lives of everyone. And, as this Annual Report shows, keeping pace with the depth and breadth of developments in financial services can be a challenging balancing act. We must act swiftly and decisively to tackle harm to consumers, particularly the most vulnerable. In the process, we have to make some difficult choices, learn from what works and what doesn't – and be open about both.

Some of our priorities are beyond our immediate control. As our Business Plan for the next year explains, we will continue to devote a considerable part of our resources to Brexit.

At the same time, our remit continues to grow. This year, for example, we will take over the regulation of claims management companies. And, as this Report demonstrates, modern technology requires regulation that both keeps pace with current developments and anticipates their evolution.

Technology is key to delivering financial advice, products and services to meet society's changing needs. It can slash costs, join up information and services and offers access to financial services to new groups of consumers. Innovation so far

has barely touched the surface of what is, and will be, possible in the industry. But it remains a double-edged sword. It allows more people than ever to access essential financial services, but may also expose them to risk, including the risks of online fraud and unfair use of their data. There is also the risk that some consumers – vulnerable consumers – get left behind.

The FCA has been a consistent champion of FinTech and RegTech. Our advocacy and experience has encouraged regulators in other jurisdictions to follow suit. I hope and expect that the number of these joint programmes, both formal and informal, will grow. Not least because financial innovation on a global scale requires consistent standards of global regulation.

As financial services have become globalised, so has financial crime. Whatever shape Brexit eventually takes, maintaining and deepening our partnerships with international regulators and law enforcement agencies will remain vital. The UK is, and must remain, an inhospitable place for financial crime. Both because of the inherent damage this type of crime causes, and to ensure the UK remains a global centre for attracting and transacting

legitimate business. Financial crime cannot have a home here.

I look forward to meeting and working with firms and consumer groups over the coming years. Both will benefit from the FCA's move to our new Stratford office, which provides the technical infrastructure we need to regulate effectively. But moving to Stratford is more than simply moving buildings. We will be joining an existing community which is very different to that of Canary Wharf and we will be much closer to the consumers our work protects. We will work to ensure that we are a genuine part of that community, and support the people who live there.

Our move to Stratford is also a great opportunity to challenge ourselves to work differently: to be more collaborative across the whole of the FCA, streamline our processes, and be faster to

deliver fair outcomes. As Chair I will ensure that the FCA Board supports Andrew Bailey and his senior leadership team in doing this, and that the FCA challenges itself to build on its considerable achievements to be the best it can be.

I am honoured and delighted to have been appointed Chair of the FCA at a time in its history which is both challenging and full of possibilities. I would like to pay tribute to the work of my predecessor, John Griffith-Jones, who chaired the FCA in its first five years. I look forward to the next chapter in the FCA's development.



Charles Randell
Chair
Financial Conduct Authority



We have to make some difficult choices, learn from what works and what doesn't – and be open about both



Chief Executive's statement

Andrew Bailey



Welcome to our 2017/18 Annual Report. It shows what we have achieved against the priorities in our Business Plan. In line with Our Mission, it also seeks to explain both the direct and indirect impact our work has had on consumer protection, market integrity and competition in the firms and markets we regulate.

I hope it is also apparent that we have started to measure our impact and the public value we deliver in more meaningful ways. We will continue to make changes to the way we do this as we develop new ways of evaluating our actions and interventions.

While this Annual Report illustrates the wide range of our activities, there are three key areas that particularly define our work this year.

EU Withdrawal

The first is our ongoing work to prepare for the UK's withdrawal from the EU, which cuts across all of our functions. The resource we have devoted to this work is, and will continue to be, considerable. As well as providing ongoing technical assistance to the Government, we have worked with firms to understand their future operation plans and their impact, worked on the design of the proposed temporary

permissions regime for EEA firms currently operating in the UK and continued our close cooperation with the European Supervisory Authorities.

The European Council's agreement to the terms of a transitional arrangement earlier this year is very welcome. We support its implementation as part of the wider withdrawal agreement. It is important that markets and firms – and indeed regulators – have certainty. Our aim is to continue to work closely with EU regulators to deliver our joint objectives in the months and years ahead.

In the meantime, the UK Government has committed to legislate for a temporary permission regime. This gives EEA firms an important backstop to ensure they can operate as seamlessly the day after we leave the EU as they did before. It also provides important reassurance for consumers that the services they use from firms that choose to use the regime will continue uninterrupted. But it cannot currently provide the same assurance for customers in the EEA who use the services of UK firms, and we will continue to work with the EU to achieve this.

Regulatory change

While planning for a future outside the EU, UK firms and

their regulators must still continue to implement and embed all EU legislation affecting financial firms and markets. This year we have applied legislation which will have profound implications for firms' transparency, the way they treat consumers and, in some cases, even their business models.

MiFID II, which applied from 3 January 2018, presented firms with a challenging deadline, which the vast majority rose to. It addresses key drivers of harm from lack of transparency to operational resilience and we will support firms to ensure it is fully embedded across the industry over the next year. The second Payment Services Directive, also implemented in January, has the potential to revolutionise competition for consumers through open banking, as long as firms can assure consumers their data remains secure.

This year has also seen us implement or extend important domestic legislation and rule changes that will raise standards of conduct, transparency and security in the UK markets. In May 2017 we extended the Senior Managers and Certification Regime to non-executive directors. In advance of the Treasury's announcement about when the SM&CR will be extended to all the firms we regulate, we consulted on new rules that will drive up standards of individual

conduct at all levels in financial services.

Treating consumers fairly

Our work this year has sent a clear message to firms that if they do not treat customers fairly, then we will take action.

We now require credit card firms to help customers in persistent debt reduce their outstanding balances. Our new rules have reduced the costs and charges of workplace pension schemes to 1% or less. And we have also made new rules to better align the pay and rewards of staff in consumer credit firms with consumer outcomes. However, there is still a significant and ongoing amount of work needed to ensure consumers can be consistently confident in the financial products and services they rely on.

I would like to welcome Charles Randell as our new Chair, thank all my FCA colleagues who work so hard to deliver our increasing workload and the FCA Board for their expertise and challenge. Next year is certainly going to be an interesting one.



Andrew Bailey
Chief Executive
Financial Conduct Authority



Our work this year has sent a clear message to firms that, if they do not treat consumers fairly, then we will take action



1 Introduction

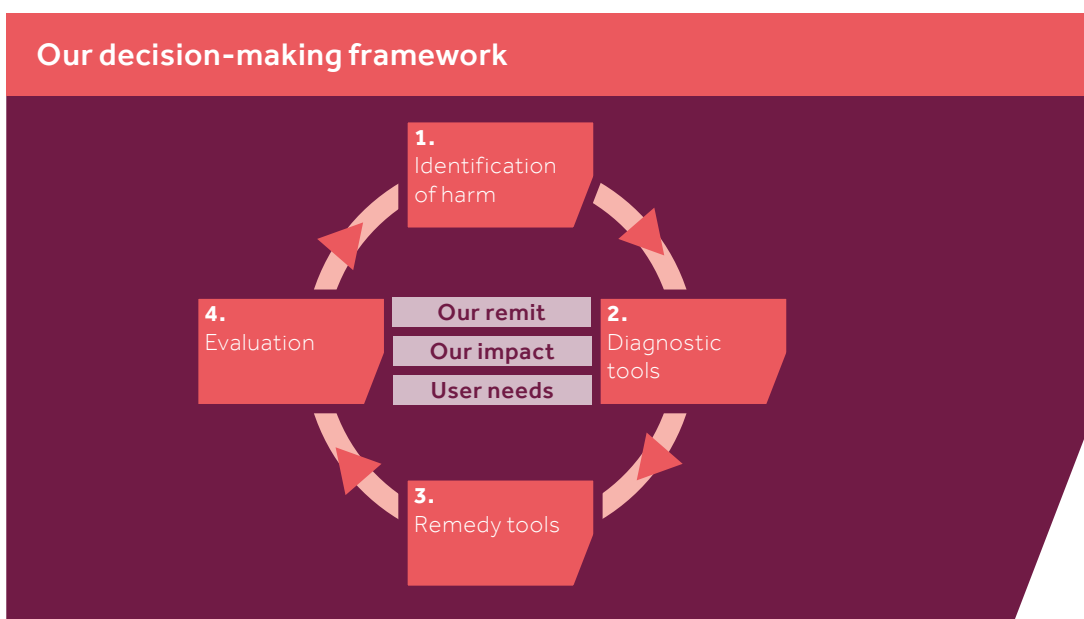
Our objectives, set by Parliament, ensure that we act in the public interest. The Financial Services and Markets Act 2000 (FSMA) gives us a single strategic objective – to ensure the markets we regulate function well. FSMA also gives us 3 operational objectives to advance this:

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

We are the conduct regulator for over 58,000 financial services firms in the UK and 145,000 approved persons.

We are also the prudential supervisor for approximately 46,000 firms. We set detailed standards for the largest 18,000 of these firms to meet. Even firms with no minimum financial resource requirements must still ensure they have adequate resources, according to our threshold conditions for authorisation or registration.

Our Mission, published in 2017, provides the framework for the strategic decisions we take to ensure that the markets we regulate function well. We concentrate our resources on the markets and firms that are most likely to cause harm to consumers, damage market integrity or weaken competition. This report outlines work we have done within key sectors to reduce harm over 2017/18. This reflects the structure of our Business Plan.



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

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

The examples listed throughout this report explain what we have done this year to prevent or reduce these types of harm and, therefore, to advance our operational objectives.

Our regulatory remit is wide. Between November 2017 and March 2018 we published 5 consultation documents to explain our approach to regulation in more detail. This is part of our Mission commitment to be more open and transparent about how we regulate and the way we take key decisions. Together, these documents provide examples of how we have advanced our statutory objectives. These consultation documents are:

- **Approach to Consumers** – This explained the way we regulate to improve outcomes for retail consumers, in line with our consumer protection objective. It provides our view on what good practice looks like and how we diagnose and remedy potential and actual harm.
- **Approach to Competition** – This set out how we deliver our objective to promote competition in the interests of consumers. It explains our focus on keeping markets open to entry and innovation, tackling anti-competitive conduct and intervening to ensure competition drives good consumer outcomes.
- **Approach to Authorisation** – This explained how we use authorisation as a tool to prevent harm occurring, including by ensuring that all regulated firms and individuals meet – and continue to meet – a common set of standards.
- **Approach to Supervision** – This detailed our principles of supervision, including our active, intelligence-led and data-driven approach to engaging with firms. It described how we look at business models, culture and drivers of firms' behaviour to ensure we take prompt and direct action against the harm we identify.
- **Approach to Enforcement** – This explained our aim for fair and just outcomes in response to misconduct, to ensure that firms meet our rules and requirements. It

sets out our overriding principle to provide substantive justice, and explains how we carry out investigations in a consistent and open-minded way. This work advanced our market integrity and consumer protection objectives.

We have sought feedback and comments on these documents and will publish final versions during 2018/19. Our focus is on driving forward work that reduces harm, working closely with our domestic and international partners, and keeping in mind our regulatory remit (our 'regulatory perimeter'). In the next financial year, we will also publish our Approach to Market Integrity.

Overview of regulatory activity

We use our powers to promote and deliver robust, practical rules and frameworks that help ensure the markets we regulate function well. We have set out below a few specific highlights from the year:

- We published Our Approach to Authorisation. In this reporting period, we processed 4,452 applications for authorisation from firms.¹ We processed 1,907 applications for approval of a change in control, 2,531 cancellations of permission and 391 individual waivers. We also varied 2,656 firms' permissions, processed 7,743 mutual societies' returns and 10,619 firms' applications for passporting.² This helps us prevent the spread of poor practice and helps us demonstrate how we have acted compatibly with our strategic objective to ensure markets work well.
- We supervise firms to prevent harm to consumers and markets, as explained in Our Approach to Supervision. We supervise 58,000 firms serving retail and wholesale consumers. Where we find that harm to consumers or society is likely, we take action.
- We have taken appropriate enforcement action, as outlined in our Enforcement Report. In 2017/18 we issued 269 Final Notices (248 against firms and individuals trading as firms and 21 against individuals), secured 317 outcomes using our enforcement powers (303 regulatory or civil and 14 criminal) and imposed 16 financial penalties totalling £69.9m. Our enforcement action included imposing our largest fine to date for a breach of the Disclosure and Transparency Rules where a firm failed to recognise that certain assets had substantially dropped in value, and failed to report that to the market in its half year results.
- Our Competition Report explains what we have done to promote competition in consumers' interests. We continued to work on several market studies during 2017/18. For example, some stakeholders in the wholesale insurance broker sector had concerns about the way that competition was working. We decided a market study was the best diagnostic tool to assess this, as it would provide perspectives from a wider range of stakeholders, rather than using our supervisory tools to address specific practices of individuals firms.
- We contributed to important initiatives to strengthen the UK's approach to anti-money laundering (AML) as outlined in our AML Report. This included implementing the EU's latest anti-money laundering directive through The Money Laundering,

1 This figure includes applications which were approved, rejected and withdrawn.

2 This figure refers to both new Passports and amendments to existing ones.

Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLRs 2017).

- Our [Diversity and Inclusion](#) programme is central to the way we act both as an employer and a regulator. We explain our approach to diversity in our Diversity Report.

Our regulatory principles and functions

Under FSMA, we have a number of functions. These include making rules, giving general guidance, supervising and authorising firms.³

When we exercise our general functions we take into account the following principles for good regulation:

- efficiency and economy
- proportionality
- sustainable growth
- the responsibility that consumers themselves have
- the responsibility of firms' senior management to comply with the regulatory framework
- recognising the differences in businesses carried on by different regulated persons
- openness and disclosure
- transparency

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

For example:

- Our Mission and the follow up 'Approach to' documents highlighted how we work and our approach to regulation, demonstrating transparency and openness by explaining the rationale behind our decisions.
- The deadline we have set for making a complaint about PPI, and the campaign we are running to prompt consumers to consider their position and act before the

³ The Financial Services and Markets Act 2000 ('the Act'), requires the Treasury, at least once in each Parliament, to make recommendations to the Financial Conduct Authority (FCA) about aspects of the economic policy of the government to which the FCA should have regard when considering how to act in a way which is compatible with its strategic objective; how to advance one or more of its operational objectives; how to discharge its duty to promote effective competition in the interests of consumers; the application of the regulatory principles set out in the Act; and the importance of taking action to minimise the extent to which it is possible for a business to be used for a purpose connected with financial crime.

deadline, highlights how we encourage consumers to take appropriate responsibility for their decisions. Our measures also demonstrated proportionality, particularly with regards to the costs to firms of the campaign and of handling fairly consumers' complaints and checking enquiries, as compared to the harm that mis-selling caused consumers and the benefits which the certainty of the deadline gives firms. The deadline and campaign also highlights how we encourage consumers to take appropriate responsibility for their decisions by asking them to decide now whether to check if they had PPI, complain, and to do so promptly.

- The launch of the Asset Management Authorisations Hub, demonstrates our commitment to sustainable growth. It also illustrates our recognition of the differences in businesses carried out by different regulated persons.
- The extension of the Senior Managers and Certification Regime (SM&CR) applies our conduct rules to non-executive directors. This highlights our continued work on senior managers' responsibility to comply with the regulatory framework.
- In terms of efficiency and economy, we have updated the way we report on our Service Standards, which show how efficiently we carry out specific internal processes. Our updated Service Standards document provides a better explanation of the link between the efficiency of our processes and outcomes.

Measuring performance

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

Tier 1: The efficiency of internal processes

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

We are committed to achieving value for money when we address harms and deliver our objectives. Our success at delivering public value depends on managing key risks around staffing and resources. We provide an explanation of how we manage these operational risks in the chapter on Corporate Governance.

Our Service Standards document provides measures of our service standards using a mix of voluntary commitments and statutory obligations. These standards cover areas including telephone enquiries, Freedom of Information Act requests and MPs letters. As our Mission explained, we wanted to explain outcomes more clearly and meaningfully. In September 2017, we updated this document to ensure it explains the link between outcomes and the efficiency of our processes better.

Tier 2: The impact of our interventions

This April we published for consultation [our approach to post-intervention evaluation](#). This explains how we will assess the effectiveness of key interventions every year. For smaller projects, we look at key measures or indicators that suggest the impact individual pieces of work have within the relevant sector or cross-sector theme.

Tier 3: Outcomes in the sectors we regulate

In this report, each of our cross-sector themes contains a 'measuring change' section to show whether or not drivers of harm under that theme are changing. We use a mixture of qualitative and quantitative methods to analyse progress within each theme.

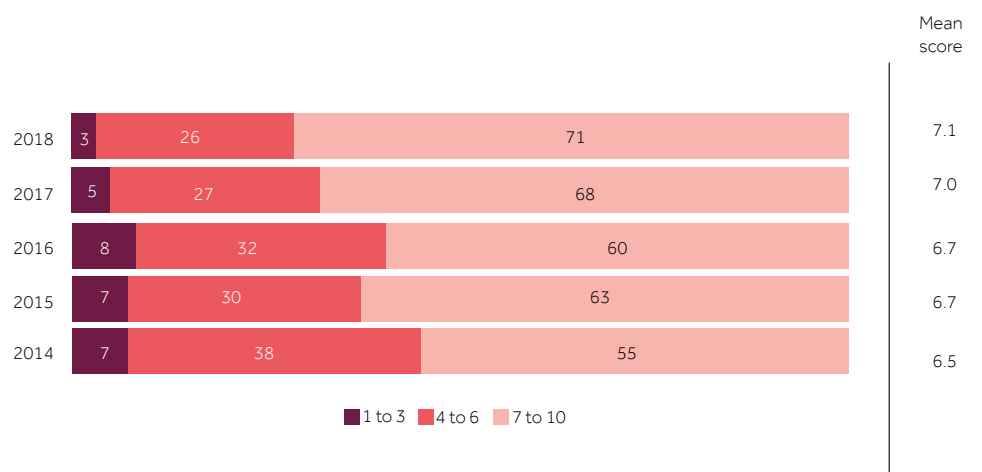
For each sector, we use 'outcome indicators'. However, these do not provide a complete evaluation of how effective our work has been, nor do they set targets. Instead, they tell us about the direction of travel for key harms and whether they are increasing or decreasing. Following feedback on how we could improve how we evaluate our work, this year we established a baseline for outcome indicators and will develop further indicators in the future. For example, where we use biennial data sources such as Financial Lives 2017, we now use additional sources to build a more detailed picture of outcomes over time.

Firm ratings on FCA as effective regulator

Between January and March 2018 we surveyed firms⁴ with the FCA's Practitioner Panel, asking them for views on the FCA, the effectiveness of the regulator, and satisfaction with the regulatory relationship.

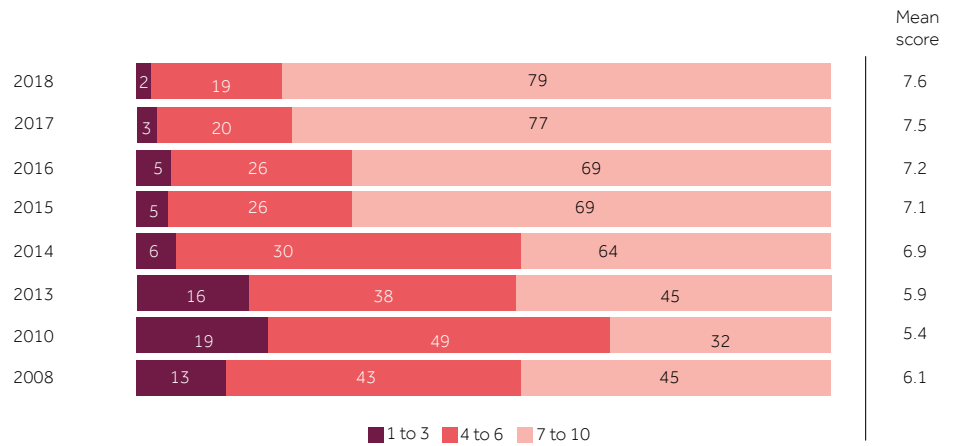
In this most recent survey, the mean overall score rating the FCA's effectiveness (Figure 1.1) increased from 7.0 out of 10 to 7.1. The mean overall score that rates satisfaction with the relationship with the FCA (Figure 1.2) also continues to improve; it rose from 7.5 out of 10 to 7.6.

Figure 1.1: Scores rating how effective the FCA has been in regulating the financial services industry in the last year (out of 10)



4 The FCA and Practitioner Panel survey was carried out using an online questionnaire. Just over 12,600 firms were sent a link inviting them to complete the questionnaire, with just over 2,800 responding. We structured the survey sample using the firm's Primary Business Category allocation. In addition, all the firms that came within the FCA's Fixed Portfolio regime were invited to complete a questionnaire, with a sample of other firms being selected. We also promoted the survey through a variety of channels including the FCA's Regulatory Round-up newsletter, Trade Associations and a postal invite.

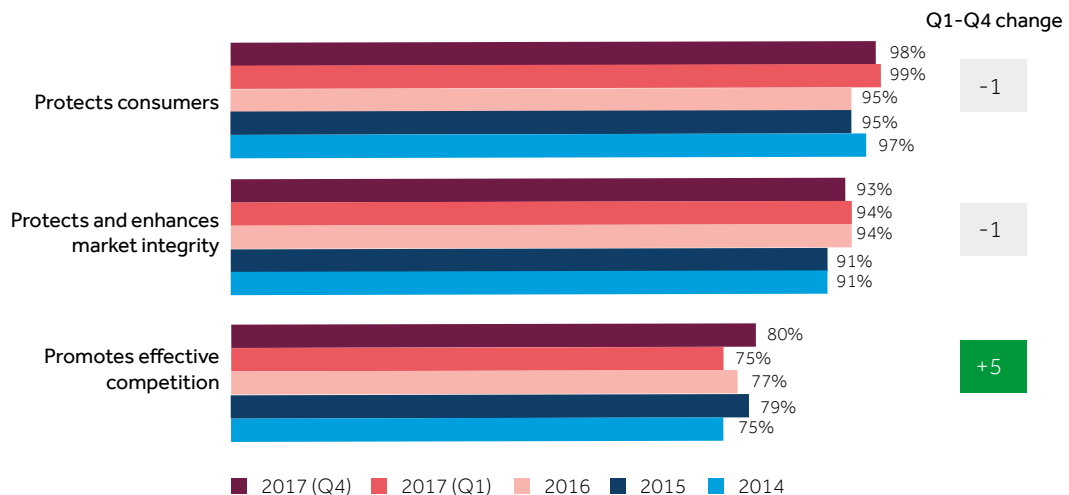
Figure 1.2: Scores rating satisfaction with relationship with the FCA (out of 10)



Feedback from our stakeholders

We commission independent research every year through BritainThinks. This asks a wide range of stakeholders – including trade bodies, consumer organisations, parliamentarians and the media – about how they perceive the FCA. The latest research suggests that our consumer protection and market integrity objectives continue to be viewed as more important than promoting effective competition. However, the proportion of respondents who view the FCA's competition objective as important has risen.

Figure 1.3: Perceived importance of each statutory objective for the FCA



2 EU Withdrawal

In our 2017/18 business plan, we identified work on the implications of EU Withdrawal as a key area of focus. We have dedicated significant resource to coordinating and managing the work on EU withdrawal across the organisation. We expect this work to increase in 2018/19.

Technical advice to the Government

We have been supporting the Government by providing technical assistance relating to EU withdrawal. This includes providing technical advice on the EU (Withdrawal) Bill introduced by the Government in July 2017 to transfer existing EU legislation into domestic rules.

Working with regulated firms

We have worked with regulated firms to understand their emerging plans for future operations and how these plans may affect markets and consumers. We have liaised closely with the Bank of England on dual-regulated firms and areas of joint responsibility.

Temporary Permissions Regime

In December 2017, the Government announced that, if necessary, it would legislate to give regulators powers to create a temporary permissions regime for EEA firms which are currently operating in the UK under passports resulting from EU legislation.

We have been working on the design for the temporary permissions regime and making the appropriate operational preparations. We provided additional information on the regime in public statements in [December 2017](#) and [March 2018](#).

International cooperation

We have continued our close cooperation with the European Supervisory Authorities, national competent authorities and other international regulatory authorities on our role and remit in relation to EU withdrawal, and on broader issues relating to cross-border financial services regulation.

3 Our cross-sector priorities

Firms' culture and governance

Effective culture and governance mitigate the risk of harm to consumers and markets.

We have been looking at what drives firms' behaviour. Our aim is to assess and address the key drivers of behaviour that are likely to cause harm from our perspective as a regulator – a firm's purpose, leadership, approach to rewarding and managing people and its governance arrangements.

We do not see the role of the regulator as being to set a single, acceptable culture. But we place a high priority on ensuring that individuals, especially senior managers, are accountable for their behaviours and are fit and proper for their roles. We also focus on ensuring remuneration and other staff rewards do not create the wrong incentives and that governance arrangements provide for firms to effectively identify and mitigate risks of harm and protect whistleblowers.

We also aim to stimulate debate and consensus on good practices and standards across, key sector stakeholders compatible with our strategic objective of ensuring the markets we regulate function well. Examples of the work we completed this year to advance our consumer protection and market integrity objectives are provided below.

Monitoring change

We have continued to focus on firms' progress in embedding key strands of our culture and governance priority, which includes accountability, delivered through the Senior Managers and Certification Regime (SM&CR) and remuneration.

The SM&CR is fully implemented in deposit takers and dual-regulated investment firms. We have received generally positive feedback from the industry, where it has led to clearer senior management accountability.

Our routine supervision of remuneration policies and practices in the level one firms (deposit takers and investment firms with total balance sheets over £50bn), found that they continue to embed conduct and culture in their remuneration measures and adjust awards to reflect material poor performance and misconduct.

Ensuring staff incentives do not drive behaviours that cause harm

We published new rules on how consumer credit firms should manage risks arising from the way they pay their staff and manage their performance. We also published additional, non-Handbook guidance to help firms identify features of their incentives

schemes or performance management that might harm consumers, whether through mis-selling or other poor conduct.

This guidance also provides suggestions for ways firms can manage these risks more effectively. The new rules will come into force on 1 October 2018. We subsequently intend to assess the impact of the new rules and guidance by reviewing how consumer credit firms have responded to them.

Accountability

The FCA and, for dual-regulated firms, the PRA and FCA, approve Senior Managers. The SM&CR is a key part of our culture and governance programme. It sets minimum common sense standards of conduct for financial services staff at all levels and clarifies Senior Managers' areas of responsibility. The regime makes it clear that every individual in a firm is responsible and accountable for their own behaviour and that Senior Managers are also responsible and accountable for taking reasonable steps to ensure good conduct in their areas of responsibility. Finally, the regime is designed to ensure that those individuals with the greatest potential to do harm are fit and proper. Firms are required to review annually other important individuals and certify that they are fit and proper.

In May 2017, we extended the regime to apply our conduct rules to non-executive directors. At the same time, we issued guidance to explain how we will enforce the Duty of Responsibility. This power allows us to take action against senior managers of SM&CR firms if they do not take reasonable steps to avoid a contravention happening, or continuing, in activities they are responsible for managing.

The SM&CR has applied to deposit takers and dual-regulated investment firms since March 2016. It is now embedded in our authorisation, supervision and enforcement processes, allowing us to identify and focus on key accountable individuals in these firms.

In 2016, Parliament gave us a duty to extend the SM&CR to most of the firms that we regulate. Last year, we published consultation papers on our proposed design of this extended regime and on how we propose to move firms and individuals to it.

Protecting and encouraging speaking up in firms

We have enabled more staff in firms to act as whistleblowers, to increase the level of valuable information we receive about actual or potential wrongdoing. Being a whistleblower is usually difficult. So we now offer all whistleblowers a meeting with us to build their trust and reflect the value we place on them. We know that whistleblowers can come to any part of the FCA with information, so we have also rolled out training to help all FCA staff recognise whistleblowers and treat what they tell us accordingly.

We use a range of whistleblowing data to show whether firms act appropriately on intelligence they are given and to be transparent about how we respond to incidents. This year we:

- Managed 1,106 cases from whistleblowers. Of these we reasonably believe that 649 are qualifying disclosures within our remit, 307 are not. We have not yet been able to determine whether 150 are or not.
- Decided to take further action on 121 disclosures we reasonably believed to be qualifying disclosures. We are still assessing a further 128 disclosures to determine if we should take further action.

Whistleblowing disclosures are a vital and unique source of information for us. They demonstrate that we have acted compatibly with our strategic objective to ensure relevant markets function well, and they help us deliver our operational objectives to protect consumers and the integrity of financial markets. They do this by helping us take enforcement action against firms and individuals, deliver effective supervision through our work with firms or thematic work, and better understand the behaviour of the firms we regulate.

Encouraging an active focus on firms' cultures

Firms' cultures shape conduct and can drive behaviours that harm consumers and markets. So we have encouraged firms to actively focus on their cultures in line with our objective to protect consumers. We have also undertaken a number of initiatives to try and provide thought leadership in this area, encouraging discussion from different perspectives to speed up the pace of cultural change.

For example, in March 2018, we published a discussion paper on transforming culture in financial services. The paper is a collection of 28 essays, giving views from industry leaders, academics and practitioners. We followed up the paper's publication with a conference to encourage broader debate on these topics.

A number of themes emerged from the conference, including the need to:

- ensure firms create environments of 'psychological safety', where speaking up becomes the norm
- ensure diversity and inclusion
- provide better support, capability-building and empowerment to 'squeezed' middle managers
- using our supervisory communications and challenge with firms to shape healthy cultures, given many participants' views on the limited role of further rules
- look at a broad range of incentives to shape behaviours, including those that go beyond remuneration and other financial incentives

We are reviewing the results of the conference to decide what next steps we should take in this work.

Report into the Royal Bank of Scotland Global Restructuring Group

In 2014, we appointed a Skilled Person under section 166 of the Financial Services and Markets Act 2000 (FSMA) to conduct an independent review of Royal Bank of Scotland's (RBS) treatment of small and medium-sized enterprise (SME) customers transferred to its Global Restructuring Group (GRG) between 2008 and 2013. The review was commissioned in response to allegations contained in a report published by Dr Lawrence Tomlinson and some of the recommendations following Sir Andrew Large's RBS Independent Lending Review (23 November 2013).

Commercial lending is largely unregulated in the UK, which means there were no 'conduct of business' rules against which to assess GRG's treatment of SME customers. The Skilled Person therefore assessed GRG against applicable legal and contractual requirements and the standards RBS set itself.

While we recognise there has been a high level of public interest in the Skilled Person's Report, we have clear legal obligations under section 348 of FSMA that require us to get the consent of everyone from whom we obtained information, and anyone else that the information relates to, before we are legally able to disclose the report. We are also required to give anyone criticised in the report a fair opportunity to respond to that criticism before publication.

We therefore concluded that the best way forward was to publish an extended summary of the report. Our guiding principle in drafting the summary was to balance our desire to give as much information as possible to small businesses and the wider public about the contents of the report with our obligation as a public authority to act fairly towards the potentially affected parties who have legal rights.

The Treasury Select Committee (TSC) commissioned an independent review by Andrew Green QC to determine if our draft final summary was true to the main report in substance and tone. His findings have been published by the TSC, which are that we were fair on both counts.

Following publication of our final summary in February 2018, and recognising the public interest in the full unredacted report, we began the process of seeking consent from the necessary people. However, the Treasury Select Committee considered this an exceptional case, and under Standing Order 152, required us to produce the full report to it, notwithstanding the provisions of section 348. It subsequently decided to use Parliamentary Privilege to publish the report.

We continue to investigate the matters arising from the Skilled Person's Report and will consider whether there is any basis for further action, noting that the majority of RBS GRG's activities were outside the regulatory perimeter and pre-date the Senior Managers and Certification Regime.

Financial crime and anti-money laundering (AML)

Financial crime harms society and the wider economy. It causes financial loss to victims, enriches criminals and supports serious criminal activity. The size and global nature of the UK financial industry mean that both money laundering, and the criminality that requires money to be laundered, present significant risks to the UK and undermine the integrity of the UK financial system.

Our aim is to make the UK financial markets hostile for criminals. We also want to ensure the UK's financial system is resilient against their activities and a safer place for customers. So when we design safeguards, we need to ensure they are proportionate, efficient, and minimise any unintended consequences of regulation.

We also want to reduce and prevent the harm caused by scams and to increase consumer awareness of the risks of fraud.

We provide more detail on our work to tackle money laundering in our Anti-Money Laundering Report.

Monitoring change in firms' AML controls

We have strengthened our AML supervisory work in recent years. Our initial work found serious weaknesses in some major banks and smaller firms. But recent findings have been encouraging. We have put an emphasis on ensuring that major banks recognise that AML is an issue that requires attention from senior management, and a strong tone from the top, though we know it will take time for all the improvements needed to filter throughout larger organisations. In smaller, higher-risk firms, we have seen signs of much better engagement by senior management, and resulting improvements in their AML controls.

In December 2016 we introduced our first financial crime return for firms to complete. In line with our market integrity objective, we have used these data this year to help identify firms with higher inherent money laundering risk and improve how we identify risks and trends in the industry.

We contributed significantly to the Financial Action Task Force's Mutual Evaluation Review of the UK's AML regime, which is due to be published towards the end of 2018. As we continue to review our approach to financial crime supervision, we will take into account this review's findings and lessons.

Implementing the Fourth Money Laundering Directive

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLRs 2017) came into effect on 26 June 2017. They update the UK's AML regime in line with the EU's Fourth AML Directive and bring in a stronger, risk-based approach to preventing money laundering. Before implementation, we consulted on proposals to ensure that our policies and procedures for the use of our powers under the MLRs 2017 were up to date, effective and proportionate. We issued a Policy Statement in July 2017.

Proportionate approach to politically exposed persons (PEPs)

In July 2017, we also issued guidance on how firms should treat customers who are defined as PEPs in the new MLRs 2017. The guidance makes clearer how firms should apply the definition to UK customers, and makes it clear that it is unlikely that a large number of UK customers would meet the definition. As a result, UK PEPs should be lower risk than PEPs from countries with high levels of corruption.

Ensuring high and consistent standards across AML supervision

In 2017, the government announced it would create an Office for Professional Body Anti-Money Laundering Supervision (OPBAS). OPBAS is housed within the FCA and started supervising professional body supervisors of AML on 1 February 2018. OPBAS will ensure a robust and consistently high standard of AML supervision across the legal and accountancy sectors and enable better intelligence sharing between the supervisors and law enforcement agencies.

Reducing harm caused by scams

Our ScamSmart campaign aims to give at-risk consumers knowledge and tools to stop them falling victim to investment fraud. It warns the over 55s about the signs of a scam and also promotes our Warning List. This is a tool that helps users find out more about the risks of an investment and search a list of firms we know are operating without our authorisation.

In January 2018 we launched a new phase of this campaign. It included advertising and social media activity, which we publicised through partners including banks, pension providers, consumer groups, other regulators and crime prevention organisations.

In total 445,000 users visited the ScamSmart site in 2017/18 and 53,000 checked an investment on the Warning List, up from 320,000 and 26,000 respectively in 2016/17.

Alongside our ScamSmart work, we continue to monitor, quantify and tackle cases of systemic pension mis-selling and fraud involving firms we regulate and unregulated firms that work with them.

This year, we have worked with the Treasury and the Department for Work and Pensions on legislative measures to combat pension scams, including a ban on pension cold calling. Recently, we announced we intend to collect data from all firms who hold our permission on pension transfers so that we can thoroughly assess how they are using this permission.

Intelligence and partnership working to stop financial crime

We continue to collaborate domestically and internationally with law enforcement agencies, the Government and other regulators to prevent financial crime. In particular, we are helping to develop and strengthen public and private sector partnership working to support the Government's economic crime reform programme. We also continue to contribute to the Government's Joint Fraud Taskforce.

Promoting competition and innovation

Our mandate to promote competition is the main reason for our work on Financial Technology, known as FinTech, which continues to transform firms' products and services. The growth in online-only banks, savings accounts and payments has changed consumers' expectations on price and delivery. Innovation has also made it much easier for consumers to shop around: over 25 million people used price comparison sites in 2016.⁵

At its best, innovation drives firms to compete to offer new, better value services. This increases choice, reduces industry costs and allows firms and consumers to communicate more directly. But it can also create harm. Consumers can find it hard to understand and choose between technologically complex services and products. As a result, they may buy unsuitable products or find themselves unable to assess investment risks accurately. The examples below illustrate how our work this year has advanced our competition objective.

We want to sustain a regulatory environment which helps consumers and firms to make the most of the opportunities that competition, innovation and big data offer, while preventing or reducing harm to help ensure that the markets we regulate function well. For example during 2017, our Advice Unit extended its scope to include firms developing automated advice models within the mortgage, general insurance and debt advice sectors. The Advice Unit now accepts firms that want to provide guidance instead of regulated advice, as well as firms that do not plan to seek authorisation. From this, we will be able to give regulatory feedback to firms offering a wider range of services. The Unit also now accepts applications throughout the year, rather than fixed application periods. This example illustrates how our work on competition is compatible with our strategic objective to ensure markets work well.

Following consultation, in December 2017 we also published guidance from the Advice Unit. This guidance shares insights from our work with firms so that the wider market can use the additional clarity on our rules.

Monitoring change

FinTech firms have to invest significant sums to bring their innovative concepts to market and ensure that they meet our regulatory requirements. This can act as a barrier to new entrants. Our regulatory sandbox, part of our wider Innovate programme, gives businesses of every size the opportunity to test if these concepts meet regulatory requirements before they invest in them further. It also gives consumers important safeguards and helps us to understand both the opportunities and harm that innovation can create.

We received 77 applications for the second phase of the regulatory sandbox, an increase in the numbers from the first phase (69). We also supported 24 firms to complete testing, which is short-term and small-scale. We have worked with the sandbox firms to agree the parameters of this testing to ensure consumer safeguards are built in.

⁵ <https://assets.publishing.service.gov.uk/media/58e224f5e5274a06b3000099/dcts-consumer-research-final-report.pdf> and www.ons.gov.uk/businessindustryandtrade/itandinternetindustry/datasets/internetusers.

We received 61 applications for the third phase of the regulatory sandbox and are currently supporting 18 firms to test their concepts. Awareness of our wider Innovate programme is growing, with over 1,000 requests for support since its inception. Roughly half of these reached our threshold criteria and have received support from us.

Market Studies

We have used market studies to advance our competition objective by assessing how a market works and whether it could work better. For example, during 2017/18 we have analysed competition in Asset Management, Wholesale Insurance Brokers and Credit Cards. More details are provided in relevant sector pages and our [Competition Report](#).

Influencing international innovation

The FCA's Innovate promotes the UK as a centre for innovation in financial services through its international engagement, by supporting innovative overseas firms to enter the UK market. It also supports UK-based innovative firms who expand into overseas markets, making them potentially more sustainable challengers in the UK.

Regulators in other countries are adopting our Innovate approach. We have signed a number of co-operation agreements with overseas regulators.⁶

The FCA's Innovate and Sandbox: Increasing the development of new products

This year we started to review insights and lessons learned from testing since we launched the sandbox in 2016.

Early findings suggest the sandbox is providing the benefits it set out to achieve. We have evidence it enables new products to be tested effectively. It has reduced the time and cost of getting innovative ideas to market, improved access to finance for innovators and ensured appropriate safeguards are built in to new products and services at an early stage.

We will use these findings to help shape our future sandbox developments as well as our ongoing policymaking and supervision work.

Over the first 2 phases of the sandbox, we have seen growing diversity in the types of sectors applying to us, and a greater proportion of applications from firms outside London.

6 This year, these included: Hong Kong Insurance Authority (Sept 2017); Hong Kong Securities and Futures Commission (May 2017); Cooperation agreement with US Commodity Futures Trading Commission (February 2018); Enhanced cooperation agreement with Australian Securities and Investments Commission (March 2018)

Using technology to improve reporting efficiency

We regularly look at how we can make our regulation more efficient through technology. Regulation that involves high costs and inefficient processes can limit competition and mean firms pass higher costs on to consumers. By using technologies specifically designed to solve firms' regulatory challenges we can add to the public value we deliver as a regulator.

In November 2017 we held a TechSprint event. This looked at how technology could make it easier for firms to meet their regulatory reporting requirements and improve the quality of their information. The event developed a proof of concept that showed the potential for a fully automated process for firms to provide their regulatory returns. Introducing this technology to our regulatory reporting process could provide significant benefits for regulators and firms. These include saving the industry significant costs, increasing the clarity of our rules, and allowing us to identify and monitor issues and risks more efficiently, diagnose harm and potentially intervene earlier.

We published a Call for Input seeking views on the proof of concept as well as on related legal, commercial and other implications for us and the industry should we move towards this new approach.

Balancing our approach to new technology

This year we issued a Discussion Paper on Distributed Ledger Technology (DLT). Responses suggested that our rules are flexible enough to accommodate the use of DLT by regulated firms. They also agreed that DLT could deliver regulatory requirements more efficiently than current systems, substantially reducing costs for both firms and regulators.

We will work collaboratively with industry, and national and international regulatory bodies to shape regulatory developments and standards on DLT.

At the end of 2017, we issued consumer warnings on cryptoassets, Contracts for Difference and the risks of Initial Coin Offerings (ICOs). In March 2018 a taskforce was also established with Bank of England and the Treasury to develop our policy thinking on cryptoassets.

New Bank Start-up Unit

Launched in 2016, the New Bank Start-up Unit is a joint initiative between the FCA and the PRA. It provides information and support to potential new banks, explaining the regulatory requirements, helping them through the authorisation process and providing support once authorised. It aims to encourage competition, drive innovation and tackle harms caused by a lack of product choice, market access and high prices.

Over the past year, we have authorised 10 new banks, including banks providing SME finance, business banking and consumer lending as well as overseas banks establishing branches in the UK.

Asset Management Authorisations Hub

Launched in October 2017, the new Asset Management Authorisation Hub (AMAH) seeks to remove any unnecessary regulatory barriers to establishing and running an asset management firm in the UK. The AMAH encourages competition, provides greater clarity and fosters a more positive personalised engagement between the FCA and market entrants. Since its launch, we have helped 12 firms through pre-application meetings.

Technological change and resilience

Technology plays a pivotal role in delivering financial products and services. We have a duty to both promote innovation and provide challenge, to help ensure new technologies are safely adopted. New technology can lead to reduced prices and better service for consumers, but it needs to be properly introduced and managed to avoid causing harm. For example, new offerings such as cloud, distributed ledger (blockchain) and artificial intelligence can reduce costs for consumers and deliver services more quickly. But they also rely strongly on firms' access to sensitive data which, if compromised, can harm consumers and damage market confidence. Examples below illustrate how our work in this area has advanced our consumer protection and competition objectives.

Firms and markets also need to become increasingly resilient to technology outages and cyber attacks. This means assessing and building resilience into their overall strategies, performing robust testing and evaluation, identifying issues quickly, being able to recover promptly and delivering timely redress where needed. Assessing firms' operational resilience is one of our cross-sector priorities. On 5 July, together with the PRA and Bank of England we jointly published a Discussion Paper on Developing the UK Supervisory Authorities' Approach to Operational Resilience. This highlights the need to focus on how to improve the financial sector's ability to withstand operational disruption.

Monitoring change

In line with our statutory objectives, and Business Plan commitments, we have reviewed Technology, Resilience and Cyber Self-Assessments from 296 high impact firms. We compared their responses to identify firm-specific, sector and cross-industry trends and themes. We gave feedback both to the firms involved and to the wider sector. In the longer term, this work has provided us with a baseline which we will use to develop our future supervisory assessments.

We have also set up Cyber Coordination Groups, bringing together over 175 firms from across the financial sector to share intelligence and raise awareness of threats. Positive feedback from participants led us to establish this as an ongoing part of our work with firms.

Like firms, we need to ensure we have the ability to respond when IT and cyber incidents occur, so we have built a dedicated Incident Team to increase our ability to do this. This team also analyses patterns and trends to help inform the priorities in our proactive work. Following the introduction of new reporting requirements for all payment service providers under the Revised Payment Services Directive (PSD2), we have seen a marked rise in incident reporting by firms, indicating greater understanding of our expectations. In 2017/18 we received 326 reported incidents (100 Cyber related / 226 Technology related), against 185 (42 Cyber related / 143 Technology related) for the previous year. Reporting changes mean, however, that these figures are not directly comparable. We continue to explain our expectations through our forums and publications. Improved reporting will help us assess consumer harm caused by outages and cyber attacks.

Improving operational and cyber resilience

The pace of technological change and innovation continues to challenge regulated firms and we have seen weaknesses in their systems design, management and infrastructure. Some firms also have an over-reliance on complex legacy systems. These issues can increase the risk of outages and vulnerability to cyber attack. We collaborate with Government and other national and international regulators to tackle these threats and vulnerabilities.

In line with our consumer protection objective, this year, our proactive supervisory relationships with larger firms and our specific thematic work assessed firms' ability to prevent and deal with outages and cyber attacks. It considered factors including appropriate governance, risk management, and incident response arrangements.

We have also stepped up our communications to firms and published, with the PRA, Treasury and the National Cyber Security Centre, an updated incident response guide, an infographic guide for firms on the practical foundations of good cyber security and a dedicated webpage.

Improving data sharing and handling

Under the second Payment Services Directive (PSD2), newly regulated account information and payment initiation providers have a right, with the customer's consent, to access customer data and payments functionality. This change comes at the same time as the Competition and Markets Authority (CMA) has required major retail banks to develop Application Programming Interfaces (APIs) that enable this access. We cover PSD2 and Open Banking in more detail in the Retail Banking Section.

Under existing data protection law, these businesses must protect customers' data and PSD2 requires these businesses to put further measures in place to keep it safe and secure.

The General Data Protection Regulation (GDPR) came into effect in the UK on 25 May 2018 and will be an essential step forward in improving the security and privacy of personal data. We have worked closely with the Information Commissioner's Office to produce a joint statement on how our different roles and rules will interact under GDPR.

Treatment of existing customers

Effective competition relies on consumers responding to the quality and value of products, and providers competing as a result. It should not unduly disadvantage existing customers. If existing customers are not treated fairly, they can end up getting poor service or paying high charges. While many firms have made progress in putting customers more firmly at the centre of their business models, many need to further improve their standards of treatment for existing consumers.

We aim to ensure that firms treat longstanding customers fairly. They also need to keep them well informed about the products they have bought, including performance and charges. Our work on general insurance renewals is an example of how we have advanced our competition and consumer protection objectives this year (see sector pages on General Insurance and Protection). Further examples are provided below.

Monitoring change

We have outlined data that relate to existing customers in particular sector pages of this report. For example, the Retail Banking chapter refers to the data firms will have to give customers about current accounts, as well as consumer data on rates of switching from our Financial Lives 2017 survey.

Ensuring customers are informed before retirement

There are many customers who have held pension products with a firm for a long time. As a result, there is a clear link between much of our work on pensions and retirement income and our focus on ensuring that existing customers are treated fairly. A couple of examples are:

- **Annuity prompts** – In May 2017 we issued our final rules requiring firms to issue prompts to inform consumers how much they could gain from shopping around and switching provider, before potentially buying an annuity. These rules took effect from March 2018. This should help customers understand the pros and cons of remaining with the same provider and encourage them to switch to better deals.
- **Retirement Outcomes Review (ROR)** – In July 2016 we launched the Retirement Outcomes Review (ROR) to assess how the retirement income market had evolved since the pension freedoms. In our interim report, published in July 2017, we identified some emerging concerns and set out some potential remedies. We published our final report in June 2018 alongside a Consultation Paper on most of our proposed remedies and seeking views on others. These remedies include measures to: protect consumers against poor outcomes, improve consumers' engagement with their retirement income decisions, and promote competition by making the cost of drawdown products clearer and more comparable.

Ensuring a long-term strategy for interest-only mortgages

There are currently 1.67m full interest-only and part-capital repayment mortgage accounts outstanding in the UK. This year we published the findings of our thematic review into the fair treatment of existing interest-only mortgage customers. Our concern is particularly focused on customers who are at risk of a shortfall when their mortgage comes to the end of its term.

We found that lenders are actively trying to communicate with their consumers to help them understand repayment strategies and to provide appropriate and affordable solutions. But there is clearly more for both them and us to do to tailor these communications more effectively, target them better and improve the process for handling interest-only customers. Although lenders are writing to customers before their mortgage matures, subsequent engagement rates with firms are low.

Our own work demonstrated the challenges of getting disengaged customers to become involved in their decisions – we initially found it difficult to get them to discuss this issue. However, by persisting, we were able to get important insights and subsequently published consumer research about why customers are failing to talk to their lenders. Our aim was to give lenders a better understanding of why customers may not contact them about repaying shortfalls.

We have also produced a leaflet for consumers highlighting the benefits of talking to their lenders as early as possible.

Retail banking competition remedies

We have taken forward our work to promote competition in retail banking, particularly on service information, prompts to engage customers and measures on overdrafts, including text message alerts. This work followed the CMA's retail banking market investigation, but was broader in scope, in line with our wider objectives and remit.

For example, we published our Policy Statement in December 2017. This sets out our final rules requiring banks and building societies with more than 70,000 personal current accounts or 15,000 business current accounts to publish objective service information from August 2018.

We also commissioned consumer research and worked with firms to run randomised control trials to assess the impact of auto-enrolling customers into overdraft text messaging and mobile push notification alerts.

We have made good progress in all areas and consulted on a number of proposals in May 2018.

Consumer vulnerability and access to financial services

Consumers in vulnerable circumstances are more susceptible to harm and generally less able to advance their own interests. We prioritise consumers who are unable to shop around over those who can shop around but choose not to. This reflects our objective to secure an appropriate degree of protection for consumers, as well as the requirement to have regard to the differing degrees of experience and expertise of different consumers. For example, this year, we made rules requiring firms to take steps to help customers in persistent credit card debt.

We have published a series of documents that provide more detail on our approach to meeting our consumer protection objective. These include: Our Mission, our Future Approach to Consumers and our Occasional Paper on the Ageing Population.

To provide more certainty for all stakeholders, our Future Approach to Consumers consultation explained how we regulate for retail consumers. It set out initial views on what good looks like, and explained how we work to diagnose and remedy harm to ensure we protect consumers. We will publish a Feedback Statement and Final Approach in summer 2018.

Monitoring change

The [Ageing Population Occasional Paper](#) described potential harm to older consumers, such as exclusion from a range of financial services and poor outcomes. The paper sets out the areas we want firms to consider to prevent potential harm. We gave 3 broad headings that cover ways in which firms can help meet older consumers' needs. First, by designing products and services that understand and anticipate the needs of older consumers. Second, providing adequate customer support and recognising when customers are having difficulties. And third, continuously reviewing and adapting their strategies to ensure they remain appropriate for consumers. We will review progress made in these areas in 2020.

Increasing our understanding of consumers

Over the past year, we have used research to increase what we know about consumers' priorities and identify where our work can add the most value. This information will help us to prioritise our interventions to provide as much public value as possible.

Financial Lives 2017

Financial Lives 2017 told us that 50% of UK adults (25.6 million) display one or more characteristics that suggest their potential vulnerability. They may be at increased risk of harm, or may suffer disproportionately if harm occurs.

Several groups are more likely to demonstrate these characteristics. These include those who are unbanked (do not have a current or e-money alternative account) and those who are unemployed and looking for work. Looking at the unbanked (3% of UK adults), 77% demonstrate characteristics of potential vulnerability.

A greater proportion of women than men show characteristics of vulnerability (47% of men are potentially vulnerable, compared with 53% of women). We used these findings to develop our Consumer Approach and in our business planning and prioritisation process.

Ageing Population Project and Occasional Paper

The Occasional Paper we published in September 2017 reviewed the public policy implications of an ageing population and how this could affect financial services. Age often, although not always, correlates with some types of vulnerability.

When reviewing the treatment of older people, we found risks that their financial services needs are not being fully met, which can result in exclusion, poor customer outcomes and potential harm.

Our paper set out some ideas on ways firms can improve their business models. These include looking at product and service design, customer support, and reviewing and adapting their business strategies. It also explored a range of issues, including older consumers' engagement with retail banking, third party access and planning ahead, lending for people in later life and long term care.

Occasional Paper on preventing financial distress by predicting unaffordable consumer credit agreements

This paper provided both theoretical and practical evidence to help develop more effective affordability rules. We have used it to inform how we develop rules for industry that aim to reduce the risk of harm to consumers.

In a review of credit reference agencies, we found substantial differences in the total value of outstanding debts recorded by 2 agencies for the same people at the same time. This suggests that the data lenders use to predict financial distress do not consistently estimate incomes and expenditures for some applicants. This inconsistency limits lenders' ability to predict financial distress.

Reducing persistent debt

Our Credit Card Market Study found that while the market works well for most consumers, those in persistent debt pay on average around £2.50 in interest and charges for every £1 that they repay of their borrowing.

So this year we made rules requiring firms to take a series of steps to help customers who are making low repayments over a long period. These start when the customer has been in persistent debt for over 18 months.

Once a consumer has been in persistent debt for 36 months, their provider has to offer them a way to repay their balance in a reasonable period. If the consumer is unable to repay, then the firm must show the customer forbearance. This may include reducing, waiving or cancelling interest, fees or charges.

Improving how debt management firms help customers manage debt

Poor practice by debt management firms poses a high risk to consumers, particularly those in vulnerable circumstances, so debt management remains one of our priorities.

Since 2014, we have been explicit with debt management firms that they need to act responsibly, and in the interests of consumers. Since then, we have refused authorisation to a number of providers; others have left the market. Those that remain have had to show that they meet our threshold conditions to be authorised.

This year, we reviewed a sample of both fee-charging and free-to-customer debt management providers to help us build up a full picture of the sector. We want to understand where good practice is helping consumers to deal with their debts, as well as identify areas where firms need to improve. Our aim is to complete this review in Q1 2019.

Where issues persist, we will take enforcement action. For example, in October 2017, we banned 2 former directors of a debt management firm for deliberately misappropriating client money.

We have also undertaken work on high-cost credit. Here we have identified particular concerns for rent-to-own, home collected credit and catalogue credit sectors. We give more information on this in the section on retail lending.

4 Our sector priorities

Wholesale financial markets

Wholesale financial markets enable firms and governments to access finance and provide investment opportunities for institutional and retail investors. The UK's wholesale financial markets are vital to the UK's prosperity and economic growth. They fulfil a broad range of financial needs for corporates, governments and financial institutions. These include making and receiving payments, financing investment, innovation and growth, financing operations and managing cash, facilitating domestic and international trade, providing opportunities to invest and managing financial and other risks. The effectiveness of these markets relies on them being visibly fair, competitive, transparent and resilient. Our work this year to address the drivers of harm showed how we act compatibly with our strategic objective to ensure markets function well.

Our work focused on 4 broad principal drivers of harm in wholesale markets. The first key driver is serious misconduct such as financial crime or market abuse. The second is, participants who do not deal with each other appropriately, due to conflicts of interest, poor governance or inadequate systems and controls. The third is, poor operational resilience leading to, for example, disorderly failures, successful cyber attacks or market disruption which can harm both market participants and the wider economy. Finally, where we identify markets that could be working work better, we may intervene to improve their efficiency and effectiveness to ensure they better serve users. The examples below illustrate how work in this sector advanced our objectives to promote competition and protect the integrity of financial markets.

Outcome indicators

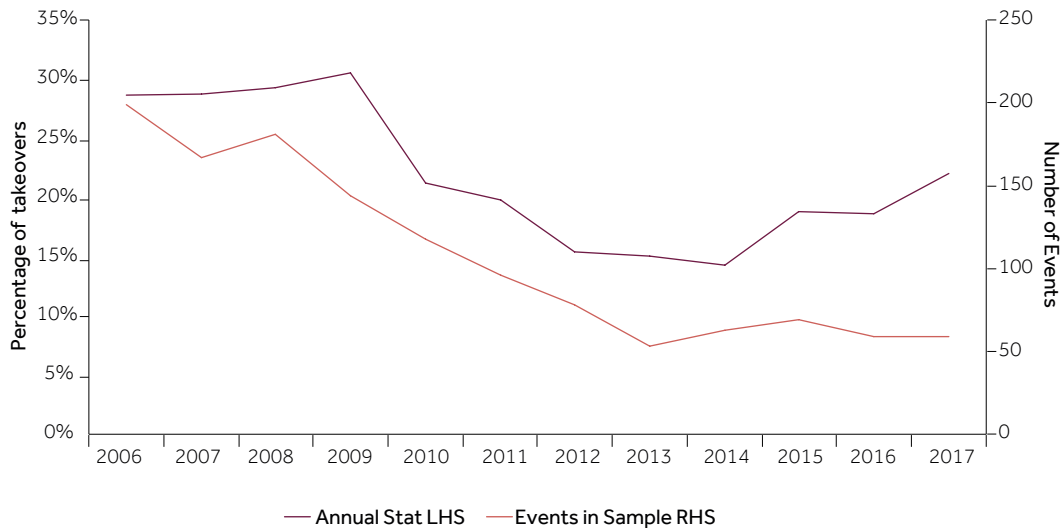
Market abuse can cause harm by, for example, unfairly exploiting information asymmetries and disadvantaging law-abiding market participants. This can lead to a loss of confidence in the integrity of the market and reduce market participation.

The Market Abuse Regulation (MAR) was introduced in 2016. It requires market participants to report orders and transactions that could constitute insider dealing, market manipulation, attempted insider dealing or attempted market manipulation.

MAR expanded market abuse surveillance obligations on firms. The new regime increases the number of suspicious behaviours that need to be reported to us, which is one of the reasons the number of reports submitted to the FCA has increased. This expansion included the reporting of suspicious orders as well as transactions, added attempted abuse and increased the instruments, firms and trading venues within the regime. Further, the new regime requires that for each individual participant a new Suspicious Transaction and Order Report (STOR) must be submitted. For this reason, this year's data is not comparable with previous years' data. In 2017, we received 4,829 insider dealing reports and 666 market manipulation reports. This will be a baseline for reporting in future years.

Each year we publish a Market Cleanliness statistic for the UK equity markets. This is defined as the proportion of corporate takeover events for which we observed an abnormal movement in share price before the takeover announcement. We recognise this is not a perfect indicator of market cleanliness, but it is 1 indicator of possible insider trading.

Figure 4.1: Annual Market Cleanliness and number of events per year



The 2017 Market Cleanliness statistic was 22%. This means that 22% of takeovers in the UK were associated with abnormal price movements before the takeover announcement. From 2009 to 2014 we saw this percentage fall but since 2014 it has risen again. Since 2008 there has been a general downward trend in the number of takeover events in the sample and this plateaued after 2013.

The statistic has several shortcomings as a measure of market cleanliness. First, in terms of scope, it deals only with the equity market, and looks only at insider trading. Second, in relation to accuracy of the measure, its volatility has increased due to a reduction of the sample size; as the difference of just 1 or 2 positive events in a smaller sample makes a bigger difference to the headline measure. To deal with this, we plan to develop additional indicators to evaluate market cleanliness for the future.

Markets in Financial Instruments Directive (MiFID II)

The revised Markets in Financial Instruments Directive (MiFID II) applied from 3 January 2018. The directive focuses on key drivers of harm, such as lack of transparency, inadequate operational resilience and stability, opaque disclosures of fee and charging structures, conflicts of interest, asymmetry of information and product complexity.

This was a challenging deadline, and we finalised our rules in mid-2017 to ensure firms were able to meet it. We engaged with firms and trading venues to help ensure market readiness for 'day one'. Our work included working with firms and venues on the authorisations and permissions necessary to operate under the new regime, the delivery of our new Market Data Processor (MDP) system, and outreach to explain policies and system requirements. Overall, implementation was smooth and markets

remained orderly throughout the process. We continue to work with industry as the new regime is embedded to ensure firms maintain this positive momentum while the market adapts to the changes.

The UK's decision to leave the European Union (EU) has, and will continue to have, a substantial impact on the way we work. A significant proportion of our resources are already focused on the forthcoming exit, including arrangements to implement the change. In December 2017, the EU Commission published a legislative proposal for a new prudential regime for investment firms authorised under MiFID. It offers a more suitable and tailored prudential regime for these firms to reduce and manage potential harm from the way they carry out their activities. Over the next year, we will be providing the Treasury with technical assistance during the negotiations for the proposed text.

Since 3 January, our work has involved developing a view of firms' overall implementation of MiFID II's requirements. This is part of our role in seeking to improve the broad functioning of financial markets to add public value and improve outcomes for consumers and in those markets. Post-implementation, our supervisory activity has increasingly focused on ensuring that firms are complying with the new requirements and assessing if the rules are working as intended. We have committed in our Business Plan for 2018/19 to continue this work across a number of priority areas.

As in all our supervision work, where we discover possible serious misconduct, which might include an outright failure to comply with new legislation, we consider what measures may be appropriate to address this. We give more detail on how we treat misconduct in our Approach to Enforcement.

Benchmarks

From 1 January 2018, the EU Benchmark Regulation extended our regulation to cover many more benchmarks and their administrators, contributors and users. This will help to ensure that benchmarks are robust and reliable, and reduce conflicts of interest in benchmark-setting processes, improving market integrity. Over this year, we have also started major work to ensure a smooth and successful transition from LIBOR to benchmarks that are underpinned by a greater volume of market transactions. This work will reduce the reliance on LIBOR and the risk of harm of a disorderly cessation of the LIBOR rate.

Market Abuse Regulation (MAR)

We have worked across the organisation to advance our market integrity objective by addressing the constantly evolving threat of market abuse. For example, we have worked within the primary and secondary markets to address the threat posed by the various asset classes.

We are working on several supervisory workstreams to assess whether firms have appropriate systems and controls to address the risk of market abuse. This includes managing information and preventing, detecting and reporting market abuse. Conscious of the dangers of a tickbox approach to tackling market abuse, we have stressed it is important that firms have the right mindset. We have increased the level of our external engagement with issuer groups to ensure that they have a clear understanding of the application of MAR and that they are disclosing and handling

inside information appropriately. Our increased focus on this area has also produced a number of enforcement interventions in relation to issuers and their disclosure obligations.

We recently launched a guidance consultation which proposes to add a chapter to our Financial Crime Guide on insider dealing and market manipulation. We will publish the outcome in autumn 2018.

A key aspect of this work is to ensure that 'gatekeepers' to the market are taking responsibility for their role in reporting suspected market abuse and preventing it from taking place in the UK markets.

For example, as part of the approval process for Organised Trading Facilities under MIFID II, we made targeted visits to key firms. We checked their market surveillance arrangements to ensure they meet their trading venue obligations. Where we found that these arrangements needed to be stronger, we required these firms to undertake remedial work to resolve issues and protect the integrity of the markets.

The introduction of MIFID II provided a new and more detailed set of transaction reports which has strengthened our ability to identify poor behaviour. This is coupled with the increase in suspicious transaction and order reporting by the industry itself. At the same time, we also make decisions to investigate suspected market abuse earlier, which means we use our investigatory powers more effectively.

We opened 87 market abuse cases in 2017 compared with 120 in 2016. We are increasingly focusing on the discipline of primary market disclosures. This is illustrated by 4 of our enforcement outcomes in the last financial year outlined below.

Improving conduct across the industry

In November 2017, we issued a Consultation Paper with proposals to recognise some industry codes of conduct for unregulated markets. Our aim here is to encourage the industry to develop and adopt codes that help firms achieve strong conduct standards, even if they do not come under our regulation.

In June 2017, we published a Policy Statement, responding to feedback on the proposed rules we consulted on following our market study into investment and corporate banking. This market study analysed a wide range of primary market issues and the effects of cross-selling and cross-subsidisation. We found that contract clauses can hinder competition as they restrict a client's choice when they undertake future transactions. As a result, we proposed that these restrictive contractual clauses should be prohibited.⁷

7 Policy Statement 17/13 'Investment and corporate banking: prohibition of restrictive contractual clauses,' www.fca.org.uk/publications/policy-statements/ps17-13-investment-and-corporate-banking-prohibition-restrictive

Making primary markets more effective

Poorly functioning primary markets can lead to inefficient allocation of capital. The quality and timeliness of information provided to potential investors and listing rules which encourage issuers to meet high standards of transparency and governance are key parts of ensuring these markets work well.

In October 2017, we published 2 policy statements to tackle these problems. One introduced changes to improve the range, timeliness and quality of the information that firms give investors during the Initial Public Offering (IPOs) process. The other clarified aspects of the Listings Regime, including explaining the eligibility criteria for premium listed companies more clearly and reforming our approach to reverse takeovers.

We also published a Consultation Paper in July 2017 to bring forward a targeted proposal to reform the categories of premium listing. We proposed including a new listing category within the premium segment which will be available to commercial companies controlled by a shareholder that is a sovereign country. The consultation closed in October 2017 and we received 36 formal responses. We listened to participants in the consultation and amended elements of the proposals in light of that feedback. The final rules were published in June and took effect on 1 July 2018.

Investment management

This sector is a key contributor to the UK economy. It is important that we encourage a competitive sector that works well for the millions of people who rely on it for their long-term investments, including pensions. The cumulative impact of regulatory changes has the potential to make a wide-ranging and positive impact on the sector, driving more competition, and a greater focus on value for investors.

Key drivers of harm in this sector include poor governance, badly managed conflicts of interest, poor quality and value of products, and a lack of disclosure and transparency about costs. These issues may mean investors pay too much for products and services, or buy products that do not deliver or behave as stated. Cyber crime and disruptive technology can also potentially harm market integrity by interrupting service provision, and increase the risk of money laundering. The examples below illustrate how our work this year has advanced our objectives to promote competition and protect consumers.

Outcome indicators

In line with our competition objective, our Asset Management Market Study (AMMS) identified important harms in this sector, some of which involve the quality and value of products provided. Overall, we estimate that over 75% of UK households are exposed to the asset management sector, either directly or via their pensions.⁸ We made final rules on part of our initial set of remedies in April 2018.

The indicators below are broadly similar to measures used in the AMMS, but use different methodologies and data to ensure that indicators can be repeated regularly in the future. As a result, we cannot compare the indicators below with AMMS data. But we will use trends in the indicators below in future Annual Reports to assess whether key harms may be increasing or decreasing in the coming years.

Price clustering

'Price clustering' reflects differences in pricing levels for servicing Assets Under Management (AUM). By itself, particular clusters of prices do not demonstrate that consumers are experiencing a particular harm. However, our AMMS analysis suggests that, along with other evidence, the pattern of price clustering indicates weak competition for actively managed products. This is likely to drive sub-optimal outcomes for consumers, eg prices that do not reflect the value added of the services delivered. Our data for 2016 showed 3 main clusters according to AUM at: 1.6 to 1.7%, 0.8 to 0.9% and less than 0.1%.

Strengthening price competition in asset management

Despite the large number of firms operating in the market, our Asset Management Market Study found evidence of sustained, high profits over a number of years. This finding indicates weak price competition. We also found that investors are not always clear what the objectives of funds are and fund performance is not always reported

8 Source: Asset Management Market Study remedies and changes to the handbook – Feedback and final rules to CP17/18, p.3

against an appropriate benchmark. This makes it hard for investors to realistically assess performance.

We have finalised new rules that strengthen the duty on fund managers to act in the best interest of their investors, requiring them to assess the value they provide to their customers on a regular basis. For the first time in the UK, we are also requiring the Boards of fund managers to have independent members. We chaired a working group of industry and investor representatives to consider how to make the objectives of funds clearer and more useful to investors. As a result, we have issued new draft rules for consultation. And where firms are dealing with large, institutional investors – like those managing pensions – we have supported an independent group of investor and industry representatives to work on better, more consistent disclosure of the costs and charges investors are paying.

We think that, taken together, these measures will have a big impact and help competition to work better in the interests of the millions of people investing through this important market.

As part of the market study we also identified concerns about the way the investment consulting industry operates and have made a market investigation reference to the Competition and Markets Authority. Doing so demonstrated that we act compatibly with our strategic objective to ensure markets work well.

We also published on our website a summary of our work on 'closet trackers'.⁹ We found a large number of the funds we reviewed were not adequately describing how investors' money was being managed. We have been working with firms to improve their disclosures and consider appropriate compensation. We launched the [Asset Management Authorisations Hub](#) to streamline the authorisation process for new asset managers looking to set up a business in the UK. This is part of our commitment to efficient regulation and enhanced competition.

Using our competition powers for asset management

In November 2017 we issued a statement of objections to 4 asset management firms who we believe might have broken competition law. This was our first case using our competition enforcement powers. We alleged that the 4 firms shared information by disclosing the price they intended to pay, accepting such information, or both, in relation to one or more of 2 IPOs and 1 placing, shortly before the share prices were set. This allowed them to know the others' plans during the IPO or placing process when they should have been competing for shares. We hope these provisional findings will send a clear message about how seriously we view the harm that can be caused by firms infringing competition law.

9 Closet trackers www.fca.org.uk/firms/authorised-and-recognised-funds/closet-trackers

Managing future liquidity stress scenarios

Following the vote for the UK to withdraw from the EU, we reviewed valuation adjustments and suspensions of daily dealt property funds. We looked at firms across the value chain including depositaries, platform providers, wealth managers and financial advisers to see how they deal with liquidity risks. We found that the quality of liquidity monitoring and management varies across firms, that firms could improve their planning for times of market stress and be clearer in their communications to customers following significant market events.

The current regulatory regime for funds provides some protection against the potential for unfair treatment of customers as a result of large fund outflows, fund suspensions and pricing adjustments. We issued a Discussion Paper on illiquid assets to open a debate on the broader issues around how firms should manage liquidity. We are currently assessing the replies, and the findings of this research will help both us and firms improve our responses to similar future market events.

Custody banks strategy

The UK custody services industry safeguards approximately £12 trillion of assets and provides a range of critical services to investment managers. Assets under custody are growing but the industry remains highly concentrated with relatively few providers, which increases the sector's vulnerability to events such as cyber attacks. This makes it even more important that investment managers exercise effective oversight to ensure the continuity and quality of these outsourced services. Our aim is for the sector to compete to win and retain business through service level quality, competitive and transparent pricing and acting appropriately on behalf of investors.

Blockchain technology

Firms have started to use new technology to achieve cost savings and efficiencies, for instance through straight-through processing. This has increased the use of distributed ledger technology to share data efficiently and securely. As always, take-up of these new technologies presents both opportunities and risks of harm. We reviewed firms' cyber security and technology resilience arrangements. We found they use a range of offshore locations and rely on third-party IT vendors. We also found some evidence that most firms rely on a relatively small number of these providers. This level of market concentration may increase the likelihood of service interruption for customers if there is an outage. We have fed back our individual risk assessments to firms so that they can act on them.

Extending the 30 Day Rule for client money

A combination of banks' liquidity rules and a Client Assets Sourcebook rule that prevented a firm from placing client money in bank accounts with unbreakable terms of longer than 30 days made it increasingly difficult for some investment firms to deposit client money at banks.

This year, we made changes to the 30 Day Rule to ensure customers continue to be appropriately protected by firms holding their money. The final rules enable firms to hold an appropriate proportion of client money in an unbreakable term deposit of up to 95 days, subject to certain conditions. These conditions include having robust liquidity risk management and the appropriate level of financial resources in place. This is an example of work done this year which advanced our consumer protection objective.

Pensions and retirement income

How, and if, consumers save for retirement has a fundamental impact on financial wellbeing in later life. Choices about how to take retirement savings are hugely significant, yet many consumers do not feel equipped to make these decisions confidently.

We want to ensure that consumers are equipped to make good decisions about how to fund their retirement (for example, through appropriate advice or guidance), that they can access good quality, value-for-money retirement products and that they know how to avoid pension scams and poor deals. Our work promoting these outcomes has advanced our consumer protection and competition objectives. Further examples below illustrate how work in this sector advanced these objectives. For example, our work to reduce unsuitable pension transfer advice advanced our objective to protect consumers.

We have covered 2 key areas of work in our Treatment of existing customers chapter: the introduction of annuity prompts and an update on our Retirement Outcomes Review.

Outcome indicators

Poor value products (workplace pensions)

There is no single measure of the harm caused by poor value products in this area, but we will use the Department for Work and Pensions's (DWP's) data on charges, which are one component of value, to track changes over time. The most recent DWP survey suggests that the average charge for a contract-based qualifying defined contribution (DC) pension scheme was 0.54%. In contrast, that figure is 0.48% for master trust qualifying DC pension schemes and 0.42% for unbundled trust-based qualifying schemes. We will monitor these figures to identify trends over time, for example to identify whether competition is driving better value for consumers, and whether we should investigate differences between different parts of the market further.

Unsuitable purchase or choices in decumulation

Retirement choices or purchases may be unsuitable for several reasons. For example, consumers may experience harm if they do not make use of a guarantee or safeguarded benefit that they are entitled to when they access their pension pot. So changes in the proportion of pots accessed where the customer surrendered a guaranteed or safeguarded benefit could suggest an increase or decrease in this harm. During April to September 2017, 54% of the pots accessed with a guaranteed annuity rate were accessed in a way that surrendered the guaranteed or safeguarded benefit. We will continue to monitor this figure to identify emerging trends.

Scams

Our Financial Lives 2017 survey showed that in the previous 12 months 8% of UK adults were approached with an unsolicited request to access a pension before the age of 55, the chance to get money by unlocking a pension early, or the offer of a 'loan', 'saving advance' or 'cashback to take advantage of a pension deal'. Any of these could potentially be a scam. Nearly 1 in 5 (18%) of all UK adults received calls, emails or text messages claiming to be from the government offering retirement planning advice, or received an offer of a free pension review. Far smaller proportions of consumers

responded to these offers. The proportions of the UK population responding to them were 0.2% and 0.9%, respectively.

These trends indicate that consumers may be losing money as a result of unsolicited approaches which potentially could be considered scams. We will therefore monitor and report against developing trends in future annual reports.

A spotlight on non-workplace pensions

In February 2018, we launched a Discussion Paper to talk to industry, consumers and their representatives about the market for non-workplace pensions.

We want to understand whether competition is working well in the market for personal pensions and whether or not we need to go further to protect consumers. We asked for views and evidence about the factors that influence the behaviour of consumers and providers and whether the way the market currently works ensures fair outcomes for consumers. This work advanced our competition objective, and we will continue with further empirical work to help us better understand the issues.

Reducing unsuitable pension transfer advice

There is potential for considerable consumer harm if unsuitable pension transfer advice is given to consumers, particularly if they are transferring out of Defined Benefit (DB) pension schemes. Our work also needs to reflect the current environment, including increased demand for pension transfer advice. Since the introduction of the pension freedoms in April 2015, transfer values have increased and we have seen historically high volumes of transfers out of defined benefit pensions.

This year we issued new rules and guidance aimed at providing advisers with a framework to help ensure they provide good quality advice so that consumers make better informed decisions. These changes include requiring firms that provide transfer advice to give a personal recommendation, which involves considering an individual's personal circumstances. We have also replaced the current transfer value analysis with a comparison to show the value of the benefits the consumer is giving up in pound terms, as well as a new appropriate transfer value analysis of their options, personalised to each customer's needs and objectives.

We also issued a consultation on further proposals that we consider will, like the new rules, improve the quality of pension transfer advice. Following this consultation, we plan to publish final rules in autumn 2018.

We sought views on whether to intervene on the charging structures firms use for pension transfer advice. Our possible intervention options could include introducing a ban on contingent charging (a fee for advice that is only paid when a transfer goes ahead). We plan to set out our next steps in autumn 2018.

Our approach to supervision has focused on acting on intelligence about specific firms and assessing the firms which provide the greatest level of defined benefit transfer advice. This has allowed us to take targeted action where we have found concerns –

including opening 14 enforcement investigations on pension transfer advice. It has also given us information about the market, which helped us develop our policy for Defined Benefit to Defined Contribution pension transfer advice.

In the case of the British Steel Pension Scheme, our work has resulted in 10 firms ceasing to provide pension transfer advice. We have reminded advisers of our expectations and their obligations when dealing with unregulated introducers, including holding face to face meetings with advisers in Swansea and Doncaster. We have also carried out an extensive programme to gather information, visited key advisory firms and met with scheme members to listen to their views.

Making sure pension compensation is fair

It is important that advisers and firms know how to act on complaints about advice to customers to transfer all or part of the cash value of accrued benefits under a defined benefit scheme into a personal pension scheme. So we have issued finalised guidance to ensure firms are clear about this. We have also set out the assumptions firms should use to calculate appropriate redress where they have given the customer advice which was negligent or contravened relevant requirements, where the customer would not have made the transfer if they had been advised properly.

Our expectations are clear that the basic objective of redress is to put the customer, so far as possible, into the position they would have been in if the non-compliant or unsuitable advice had not been given or the breach had not occurred. Redress should also reflect the features of the original defined benefit pension scheme.

Ensuring non-advised drawdown customers are fully informed

The pension freedoms have led to more customers choosing drawdown products rather than annuities. More than one-third of drawdown customers took this decision without advice. So we completed a review of sales across a number of firms to identify whether customers were being given the right information for what is often a complicated decision.

We found that firms are broadly meeting their obligations to communicate clearly with customers. Written, oral and online information was generally in line with our requirements and gives customers the necessary information to make informed decisions about their retirement options. But we did identify some areas for improvement and have given specific feedback to the relevant firms. Our aim is for customers to fully understand the implications of their decision to access their pension savings in this way.

Our findings have also informed our Retirement Outcomes Review.

Customer information about enhanced annuities

We continued the work on customer information about enhanced annuities that we committed to in our 2014 thematic review. This work took significantly longer than we originally anticipated, due to the complexity of developing accurate calculations for redress. Last year we made these calculations available to firms, who started paying redress to customers who missed out on better deals. We will monitor firms' actions in this area to ensure all affected consumers are compensated.

Evaluating how firms make investment decisions

Many customers have pensions with lifestyle strategies which determine how their pension pot is invested. 'Lifestyling' historically involves switching from equity-based funds into fixed interest funds and cash assets as the customer nears retirement age, to match a typical annuity purchase. In 2017, we carried out analysis to establish whether firms were adequately reviewing their approach to lifestyling, given changing customer behaviour following pension freedoms.

Our work found most firms were reviewing their approach. But it also highlighted a few outlier firms who were not. We asked these firms to carry out a further assessment of their approach and communicate with their customers to explain how their lifestyle strategy reflects their retirement options. These firms have now done this. Customers' behaviour about their pension choices continues to evolve and so we expect firms to keep this issue under active review.

Reducing the cost and charges on workplace pension schemes

We have been working for some time on reducing the level of costs and charges on workplace pension schemes. Last December we reported that, following our instructions to providers, these costs and charges had been reduced to 1% or less on around another £4.9bn assets under management since our last report in December 2016.

We have written to all providers in our joint review with the DWP on industry progress against the Independent Project Board recommendations. We clearly set out our expectation that providers will continue to ensure that customers will not face high costs and charges that are poor value for money. We also clarified that we expect them to engage on an ongoing basis with their Independent Governance Committees, trustees and members, as needed to achieve this.

This is a good outcome for current and future members of workplace pension schemes. They can now be confident that potential investment returns on their retirement savings are not being eroded by excessive charges, increasing the likelihood that their income in retirement will be higher.

Better transparency of costs

Previously, workplace-pension trustees have not always had effective oversight because of difficulties in assessing if charges and costs provided value for money. This year, we ensured that the methodology firms use for calculating transaction costs matches that required for products under PRIIPs Regulation. This aligns our final rules with work that firms are already required to do and ensures consistency with firms' European obligations. It should reduce harm in the long term by giving those who invest in these funds more of the information they need to scrutinise value for money.

We have set out the methodology for calculating transaction costs in a consistent way, and placed obligations on firms to respond to requests for information about costs. This helps build the foundations for these schemes' governance bodies to meet their obligations to review and consider the value for money of transaction costs and administration charges.

Scams

Our specialist teams continue to monitor the markets and analyse the intelligence we receive to quantify and tackle cases of pension mis-selling and fraud. These cases involve both regulated and unregulated firms. Where an authorised firm is involved, we have a range of tools we can use to tackle cases of pension mis-selling and scams. In 2017, we issued 3 alerts, 1 setting out our expectations on pension transfers, 1 on the risks faced by pension scheme operators from scams and 1 on the responsibilities of a principal firm over their Appointed Representatives. We also reissued the 'Protect your Pension Pot' leaflet for consumers.

Our national ScamSmart campaign continues to raise awareness of investment and pension fraud among those who are approaching retirement, or have retired (see Financial crime and anti-money laundering).

Information about pensions guidance

As required under section 333O of FSMA (as amended through the Pension Schemes Act in 2015) we have complied with our duties to discharge the general pensions guidance functions with a view to securing the appropriate degree of protection for recipients of pensions guidance and to have regard to the statutory objectives and the regulatory principles. Specifically:

- We have monitored the provision of the Pension Wise service delivered through the Department of Work and Pension's designated guidance providers.
- We have assessed compliance with the standards using a range of channels. These include regular engagement with senior and operational staff at the designated guidance providers and by analysing the management information we receive from them.

Retail banking

Retail banking is central to the lives of virtually every consumer, business and organisation in the UK, and the way consumers use it is constantly evolving. This means harm in this market affects consumers profoundly, and involves products beyond traditional current accounts.

Our work in 2017/18 reflected an environment in which the sector faced major structural and cultural change because of new regulation, technological and societal change. Competition was also relatively weak. Potential consumer harm from this includes: buying unsuitable or mis-sold products, poor customer treatment, consumer exclusion, products or services with high prices, or low quality when compared with efficient costs.

Outcome indicators

Weak competition

We assess how competition is working in retail banking by looking at a number of indicators, including how many customers switch current accounts using the Current Account Switching Service (CASS).

We recognise that a market with low switching could be working well, with keen competition between providers on price and service – customers may stay where they are because providers are competing to keep them. However, the Competition and Markets Authority's Retail Banking Market Investigation found low switching rates alongside evidence of differing prices and service quality between banks, and significant potential gains from switching for many customers. Given this, we will treat increased switching between retail banks as one of a number of indicators consistent with more effective competition over the medium term.

Recent data show that 931,956 customers switched accounts over 2017 using the CASS.¹⁰ To gauge how switching relates to the health of competition, it is also important to understand consumers' reasons for switching accounts or remaining with their current provider, such as how easy it is to compare different providers.

Financial Lives 2017 asked these questions. Of all UK adults who have switched their day-to-day account¹¹ or opened a new account with the same provider in the past 3 years, 56% compared accounts from two or more different providers before doing so. Of these, 96% found it easy to compare accounts from different providers.

In December 2017 we announced new rules designed to make it easier for consumers to compare the services they could receive from different providers. This will help us monitor switching and its impact over future years.

Vulnerable consumers and access to financial products

Since September 2016 some of the largest firms have had an obligation to provide basic bank accounts. The extent to which consumers are able to access these

¹⁰ We will use this figure as a benchmark to compare in future years.

¹¹ The account people use for daytoday payments and transactions (excluding Post Office card accounts). For most people this is a current account. For others it can be a savings account (with a bank, building society or NS&I), a credit union savings account or an emoney account.

accounts therefore provides one indication of access to financial services in its most fundamental form.

Financial Lives 2017 tells us that 3% of UK adults do not have a current account or an alternative e-money account. Access to these accounts is important – being unable to access financial services can cause serious harm. It potentially undermines people's ability to participate in important activities, and to take responsibility for their own financial wellbeing. While financial institutions reserve the right to reject applications for certain products and services, it is important that we understand why these customers are excluded.

Strategic review of retail banking business models

Our strategic review was launched in May 2017 to improve our understanding of retail banking business models. We are examining the core differences between emerging and traditional retail banking models and how these may affect competition and conduct. By increasing our understanding of the market, this piece of diagnostic work shows that we acted compatibly with our strategic objective to ensure markets work well, as well as furthering our 3 operational objectives. An important focus of this work is to understand what impact innovation, the growing use of digital channels and declining use of branches is having on business models, and what the implications are for consumers.

The first phase of our work is focusing on readily available firm management information. This covers both qualitative aspects of the underlying business and product lines within the firm, such as strategic plans, and quantitative financial and non-financial information. We are using this, and data we already have, to establish a baseline understanding of the business models within retail banking. This will form the basis from which we can consider future alternative scenarios and understand the likely impact on different business models, as well as identifying potential sources of harm in a timely way.

Payment Services Directive 2

The second Payment Services Directive (PSD2) was implemented in January 2018. It introduces a range of legislative and regulatory changes, which aim to strengthen consumer protection and promote competition and innovation in the payments sector. PSD2 introduces new regulated activities in the form of account information and payment initiation services. With a customer's consent, providers of these services are entitled to access customer data and make payments from the customer's accounts with other providers. With this access, we expect that providers of these new services (sometimes dubbed 'open banking') will help foster competition and innovation in retail banking and other sectors. In line with our strategic objective to ensure markets work well, this year, we continued to sit as an observer on the Steering Group of the Open Banking Implementation Entity, which should provide industry with a standardised and secure way to meet a number of their requirements under PSD2.

We have collaborated with other authorities and engaged with industry and consumers to deliver PSD2. For example, we worked with the Treasury to implement the Directive,

and together we published our expectations for new account information and payment initiation services in July 2017. Following consultation, we published a Policy Statement, new rules and an updated Approach Document in September 2017. PSD2 introduced measures to address concerns that payment institutions' access to bank account services was being withdrawn or refused. We worked with the Payment Systems Regulator to issue joint guidance on these measures. A number of elements of PSD2, including EU level technical standards and guidelines, are still being put in place. We consulted in March 2018 on our implementation of EBA Guidelines on operational and security risk.

Ring-fencing

Ring-fencing was one of several important reforms the Government brought in to strengthen the financial system, following the financial crisis that began in 2007. It requires each large bank to separate retail banking activities from the rest of its business. This should help to reduce harm, for example, by protecting customers and the day-to-day banking services they rely on from unrelated risks elsewhere in the banking group and from shocks affecting the wider financial system. Our work in this area has therefore shown that we have acted compatibly with our strategic objective to ensure markets work well. Relevant firms need to comply with ringfencing rules by January 2019. Our work to ensure they do is part of meeting our consumer protection and market integrity objectives.

During 2017/18 we worked with the Prudential Regulation Authority (PRA) to monitor and manage potentially negative effects on consumers, market integrity and competition as a result of changes to business models and structures. This has included preventing harm from occurring from changes to customers' accounts, particularly where firms require new account details. We have reviewed revised governance arrangements and operating models, including technology changes, against our accountability, controls and resilience requirements. This work is particularly relevant to business transfers and regulatory transactions, such as applications for new banking licences and variation of permissions. We will continue this work in 2018/19, as firms complete their implementation of ring-fencing.

Payment Protection Insurance (PPI) Remediation

In March 2017, we decided to put in place a deadline for making a new complaint about PPI, and in August 2017 started a campaign to encourage consumers who were potentially mis-sold PPI to take action. It aims to ensure that firms make it easy for consumers (including vulnerable consumers) to check if they ever had PPI and complain about PPI and give fair and accurate answers to those checks and complaints. We have also focused on the fair handling of the new type of complaint about undisclosed commission from PPI to lenders (following the Supreme Court decision in a case known as Plevin). This work aims to redress the harm caused to consumers from mis-sold products.

Our work in 2017/18 included:

- launching a high profile communications campaign in August 2017 using the animatronic head of Arnold Schwarzenegger, to prompt consumers to decide if they want to complain before the 29 August 2019 deadline – in January 2018 firms paid out £415.8m in redress to customers who complained about PPI
- setting up a dedicated PPI helpline, which by end 2017 had assisted 16,500 callers (with 850,000 accessing our expanded PPI website pages)
- working with firms to ensure they deliver easily accessible online checking and complaint submission for consumers, and free telephone lines
- beginning assessment of the accuracy of firms' responses to consumers' checking enquiries, and their treatment of vulnerable consumers who are trying to check or complain

Following the first round of campaign advertising, we were encouraged that consumer awareness of the deadline rose significantly. More consumers are checking and complaining about PPI, and more redress is being paid. The number of complaints relating to PPI rose by 40% (439,854) to 1.55 million in the second half of 2017, the highest level in more than 4 years, compared with 1.11 million in the first half of 2017.

Broadening small business access to the Financial Ombudsman Service (FOS)

Small businesses have complained for some time that they fall between the legislative cracks when trying to get complaints against financial services firms resolved. Currently, only individual consumers and the smallest businesses ('micro-enterprises') have access to the Financial Ombudsman Service. Other businesses that cannot resolve their financial services dispute directly with a firm would need to take the firm to court. Many small businesses behave similarly to individual consumers when using financial services and can experience harm in similar situations, but do not have the financial or legal resources to take their cases to court.

In January 2018 we published a Consultation Paper on changes to our rules to allow a broader range of businesses to refer unresolved complaints against these firms to the Financial Ombudsman Service, ensuring they can be resolved quickly with minimum formality. Our proposals, which we are consulting on, would extend access to the Ombudsman to all businesses with fewer than 50 employees, annual turnover of under £6.5m and an annual balance sheet total of under £5 million.

Authorised Push Payment (APP) fraud

APP scams trick consumers into authorising a transfer of money to an account that they believe belongs to a legitimate payee but is in fact controlled by a scammer. As well as the often considerable loss and distress to individual consumers, these scams also carry a risk of significant harmful side-effects on wider markets, the UK economy and wider society.

Addressing the risk and associated harms of APP scams has been an important focus for us in pursuing our market integrity objective. In 2017/18 we worked with a number of

banks to understand their policies and procedures for handling APP claims. In general, we found that the procedures for handling APP scam cases were often unclear and not consistently applied. There were also not enough data for us to fully understand the scale of these scams. Although banks were working to improve their ability to detect these kind of scams, some banks had made more progress than others.

We contributed to the Payment Systems Regulator (PSR)'s November 2017 paper on APP fraud, and support its proposal of a contingent reimbursement model, welcoming APP Best Practice Standards introduced by UK Finance. In January 2018 we wrote to bank Chief Executives about APP fraud and the Best Practice Standards, asking firms to consider how they are tackling APP fraud within the context of the Senior Managers & Certification Regime. We will continue to actively assess how these scams are developing, and firms' responses, and will take further action if we decide it is needed.

Retail lending

Most UK households use credit products, such as mortgages, loans and credit cards, on a daily basis. Credit plays an important economic role and can be helpful for the many consumers who use it without encountering problems. But for the minority who do experience harm because of unaffordable borrowing or missing repayments, the consequences can be serious. Our focus, in line with our consumer protection objective, is on understanding and reducing the harm that firms' poor conduct causes, particularly when it affects more vulnerable customers or those with little financial resilience.

The mortgage market is by far the largest retail lending market in terms of value. So even relatively isolated misconduct in the sector can cause significant harm. Key potential harm here include firms selling unaffordable or unsuitable products, and poor treatment of customers in financial difficulties. We are currently carrying out a Mortgages Market Study which focuses on consumers' ability to make effective choices in the first charge residential mortgage market.

While smaller in value, the consumer credit market serves a greater number of customers and includes more vulnerable consumers. Since we took over regulation of consumer credit firms in 2014, we have worked to drive up standards. We have done this by refusing authorisation for firms that do not meet our standards, introducing new rules to protect customers, and taking supervisory and enforcement action against firms where they have fallen short of our expectations.

Outcome indicators

We expect firms to undertake an appropriate assessment of consumers' creditworthiness, including affordability. This helps minimise the risk of consumers taking on unaffordable debt which can lead to financial distress. This may happen if the customer is unable to repay debt, or can only repay by suffering wider negative effects, such as having to cut back on essential spending or defaulting on other commitments. In extreme cases this can lead to bankruptcy, harm consumers' mental health or have wider social implications.

Missed payments can have a negative effect on credit scores, and make it more difficult for consumers to get appropriate credit products. Missed payments and arrears can also be an indication of an unsuitable product that does not meet the consumer's needs.

However, we recognise that missed payments can be caused by macroeconomic changes like employment trends. As such, they will not always indicate unaffordable or unsuitable lending. Because there are no definitive metrics, it can be difficult to determine whether a product was unsuitable or unaffordable from the outset, or became so through changes that the lender could not have reasonably foreseen.

Arrears data can provide a useful indicator of consumer outcomes, and can prompt us to investigate further, either at a firm level or a sector level.

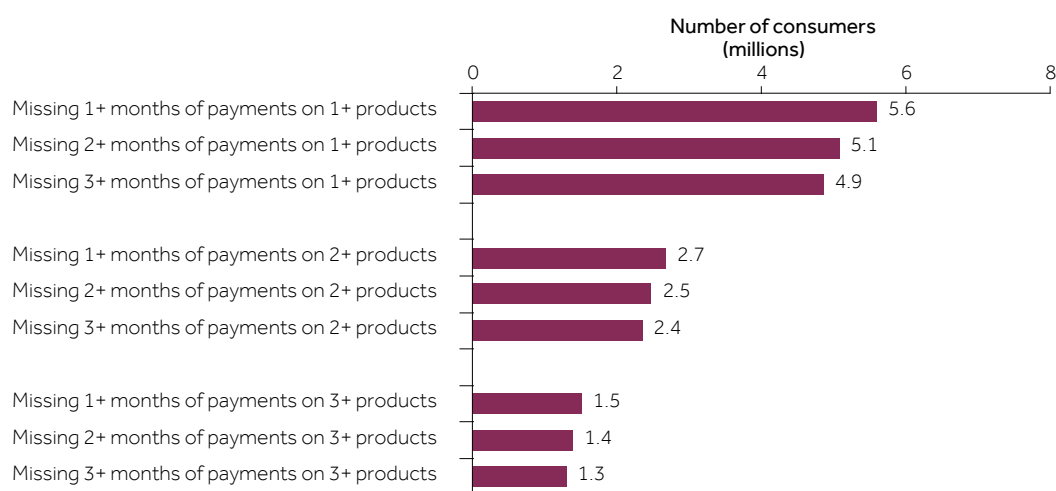
Unaffordable or unsuitable products: consumer credit

We have analysed data on consumers' missed payments, and on the distribution of

debts they hold, using data from Credit Reference Agencies (CRAs). Figure 4.3 is based on CRA data at September 2016, covering a representative sample of 1 in 10 credit files from one of the CRAs. These provide a potential 'baseline', together with other data sources, to assess trends over time and whether harm caused by unaffordable or unsuitable credit products is likely to be increasing or decreasing.

The graph below provides a baseline for this indicator of harm. It shows the number of consumers at September 2016 who had missed at least one payment on a consumer credit product in the previous 12 months.¹²

Figure 4.3: Missed payments on consumer credit products as of September 2016



Notes

Missed payments on consumer credit products as of September 2016 and rounded to nearest 100,000.

Source: FCA Analysis of CRA data: www.fca.org.uk/publication/feedback/fs17-02-technical-annex.pdf

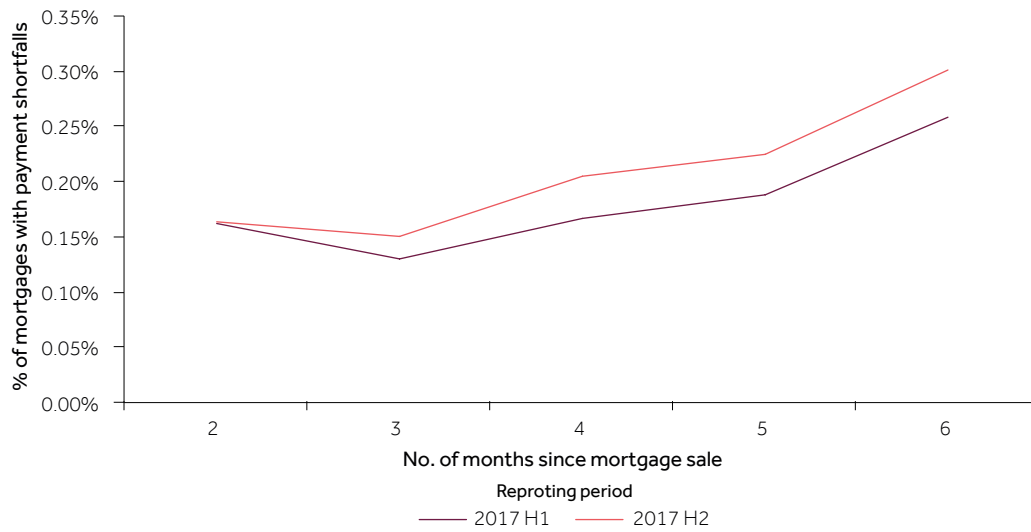
We know that missed payments may not in themselves indicate unaffordable or unsuitable lending, and may not lead to financial distress. This may partly depend on the firm's business model, including how much forbearance it gives to customers in financial difficulty and whether and to what extent it applies default charges. It may also depend on the frequency of repayments. Additionally, a consumer may be making minimum repayments under a revolving credit agreement but may be in persistent debt, or making minimum repayments which mean they cannot repay other commitments.

Unaffordable or unsuitable products: mortgages

In the mortgage market we look at the number of arrears cases which have payment shortfalls shortly after a mortgage has been sold. Where a consumer falls into arrears within a short period of time (2 to 6 months) this could be an indicator of an unsuitable or unaffordable product having been sold.

12 The harm caused by unaffordable or unsuitable products is likely to be greater where multiple payments are missed on more than one product.

Figure 4.4: Incidence of payment shortfalls occurring soon after mortgage sale



These figures rely on the quality and timeliness of firms' data submissions. Figure 4.4 shows the percentage of mortgages with payment shortfalls in the first 2-6 months after being sold in the first half and second half of 2017. We will continue to monitor this indicator in future because any sustained increases may indicate that we need to do more work to assess if the harm of unaffordable or unsuitable mortgage sales is increasing.

Improving access for older mortgage borrowers

Alongside the broader work on interest-only mortgages (covered in Treatment of existing customers), we identified that our existing regulatory approach to retirement interest-only mortgages was acting as a barrier to firms offering these loans. These are interest-only loans for older borrowers where the capital is intended to be repaid, on death or when moving into long term care, by the home's sale. This barrier could result in harm to older borrowers as their needs may not be met by the market.

As a result, we consulted on changing our regulatory approach to providing retirement interest-only mortgages. In March 2018, we made final rules that should make it more straightforward for lenders to provide such mortgages. Encouragingly, our consultation revealed considerable lender and consumer interest in having access to these mortgages. By reviewing our approach and designing a regime that is a better fit for the risks involved, we hope to encourage lenders' interest in this market and make it easier for consumers to access it.

Making progress with affordability assessments in the second-charge market

We want to ensure that second-charge lenders lend responsibly to reduce the risk of consumers being sold unaffordable loans. We tested firms on their affordability calculations and whether their income and expenditure analysis is robust. We identified examples of poor practice within firms' lending processes and areas of firms' systems and controls. We found that some assessments were poorly handled and there was

a lack of transparency about how they reached decisions on lending. We also had concerns about some firms' arrangements to protect themselves from being used as a vehicle to perpetrate financial crime.

In March 2018 we issued a 'Dear CEO' letter to second-charge mortgage lenders to highlight our concerns. We asked firms to review their mortgage lending processes and to confirm, by 1 May 2018, that they are lending responsibly and that their processes, systems and controls ensure this happens. We will continue to monitor lending standards in this sector to ensure that consumers are not sold unaffordable second-charge mortgages.

Improving how credit is offered

High-cost credit

Many users of high-cost credit are on low incomes and may find it more difficult to cope with unexpected changes to their income or expenditure than other borrowers. In part reflecting the risk of default, borrowing for these consumers is particularly expensive. The cost potentially further reduces these customers' ability to meet their wider financial commitments and increases the risk of harm from the consequences of defaulting.

Despite this, credit provision can have a socially valuable function. High-cost credit users typically have low credit scores. Many do not have savings and may need credit to make ends meet and avoid wider financial difficulties. Consumers can benefit from using high-cost credit where repayments are sustainable and firms show appropriate forbearance if customers have repayment problems. In January 2018 we published an update on the issues we are examining with key stakeholders, including concerns about the: rent-to-own, home-collected credit and catalogue credit sectors.

Our consultation paper (CP18/12) was published in May 2018, with a package of proposals to reduce costs to consumers, improve sales practices, protect consumers at risk of financial difficulty, ensure repeat borrowing is consumer-led and encourage market innovation to make alternatives more widely available. We also explained that there is a case, in principle, for considering the introduction of a price cap [in this market] on rent-to-own products. We are now gathering and analysing evidence needed to reach a final conclusion on this question. In May, we discussed fundamental reform to the pricing structure of overdrafts and proposed new rules to help consumers engage with and understand them better (CP18/13).

Alternatives to high-cost credit

An essential part of our overall package is the work we are doing to foster the growth of alternatives to high-cost credit. Greater availability and awareness of these alternatives would reduce the number of people turning to high-cost credit services. It would also provide options for consumers who may no longer be able to access high-cost credit services after any possible interventions we make. Greater availability of alternatives would therefore help consumers get a better outcome.

We are working with a number of public agencies to develop more effective approaches to these problems. In some cases we can also act directly, for example by encouraging referrals to alternative sources of credit. We have consulted on guidance, in CP 18/12, to give registered social landlords confidence over how to refer their tenants to alternatives like credit unions and Community Development Finance Institutions.

This year we also reviewed a sample of both fee-charging and free-to-customer debt management providers. We have given more information on this in the Consumer vulnerability and access to financial services chapter.

Addressing risks from staff incentives in consumer credit firms

How staff are incentivised, rewarded and monitored can influence the risks of them mis-selling. We published finalised guidance and introduced new rules on staff incentives, remuneration and performance management in consumer credit firms. These will come into effect on 1 October 2018. We also consulted on new guidance and rules following our thematic review of consumer credit firms that found practices that were high risk and likely to encourage high-pressure sales or collections. Our approach was designed to help consumer credit firms identify these risks, and to explain to them our expectations of how they should manage and control them.

Assessing creditworthiness in consumer credit

It is important that firms undertake appropriate assessments of affordability (for the borrower) and not just the credit risk that the consumer will be unable to repay. Failure to do so can lead to consumer harm.

In July 2017, we published a Consultation Paper on proposed changes to our rules and guidance on assessing creditworthiness, including affordability, to clarify our expectations of firms. We expect to publish a Policy Statement during the summer.

Ensuring that firms calculate payment shortfalls accurately

We have issued finalised guidance for firms so that they understand how to remedy situations where consumers may have been overcharged through automatically capitalising payment shortfalls on their mortgage. We listened to the feedback we received from stakeholders from our 2016/17 consultation. Our expectations of firms and the relevant products where we expect the guidance to apply should now be clear.

Securing redress for consumers

As part of our approach to regulation, we will act to help ensure that firms pay appropriate redress to affected customers if they have failed to meet our standards. In the past year we have helped secure almost £200m in redress for customers of consumer credit firms. These included firms that failed to carry out adequate creditworthiness assessments, and failed to disclose the full price of add-on products.

Improving complaints handling in consumer credit firms

We have written to consumer credit firms identifying issues in complaints handling. These problems include not providing the required information about the right to contact the Financial Ombudsman Service, not providing satisfactory final responses to complaints, and not carrying out sufficient investigation into the root causes of complaints. Our letter should remind all firms of our expectations about complaints, including the need to carry out reviews of their complaints policies and procedures.

Assessing motor finance

This year we published an update on our work on motor finance to explain our findings so far. We found that most of the growth in motor finance has been to consumers with better credit ratings, and that arrears and default rates are generally low.

The lenders we reviewed appeared to be adequately managing the risk to their business from a potential fall in car prices. However, we have found some areas of concern, such as increasing arrears and default rates for customers with the lowest credit scores and some poor practices in the way firms provide information to customers. We also found that some commission structures could lead to higher motor finance costs if not properly managed by lenders and brokers. We are therefore focusing on these areas for the remainder of the review, which is due to be published by the end of 2018.

General insurance and protection

General insurance and protection products allow both individuals and businesses to protect themselves against uncertainty, enabling a wide range of economic activity that might otherwise be seen as too risky. It has a central role in industries such as construction, agriculture, manufacturing, leisure and professional services. So it is vital that this market, including the wholesale market underpinning it, works well and keeps adapting to meet new needs and changing circumstances.

In line with our objectives to protect consumers and the integrity of financial markets, our priorities in this sector are fairness, access and value for retail customers, and an effectively functioning wholesale market. Within this sector, the key drivers of harms include suitability of products, renewal pricing, mis-selling (including through outbound calls), low value products, operational resilience and cyber-crime.

Outcome indicators

Digital comparison tools and competition

Digital Comparison Tools (DCTs) including price comparison websites can create significant benefits – they can lower search, switching and transaction costs, increase consumer engagement and reduce acquisition costs for suppliers.

A lack of trust in DCTs could reduce the health of competition if it means that consumers are less prepared to use all the DCTs available to them. This could make consumers more likely to buy products that do not meet their needs, or pay more for products than they need to.

A number of drivers of harm are relevant but, as the CMA identified, trust in DCTs is one key factor.¹³ In Financial Lives 2017, 45% of UK adults with one or more general insurance or protection products said they trusted price comparison websites to get them the best deal while 20% disagreed. We will use future surveys to monitor this figure and to track emerging trends.

Treatment of claimants

We have identified poor treatment of claimants as an important harm in this sector. An example of this is when a claimant has to wait a long time for their claim to be processed, or firms make inappropriate decisions. We have done previous thematic work in this area and our ongoing regulatory activity continues to highlight claims experience. A number of metrics may be relevant to this harm. For example, trends in the number of complaints upheld by the Financial Ombudsman Service may reflect whether poor treatment is increasing or decreasing.

We will monitor changes in the number of complaints upheld by the Ombudsman over time as an indicator of harm. As not all consumers complain when poorly treated, it is important to examine trends in upheld complaints over time rather than absolute numbers. We also need to view this information in the context of other data, and understand the reasons why consumers do not complain, as well as trends in the number of referred complaints.

13 The CMA Market Study on DCTs can be found here:
<https://assets.publishing.service.gov.uk/media/59c93546e5274a77468120d6/digital-comparison-tools-market-study-final-report.pdf>

Financial Lives 2017 identified that, 52% of UK adults who said they had experienced a problem with their insurance did not complain. Of these, 28% thought their issue was too trivial or it wasn't worth it. 17% thought it too difficult to complain, 45% thought complaining would have no effect and nothing would happen, and 25% didn't have time/were too busy.

We will monitor trends in these numbers, along with other data, to assess whether the causes of claimants receiving poor treatment are likely to be increasing or decreasing.

Implementing the Insurance Distribution Directive

We have published 3 Policy Statements with our near-final rules to implement the Insurance Distribution Directive (IDD). The IDD is a new EU legal framework for insurance distribution which replaces the Insurance Mediation Directive. It aims to strengthen protection for consumers when buying insurance and support competition between insurance distributors by creating a level playing field.

The IDD regulates the activities of all distributors of insurance products, including insurance products that have investment elements. It states what information distributors should give their customers and imposes conduct of business and transparency rules.

It has been agreed at European level to delay the IDD from its original application date of 23 February 2018. Member States are now required to transpose the directive by 1 July 2018, and firms will be required to comply with the new requirements from 1 October 2018.

Access to travel insurance for cancer sufferers

We issued a Call for Input to seek views, ideally supported by examples and evidence, of the challenges firms face in providing travel insurance for consumers who have, or have had, cancer, and the reasoning for pricing differences in quoted premiums. We are considering the responses and will be commenting further during 2018/19.

The Call for Input represented the first stage in our broader engagement to improve our understanding of the issues for vulnerable consumers accessing different financial markets. While the paper focused on travel insurance for people who have, or have had, cancer, the findings will broadly apply to other pre-existing medical conditions, and also to other protection products.

Increasing value transparency

Publishing data on general insurance value measures increases the range of information available about general insurance products. This will help increase market focus on suitability and value, as well as the headline price. In March 2018 we published the second set of data from our value measures pilot to compare claims data across 4 general insurance products. These products were home insurance (combined buildings and

contents), home emergency insurance, personal accident insurance sold as an add-on to motor or home insurance and key cover sold as an add-on to motor insurance. We expect this information to increase transparency and encourage firms to improve the value of their products. We are evaluating the impact of the pilot so far. We will then decide whether we need a third pilot publication for the year to 31 August 2018. This pilot will allow us to develop and refine value measures before any potential consultation on rules requiring firms to publish these data at regular intervals.

Increasing transparency at renewal

The disclosure of renewal prices in general insurance is an important feature of increasing transparency and engagement at renewal and preventing the potential harm to consumers when prices are too high or quality too low.

New rules came into effect in April 2017 requiring firms to disclose particular information within renewal notices. The rules require disclosure of the previous year's premium and for firms to provide a statement encouraging consumers to check their cover and shop around. The rules apply to all general insurance products provided to retail customers (excluding SMEs) with a duration of greater than 10 months.

This year, we reviewed how firms had implemented these rules. While we found examples of good practice, we were concerned that firms were under-prepared to accurately implement the renewal transparency rules. As a result, we have taken action with individual firms where we have identified issues and published a number of market-wide communications to remind firms of our broader expectations.

Firms' pricing practices

In 2016 we issued a Call for Input Feedback Statement on big data in retail general insurance. This year we undertook diagnostic work to look at firms' pricing practices. Our aim was to improve our understanding of the systems and data that firms use to decide the final price to consumers and firms' governance and oversight arrangements. We also looked at the types of systems and third party data firms use to decide the final price to consumers. We will be building on this work in 2018/19 to look at whether we need to intervene further to ensure future insurance pricing practices work well for consumers.

Wholesale Insurance Broker Market Study

Acting compatibly with our strategic objective to ensure markets work well, and to advance our competition objective, we launched our Wholesale Insurance Broker Market Study in November 2017 to consider how well competition is working in this sector. We want to ensure that the sector is working well and fosters innovation and competition in the interests of its diverse range of clients. Our study includes looking at how brokers compete in practice and whether they use their bargaining power to get clients a good deal, how they manage conflicts of interest, and how broker conduct affects competition. Our work on this project is ongoing.

Retail investments

Consumers who decide to take advice on investments need to know that it is suitable for their needs, consistent with their approach to risk and that they are not being overcharged. This is increasingly important since the freedoms were introduced, as many consumers now face increasingly complex financial choices. Our strategy for supervising the quality of retail investment advice is twofold. First, we aim to improve standards across the market and periodically assess whether this has happened. Second, we focus on specific areas of advice where levels of suitability can be lower. These include high risk investments and pension transfers.

Outcome indicators

Unsuitable or inappropriate products

Customers may receive unsuitable advice which can result in them buying unsuitable or inappropriate products. In line with our objectives to ensure markets work well and to protect consumers in May 2017 we published the results of our review of the suitability of pension and investment advice in the financial advisory sector. The results showed that there is suitable advice in 93.1% of cases. However, customers still receive unsuitable advice in 4.3% of cases and unclear advice in 2.5% of cases.

In 2019 we intend to re-assess the suitability of advice. Comparing the results of that review to the results published in May 2017 will help us identify potential trends in numbers of customers who are at risk of this harm.

Consumers paying too much for a service and/or receiving more services than they need

Consumers are harmed if they pay too much for advice, given the service they receive. This harm may arise if competition in the advice market is poor. For example, consumers may struggle to accurately assess if they are getting value for money in terms of the price or quality of the services they are offered, particularly for complex products.

So it is important that consumers receive clear information on prices. Evidence from Financial Lives 2017 suggests that 3% of UK adults with retail investments experienced a problem with complex fees or charges in the previous 12 months and 1% experienced a problem with an investment product costing more than expected. We will monitor how this figure changes to see whether it implies that harm is reducing.

Operational issues with platforms

If consumers are unable to access the platform they have invested through then they will not be receiving the service they reasonably expect and are paying for. Recent complaints data tell us that firms received 15,834 complaints about their platform service, caused by general administrative or customer service problems. We will monitor trends in the number of complaints to identify how many customers could be harmed this way.

Action on Contracts for Difference (CFDs) and binary options

These products are complex and often unsuitable for retail customers. Through 2017/18 we have sought to ensure that firms only sell CFDs – and binary options, which entered our regime from 3 January 2018 – to an appropriate target market.

CFDs

We released a statement in June 2017 which confirmed that CFD firms were still not meeting our expectations on making appropriate assessments for non-advised services. Our release set out the shortcomings we had identified and confirmed there were still key areas of concern following our February 2016 'Dear CEO' letter. In November 2017, in line with our objective to protect consumers, we issued 2 consumer warnings to alert consumers to the investment risks of both binary options and CFDs where cryptocurrencies are the underlying investment.

In January 2018 we released a further 'Dear CEO' letter to CFD firms. This highlighted failings which might cause significant consumer harm when these firms sell CFDs on both an advisory or discretionary basis. Firms were reminded to consider these issues, and told that we expect them to have regard to the applicable rules and guidance in the letter.

Binary options

Since 3 January 2018, firms involved in binary options trading in the UK must be authorised by us. Firms that are not authorised by us and continue with binary options activities will be acting in breach of section 19 of FSMA, which is a criminal offence.

We have published a list of 91 firms without FCA authorisation that we understand are offering binary options trading to UK consumers. Many of these firms claim to be based in the UK but we are examining each of them to determine whether they are genuinely operating from within the UK. If they are, we will consider taking enforcement action through the courts to stop their illegal activity.

Product intervention measures

In 2017/18 we have continued to contribute to the European Securities and Markets Authority (ESMA) Task Force set up in 2015 to focus on consumer harm from both CFDs and binary options. We support the agreed temporary product intervention measures ESMA announced on 27 March 2018:

- prohibiting the marketing, distribution or sale of binary options to retail clients
- restricting the marketing, distribution or sale to retail clients of CFDs, including spread bets and rolling spot forex

The restrictions to CFDs aim to reduce the risks from these products. The restrictions are: leverage limits (between 30:1 and 2:1), a 50% margin close out rule applied on a per account basis, negative balance protection, limiting retail clients' liability to the funds in their CFD trading account, a prohibition on firms offering monetary and non-monetary benefits, and a standardised risk warning, including firm-specific figures on the percentage of client accounts that have lost money trading CFDs.

In light of the ESMA intervention, we announced a delay on publishing our final rules for national measures in summer 2017. We now expect to consult on whether to apply the ESMA measures on a permanent basis to firms offering CFDs and binary options to retail clients.

Making advice more accessible

This year, we published new Perimeter Guidance on what constitutes a personal recommendation. This means we have now implemented all of the recommendations made to us as part of the Financial Advice and Markets Review (FAMR) apart from the review due to take place in 2019.

Our guidance is intended to give firms greater confidence that they can, among other things, inform a customer that they have not increased their pension contributions over a long period of time, warn them of any negative consequences of a transaction they want to make and offer products designed to meet a particular investment objective without necessarily making a personal recommendation.

Automated advice

Consumers may seek advice on how suitable products are in a range of different ways. Making a range of products available can provide better consumer choice and so improve competition. The automated investment management services market remains in its infancy, with models typically being developed to provide advice and services on less complex investment business. We wanted to understand these new methods of delivering advice and assess if consumers are being well served by them.

Acting compatibly with our strategic objective to ensure markets work well, over the past year, we carried out 2 reviews into automated investment management services. We assessed 7 online discretionary investment management propositions and 3 online investment advice services. We found that the cost for automated investment management services and advice has reduced significantly compared with more traditional, typically face-to-face, channels. We used our findings in our communications with industry. We will continue to support firms, for example, through our Innovate programme, and also carry out ongoing assessments of developing markets like automated investment advice. We expect existing firms and new entrants into this market to consider our findings to ensure they deliver good outcomes for consumers.

High-risk investment

We know consumers suffer harm when firms recommend they buy unsuitable products. This includes high risk investments that are not appropriate for consumers with lower risk appetites and those without the financial capability to cope with a significant reduction in their capital. In line with our consumer protection objective, our supervision in 2017 included multi-firm work to ensure we better understand the level of high risk investments recommended to retail consumers. We requested details on the high risk investment activity of 152 firms and analysed their responses. This work also assessed what product disclosures firms provided to consumers before investment. We will continue this work in 2018 and use the results to shape our future supervision activity for these types of investments.

Engaging with advisers

As part of our supervision work we engage with advisers to encourage good practice in the advice and services they offer to retail consumers and ensure we understand how the market is working.

As in previous years, we ran a series of 'Live and Local' events across the country. These events give local firms and practitioners access to supervisory workshops, firm surgeries, roundtables and Chairman's lunches. These events are well attended and allowed us to speak directly to over 1,250 financial advisers. This year our interactive supervisory workshops focused on the outcomes of our Assessing Suitability Review, providing headline findings and sharing examples of good and bad practice.

We also supported the Personal Finance Society quarterly regional conferences again this year. While previous years' sessions largely addressed suitability and disclosure, this year we presented forward-looking sessions on the implementation of MIFID II, IDD and PRIIPs for financial advisory firms. These sessions allowed us to discuss some of the key requirements from this legislation with over 3,350 financial advisers.

Uncovering the impact of platforms on charges

We launched our investment platforms market study in July 2017 to assess how platforms compete and the impact they have on the overall charges investors pay for their retail investment products. We committed to do this in the final report of the Asset Management Market Study, which highlighted a number of potential competition issues in the platforms sector.

This year we have gathered evidence from platform firms and other firms which compete for retail investments as well as financial advisers and consumers who use platforms. We will publish our interim report in Summer 2018, setting out any problems we see in the market and any relevant action we intend to take. Where we see issues in the market that we can tackle, we will take appropriate action.

Packaged Retail and Insurance-based Investment Products (PRIIPs)

PRIIPs took effect on 1 January 2018, with the aim of encouraging efficient EU markets by helping investors better understand and compare the key features, risk, rewards and costs of different PRIIPs. Firms must provide this information in a short and consumer-friendly Key Information Document (KID). The PRIIPs Regulatory Technical Standards sets out how firms should calculate and present this information.

In May 2017 we published PS17/6 – setting out amended rules and guidance in the FCA Handbook that reflect the application of the PRIIPs Regulation and introduction of the KID.

Some firms have told us that the 'performance scenario' information required in the KID may appear too optimistic for a minority of PRIIPs and so be potentially misleading. We have publically stated that firms can provide additional explanatory materials, to put the calculation in context and to set out their concerns for investors to consider.

5 Working with our partners

We are an integral part of the UK's wider financial regulation framework. An intrinsic part of our work involves joined-up working with a range of different partners. These range from international regulators and agencies with whom we tackle global regulatory concerns, to close collaboration and liaison with a range of UK bodies, covering areas such as consumer awareness, prudential regulation and forming policy on emerging risks to our objectives.

The Bank of England, Prudential Regulation Authority (PRA), and Payment Systems Regulator (PSR) have a Memoranda of Understanding (MoU) with the FCA dated March 2015. It sets out how the authorities will cooperate with one another in relation to payment systems in the UK. The MoU is reviewed annually, and the latest review concluded that cooperation and coordination under the MoU is working well.

Payment Systems Regulator

The PSR became fully operational on 1 April 2015 and is an independent subsidiary of the FCA. The first regulator of its kind in the world, its purpose is to make payment systems work well for the people and organisations that use them. This is supported by its objectives of promoting competition, innovation and service-users' interests.

The FCA and PSR are the competent authorities for monitoring and enforcing different parts of the Payment Services Regulations 2017. Both the FCA and PSR are responsible for monitoring compliance with Regulation 105 (access to payment account services). We have worked closely with the PSR to develop our approach to these regulations and we coordinated publication of our policy statements to implement our own relevant rules.

In November 2017, we contributed to the PSR's paper on authorised push-payment scams following the Which? super-complaint about safeguards in the market for push payments.

More information about the activity of the PSR over the last year can be found in its own Annual Report.

Prudential Regulation Authority

Much of our co-ordination with the PRA happens daily through our joint working, supplemented by regular scheduled meetings at senior level. Our Chief Executive is a member of the Prudential Regulation Committee, and the PRA CEO is a member of the FCA board.

We have a Memorandum of Understanding with the PRA which includes arrangements for how we carry out our responsibilities and how we measure our performance through detailed quarterly reporting. It also underlines our aim of working in an independent but co-ordinated way.

The PRA identifies certain firms as being important to the stability of the UK financial system, and it is a statutory requirement for us to hold an annual meeting with these firms' external auditors. The purpose of those meetings is to gain a deeper understanding of issues at these firms, and the themes and trends arising from the external auditor's work. We scheduled and carried out 30 of these meetings during 2017/18.

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-authorized person in a way that would adversely affect financial stability. This power has not been exercised this year.

The regulators have co-ordinated effectively on policy issues such as the Senior Managers and Certification Regime, remuneration and ring-fencing of banks. This year we have worked closely with the PRA to ensure that additional information is collected as part of regulatory reporting under MiFID II and made the relevant changes to the forms used by MiFID investment firms. We also continue to work together on matters relating to EU Withdrawal.

The regulators work closely together to respond effectively to specific incidents through the Authorities' Response Framework. This ensures a co-ordinated response by the FCA, Bank of England and the Treasury to any event that causes major disruption to the financial sector and/or to the authorities.

Both regulators continue to review the shared FSA IT legacy systems to ensure both organisations have systems which meet their individual needs while supporting a collaborative approach to sharing information

Financial Policy Committee (FPC)

The FPC is the UK's responsible body for identifying, monitoring and mitigating financial stability risk. Our Chief Executive is a member of the committee and we work closely with the Bank of England on areas of interest to the FPC. In 2017/18, this work focused primarily on consumer credit, EU Withdrawal, developments in automated electronic trading in financial markets, FinTech and cyber risks.

Oversight Committee

The FCA Board has several committees to which it delegates certain function/powers. One of these is the Oversight Committee. This is responsible for providing support and advice to the Board on its relationship with the Money Advice Service (MAS) and its obligations under FSMA in respect of MAS. The Committee has the ability to extend its scope to carry out other assignments as specifically mandated by the Board, for example, to review the Plan and Budget of the Financial Ombudsman Service or the Financial Services Compensation Scheme from time to time if required.

Financial Ombudsman Service (FOS)

Consumers who are dissatisfied with regulated firms' response to their complaints can complain to the Ombudsman. We work closely with the Ombudsman Service to understand the problems that consumers are facing. We use both their complaints data and the data that we collect from firms to help us assess the scale of possible current and future problems in the market.

Financial Services Compensation Scheme (FSCS)

We work with the FSCS, the independent body which handles claims for compensation from consumers when regulated firms become insolvent.

This year we finalised rules to extend coverage of the FSCS, to increase the protection it provides to consumers and to amend the way that the cost is allocated to ensure the scheme is funded fairly and sustainably.

The Money Advice Service (MAS)

We work with MAS, an independent organisation responsible for providing free, impartial financial guidance across the UK, and for funding and co-ordinating the provision of free debt advice.

Following a Government consultation in 2016 it was agreed that the Money Advice Service, Pension Wise and the Pensions Advisory Service would join together to form a new Single Financial Guidance Body (SFGB) which would be better able to respond to the different financial guidance needs of consumers.

The Government anticipates that the Single Finance Guidance Body will be launched no later than the end of 2018. We continue to work with MAS, the Department for Work and Pensions, the Pensions Advisory Service and the Treasury to provide support throughout the transition process to ensure that the new model is implemented effectively.

In addition, we are working with the Financial Ombudsman Service, FSCS and MAS to share information and insight more effectively across organisations.

Competition and Markets Authority (CMA)

The CMA works to promote competition for the benefit of consumers, both inside and outside the UK. Its aim is to make markets work well for consumers, businesses and the economy. The CMA has competition law powers which apply across the whole economy. Since 1 April 2015, we have had concurrent competition powers in relation to the provision of financial services. This means we have the power to enforce prohibitions on anti-competitive behaviour, additional powers to conduct market studies into how competition is working in markets and powers to refer markets to the CMA for in-depth investigation.

This year, we made our first market investigation reference to the CMA on investment consultancy and fiduciary management services, following the Asset Management Market Study, as highlighted in our work on the Investment management sector.

The Pensions Regulator (TPR)

We continue to work closely with TPR. For example, in March 2018, we published a call for input on our strategic approach to the pensions and retirement income sector. This will set out how the FCA and TPR will work together to tackle key risks in the next 5-10 years.

Information Commissioner's Office (ICO)

This year, we have continued to work with the ICO. For example, in February 2018, the FCA and ICO published a joint update on the EU General Data Protection Regulation (GDPR). Another example of how we are working together is innovation, where the ICO is providing tailored input to the FCA's Innovation Hub.

International partners

Over the past year, our participation in European and global bodies and activities has remained a core part of our work. Whatever the eventual terms on which the UK leaves the EU, the relationships between, and the work we undertake with, regulators and bodies both in the UK and internationally will remain a crucial part of ensuring markets work well in the UK.

We continue to closely engage with many other international organisations, including the:

- International Organisation of Securities Commissions
- Financial Stability Board
- International Association of Insurance Supervisors
- Financial Action Task Force
- Organisation for Economic Cooperation and Development
- International Financial Consumer Protection Network
- European Banking Authority
- European Securities and Markets Authority
- European Insurance and Occupational Pensions Authority
- European Systemic Risk Board

In addition to our ongoing engagement with a range of international policy forums, we continued to work closely with many other regulators on a one-to-one basis.

Statutory panels

We are required to consult on the impact of our work with 4 statutory panels. These panels represent the interests of consumers, practitioners, smaller regulated firms and markets. We also consult the Listing Authority Advisory Panel.

These panels play an important role in both advising and challenging us. They bring a depth of experience, support and expertise in identifying risks to the market and consumers. We consider their views when developing our policies and when deciding and implementing other regulatory interventions. Each of the statutory panels publishes its own annual report. The Panels are:

- The Financial Services Consumer Panel
- The Practitioner Panel
- The Smaller Business Practitioner Panel
- The Markets Practitioner Panel
- The Listing Authority Advisory Panel (non-statutory)

Consumer organisations

We actively seek insights from consumers through a variety of sources including consumer bodies and the Financial Services Consumer Panel. To enable us to meet our consumer protection objective, we undertake extensive research to build our knowledge of consumers and their needs.

We continue to work closely with a range of consumer organisations across the UK to ensure our regulation reflects real-life consumer experiences. Our consumer organisation network includes:

- Age UK
- AdviceUK
- Alzheimer's Society
- Citizens Advice (England and Wales, Scotland, and Northern Ireland)
- Christians Against Poverty (CAP)
- The Consumer Council for Northern Ireland
- Money Advice Scotland

- Money Advice Trust
- Money and Mental Health Policy Institute
- MoneySavingExpert
- National Association of Student Money Advisers (NASMA)
- Scope
- Shelter
- StepChange
- The Money Charity
- Toynbee Hall
- Which?

We engage with a growing range of other groups who work directly with consumers, to help us spot emerging issues. We also convene and attend forums across the UK to gain a better picture of grassroots consumer issues.

Working with our communities

Our community engagement programme encourages our people to volunteer with their chosen registered charity or community group. We encourage volunteering by allocating paid time off for employees to be active in the community. Last year 1,134 people across our Edinburgh and London offices volunteered a total of 13,549 hours. This represents 32.6% of employees, against our target of 30%.

Charitable donations

Our Charity Committee supported Richard House Children's Hospice, Alzheimer's Society, Alzheimer's Scotland and Friends of Braidburn throughout 2017. All donations come from staff fundraising efforts. Excluding gift aid they raised:

- Alzheimer's Scotland – £1,693.26
- Alzheimer's Society – £17,443.18
- Friends of Braidburn School – £229.55
- Richard House Children's Hospice – £15,425.67

Through Payroll Giving in 2017, our employees donated £215,685 to various charities, an increase of £57,693 from 2016.

Andrew Bailey
Chief Executive

6 Group operational overview

To deliver our objectives as effectively as possible we:

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

This review focuses on the financial performance of the Group in 2017/18. In particular, it covers:

1. results for the year
2. analysis of income and operational costs
3. overall financial position at 31 March 2018
4. principal risks and uncertainties

Section 1 – Results for the year

The Group generated a £86.1m surplus for 2017/18 (see Table 1) primarily resulting from improvements in the funding position of the defined benefit pension scheme due to positive investment returns on assets combined with contributions to the scheme. We also recovered more than we spent on scope change activities (largely reflecting the continued recovery of Consumer Credit set up costs) and underspent against fees collected for Ongoing Regulatory Activities (ORA).

This surplus has resulted in a significant improvement in the Group's net deficit position to £87.3m (see Table 4).

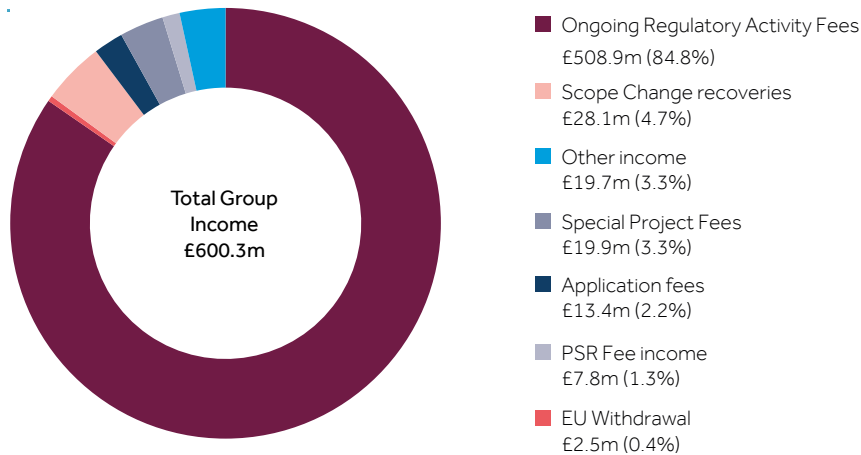
Table 1

Group Surplus/(Loss)	2018 £m	2017 £m
Net actuarial gains/(losses) on Pension Scheme	32.9	(65.3)
Pension contribution income taken to Balance Sheet	30.1	29.7
Pension interest charge	(4.9)	(4.8)
Total Defined Benefit Pension Scheme	58.1	(40.4)
FCA over recovery of ORA	17.3	23.7
PSR under recovery of ORA	(3.0)	(0.6)
Net recovery of Scope Change	13.7	8.1
Total Group surplus/(loss)	86.1	(9.2)

Section 2 – Analysis of Income and operational costs

Income

Chart 1 – The Income breakdown 2017/18



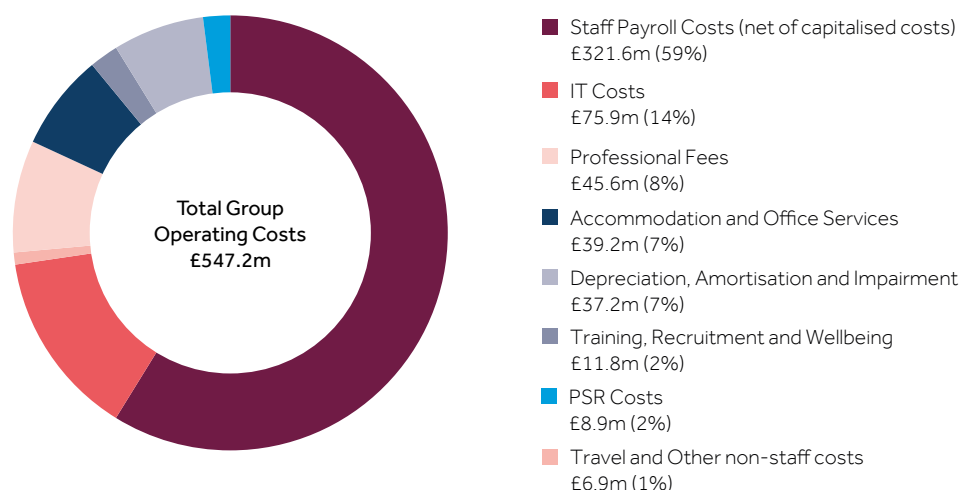
Fees: We do not receive funding from the UK government. We are funded by raising fees from the firms we regulate. FSMA gives us the powers to raise fees to cover our budgeted Ongoing Regulatory Activity (ORA). This represents the net costs of our core operating activities after offsetting Other Income.

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

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

Operational costs

Chart 2 – How we spend our money



2.1 Investing in our people

We aim to attract, develop and keep the best talent, as the quality of our people is key to our ability to meet our objectives. The following areas reflect key people related activities with a mixture of strategic and operational importance.

Table 2

Average staff numbers	2018	2017
Supervision	1,342	1,332
Enforcement and market oversight	643	670
Strategy and competition	522	435
Operations and central services	989	926
FCA full-time equivalent employees	3,496	3,363
Payment Systems Regulator	65	58
Group full-time equivalent employees	3,561	3,421
Group temporary and contract staff	178	214
Total Group	3,739	3,635

Attracting and keeping talent

We recruited 43 Graduates and 20 Summer Interns. This year, we received 4,718 graduate applications, a 45% increase compared to 2016/17. Applications came from 338 different universities.

We increased our apprenticeship programme from 10 to 17. We received 824 applications for 10 different apprenticeship programmes. We are meeting the Government's annual apprenticeship duty target to train 2.3% of our headcount through apprenticeships.

We have promoted internally wherever possible, making effective use of our existing talent. Where we have not found the necessary skill sets internally we have been successful in attracting people to join the organisation. During the year we made 1,102 appointments (1,074 FCA, 28 PSR), through a combination of 574 internal moves (567 FCA, 7 PSR) and 528 external appointments (507 FCA, 21 PSR). External turnover has increased slightly by 0.5% this year and ended the year at 11.4%.

Listening to our staff

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

In the 2017/18 employee survey, 68% of our staff said they were positively engaged in working at the FCA (up 1% from 2017). Our employees consistently tell us through this annual survey that what they value most about the FCA as a workplace is: interesting and meaningful work, our collegiate ethos and a focus on wellbeing.

Our highest scoring categories were diversity at 82% (down 1% on 2017), corporate social responsibility at 76% (down 1% on 2017) and job security at 75% (up 5% on 2017). Our top priority areas identified for the coming year are leadership and management, career and pay structure, and how we communicate the actions we take as a result of staff surveys.

We recognise the value of staff input and feedback. We believe that effective communication between staff and management is vital to ensure the successful development of the FCA for the benefit of staff and regulated organisations. We have established a Staff Consultative Committee (SCC) for discussion and consultation on a wide range of matters and we also communicate with staff through a number of other means, such as weekly team cascades, town hall meetings and intranet blogs and articles.

Staff development

Giving our staff access to the right development opportunities is an essential part of what we offer as an employer. The FCA Academy offers staff high quality structured learning. In 2017/18 we have:

- Started the fourth year of our MSc in Financial Regulation. 18 students completed their MSc this year alongside 26 (25 FCA, 1 PSR) students in their third year, 23 (20 FCA, 3 PSR) students in their second year and 24 students (23 FCA, 1 PSR) in their first year.
- Continued to develop the FCA curriculum and internal Academy programme. We delivered a total of 5,673 training days across the year. 58% of employees have attended at least one training event this year.
- Arranged 42 secondments to the FCA (40 FCA, 2 PSR) and 68 from the FCA (66 FCA, 2 PSR) to partner organisations. These include authorised firms, the European Securities and Markets Authority (ESMA), U.S. Securities and Exchange Commission, the Treasury, the Department for Exiting the European Union and consumer bodies.

Staff wellbeing

We have a comprehensive range of wellbeing services. This is supported by the Pro-active Health Gateway, an on line interactive tool available to all staff. A third of staff are currently registered on the Gateway, 83% of whom use it regularly. This helps us to identify health risks and increase mental health awareness, enabling our people to get targeted support to manage their wellbeing effectively.

During 2017/18 an average of 7.1 days per year (2017: 6.5 days) was lost per person due to sickness absence. The increase is partly as a result of putting in place more robust sickness absence monitoring and reporting.

Commitment to diversity and inclusion

The work of the FCA affects the daily lives of virtually everyone in the UK, as well as the millions who rely on UK markets. It is therefore vital that our people reflect the society that we serve and that we bring diverse attitudes and opinions to our judgements.

As part of our commitment to diversity and inclusion, in June 2016 we signed the Government's Women in Finance Charter. We have committed to achieving the following targets for Gender and Black, Asian and Minority Ethnic (BAME) diversity at the FCA's senior levels:

- 45% of our Senior Leadership Team (SLT) to identify as female by 2020, and 50% by 2025 (currently 39% of the SLT identifies as female)
- 8% of our SLT to identify as BAME by 2020, and 13% by 2025 (currently 4.3% of SLT identifies as BAME)

We want to ensure that we can track and measure our work in this area. We have created a 'Positive Action Framework' to guide our work. Priority areas of focus continue to be leadership role modelling, recruitment and work allocation.

In October 2017 we published information about our gender pay gap. Our mean gender pay gap is 19.3%, and median 20.9%, in favour of males, based on a snapshot of earnings taken on 31 March 2017.

We are a signatory to the Disability Confidence Scheme which is a recognition given by Job Centre Plus to employers based in Great Britain who have agreed to take action to meet five commitments regarding the employment, retention, training and career development of disabled employees. This guarantees an interview for Disability Confident applicants that meet the minimum criteria for a role and our recruiters work collaboratively with a number of specialist suppliers and agencies to ensure our commitment to inclusivity is implemented through our recruitment processes. In addition, our specialist Occupational Health provider works closely with us to provide advice and guidance to support employee's health in the workplace and ensure reasonable adjustments are made to facilitate work.

2.2 Investing in our technology and environment

We are investing heavily in operational improvements to support our internal systems and effective working. Most notably, we have commissioned a virtual datacentre in the Cloud. This will enable us to produce better quality data analytics, increase innovation and provide a more flexible, better value for money service than traditional physical datacentres. Our investments, together with an increased focus on supplier management, have allowed us to reduce our ongoing IT running costs in 2017/18.

In April 2018 we received the keys to our new building in Stratford Olympic Park. Our state of the art building will enhance ways of working to ensure that we are efficient and effective in how we regulate going forward. The new building has also achieved Building Research Establishment Environmental Assessment Method (BREEAM) Excellent rating as part of our drive to improve our overall sustainability goals.

2.3 Professional fees

We use professional fees for activities we cannot fulfil internally, for example for s166 Skilled Person reports and to run major publicity campaigns such as ScamSmart. The increase in expenditure on Professional Fees in 2017/18 reflects the introduction of the PPI campaign during the year, which is funded by the industry. It also reflects an increased use of consultants to fill skills shortages, particularly to deliver specialist change and strengthen cyber security.

Section 3 – Overall Financial Position

The Group **accumulated deficit has decreased by £86.1m** (50%), from £173.4m to £87.3m at 31 March 2018. This has been driven by:

- reduction in the retirement benefit obligation as a result of positive investment returns, increased contributions and falling inflation, slightly offset by falling bond yields; and
- improvement in the FCA net asset position due to increases in Ongoing Regulatory Activity (ORA) reserves and a net recovery of scope change costs.

The **pension liabilities of £119.4m** will not crystallise for many years. We explain the approach to managing and funding the pension deficit in note 13 to the financial statements.

Table 3

Scope Change	Consumer Credit ¹ £m	MIFID ² £m	SM&CR ³ £m	Other ⁴ £m	Total £m
At 1 April 2016	59.4	8.3	-	8.4	76.1
2017 costs	-	6.1	0.8	2.9	9.8
2017 recoveries	(7.7)	-	-	(10.2)	(17.9)
At 31 March 2017	51.7	14.4	0.8	1.1	68.0
2018 costs	-	10.4	2.7	1.3	14.4
2018 recoveries	(14.8)	(12.3)	-	(1.0)	(28.1)
At 31 March 2018	36.9	12.5	3.5	1.4	54.3

1 Consumer Credit recoveries additional £8.6m to set against the deficit.

2 Markets in Financial Instruments Directive. Fees recovered include £3.1m from Sundry Income.

3 Senior Managers & Certification Regime

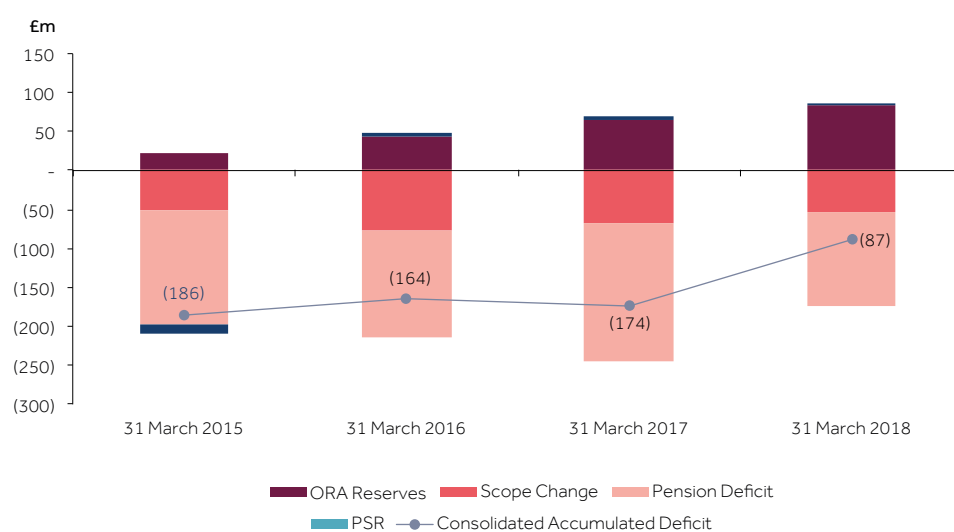
4 This relates to EU Benchmarks (£1.3m), Claims Management (£0.9m), Parliamentary Commission on Banking Standards (£0.6m credit) and Mortgage Credit Directive (£0.2m credit).

The **ORA Reserves of £84.0m** are driven by historical underspends, including £16.4m underspend in 2017/18. This was due to lower than budgeted external enforcement case costs, reduced staff costs as a result of attrition and slower than anticipated recruitment across the organisation, as well as savings in IT and project spend. ORA reserves will be used to fund dual running costs for the move to Stratford and an element of costs relating to work on EU Withdrawal.

The **Scope Change deficit of £54.3m** is due to the FCA funding scope change costs before recovering those costs from the relevant firms. The majority of this relate to the setting up of the FCA's Consumer Credit function which will be recovered over a period of up to 10 years (Table 3).

Table 4

Reserves	FCA				FCA Total Accumulated Deficit £m	PSR £m	Group Accumulated Deficit £m
	ORA Reserves £m	Scope Change £m	Assets/ (Liabilities) £m	Pension Deficit £m			
At 1 April 2016	43.0	(76.1)	(33.1)	(137.1)	(170.2)	6.0	(164.2)
Over recovery against budget	18.2	-	18.2	-	18.2	(0.6)	17.6
Additional fees	5.5	-	5.5	-	5.5	-	5.5
Net Scope Change recoveries	-	8.1	8.1	-	8.1	-	8.1
Pension movement	-	-	-	(40.4)	(40.4)	-	(40.4)
At 31 March 2017	66.7	(68.0)	(1.3)	(177.5)	(178.8)	5.4	(173.4)
Over recovery against budget	16.4	-	16.4	-	16.4	(3.0)	13.4
Additional fees	0.9	-	0.9	-	0.9	-	0.9
Net Scope Change recoveries	-	13.7	13.7	-	13.7	-	13.7
Pension movement	-	-	-	58.1	58.1	-	58.1
At 31 March 2018	84.0	(54.3)	29.7	(119.4)	(89.7)	2.4	(87.3)



Penalties collected on behalf of the Exchequer

We collected penalties of £70.4m (2017: £189.2m), of which £19.5m (2017: £148.7m) were paid to the

Exchequer. No penalties were issued for the PSR.

Section 4 – Principal risks and uncertainties

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

FCA Risk of Harm: This is the risk to FCA's strategic objective: to ensure that relevant markets function well, as well as the FCA's three operational objectives:

- **Protect consumers** – to secure an appropriate degree of protection for consumers
- **Integrity** – to protect and enhance the integrity of the UK financial system
- **Promote competition** – to promote effective competition in consumers' interests

The FCA's key external risks and issues are set out in more detail in the FCA's Business Plan 2018/19. The FCA is focused on taking a strategic approach to risk, placing emphasis on sector and market wide analysis. This puts the FCA in a strong position to prioritise its resources and efforts to mitigate or prevent those risks of harm.

The FCA's business plan sets out the most important issues in each of the sectors as well as seven cross-sector priorities as follows:

- 1. Firms' culture and governance** – finalising rules for the extension of the Senior Managers and Certification Regime to all FSMA firms, establishing a public register and focusing on firms' remuneration arrangements.
- 2. Financial crime and anti-money laundering** – seeking to make the UK financial system a hostile environment for criminal money.
- 3. Cyber security, resilience and outsourcing** – addressing the industry's operational resilience.
- 4. Innovation, big data, technology and competition** – looking to sustain a regulatory environment where consumers and firms can maximise the opportunities of competition, innovation and big data while reducing or mitigating the associated harm.
- 5. Treatment of existing customers** – pursuing further improvements in competition and the standards of treatment for existing customers.
- 6. Long-term savings, pensions and intergenerational differences** – delivering a package of remedies, collecting and acting on data, understanding the levels of consumer undersaving for retirement and publishing a feedback statement on competition in non-workplace pensions.
- 7. High-cost credit** – more work is needed in some parts of the market to improve consumer protection.

EU withdrawal is also a key priority for the FCA, with a significant proportion of our resources already focused on the forthcoming exit.

PSR Risk of harm: This is the risk to achieving PSR's statutory objectives:

- to ensure that payment systems are operated and developed in a way that considers and promotes the interests of all the businesses and consumers that use them
- to promote effective competition in the markets for payment systems and services – between operators, PSPs and infrastructure providers
- to promote the development of and innovation in payment systems, in particular the infrastructure used to operate those systems

The most material risks and trends that could pose a risk to the PSR's objectives in the coming years are set out below (more detail can be found our Annual plan and budget 2018/19):

1. Demographic trends and longevity
2. Technology and innovation
3. UK withdrawal from the European Union
4. Smart data, digitisation and data analytics
5. Cyber security and resilience

FCA and PSR: Key environmental and operational risks

1. **Environmental risks:** which include risks associated with the operating environment for the FCA and the PSR – in particular, political or legislative change. While it is set out in statute that the FCA and PSR are operationally independent organisations, they remain subject to changes in legislation and scope by the UK Government that can ultimately affect the size, activities and complexity of both organisations. The terms of the UK's exit from the EU remain subject to negotiation and may impact the scope and scale of regulated activities.
2. **Execution risk:** this relates to the execution of our regulatory strategy and arises when we fail to deliver our business activities as intended. When execution risks materialise this usually means that the FCA has failed to achieve a reduction/prevention in harm that would otherwise have been possible. Managing execution risk enables us to be an effective regulator which is key to delivering value for money.
3. **Internal operational risks:** like any organisation, the FCA and PSR face significant operational risks which may result in financial loss, disruption or both. For the FCA and PSR these risks are summarised below:
 - **People risks:** including risks associated with the capacity of our staff to deliver our business plan and the changing capability needs of the organisation such as cyber security and data analytics expertise. We continue to mitigate these risks as part of our People Strategy.
 - **Process Risk:** including risks from inefficient, inadequate or failed internal processes including identifying, monitoring and managing potential risks in order to minimize the negative impact they may have on an organisation. Managing process risks to ensure we are efficient is key to delivering value for money.

- **Governance risks:** including failings of not setting the right direction in optimising risks and resources, and monitoring performance and compliance to achieve the organisation's objectives. The introduction of the Senior Manager & Certification Regime (SM&CR) has strengthened governance, controls and decision making.
 - **Systems risks:** including the availability, resilience, recoverability and security of core IT systems. Cyber risk continues to be a major focus for both organisations, with a significant increase in investment, as we respond to the evolving threat level.
- 4. Public confidence risk:** which includes risks which could constrain the FCA's and PSR's ability to deliver against objectives, due to diminished levels of public trust, a reduced ability to influence key stakeholders and/or a reduction in our credibility and standing as effective regulators. This could result from inappropriate judgements, decisions and actions taken (or inaction) which may be perceived by stakeholders as inappropriate; inconsistent or inaccurate messages being communicated externally; and not clearly defining the FCA's and PSR's objectives and remit. The Mission supports us in addressing each of these risks.

As we have set out in the Strategic Report, value for money is a key area of focus for both organisations and we will continue to embed our approach to it.

Going concern and key financial risks

The directors have considered the FCA's Business Plan 2018/19 and the key financial risks and uncertainties in assessing the FCA and PSR as a going concern as set out below:

- 1. Liquidity risk:** can be assessed by looking at the following four key areas:
 - a. The FCA's current liquidity position reflects the fact that it has been funding (i) cumulative scope change costs for consumer credit (£36.9m) which are being recovered at circa £6.2m per annum; and (ii) capital expenditure, including Stratford fit out costs, which is recovered over the useful economic lives of the assets rather than when the expenditure is incurred. The carrying amount of assets as yet unrecovered through fees is £152.4m at 31 March 2018.
 - b. The next triennial valuation of the FCA Pension Plan is due on 31 March 2019 and will confirm if the current £29m deficit funding remains adequate.
 - c. The FCA's strong fee covenants are underpinned by the statutory powers granted to it to raise fees to fund its and the PSR's regulatory activities. Of the firms on which the FCA currently levies its fees, the top 100 are responsible for 53.4% of those fees (2017: 54.9%).
 - d. The FCA is currently well placed from a liquidity perspective, with cash deposits of £241.4m at 31 March 2018 and an available overdraft facility of £50m to meet the cost requirements for the next 18 months.
- 2. Credit risk:** falls into three 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.
 - b. The FCA will continue to closely monitor the potential impact of EU Withdrawal. EU Withdrawal will not impact the 2018/19 fees, even if firms move their operations outside the UK during 2018/19. The impact on 2019/20 fees will therefore depend on whether firms move part of their

operations outside the UK which reduces the tariff data they report for the calendar year ending 31 December 2018.

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

- 4. Significant Accounting Judgments and Key Sources of Estimate Uncertainty** that have been considered by the directors are the estimated intangible assets useful lives (as set out in Note 7 to the Financial Statements) and the assumptions underpinning the pension deficit (as set out in Note 13 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

11 July 2018

7 Directors' report and corporate governance statement

Directors' report

The directors present their report for the year ended 31 March 2018.

Details of the directors during the year can be found in table 1 of the Corporate Governance Statement.

The directors use the Strategic Report and Corporate Governance Statement to explain how they have performed their duty to promote the success of the Financial Conduct Authority (FCA) under section 172 of the Companies Act 2006. The Payments Systems Regulator (PSR) is a wholly owned subsidiary of the FCA. More information about the PSR's activities over the last year can be found in its own Annual Report.

The FCA has no branches or subsidiaries outside the UK.

Directors' responsibilities for the Annual Report and Accounts

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have chosen to prepare the financial statements for the FCA (the Parent Company) and the Group (including its subsidiary) 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 and any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business

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

As far as the directors are aware:

- there is no relevant audit information of which the company's auditor is unaware

- the directors have taken all the steps they ought to make themselves aware of any relevant audit information and establish that the auditor is aware of that information

The directors are responsible for maintaining and ensuring the integrity of the corporate and financial information on the company's website. UK legislation which applies to preparing and distributing financial statements may differ from legislation in other jurisdictions.

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

Qualifying indemnity provisions

Qualifying third party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were in force during the course of the financial year ended 31 March 2018 and remain in force at the date of this report.

Political Donations

The group did not give any money for political purposes in the UK, the rest of the EU, nor did it make any political donations to political organisations, or to any independent election candidates, or incur any political expenditure during the year.

Auditor

The Financial Services and Markets Act 2000 (FSMA) requires the Company's accounts to be examined, certified and reported on by the Comptroller and Auditor General. Accordingly the Comptroller and Auditor General was auditor throughout the year.

By Order of the Board on 27 June 2018.

S Pearce

Secretary

Corporate governance statement for the year ended 31 March 2018

Introduction

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

We are an independent public body, funded entirely by fees from the firms that we regulate. We are accountable to the Treasury, which is responsible for the UK's financial system, and to Parliament. The Financial Services and Markets Act 2000 (FSMA) defines our work and purpose and requires us to meet and consult with various stakeholders. We work with consumer groups, trade associations and professional bodies, our statutory panels, domestic regulators, EU legislators and a wide range of other stakeholders.

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

FSMA requires us to have regard to generally accepted principles of good corporate governance. Our Board is committed to meeting high standards of corporate governance and this report sets out how we are governed in line with the principles of the UK Corporate Governance Code (the Code). The Board considers that we comply with the Code as far as is appropriate.

The Role of the Board, Board committees and executive committees

The Board is the FCA's governing body. It sets our strategic aims and ensures that we have the necessary financial and human resources to allow us to meet our statutory objectives.

The Board's role includes:

- a. Deciding which matters it should make decisions on, including exercising our legislative functions and other matters as set out in the Schedule of Matters Reserved to the Board.
- b. Making strategic decisions about our future operation.
- c. Overseeing the executive management of our day-to-day business.
- d. Setting appropriate policies to manage risks to our operations and the achievement of our regulatory objectives.
- e. Seeking regular assurance that our system of internal control is effective in managing risks.
- f. Maintaining a sound system of financial control.
- g. Taking specific decisions that are not included in the Schedule of Matters Reserved to the Board, which the Board or executive management consider are novel, contentious or so significant that they should take them.
- h. Maintaining high-level relationships with other organisations and authorities. These include Government, the Financial Services Compensation Scheme, the Financial Ombudsman Service, the Money Advice Service, the Bank of England, the Prudential Regulation Authority, and the Consumer, Practitioner, Smaller Business Practitioner, Markets Practitioner and Listing Authority Advisory Panels.
- i. Establishing and maintaining the accountability for decisions made by committees of the Board and executive management.

The Board is supported by its principal committees, shown in Chart 1.

Membership of these committees is given in Table 3.

Our website gives more details on our governance arrangements as detailed in our '[Corporate governance of the Financial Conduct Authority](#)' document. We provide details of the committees' activities later in this report.

Our executive committees also play an important role in our overall corporate governance. In January 2018, we introduced a new executive governance structure designed to streamline the decision-making process.

The Executive Committee (ExCo) is chaired by the Chief Executive and takes decisions on internal operational issues. A new Executive Regulation and Policy Committee (ERPC), also chaired by the Chief Executive, now sits alongside ExCo and takes decisions on significant regulatory and policy issues.

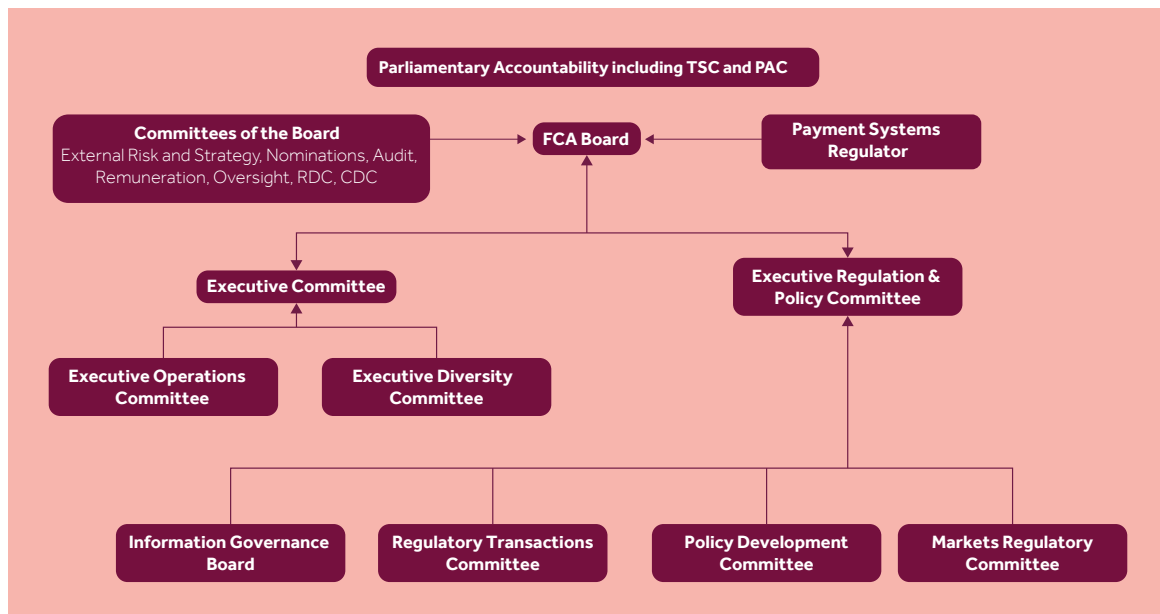
Below these two committees, there are several sub-committees, including the:

- Executive Diversity Committee - which leads our diversity and inclusion agenda
- Executive Operations Committee - which monitors our economic and efficient use of resources, operational risk management, people strategy and culture and operational resilience
- Policy Development Committee (Policy Steering Committee until December 2017) - which maintains oversight of our policy initiatives
- Executive Regulatory Issues Committee (discontinued from January 2018 and replaced by ERPC) - which took decisions on regulatory issues, such as firm, sector or product specific issues

Our website gives more [details of our executive structure](#).

Chart 1 summarises our governance framework.

Chart 1



Senior Managers and Certification Regime

The Senior Managers and Certification Regime (SM&CR), which came into force in March 2016, does not formally apply to the FCA. But, as best practice we have set out a formal description of the core responsibilities of our Board and Executive Committee members and staff carrying out Senior Management functions. Our website has more [details on how we apply the SM&CR to ourselves](#).

Members of our Board

FSMA sets out the requirements for the membership of our Board. The Board is currently made up of:

- the Chair and the Chief Executive, who are each appointed by the Treasury
- the Bank of England Deputy Governor for prudential regulation
- two non-executive directors appointed jointly by the Secretary of State and the Treasury
- one executive director and five non-executive directors appointed by the Treasury

All non-executive appointments are made in accordance with the Governance Code issued by the Office of the Commissioner for Public Appointments.

Table 1

Name	Original appointment date	Expiry of current term/date membership ceased
Andrew Bailey Executive Director – Chief Executive	1/07/16	30/06/21
Catherine Bradley Non-Executive Director	2/08/14	1/08/20 ¹
Amelia Fletcher Non-Executive Director	1/04/13	31/03/19
Bradley Fried Non-Executive Director	1/04/16	31/03/19 ²
John Griffith-Jones Non-Executive Director – Chairman	1/04/13	31/03/18
Baroness Hogg Non-Executive Director - Senior Independent Director	1/04/16	31/03/19
Ruth Kelly Non-Executive Director	1/04/16	31/03/19
Jane Platt Non-Executive Director	1/04/13	30/03/19
Nick Stace Non-Executive Director	1/04/17	31/03/20
Sam Woods Bank of England Deputy Governor for Prudential Regulation	1/07/16	Not applicable
Christopher Woolard Executive Director – Director of Strategy & Competition	1/08/15	31/07/21 ³

John Griffith-Jones and Andrew Bailey were appointed as Chair and Chief Executive respectively, each for a term of five years. All other directors were initially appointed for terms of three years. Catherine Bradley was reappointed for a further term of three years with effect from 1 August 2017.

Nick Stace was appointed as a non-executive director (NED) with effect from 1 April 2017. John Griffith-Jones' tenure as Chairman ended on 31 March 2018. John was succeeded by Charles Randell who took office from 1 April 2018.

A majority of Board members are NEDs and bring extensive and varied experience to the Board and Committees. All NEDs are considered independent.

The Board wants to ensure it has a diverse membership. We pay particular attention to the recruitment process to ensure it has a variety of members with the appropriate balance of relevant skills and experience. Our female membership is above the 33% target figure for the boards of UK FTSE 350 companies as proposed by the Hampton-Alexander review.

1 Reappointed for an additional three-year term from 1 August 2017.

2 Bradley stood down from the Board on 30 June 2018

3 Reappointed for an additional three-year term from 1 August 2018.

The executive members of the Board have continuous employment contracts with the FCA, subject to the following notice periods (as set out below in table 2):

Table 2

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

Table 3 provides details of committee membership during the year.

Table 3

Audit Committee	External Risk & Strategy Committee	Remuneration Committee	Nominations Committee	Oversight Committee
Ruth Kelly (Chair)	Jane Platt (Chair)	Baroness Hogg (Chair)	John Griffith-Jones (Chair)	John Griffith-Jones (Chair)
Catherine Bradley	Amelia Fletcher	Amelia Fletcher	Catherine Bradley	Catherine Bradley
Bradley Fried	Ruth Kelly	Bradley Fried	Amelia Fletcher	Baroness Hogg
Jane Platt	Nick Stace	John Griffith-Jones	Bradley Fried	Christopher Woolard
			Ruth Kelly	Nick Stace
			Baroness Hogg	
			Jane Platt	
			Nick Stace	

Board meetings and activities of the Board

There is a clear division of responsibility between the running of the Board and the executive running of the organisation. The Chair leads the Board and ensures it is effective. The Chief Executive is responsible for implementing the strategy agreed by the Board, the leadership of the organisation and managing it within the authorities delegated by the Board.

The Board has a formal schedule of matters reserved to it, and meets regularly to discharge its duties effectively. It held eleven scheduled meetings during the year, which included a two-day strategy meeting. It also held one additional meeting to deal with specific matters which required attention between the scheduled meetings.

The Board committees also met frequently during the year.

Table 4 provides details of all the Board and committee meetings and attendance.

Table 4

Name	Scheduled Board meetings	Additional Board meetings	Audit Committee	Additional Audit Committee meetings	External Risk & Strategy Committee	Remuneration Committee	Nominations Committee	Oversight Committee
Andrew Bailey	11/11	1/1						
Catherine Bradley	11/11	1/1	4/4	1/1			3/4	7/7
Amelia Fletcher	11/11	1/1			5/5	3/5	3/4	
Bradley Fried	10/11	1/1	3/4	0/1		5/5	4/4	
John Griffith-Jones	11/11	1/1				4/5	3/4	7/7
Baroness Hogg	11/11	1/1				5/5	4/4	7/7
Ruth Kelly	10/11	0/1	4/4	0/1	5/5		4/4	
Jane Platt	11/11	1/1	2/4	1/1	5/5		4/4	
Nick Stace	11/11	1/1			3/5		3/4	5/7
Sam Woods	8/11	1/1						
Christopher Woolard	11/11	1/1						7/7

During the year, the NEDs 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 reflect our priorities. They review papers before they are circulated 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 report to the Board after each committee meeting.

Board members provide rigorous challenge on strategy, performance, responsibility and accountability to hold the executive to account and ensure that the Board's decisions are robust.

The Board addressed many issues during the year. The principal areas of activity included: approving organisational budgets and business plans, including those of the Payment Systems Regulator, Financial Ombudsman Service, Money Advice Service and the Financial Services Compensation Scheme; monitoring major policy initiatives; reviewing the FCA's governance framework; reviewing management performance, including that of the Payment Systems Regulator, Financial Ombudsman Service, Money Advice Service and the Financial Services Compensation Scheme; approving the annual report and accounts for the year ending 31 March 2018.

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

Company Secretary and independent advice

Each director can use the advice and services of the Company Secretary, who advises the Board on all corporate governance matters and ensures the Board follows appropriate procedures. The Company

Secretary is also responsible for providing access to external professional advice for directors, if needed.

In general 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, provided that such acts or omissions are in good faith. This is supplemented with indemnities the FCA gives for the protection of individual employees, including directors. Accordingly, we do not currently buy Directors and Officers Liability Insurance.

Succession

The Board considers that all of the NEDs bring strong independent oversight and continue to demonstrate independence. However, we recognise the recommended term within the Code and take into account the need for suitable succession.

Succession planning remains a key agenda item for the Board. It uses its Nominations Committee to monitor the Board members' skills and experience to identify where gaps exist to share with the Treasury on future appointments.

Board induction and training

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

Members of the Board also receive ongoing professional development and briefings on relevant issues. During the year the Chair met with the non-executive directors to discuss their training needs and review their performance.

The Board programme includes regular briefings from management and informal meetings which increase the NEDs' understanding of the business and the sector.

Board effectiveness review

Reviews of Board effectiveness are conducted annually, with regular external reviews in accordance with best corporate governance practice. In June 2017 the Board commissioned Independent Audit to undertake a review of its effectiveness. [The review](#), available from our website, took place over the summer and autumn and the Board considered the findings at its meeting in December 2017.

The review highlighted many Board strengths and set out various things to consider (termed "things to think about"). These were discussed within the following broad themes:

- aligning activities into key strategic themes by the executive
- increased engagement with different areas of the organisation

- exploring different ways of engaging with external stakeholders
- balancing its agenda in terms of internal and external matters
- further refinement of the risk management framework, including the Board committees with responsibilities for risk
- varying and clarifying the format of different Board sessions, formal and informal

The Board welcomed the report and accepted all of these broad themes as being areas for potential further improvement.

Conflicts of interests

All directors are required to declare relevant interests. Where any potential conflict of interest arose during the year, the Board took appropriate steps to manage it. The Company Secretary maintains a register of interests.

Board Committees

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

We give information on each committee's membership in Table 3 and on our website and provide details of members' attendance at meetings in Table 4.

Audit Committee

The Audit Committee is responsible for reviewing and providing assurance to the Board on matters including the effectiveness of our internal controls, our operational risk management framework and mitigation strategies, the integrity of the financial statements and the statements that relate to financial controls and operational risk⁴ in the annual report and accounts and for oversight of the external audit process.

During the year the Committee's principal areas of activity included: approving Internal Audit's three-year plan and considering divisional reports, considering the outcomes from the annual risk and control self-assessments and joint organisational internal control assessments, reviewing the NAO's audit strategy and the annual report and accounts for the year ending 31 March 2018 and, reviewing the Committee's terms of reference.

The Committee also oversaw the FCA's relationship with the external auditor. Information on fees paid to the auditor is given on page 120.

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

⁴ Further information on the principal risks and uncertainties facing the FCA can be found in the Group operational overview (Chapter 6).

The Committee met on four occasions during the year, scheduled to coincide with the risk reporting and external audit cycles. It also held one additional meeting to deal with specific matters which required attention between the scheduled meetings.

The Committee consists entirely of non-executive directors.

The Chief Operating Officer attended all meetings of the Committee, as did the Director of Risk & Compliance Oversight, the Director of Internal Audit, the Director of Finance and representatives from the National Audit Office (NAO).

The Executive Director of Market Oversight, the Executive Director of International, the Chief Information Security Officer and the Director of HR all attended at least one session.

The Chair of the Board and the Chief Executive also attended meetings by invitation and relevant members of staff are also invited to attend for certain items.

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

Internal controls

The internal control framework is an important part of our governance arrangements. It is designed to provide reasonable but not absolute assurance about the effectiveness of the control environment, to manage rather than eliminate risks to our statutory objectives.

The Board is satisfied that the internal control framework is broadly appropriate for the business and was assured that a sound risk management framework and internal controls have been maintained during the year. However, the Board recognises that the risks facing the organisation evolve. Throughout the year, the Board observed the results of the assessments performed by the three lines of defence which concluded that the design of the organisation's internal controls is largely adequate with controls largely operating effectively with some improvements required.

Operational risks are overseen by the Audit Committee and external regulatory risks by the External Risk and Strategy Committee. The Board's policy on internal controls and risk management includes 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 operational risk management. The Audit Committee received regular reports from managers on financial and operational controls and the risk management system. It also received and reviewed reports from the Director of Internal Audit which included executive summaries of finalised reviews and summaries of work undertaken, findings and actions by management.

Key features of the internal control framework included the following:

- Risk reporting that highlighted the key operational and external risks faced. This supported discussion on the best course of action to mitigate the key risks and helped senior managers make decisions on priorities and resource allocation.
- Executive Committee and the Executive Operations Committee regularly reviewed these reports and their views were reported to the Audit Committee.

- A review of the framework of controls to mitigate the key operational and external risks faced.
- The Internal Audit Division provided independent assurance about the effectiveness of risk management and controls to the FCA Board and management.
- The Audit Universe, which contained all the FCA's activities, systems and projects that contribute to managing our risks. Internal Audit assessed each unit within the Universe to support the prioritisation of its risk based reviews. Internal Audit periodically reviewed the Audit Universe and priorities, considering factors including risk and how business critical and significant they were.
- Clear reporting lines and delegated authorities, which were reviewed on a regular basis.
- Clear segregation between the FCA's regulatory function and the internal treasury function to avoid either endorsing or criticising any financial institution through investment activities.
- Ensuring appropriate policies and procedures were included in the staff handbook.
- Directors and senior managers regularly communicated their commitment to maintaining an appropriate control culture across the FCA to all staff.

External Risk and Strategy Committee

The External Risk and Strategy Committee has responsibility for the review and oversight of the external risks⁵ to the FCA achieving its statutory objectives, the executive's appetite for such risks and the suitability of the scope and coverage of the mitigation used to reduce the potential impact of such risks.

The Committee is also responsible for the effective operation of the Regulatory Decisions Committee (RDC).

During the year the Committee championed the development of the organisational and risk management framework. It also received regular reports from the Risk and Compliance Oversight and Internal Audit divisions and oversaw the development of sector views and the enterprise wide risk assessment. Recognising the value of consumer and firm insight, it continued to foster a closer relationship with the Statutory Panels. Based on all these inputs, a number of risk areas were selected for examination as part of the Committee's work to seek assurance that major external risks were identified and had mitigation strategies in place. Towards the end of the year, its terms of reference were reviewed.

The Committee received regular reports on the operation of the RDC from its Chair.

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

The Committee consists entirely of non-executive directors. The Chief Operating Officer attended all meetings of the Committee, as did the Director of Risk & Compliance Oversight and the Director of Internal Audit. The Chief Operating Officer of the Payment Services Regulator was a regular attendee by invitation.

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

5 Further information on the principal risks and uncertainties facing the FCA can be found in the Group operational overview (Chapter 6).

Private sessions with the Director of Risk & Compliance Oversight, without management present, were held at all Committee meetings during the year. The Committee also held private sessions on its own, without management present, as required.

Remuneration Committee

The Remuneration Committee is responsible for ensuring there is a formal and transparent framework for executive remuneration and for agreeing the remuneration packages of the Chief Executive and persons who fall within the scope of the Senior Managers Regime.

During the year the Committee's principal areas of activity included: approving the annual budget for pay and incentive awards; approving the remuneration of the executive board members and senior executives, including members of associated bodies (such as the Money Advice Service, the Financial Ombudsman Service and the Consumer Panel) and; reviewing its terms of reference.

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.

The Committee met on five occasions during the year.

The Remuneration Committee consists solely of non-executive directors.

Nominations Committee

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

During the year the Committee's principal areas of activity included: considering the performance objectives of the Chief Executive and persons who fall within the scope of the Senior Managers Regime, considering succession planning for senior managers and reviewing its terms of reference.

The Committee met on four occasions during the year.

The Committee consists solely of non-executive directors.

Oversight Committee

The Oversight Committee provides support and advice to the Board on its relationship and obligations in respect of the Money Advice Service (MAS), the Financial Ombudsman Service (FOS) and the Financial Services Compensation Scheme (FSCS).

During the year the Committee's principal areas of activity included: assuring itself of the capabilities and performance of these organisations; ensuring that the FCA maintained good and effective working relationships with these organisations to ensure matters of mutual interest were identified, discussed and acted on; providing review and challenge of the basis of preparation, and underlying assumptions, of

each organisation's annual budget and business plan and; reviewing the its terms of reference.

The Committee met on seven occasions during the reporting period, with key individuals from each organisation in attendance.

Regulatory Decisions Committee

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

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

The RDC is independent of the division of the FCA that has conducted an investigation or considered an application for authorisation.

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

The RDC becomes involved after the relevant division of the FCA has concluded that it is appropriate for us to use particular powers against a firm or individual. The division submits 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.

RDC members are selected for their experience of making independent evidence-based decisions, working in senior and expert positions in financial services, or their knowledge and understanding of consumers and other users of financial services. This range of skills and experience is intended to help achieve fairness and consistency across sectors and cases and enhance the objectivity and balance of the FCA's decision-making.

The RDC's separate annual review of its activities for the year ending 2018 can be found in Appendix 2 of this report.

Competition Decisions Committee

The Competition Decisions Committee (CDC) is a committee of the Board comprising three persons appointed from the CDC Panel. The CDC acts as the decision-maker in Competition Act 1998 investigations on behalf of the FCA. This includes decisions on whether there has been a competition law infringement, whether to impose a financial penalty for an infringement and any directions to be given.

The CDC Panel was established in 2015 and is currently hearing its first case.

by order of the Board

Simon Pearce, 11 July 2018

Remuneration report

Remuneration Principles

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

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

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

Remuneration focus for 2017/18

There were no changes to the remuneration strategy this year. We continued to focus on rewarding those who:

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

2017/18 Remuneration review

All salary increases and incentive awards for staff in 2017/18 were a matter for management judgement against our common set of performance standards. The aim has been to ensure that members of staff at all levels received appropriate recognition for their performance. We made a budget of 2% available for salary increases, supplemented by an additional 0.5% to address anomalies. This year 77% of all our employees received a pay award.

We set the budget for incentive awards at 14.2% of salaries. The distribution of awards is shown in table 5.

Table 5

FCA	
Bonus percentage received	Percentage of workforce who received a bonus
0%	9%
0.1% - 5%	0%
5.1% - 9.9%	9%
10% - 14.9%	40%
15% - 19.9%	17%
20% - 24.9%	21%
25% - 29.9%	3%
30% - 35%	1%

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

Basic pensionable salary

During the year, salaries of executive board members and senior executives were reviewed in line with the policy. When making decisions on base salary, the Remuneration Committee took into account the importance of remuneration packages being sufficient to retain staff while awarding any salary increases responsibly to ensure careful use of our resources.

Performance related pay

During the period under review, from 1 April 2017 to 31 March 2018, the executive board members and senior executives were eligible to be considered for a performance-related award up to a maximum of 35% of average base salary applying during the previous year. Non-executive directors were not eligible to be considered for an award.

Other benefits

A sum was available for the Chair and executive board members which could be spent against a range of benefits. This sum is included in 'other benefits' in the remuneration table.

Pensions

The FCA Pension Plan (the Plan) has 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 and Andrew Bailey are not members of the Plan; both were entitled to receive a non-pensionable supplement instead. Christopher Woolard is a member of the Plan. The sums paid to the Chair and each of the executive directors are shown in the remuneration table.

Further information about the Plan is set out in Note 13 to the Financial Statements.

Directors' remuneration (audited)

Table 6 below sets out the remuneration paid or payable to any person that served as a Director during the years ending 31 March 2018 and 2017. The remuneration figures shown are for the period served as Directors.

Table 6

	Basic salary		Performance-related pay		Other benefits		Total FCA Remuneration (excluding pension)		Pension		Total FCA Remuneration	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Chair												
John Griffith-Jones ^{1,5}	170	170	-	-	3	3	173	173	20	20	193	193
Executive Directors												
Andrew Bailey ^{2,5}	440	330	75	65	34	24	549	419	40	30	589	449
Christopher Woolard ^{3,5}	300	300	48	50	31	29	379	379	30	30	409	409

Non-Executive Directors ⁴	Group Fee Paid		FCA Fee Paid	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
	-	-	-	-
Bradley Fried ⁵	43	42	35	35
Amelia Fletcher ⁵	43	42	35	35
Baroness Hogg ⁶	65	65	65	65
Jane Platt ⁷	45	45	45	45
Catherine Bradley	35	35	35	35
Ruth Kelly ⁸	45	45	45	45
Sam Woods ⁹	-	-	-	-
Nick Stace ¹⁰	35	-	35	-

Notes

Chair

1. John Griffith-Jones is not a member of the FCA Pension Plan and received a non-pensionable cash supplement in lieu of pension contributions. This amount is included under 'Pension' in the table above. John's tenure as Chair ended on 31 March 2018.

Executive directors of the FCA

2. Andrew Bailey was appointed Chief Executive of the FCA on 1 July 2016 and therefore his remuneration for the year 16/17 only covers the subsequent nine month period. Andrew's full-year salary remained unchanged at £440,000 per annum. Andrew was awarded a performance bonus of £65,000 for 2017, of which £26,000 (40%) was paid in March 2017. The remaining £39,000 (60%) was held in deferment and was paid with the approval of the Remuneration Committee in March 2018. Andrew was awarded a performance bonus of £75,000 for 2018, of which £30,000 (40%) was paid in May 2018. The remaining £45,000 (60%) has been held in deferment and will be paid with the approval of the Remuneration Committee in March 2019. Andrew received a non-pensionable supplement in lieu of pension contributions. This amount is included under 'Pension' in the table above.
3. Christopher Woolard is a member of the FCA Pension Plan. Christopher elected to have £10,000 of the employer pension contribution paid into the Pension Plan and the remaining employer contribution of £20,000 paid as a non-pensionable cash supplement. The total amount is included under 'Pension' in the table above.

Non-executive directors of the FCA

4. In accordance with FSMA, the Treasury is responsible for determining the remuneration of non-executive directors. The fee for non-executive directors remains unchanged at £35,000 per annum. An additional fee of £10,000 per annum is payable to any non-executive director who has been appointed to chair a committee of the Board. An additional fee of £20,000 is payable to the Chair of FCA Pension Plan Trustee Limited, the trustee of the FCA Pension Plan.
5. From 1 May 2016 Amelia Fletcher and Bradley Fried received a separate fee of £7,500 for their role on the PSR Board. John Griffith-Jones, Andrew Bailey and Christopher Woolard received no separate fee for their respective roles on the PSR Board.
6. Baroness Hogg continued to serve as Chair of the Remuneration Committee and Chair of FCA Pension Plan Trustee Limited during the year.
7. Jane Platt continued to serve as Chair of the External Risk & Strategy Committee during the year.
8. Ruth Kelly continued to serve as Chair of the Audit Committee during the year.
9. Sam Woods was appointed as the Deputy Governor of the Bank of England for prudential regulation on 1 July 2017 and therefore became a non-executive of the FCA in accordance with FSMA. Sam does not receive a fee from the FCA for this role.
10. Nick Stace was appointed as non-executive director on 1 April 2017.

Fair pay disclosure (audited)

Remuneration ratio	Group		FCA (Parent Company)	
	2018	2017	2018	2017
Highest Paid Director's Total Remuneration	£548,974	£536,553	£548,974	£536,553
Median Remuneration of Total Workforce	£65,905	£64,984	£65,737	£64,785
Ratio (to Total Workforce)	8.3	8.3	8.4	8.3
Number of employees paid in excess of highest paid Director	Nil	Nil	Nil	Nil

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 2018 and 2017.

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

Remuneration is total remuneration and includes salary, performance-related pay and benefits, whether monetary or in-kind. It does not include severance payments or employer pension contributions.

Total Workforce includes employees, temporary staff, contractors and other short-term resource.

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

The Chief Executive of the FCA was the highest-paid director for 2018 and 2017.

Excluding the highest-paid director, remuneration ranged from £20,356 to £510,794 (2017: £19,250 to £440,000).

In 2018 (2017, nil) no employees received remuneration in excess of the highest paid director.

The Board of the FCA



Charles Randell
Chair
(Appointed with effect from 1 April 2018)



Andrew Bailey
Chief Executive



Catherine Bradley
Non-executive Director



Amelia Fletcher OBE
Non-executive Director



Bradley Fried
Non-executive Director



Baroness Sarah Hogg
Non-executive Director



Ruth Kelly
Non-executive Director



Jane Platt CBE
Non-executive Director



Nick Stace
Non-executive Director



Sam Woods
Non-executive Director



Christopher Woolard
Executive Director



Simon Pearce
Company Secretary

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Company Number 01920623

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

Opinion on financial statements

I have audited the financial statements of the Financial Conduct Authority for the year ended 31 March 2018 which comprise the group and parent Company Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law, the Financial Services and Markets Act 2000, and International Financial Reporting Standards as adopted by the European Union. I have also audited the information in the Directors' Remuneration Report that is described as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2018 and of the group's surplus for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- have been prepared in accordance with the Companies Act 2006 and HM Treasury directions issued under the Financial Services and Markets Act 2000.

Opinion on regularity

In my opinion, in all material respects the income and expenditure 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply

with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Financial Conduct Authority in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Directors for the financial statements

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the Financial Conduct Authority's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the the group's and the Financial Conduct Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence

obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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

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

Other Information

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

Opinion on other matters prescribed by the Companies Act 2006

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006 and the accounts directions issued by HM Treasury under the Financial Services and Markets Act 2000;
- in light of the knowledge and understanding of the group and the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report; and
- the information given in the Strategic and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

Matters on which I report by exception

I have nothing to report in respect of the following matters where the Companies Act 2006 requires me to report to you if, in my opinion:

- adequate accounting records have not been kept by the Financial Conduct Authority, 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 directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- I have not received all of the information and explanations I require for my audit; or
- a corporate governance statement has not been prepared by the parent company.

Report

I have no observations to make on these financial statements.

Sir Amyas CE Morse

Date: 18 July 2018

Comptroller and Auditor General

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

Statement of comprehensive income for the year ended 31 March

	Notes	Group		Parent Company	
		Total 2018 £m	Total 2017 ¹ £m	Total 2018 £m	Total 2017 ¹ £m
Income					
Fee income	4	580.6	555.7	572.8	545.5
Other income	4	19.7	19.2	21.6	20.8
Total income		600.3	574.9	594.4	566.3
Operating costs					
Staff costs	5	(334.3)	(329.0)	(327.1)	(321.9)
Administrative and general costs	6	(218.3)	(194.7)	(216.6)	(192.6)
Staff costs capitalised during the year	5	5.5	4.9	5.5	4.9
Total operating costs		(547.1)	(518.8)	(538.2)	(509.6)
Surplus for the year		53.2	56.1	56.2	56.7
Net actuarial gains/ (losses) for the year in respect of the defined benefit pension scheme	13	32.9	(65.3)	32.9	(65.3)
Total comprehensive surplus/ (loss) for the year		86.1	(9.2)	89.1	(8.6)

1 The 2017 figures have been restated as reflected in notes 4 and 6. The total comprehensive loss for 2017 has not changed.

Statement of changes in equity for the year ended 31 March

	Accumulated Deficit	
	Group £m	Parent Company £m
At 1 April 2016	(164.2)	(170.2)
Total comprehensive loss for the year	(9.2)	(8.6)
At 31 March 2017	(173.4)	(178.8)
Total comprehensive surplus for the year	86.1	89.1
At 31 March 2018	(87.3)	(89.7)

The notes on pages 111 to 133 form part of the accounts.

Statement of financial position as at 31 March

Company Number: 01920623

	Notes	Group		Parent Company	
		Total 2018 £m	Total 2017 £m	Total 2018 £m	Total 2017 £m
Non-current assets					
Intangible assets	7	75.2	75.7	75.2	75.7
Property, plant and equipment	8	90.4	28.8	90.4	28.8
		165.6	104.5	165.6	104.5
Current assets					
Trade and other receivables	9	19.7	22.0	20.5	22.7
Cash and cash equivalents	9	250.9	196.4	241.4	183.1
		270.6	218.4	261.9	205.8
Total assets		436.2	322.9	427.5	310.3
Current liabilities					
Trade and other payables	10	(387.2)	(313.9)	(380.9)	(306.7)
Short-term provisions	10	(3.6)	-	(3.6)	-
		(390.8)	(313.9)	(384.5)	(306.7)
Total assets less current liabilities		45.4	9.0	43.0	3.6
Non-current liabilities					
Trade and other payables	10	-	(2.4)	-	(2.4)
Long-term provisions	10	(13.3)	(2.5)	(13.3)	(2.5)
		(13.3)	(4.9)	(13.3)	(4.9)
Net liabilities excluding retirement benefit obligation		32.1	4.1	29.7	(1.3)
Retirement benefit obligation	13	(119.4)	(177.5)	(119.4)	(177.5)
Net liabilities including retirement benefit obligations		(87.3)	(173.4)	(89.7)	(178.8)
Accumulated deficit		(87.3)	(173.4)	(89.7)	(178.8)

The financial statements were approved by the Board on 27 June 2018, and signed on 11 July 2018 on its behalf by:

Charles Randell
Chair

Andrew Bailey
Chief Executive

The Company is exempt from the requirement of Part 16 of the Companies Act 2006 as stipulated in Schedule 1ZA, s.15(4) of the Financial Services and Markets Act 2000.

Statement of cash flows for the year ended 31 March

	Notes	Group		Parent Company	
		Total 2018 £m	Total 2017 £m	Total 2018 £m	Total 2017 £m
Net cash generated/ (used) by operations	3	152.4	(1.2)	156.2	(7.0)
Investing activities					
Interest received on bank deposits	4	0.6	0.6	0.6	0.5
Expenditure on intangible software development	7	(28.3)	(21.9)	(28.3)	(21.9)
Purchases of property, plant and equipment	8	(70.2)	(13.3)	(70.2)	(13.3)
Net cash used in investing activities		(97.9)	(34.6)	(97.9)	(34.7)
Net increase/ (decrease) in cash and cash equivalents		54.5	(35.8)	58.3	(41.7)
Cash and cash equivalents at the start of the year	9	196.4	232.2	183.1	224.8
Cash and cash equivalents at the end of the year	9	250.9	196.4	241.4	183.1

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 directors of the company are the members and have agreed to contribute £1 each to the assets of the company in the event of it being wound up. The nature of the FCA's operations is set out in the Financial Overview.

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

Under the FCA's Accounts Direction from Her Majesty's Treasury (the Treasury) 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 sickness absence (no comparative data required) and have included this in the 'Our resources' section of the Annual Report.

The registered office for both the FCA and PSR is 12 Endeavour Square, London, E20 1JN.

The financial statements are presented in pounds sterling (rounded to £0.1m) because that is the currency of the primary economic environment in which both the FCA and PSR operate.

2. Core accounting policies

a) Basis of preparation

The consolidated financial statements have been prepared on a going concern basis, under the historical cost convention in accordance with: International Financial Reporting Standards (IFRS) as adopted by the European Union; the Treasury's Accounts Direction issued under the Financial Services and Markets Act 2000; and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. We discuss the reason why the going concern basis is appropriate in the Financial Overview.

The principal significant accounting policies applied in the preparation of the financial statements are set out below. We have included the policies with the relevant notes where possible. These policies have been consistently applied to both accounting years presented, unless otherwise stated.

Under s.454 of the Companies Act 2006, on a voluntary basis, the directors can amend these financial statements if they subsequently prove to be defective.

b) Significant judgements

The preparation of financial statements requires management to make estimates and assumptions. Actual results could differ from estimates. Information about these judgements and estimates is contained in the relevant accounting policies and notes to the accounts. The key areas of estimation uncertainty are:

- Pension deficit (note 13) – the quantification of the pension deficit is based upon assumptions made by the directors relating to the discount rate, retail price inflation (RPI), future pension increase and life expectancy
- Intangible assets useful lives (note 7) - asset lives are reviewed on an annual basis and, where necessary adjusted to reflect the remaining expected asset life. Changes to asset lives arise as a result of changes in technology or business need.

c) Group financial statements

The PSR is a private company, limited by shares (a single share with a £1 nominal value), and is a wholly owned subsidiary of the FCA.

d) Changes in accounting policy

The group has early adopted the following new standards: IFRS 15 – Revenue from Contracts with Customers and IFRS 9 - Financial Instruments. The nature and the effect of the changes are further explained below:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces the existing standard, IAS18 Revenue, for the period beginning on or after 1 January 2018.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The standard requires an entity to identify the contract(s) with a customer and the performance obligation related to the contract. It further requires for the transaction price to be determined and allocated to the performance obligations in the contract. Finally, revenue can only be recognised when (or as) the entity satisfies a performance obligation.

Management assessed the implication of adopting IFRS 15 directly, however given the nature of the FCA's and the PSR's activities and that IFRS 15 relates to commercial organisations it was not considered appropriate. Accordingly management have applied IAS 8 (10) to use its judgement in developing and applying an accounting policy that provides information that is relevant and reliable.

In doing so management has broadened the definition of a contract to include legislation and regulation. 'A 'contract' in this circumstance would be the underlying statutory framework set out in FSMA for the FCA and FSBRA for the PSR. This enables the group to raise fees to recover the costs of carrying out their statutory functions.

The standard also introduces the concept of identifying performance obligations which are promises in a contract to transfer goods or services that are distinct. The performance obligation for the FCA and the PSR is granting a firm the ability to operate and remain authorised during the course of the year. FSMA and FSBRA provide the enforceability of the performance obligation.

The transaction price is the amount of consideration that an entity expects to be entitled to in exchange for transferring promised goods or services to a customer. The transaction price has been determined to be as set out in the Fees Schedule of the FCA handbook. The group's revenue streams are categorised as either **fee income** or **other income**.

Fee income includes the annual periodic fees; special project fees; and applications fees. FSMA enables the FCA to raise fees and FSBRA enables the FCA to raise fees on behalf of the PSR to recover the costs of carrying out their statutory function.

- **Annual periodic fees** are levied and measured at fair value when recognised.
- **Special project fees (SPFs)** are charged to recover exceptional supervisory costs where a firm undertakes certain restructuring transaction such as raising additional capital, a significant change to a firm's business model, SPFs are recognised at point of charging a corresponding fee to the respective firm.

- **Application fees** are recognised at the point of when the firm is authorised.

Other income satisfies the core principles and conditions set out to recognise revenue. Other income includes:

- **Skilled person reports income:** The FCA can itself appoint a Skilled Person and settle the professional fees directly with the supplier. These fees are then recovered by charging a corresponding fee to the respective firm. There is no separate performance obligation to a firm for this report, rather the cost recovery results in an adjustment to the transaction price. The income is not a separate revenue stream but rather an adjustment to the transaction price.
- **Services provided to other regulatory bodies:** The FCA acts as a collection agent for the other regulatory bodies namely: 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); Pension Guidance Service (PGS) and the Payment System Regulator (PSR). The FCA does not recognise any income collected on behalf of other regulated bodies except the fees it charges each of the bodies as stated in the Service Level Agreements (SLAs). The performance obligation is the provision of an integrated business support as stipulated in the SLA.
- **Publication and training services:** The cost of events is not included in firms' fees so the FCA charges any firm that takes part in workshops, round-tables, conferences, seminars and other events. The performance obligation is the provision of an event to a firm and it is at this point that income is recognised.

In summary, based on management's assessment, the transition from IAS 18 to IFRS 15 has not had a material impact on the Group's financial statements and comparatives for 2017 financial year do not require restatement.

IFRS 9 Financial Instruments

The new standard is based on the concept that financial assets should be classified and measured at fair value, with changes in fair value recognised in profit and loss as they arise, unless restrictive criteria are met for classifying and measuring the asset at either amortised cost or fair value through other comprehensive income. The FCA's own financial instruments (Trade Receivables), whose classifications are not affected by the adoption of IFRS 9, are held at amortised cost.

The group has applied the simplified approach to impairment of financial assets by providing for expected credit losses on trade receivables as described by IFRS 9. This requires the use of lifetime expected credit loss provision for all trade receivables. These provisions are based on an assessment of risk of default and expected timing of collection, and an allowance for loss is made for potentially impaired receivables during the year in which they are identified based on a periodic review of all outstanding amounts. Allowance losses are recorded within administrative costs in the Statement of Comprehensive Income.

Due to the nature of its financial instruments, the transition from IAS 39 to IFRS 9 has not had a material impact on the Group's financial statements and comparatives for 2017 financial year do not require restatement.

IFRS 16 Leases (has been issued but is not yet effective)

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee recognises a Right Of Use (ROU) asset in the same way as other non-financial assets (for example property, plant and equipment) and lease liabilities in the way of other financial liabilities.

As a consequence, a lessee recognises depreciation of the ROU asset and interest on the lease liability, and also classes cash repayments of the lease liability into a principal portion and an interest portion and presents them in the Statement of Cash Flows in accordance with IAS 7.

IFRS 16 is mandatory for accounting periods commencing on or after 1 January 2019 but earlier application is permitted for entities that apply IFRS 15 - Revenue from Contracts with Customers at or before the initial application of IFRS 16.

Given the significance of the effect of this standard on the accounting for the FCA's new building at Stratford, the group will adopt IFRS 16 with effect from 1 April 2018 and will account for a ROU asset and corresponding liability of circa £275m. The lease liability has been measured at the present value of the remaining lease payments, discounted using interest rate of 2.46% based on a 20 year loan from the Public Works Loan Board as the most appropriate rate.

e) Impairment of intangibles and property, plant and equipment

Each year the FCA reviews the carrying amount of its intangible assets, property, plant and equipment to determine whether there is any indication that its assets have suffered any impairment in value. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. The assets' residual values and useful lives are reviewed and adjusted if appropriate.

The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment is immediately recognised as an expense.

f) Taxation

As a UK incorporated company, the FCA is subject to the provisions of the UK Taxes Acts, the same corporation tax rules as any other UK incorporated company.

On the basis of the relevant tax legislation and established case law, the results of the FCA's regulatory activities (on which it does not seek to make a profit) are not subject to corporation tax because the FCA's regulatory activity does not constitute a 'trade' for corporation tax purposes.

The FCA invests heavily in its own fixed assets, mainly IT software, and accounts for these as intangible fixed assets. It thus has significant levels of amortisation charges. The FCA has applied the intangible fixed asset tax rules to these assets and as a result tax relief is available for the amortisation.

This amortisation is currently being utilised to offset any corporation tax due on investment income, resulting in nil corporation tax being payable by the FCA at this time.

The application of the corporation tax regime for intangible assets has also led to an unrecognised deferred tax asset (unrecognised in the FCA's balance sheet) in relation to unused tax losses carried forward as it is not sufficiently certain that the FCA will actually have taxable income to set against these losses in future. As at 31 March 2018 this deferred tax asset equated to £40.7m (2017: £35.3m).

The FCA is partially exempt for VAT purposes because a significant part of the revenue relates to regulatory activities which are outside the scope of VAT.

The corporation tax treatment of the PSR's activities is the same as for the FCA, for the same reasons and agreed with Her Majesty's Revenue and Customs. As the FCA wholly owns the PSR, the FCA and the PSR are part of the same group for corporation tax and VAT purposes.

3. Notes to the cash flow statement

	Notes	Group		Parent Company	
		Total 2018 £m	Total 2017 £m	Total 2018 £m	Total 2017 £m
Surplus for the year from operations		53.2	56.0	56.2	56.6
Adjustments for:					
Interest received on bank deposits	4	(0.6)	(0.6)	(0.6)	(0.5)
Amortisation of other intangible assets	7	28.4	28.6	28.4	28.6
Loss on disposal of intangible assets	7	0.4	0.4	0.4	0.4
Depreciation of property, plant and equipment	8	8.4	11.6	8.4	11.6
Increase/ (decrease) in provisions	10	14.4	(0.1)	14.4	(0.1)
Difference between pension costs and normal contributions	13	3.9	4.3	3.9	4.3
Payments made against unfunded pension liability	5	0.1	0.6	0.1	0.6
Additional cash contributions to reduce pension scheme deficit	13	(29.0)	(29.7)	(29.0)	(29.7)
Operating cash flows before movements in working capital		79.2	71.1	82.2	71.8
Decrease in receivables	9	2.3	11.7	2.2	11.7
Increase/ (decrease) in payables	10	70.9	(84.0)	71.8	(90.5)
Net cash used by operations		152.4	(1.2)	156.2	(7.0)

4. Income

FSMA enables the FCA to raise fees and the Financial Services (Banking Reform) Act 2013 enables the FCA to raise fees on behalf of the PSR, to recover the costs of carrying out their statutory functions.

Fee income includes the annual periodic fees receivable under FSMA for the financial year and is recognised in the year and measured at fair value in accordance with note 2d.

	Group		Parent Company	
	Total 2018 £m	Total 2017 ² £m	Total 2018 £m	Total 2017 ² £m
Ongoing Regulatory Activity fees ¹	515.8	513.1	508.0	502.9
Additional Ongoing Regulatory Activity fees	0.9	5.5	0.9	5.5
EU Withdrawal fees	2.5	-	2.5	-
Scope change costs recovered - Consumer credit (CC)	14.8	7.7	14.8	7.7
Scope change costs recovered - non CC	13.3	10.2	13.3	10.2
Application fees and other regulatory income ²	13.4	11.0	13.4	11.0
Special project fees	19.9	8.2	19.9	8.2
Total	580.6	555.7	572.8	545.5

1 Of the £508.0m (2017: £502.9m) Ongoing Regulatory Activity fees £46.7m (2017: £46.4m) related to penalties collected in the previous year for the sum of enforcement costs and returned to fee payers through reduced fees. See note 11 on Penalties.

2 The 2017 figures have been restated. Application fees and other regulatory income now includes late reporting fees of £1.6m (2017: £1.6m) previously reported under other income.

Other income is recognised when services are provided and is analysed below:

	Group		Parent Company	
	Total 2018 £m	Total 2017 ² £m	Total 2018 £m	Total 2017 ² £m
Skilled person reports (s.166) income ¹	4.2	6.5	4.2	6.5
Services provided to other regulatory bodies	10.9	9.8	12.9	11.5
Publications and training services	0.4	0.6	0.4	0.6
Interest received on bank deposits	0.6	0.6	0.6	0.5
Other sundry income ²	3.6	1.7	3.5	1.7
Total other income	19.7	19.2	21.6	20.8

1 This income is a recharge of the costs of the s.166 reports to the firm in question. Overall this has a net zero impact on the statement of comprehensive income for the FCA as these charges are included in administrative costs.

2 The 2017 figures have been restated. Other sundry income excludes late reporting fees (this is now reported under fee income)

5. Staff information

	Notes	Group		Parent Company	
		Total 2018 £m	Total 2017 £m	Total 2018 £m	Total 2017 £m
Gross salaries and taxable benefits		258.8	247.0	253.2	242.2
Employer's national insurance costs		29.8	28.6	29.2	28.0
Apprenticeship levy		1.2	-	1.2	-
Employer's defined contribution pension costs		24.3	22.8	23.8	22.4
Payments made against unfunded pension liability	3	0.1	0.6	0.1	0.6
Net interest on defined benefit pension scheme	13	3.9	4.3	3.9	4.3
Permanent staff costs		318.1	303.3	311.4	297.5
Temporary		3.2	2.9	3.3	2.9
Secondees		1.4	1.5	1.3	1.5
Contractors		11.6	21.3	11.1	20.0
Short-term resource costs		16.2	25.7	15.7	24.4
Total staff costs		334.3	329.0	327.1	321.9

Of which the following was capitalised during the year.

	Group		Parent Company	
	Total 2018 £m	Total 2017 £m	Total 2018 £m	Total 2017 £m
Staff Costs	5.5	4.9	5.5	4.9

Staff numbers comprise:

The average number of full-time equivalent employees (including executive directors and fixed-term contractors) during the year to 31 March is presented by division below:

	Group		Parent Company	
	Total 2018	Total 2017	Total 2018	Total 2017
Supervision - Retail & Authorisation	807	822	807	822
Supervision - Investment, Wholesale and Specialist	535	510	535	510
Enforcement and Market Oversight	643	670	643	670
Strategy and Competition	522	435	522	435
Sub-total	2,507	2,437	2,507	2,437
Operations	728	654	728	654
Other central services	261	272	261	272
PSR	65	58	-	-
Total	3,561	3,421	3,496	3,363

As at 31 March 2018, there were 3,614 (2017: 3,482) full-time equivalent employees of which 3,541 (2017: 3,422) were FCA and 73 (2017: 60) were PSR.

The average number of short-term resources utilised during the year to 31 March by type was:

	Group		Parent Company	
	Total 2018	Total 2017	Total 2018	Total 2017
Temporary	87	64	87	63
Secondees	23	24	23	24
Contractors	50	126	45	116
Total	160	214	155	203

As at 31 March 2018, there were 190 (2017: 182) short-term resources of which 185 (2017: 171) were FCA and 5 (2017: 11) were PSR.

Exit packages

Redundancy and other departure costs incurred in accordance with the redundancy policy are set out below. A compulsory redundancy is any departure resulting from a restructure or other change leading to a role ceasing to exist. Other departures are those mutually agreed with the individual concerned. Long-term ill health settlements are credited back to the FCA by our insurers.

Exit package cost band £'000	Number of compulsory redundancies 2018	Number of other departures agreed 2018	Number of Long-term ill health settlements 2018	Total 2018	Number of compulsory redundancies 2017	Number of other departures agreed 2017	Number of Long-term ill health settlements 2017	Total 2017
0 -10	-	-	-	-	-	3	-	3
>10 - 25	1	2	-	3	1	2	-	3
>25 - 50	-	1	-	1	2	2	-	4
>50 - 100	1	-	-	1	-	1	1	2
>100 - 150	-	-	1	1	-	1	1	2
>150 - 200	-	1	-	1	-	-	-	-
>200	-	-	-	-	-	-	1	1
Total number	2	4	1	7	3	9	3	15
Gross costs¹	£0.1m	£0.2m	£0.1m	£0.4m	£0.1m	£0.3m	£0.4m	£0.8m

1 The exit package costs is gross of any insurance received, 2018: £0.1m (2017: £0.4m).

6. Administrative and general costs

The administrative costs for the year ending 31 March comprise the following:

Notes	Group		Parent Company	
	Total 2018 £m	Total 2017 ³ £m	Total 2018 £m	Total 2017 ³ £m
IT running costs ¹	57.7	59.9	57.7	59.8
IT project scoping costs ¹	18.2	7.2	18.2	7.2
Professional fees	42.7	28.4	41.4	27.2
Professional fees: s166 ²	4.2	6.5	4.2	6.5
Accommodation and office services	39.2	37.5	39.2	37.5
Amortisation of intangible assets	7	28.4	28.4	28.6
Recruitment, training and wellbeing	12.2	11.2	11.8	10.7
Travel	3.5	3.5	3.5	3.4
Depreciation of property, plant and equipment	8	8.4	8.4	11.6
Loss on disposal of intangible assets	7	0.4	0.4	0.4
Other non staff costs	3.4	(0.1)	3.4	(0.3)
Total	218.3	194.7	216.6	192.6

1 IT costs are now split between running and project scoping costs

2 These professional fees are the costs of the s166 ('skilled person') reports recharged to the firm in question. Overall this has a net zero impact on the statement of Comprehensive income for the FCA as the recharges for these costs are recognised in other income.

3 The 2017 figures have been restated, travel, training and recruitment has been split between 'Travel' and 'Recruitment, training and wellbeing'. It also now excludes capitalisable labour costs; this is now disclosed in note 5 and shown separately in the Statement of Comprehensive income

Auditors

The Comptroller & Auditor General was appointed as auditor on 1 April 2013 under FSMA. The auditor's total remuneration for audit services is set out below:

	Group		Parent Company	
	Total 2018 £'000	Total 2017 £'000	Total 2018 £'000	Total 2017 £'000
Fees payable to the National Audit Office for the audit of the financial statements	105	98	85	76

The National Audit Office has not provided any non-audit related services to FCA group in 2018 (2017: £nil)

7. Intangible assets

In accordance with IAS 38: Intangible Assets, costs associated with the development of software for internal use are capitalised only where:

- i. the FCA can demonstrate the technical feasibility of completing the software
- ii. the FCA has adequate technical, financial and other resources available to it as well as the intent to complete its development
- iii. the FCA has the ability to use it upon completion
- iv. the asset can be separately identified, it is probable that the asset will generate future economic benefits, and the development cost of the asset can be measured reliably.

Only costs that are directly attributable to bringing the asset to working condition for its intended use are included in its measurement. These costs include all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in a manner intended by management. All additions are initially capitalised as work in progress during the development stage. When the asset is brought into use (immediately once completed) it is then transferred from work in progress to the appropriate asset category.

Intangible assets are amortised over their expected useful lives. Asset lives are reviewed on an annual basis and, where necessary adjusted to reflect the remaining expected asset life. Changes to asset lives arise as a result of changes in technology or business need. Where the full asset life cannot be determined with reasonable certainty the net book value is amortised over the minimum time that would be required to implement a replacement asset. The minimum time to replace is also reassessed on an annual basis. Amortisation reported as an administration expense in the statement of comprehensive income.

When software is not an integral part of the related hardware, it is treated as an intangible asset.

Where no intangible asset can be recognised, research and development expenditure is expensed when incurred.

Internal software development costs of £28.3m (2017: £21.9m) have been capitalised as additions during the year. Internally developed software is designed to help the FCA carry out its various statutory functions, such as holding details relating to regulated firms. These functions are particular to the FCA, so this internally developed software generally has no external market value. Management judgement has been applied in quantifying the benefit expected to accrue to the FCA over the useful life of the relevant assets. Those expected benefits relate to the fact that such software allows the FCA to carry out its functions more efficiently than by using alternative approaches (for example, manual processing). If the benefits expected do not accrue to the FCA (for example, if some aspect of its approach to discharging its statutory functions changes, perhaps due to the impact of implementing a European directive), then the carrying amount of the asset would require adjustment.

The PSR does not hold intangible assets.

	Internally generated software £m	Other software costs £m	Work in progress £m	Total £m
Cost				
At 1 April 2016	188.2	28.1	15.4	231.7
Additions	-	0.2	21.7	21.9
Transfers	17.7	-	(17.7)	-
Reclassification	-	-	(1.4)	(1.4)
Disposal	(23.8)	(1.8)	-	(25.6)
At 31 March 2017	182.1	26.5	18.0	226.6
Additions	-	0.2	28.1	28.3
Transfers	26.8	-	(26.8)	-
Disposal	(22.1)	(1.4)	-	(23.5)
At 31 March 2018	186.8	25.3	19.3	231.4
Amortisation				
At 1 April 2016	122.5	25.0	-	147.5
Charge for year	27.2	1.4	-	28.6
Disposal	(23.4)	(1.8)	-	(25.2)
At 31 March 2017	126.3	24.6	-	150.9
Charge for year	27.6	0.8	-	28.4
Disposal	(21.9)	(1.2)	-	(23.1)
At 31 March 2018	132.0	24.2	-	156.2
Net carrying value				
At 31 March 2017	55.8	1.9	18.0	75.7
At 31 March 2018	54.8	1.1	19.3	75.2

Of the net carrying amount of internally generated software of £54.8m and other software of £1.1m:

- i. £21.9m relates to INTACT, a case management tool for authorising firms and individuals and firms (three years useful life remaining)
- ii. £11.1m relates to Gabriel, a system for submitting regulatory data online (three years useful life remaining)
- iii. £6.9m relates to Business Intelligence, a reporting tool that allows business users to create and run reports (one year useful life remaining)

Of the net carrying amount of work in progress of £19.3m:

- i. £7.7m relates to INTACT systems enhancements, adding extra components to the existing system
- ii. £4.4m relates to a technology refresh in advance of move to Stratford.
- iii. £2.0m relates to 'The Amalgamated Regulatory Data Information System' (TARDIS) replacement. This is the master registry for authorised firms, permissions, individuals and collective investment schemes within the FCA.

8. 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	Lease term
Furniture and equipment	Ten years
Computer equipment (excluding software)	Up to five years

	Leasehold improvements £m	Computer equipment £m	Furniture and equipment £m	Work in progress £m	Total £m
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Cost					
At 1 April 2016	23.8	48.0	15.0	5.2	92.0
Additions	-	0.2	-	13.1	13.3
Transfers	1.8	3.1	0.1	(5.0)	-
Reclassification	0.1	-	-	1.3	1.4
Disposal	-	-	(0.1)	-	(0.1)
At 31 March 2017	25.7	51.3	15.0	14.6	106.6
Additions	-	-	-	70.0	70.0
Transfers	-	0.3	-	(0.3)	-
Disposal	-	-	-	-	-
At 31 March 2018	25.7	51.6	15.0	84.3	176.6

Depreciation					
At 1 April 2016	17.5	38.9	9.9	-	66.3
Charge for year	4.0	5.9	1.7	-	11.6
Disposal	-	-	(0.1)	-	(0.1)
At 31 March 2017	21.5	44.8	11.5	-	77.8
Charge for year	3.3	3.2	1.9	-	8.4
Disposal	-	-	-	-	-
At 31 March 2018	24.8	48.0	13.4	-	86.2

Net book value					
At 31 March 2017	4.2	6.5	3.5	14.6	28.8
At 31 March 2018	0.9	3.6	1.6	84.3	90.4

Of the carrying amount of £84.3m in work in progress, £74.5m relates to the costs incurred relating to the new Stratford building (see notes 14 and 15), and £8.0m to a technology refresh of the End User Computing solution.

The PSR does not hold property, plant and equipment.

9. Current assets

Trade receivables are recognised initially at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of comprehensive income when there is objective evidence that an asset is impaired.

Cash and cash equivalents comprise cash and short-term fixed-rate bank deposits with a maturity date of 12 months or less and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates to their fair value. Of the £250.9m (2017: £196.4m), £6.8m (2017: £5.1m) related to fees collected on behalf of other financial regulatory organisations (disclosed in trade creditors, note 10).

The FCA currently has a £50m (2017: £150m) unsecured overdraft facility with Lloyds Banking Group (LBG) available until further notice and reviewed periodically by LBG. The PSR does not have or need its own credit facilities currently.

Intragroup 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.

	Notes	Group		Parent Company	
		Total 2018 £m	Total 2017 £m	Total 2018 £m	Total 2017 £m
Fees receivable		2.6	3.6	2.5	3.6
Net penalties receivable	11	1.4	1.4	1.4	1.4
Other debtors		1.6	1.4	1.6	1.3
Prepayments and accrued income		14.1	15.6	14.1	15.6
Intragroup receivable – PSR		-	-	0.9	0.8
Trade and other receivables		19.7	22.0	20.5	22.7
Cash deposits		240.5	179.9	238.0	176.9
Cash at bank		10.4	16.5	3.4	6.2
Cash and cash equivalents		250.9	196.4	241.4	183.1
Total current assets		270.6	218.4	261.9	205.8

The average credit period is 36 days (2017: 37 days).

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

All of the fees and other receivables have been reviewed for indications of impairment. This provision has been determined by reference to past default experience:

	Group		Parent Company	
	Total 2018 £m	Total 2017 £m	Total 2018 £m	Total 2017 £m
At 1 April	0.6	0.8	0.6	0.8
Increase/ (decrease) in provision for fees receivable	0.1	(0.2)	0.1	(0.2)
Total at 31 March	0.7	0.6	0.7	0.6

In addition, some of the unimpaired fees receivable are past due as at 31 March. The age of fee receivables past due, but not impaired, is as follows:

	Group		Parent Company	
	Total 2018 £m	Total 2017 £m	Total 2018 £m	Total 2017 £m
Not more than three months	0.2	0.2	0.2	0.2
Between three and nine months	0.1	0.5	0.1	0.5
Total unimpaired fees receivable	0.3	0.7	0.3	0.7

The FCA policy is to review receivables systematically for recoverability when they are more than three months past due.

10. Current and non-current liabilities

Current liabilities

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

	Notes	Group		Parent Company	
		Total 2018 £m	Total 2017 £m	Total 2018 £m	Total 2017 £m
Trade creditors and accruals		134.2	76.7	133.1 ¹	75.6
Other taxation and social security		12.6	11.4	12.6	11.4
Net penalties payable	11	55.9	50.6	55.9	50.6
Fees received in advance		184.5	175.2	179.3	169.1
Trade and other payables		387.2	313.9	380.9	306.7
Short-term provisions		3.6	-	3.6	-
Total current liabilities		390.8	313.9	384.5	306.7

¹ The FCA issued a request for payment to Capita £66m. This payment is a redress payment for former investors in the Connaught Income Fund, Series 1. At 31 March 2018, £51.2m of the monies had been collected. A further £10.2m has been collected subsequent to year end. Once the actual redress figures have been calculated the monies will be distributed to investors and any remaining balance returned to Capita.

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade payables is 23 days (2017: 27 days).

As at 31 March, the group and FCA (parent company) current liabilities have contractual maturities which are summarised below:

	Within 6 months		6 to 12 months	
	2018 £m	2017 £m	2018 £m	2017 £m
Trade creditors and accruals	132.4	74.6	1.8	2.1
Fees received in advance	184.5	173.6	-	1.6
Other liabilities	71.9	61.8	0.2	0.2
Total current liabilities	388.8	310.0	2.0	3.9

Other liabilities maturing within 6 months include £1.2m (2017: £1.0m) for the PSR.

Non-current liabilities

As at 31 March, the Group and FCA (the parent company) non-current liabilities measured at amortised cost, have contractual maturities that are summarised below:

	1 to 5 years	
	2018 £m	2017 £m
Lease accrual	-	2.4
Long-term provisions for dilapidations	13.3	2.5
Total non-current liabilities	13.3	4.9

The Lease for TIQ requires that the building is returned to the Landlord at the end of the lease term with any building alterations and additions removed. This obligation will therefore crystallise in 2038. The provision is based on a desktop survey completed by professional advisors and will be reassessed on a regular basis through the lease term.

11. Penalties

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

A liability to the FCA fee payers arises when a penalty is received. This liability is limited to the sum of the enforcement costs for that year agreed with the Exchequer and these retained penalties are returned to the fee payers through reduced fees in the following year. Once total penalties collected during the year exceed this amount, a liability to the Exchequer arises.

Recognition of enforcement expenses: all costs incurred to the end of the year are included in the financial statements but no provision is made for the costs of completing current work unless there is a present obligation.

In the course of enforcement activities, indemnities may be given to certain provisional liquidators and trustees. Provisions are made in the accounts for costs incurred by such liquidators and trustees based on the amounts estimated to be recoverable under such indemnities.

	Notes	Group	
		Total 2018 £m	Total 2017 £m
Penalties receivable at 1 April		12.3	20.9
Penalties issued during the year		69.9	181.0
Write-offs during the year		(1.7)	(0.4)
Penalties collected during the year		(70.4)	(189.2)
Penalties receivable at 31 March		10.1	12.3
Allowance for bad debts		(8.7)	(10.9)
Net penalties receivable at 31 March	9	1.4	1.4

Allowance for bad debts

Penalties receivable were also reviewed for impairment and an allowance made as set out below. These allowances reduce the amounts receivable.

	Total 2018 £m	Total 2017 £m
At 1 April	10.9	10.7
(Decrease)/ increase in allowance for bad debts	(2.2)	0.2
Total at 31 March	8.7	10.9

Penalties collected during the year

	Total 2018 £m	Total 2017 £m
Retained penalties to be returned to fee payers	46.7	46.4
Penalties paid to Exchequer during the year	19.5	148.7
Penalties payable to Exchequer	7.4	3.2
Payable to Exchequer from previous years	(3.2)	(9.1)
Penalties collected during the year	70.4	189.2

Net penalties payable

	Notes	Total 2018 £m	Total 2017 £m
Retained penalties to be returned to fee payers		46.7	46.4
Penalties under/ (over)-released to fee payers		0.4	(0.4)
Penalties payable to Exchequer		7.4	3.2
Net penalties receivable		1.4	1.4
Net penalties payable	10	55.9	50.6

The PSR did not issue any penalties during the year ended 31 March 2018.

12. Losses and Special Payments

The Accounts Direction from the Treasury requires a statement showing losses and special payments by value and by type where they exceed £300,000 for the year to 31 March 2018 only (no comparative figures required).

There are no losses and special payments to report for 2017/18.

13. Retirement benefit obligation

The FCA operates a tax-approved occupational pension scheme, the FCA Pension Plan (the Plan), which is open to all employees of the group. The Plan is a UK approved defined benefit pension scheme and as such is subject to UK pensions legislation and regulations. The Plan was established on 1 April 1998 and operates on both a defined contribution basis (the Money Purchase Section) and a defined benefit basis (the Final Salary Section), which is closed to new members and to future accruals. The disclosures have been prepared for the purposes of reporting under IAS19, rev 2011 on the understanding that there is no impact from IFRIC14 or any requirement to recognise an additional liability in respect of any minimum funding requirements.

The governance of the Plan is primarily the responsibility of the Trustee of the Plan. However, FCA is consulted on key areas such as investment strategy. The Plan is exposed to several key areas of risk.

These primarily relate to interest rate and inflation risk, longevity risk, and asset return risk. In addition, there may be changes in the Plan provisions or applicable law that could impact the Plan's funding. The FCA is exposed to these risks to the extent that if the deficit in the Plan worsens due to these factors, additional deficit contributions may be required.

The Money Purchase Section forms part of a wider flexible benefits programme where members can, within limits, select the amount of their overall benefits allowance that is directed towards their pension plan.

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

The total expense recognised in the statement of comprehensive income of £24.3m (2017: £22.8m) represents contributions payable to the Plan by the FCA at rates specified in the rules of the Plan.

The Final Salary Section has no active members and the benefits of the deferred members are calculated based on their final pensionable salary, calculated at the date they ceased accruing benefits.

The net liabilities of the Final Salary Section of the Plan are calculated by deducting the fair value of the Plan assets from the present value of its obligations and they are disclosed as non-current liabilities in the statement of financial position.

The obligation of the Final Salary Section of the Plan represents the present value of future benefits owed to employees in respect of their service in prior periods. The discount rate used to calculate the present value of those liabilities is the balance sheet date market rate of high quality corporate bonds having maturity dates approximating to the average term of those liabilities. The calculation is performed by a qualified actuary using the projected unit credit method at each reporting date.

Actuarial gains and losses arising in the Final Salary Section of the Plan (for example, the difference between actual and expected return on assets, effects of changes in assumptions and experience losses due to changes in membership) are fully recognised in other comprehensive income in the period in which they are incurred.

Past service cost (including unvested past service cost) is recognised immediately in the profit or loss.

The most recent Scheme Specific Valuation (SSV) of the Plan was carried out as at 31 March 2016 by the Scheme Actuary. The results of this valuation have been taken into account for the purpose of the IAS 19 retirement benefit as at 31 March 2016, in order to allow for any changes in assumptions and movements in liabilities over the period.

The key assumptions concerning the future uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the assets and liabilities within the next financial year, are:

- pension deficit – the quantification of the pension deficit is based upon assumptions made by the directors 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.

The major assumptions and dates used for the purpose of actuarial assumptions were as follows:

At 31 March	2018	2017
Discount rate	2.40%	2.45%
Retail price inflation (RPI)	3.25%	3.35%
Future pension increases	3.00%	3.05%
Plan membership census dates	31/03/2016	31/03/2016

The discount rate is used to calculate the Defined Benefit Obligation (DBO). The DBO is the present value of the cash flows of expected future payments required to settle the obligation to provide benefits resulting from employee service in the current and prior periods. The discount rate was chosen with reference to the duration of the Plan's liabilities (around 20 years) and takes into account the market yields for high quality 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 2018 are based on CLUB VITA tables and reflect an update to the CMI mortality improvements from the mortality assumptions from 2017.

The table below illustrates the assumed life expectancies in years of members when they retire:

	2018 Males	2018 Females	2017 Males	2017 Females
Retiring today aged 60 (years)	27.7	29.1	27.8	29.4
Retiring in 15 years aged 60 (years)	28.8	30.3	29.0	30.8

The results of the pension valuation are sensitive to changes in all of the assumptions referred to above. The table below provides an estimate of the sensitivity of the present value of pension obligations, and the cost of servicing those obligations, to small movements in those assumptions.

Assumption	Sensitivity	Increase/ (decrease) in pension obligation at 31 March 2018	
		£m	%
Present value of funded obligation	Assumptions as above – no change	858.7	-
Discount rate	10 bps increase to 2.50%	(16.5)	(1.9%)
Discount rate	10 bps decrease to 2.30%	17.0	2.0%
Inflation	10 bps increase to 3.35%	12.9	1.5%
Longevity	Life expectancy for a 60 year old increases by 1 year	24.3	2.9%

The amounts recognised in the statements of financial position are:

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Fair value of Plan assets	742.7	712.5	590.1	585.3	487.2
Less: Present value of funded obligations	(858.7)	(886.6)	(724.2)	(727.9)	(610.9)
Deficit in the Plan	(116.0)	(174.1)	(134.1)	(142.6)	(123.7)
Unfunded pension liabilities	(3.4)	(3.4)	(3.0)	(3.0)	(2.7)
Net liability	(119.4)	(177.5)	(137.1)	(145.6)	(126.4)

Amounts recognised in the statement of comprehensive income in respect of the defined benefit plan are as follows:

	Notes	2018 £m	2017 £m
Net interest on the net defined benefit liability		(3.9)	(4.3)
Other net finance costs	5	(3.9)	(4.3)

Actuarial gain of £32.9m (2017: £65.3m loss) is recognised in the period in which it occurs as part of other comprehensive income. Cumulative actuarial losses recognised in other comprehensive income are as follows:

	2018 £m	2017 £m
Losses at 1 April	(288.6)	(223.3)
Net actuarial gains / (losses) recognised in the year	32.9	(65.3)
At 31 March	(255.7)	(288.6)

Changes in the present value of the defined benefit obligation are as follows:

	2018 £m	2017 £m
Opening obligation	(886.6)	(724.2)
Benefits paid	29.5	17.4
Interest cost on Plan liabilities	(21.3)	(24.7)
Actuarial gains/ (losses)	19.7	(155.1)
Closing obligation	(858.7)	(886.6)

Actuarial gains/ (losses):

	2018 £m	2017 £m
Experience gains/ (losses) arising on the Plan liabilities	(2.9)	20.7
Gains/ (losses) arising from change in discount rate	(8.9)	(151.0)
Gains/ (losses) arising from change in assumptions linked to price inflation	13.6	(41.4)
Gains/ (losses) arising from change in demographic assumptions	17.9	16.6
Total actuarial gains/ (losses)	19.7	(155.1)

Changes in the fair value of the Plan assets are as follows:

	2018 £m	2017 £m
Opening fair value of plan assets	712.5	590.1
Expected return on plan assets	17.4	20.4
Actuarial gains	13.3	89.7
Contributions by the employer	29.0	29.7
Benefits paid	(29.5)	(17.4)
Closing fair value of Plan assets	742.7	712.5

The fair value of the Plan assets and asset allocation at 31 March were as follows:

	Asset allocation 2018 %	Fair value 2018 £m	Asset allocation 2017 %	Fair value 2017 £m
Equity securities	19.8	147.0	51.3	365.5
Debt securities	40.3	299.3	30.6	218.0
Real estate/property	8.2	61.0	7.0	49.9
Buy-in asset ¹	8.8	65.4	9.4	67.0
Other	22.9	170.0	1.7	12.1
Closing fair value of Plan assets	100	742.7	100	712.5

¹ In September 2016, the Trustee of the Plan completed the purchase of an insurance contract to cover the pension payments for a tranche of the Plan's pensioner members. Under this policy the insurer makes pension payments to the Plan that match the payments due to the members covered and is an asset of the Plan

There are no deferred tax implications of the above deficit.

The disclosures are only in respect of the FCA's portion of the liability/asset. The Plan assets do not include any of the FCA's own financial instruments, nor any property occupied by, or other assets used by the FCA. The FCA is the principal employer of the Plan and retains ultimate responsibility for payment of any debt due in event of a wind-up. FOS is an associated employer and would be liable for payment of a debt should they ceased to participate, calculated in line with section 75 debt provisions. Our understanding is that surplus can, ultimately, be return to the principal and associated employers on wind-up, but there is currently no agreement in place that sets out how this would be achieved.

As the Plan closed to future benefit accrual with effect from 31 March 2010 no accrual funding contributions were paid after that date. A Recovery Plan was put in place following the SSV as at 31 March 2016 and required an annual deficit contribution of £30.0m (£29.0m for the FCA and £1.0m for the Financial Ombudsman Service) to be paid over 10 years from 1 April 2017 with the aim of removing the Plan deficit.

In order to mitigate the risks of significantly increased future annual pension deficit funding contributions, and to support the agreed long term funding objective, a number of measures were agreed following the completion of the 2016 valuation. The level of interest rate and inflation hedge has been increased to 50% (previously 21%) and a revised trigger mechanism has been implemented to identify opportunity to further increase the Plan's exposure to matching assets, with the aim to achieving an allocation by 2030 of around 80:20 matching assets to return seeking assets.

14. Capital commitments

The FCA had entered into contracts at 31 March 2018 for future capital expenditure totalling £13.5m (2017: £65.7m this figure has been restated to include the capital commitments previously disclosed as operating leases in note 15 below) relating to furniture and fittings for The International Quarter (TIQ) and £4.5m (2017: £5.8m) relating to intangible assets. These total commitments of £18.0m are not provided for in the financial statements.

There were no capital commitments for the PSR.

15. Operating lease arrangements

At the reporting date, the FCA had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 £m	2017 ¹ £m
Within one year	25.8	16.8
In the second to fifth years inclusive	62.9	73.1
Greater than five years	257.7	273.7
Total	346.4	363.6

¹ The 2017 figures have been restated to reflect the lease liabilities due rather than cash payments. The figures for TIQ have been restated to take into account the rent review in year 5 of the lease. We have also removed fit-out costs which are disclosed in capital commitments, note 14.

On 20 May 2015 the FCA signed an Agreement for Lease with Lendlease to move to The International Quarter (TIQ) in Stratford in 2018. The building has been completed and the lease commenced on 31 March 2018 while the lease instruments were signed on 12 April 2018 and are for a twenty year term. The initial rent free period ends in September 2021. The interest rate used to discount the lease for IFRS 16 purposes is expected to be that quoted by the Public Works Loan Board on an annuity basis for loans with a duration of nineteen and a half to twenty years (2.46%).

The group will adopt IFRS 16 with effect from 1 April 2018 and account for TIQ on a Right of Use basis.

The PSR occupies the FCA's building and has no lease commitments of its own.

Lease expenses recognised in the Statement of Comprehensive Income are £13.4m (2017: £13.5m) and sublease income recognised in the Statement of Comprehensive Income is £0.2m (2017: £0.2m).

16. Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Key management personnel include the chairman, executive board members and directors that report directly to the CEO and COO. This includes senior management acting in the role of director for more than 3 months. Of this group, 16 (2017:16) personnel received remuneration of £100k or more for the year.

	Group		Parent Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Short-term benefits	5.0	5.3	4.5	4.8
Post-employment benefits	0.4	0.4	0.4	0.4
Total	5.4	5.7	4.9	5.2

Other relationships

Two non-executive members of the board, Baroness Sarah Hogg and Bradley Fried also held directorships with FCA-regulated firms during the financial year. Baroness Sarah Hogg was a Chairman/Director of John Lewis Partnership Plc, part of John Lewis group, which are authorised and regulated by the FCA. Levy fees were collected by FCA in 2017-18 from John Lewis Partnership Plc and from John Lewis Financial Services Limited. These fees were collected as per agreed terms and are considered to be on arms-length basis. There were no other transactions with the entities in year. Bradley Fried was an executive director of Grovepoint Capital LLP which is also authorised and regulated by the FCA. Grovepoint Capital LLP also owns Payzone UK Limited, which is another entity authorised and regulated

by the FCA. Levy fees were collected by FCA in 2017-18 from Grovepoint Capital LLP and from Payzone UK Limited. These fees were collected as per agreed terms and are considered to be on arms-length basis. There were no other transactions with the entities in year.

Their remuneration from the group and FCA 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, with the approval of HM Treasury. However, the appointed directors have to exercise independent judgement in accordance with the Companies Act 2006. IFRS 10 Consolidated Financial Statements defines control as 'the ability to use power to vary returns'. On the basis of this, the FCA does not control these entities and hence is not required to prepare consolidated financial statements including these organisations.

a) The Financial Services Compensation Scheme Limited (FSCS)

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 2018 was £0.3m (2017: £0.3m). The net amount of fees collected that remained to be paid over by the FCA to FSCS at 31 March 2018 was £2.6m (2017: £0.9m).

b) The Financial Ombudsman Service Limited (the ombudsman service)

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 2018 was £0.1m (2017: £0.1m). The net amount of fees collected that remained to be paid over by the FCA to the ombudsman service at 31 March 2018 was £0.5m (2017: £1.1m).

The FCA is a guarantor to a lease agreement for the FOS's premises in Exchange Tower, Harbour Exchange, London, E14. The lease is for a 15 year term commencing 1 September 2014. The FCA does not guarantee the short term leases in Exchange Tower.

The ombudsman service is also a participating employer in the FCA Pension Plan described in note 13 and makes contributions at the same overall rate as the FCA.

c) Money Advice Service (MAS)

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 2018 was £0.1m (2017: £0.1m). The net amount of fees collected that remained to be paid over by the FCA to MAS at 31 March 2018 was £0.4m, (2017: £0.6m).

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 2018 was £8.5m (2017: £8.4m).

The net amount of fees collected that remained to be paid over by the FCA to the PRA at 31 March 2018 was £3.5m (2017: £2.4m).

e) 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 2019.

The FCA funds the activities of the OCC through the periodic fees it raises. During 2017/18, the FCA transferred £0.4m (2017: £0.5m) to the OCC to cover running costs, which have been expensed in the FCA group financial statements. At 31 March 2018, the balance owing to the FCA from the OCC was £0.1m (2017: £0.1m).

By virtue of certain provisions contained in FSMA, the FCA (together with the Bank of England and HM Treasury) has the right to appoint the Complaints Commissioner, who is both a member and a director of the company and as such has the ability to control the OCC. However the OCC activities are immaterial compared to those of the FCA and have been accounted for at fair value through the statement of comprehensive income.

f) Her Majesty's Treasury (the Treasury)

In April 2017, the FCA entered into an agreement to provide an agency service to the treasury to collect tariff data, issue levy invoices and collect levy monies on its behalf. The charge for the service in 2018 was £0.2m. The net amount of fees collected that remained to be paid over by the FCA to HMT at 31 March 2018 was £0.1m.

g) Pensions Guidance Service (PGS)

In July 2016, the FCA entered into an agreement to provide an agency service to PGS to collect tariff data, issue levy invoices and collect levy monies on its behalf. The charge for the service in 2018 was £0.1m (2017: £0.1m). The net amount of fees collected that remained to be paid over by the FCA to PGS at 31 March 2018 was £0.1m, (2017: £0.1m).

17. Events after the reporting period

There were no material events after the reporting period. The accounts have been authorised for issue on 18 July 2018.

Appendix 1

Skilled persons report

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 2017/18, we used the s.166 power in 29 cases¹ of which 3 were contracted directly by the FCA.

The aggregate cost incurred by regulated firms for s166 work undertaken in this financial year, including any reviews that remain in progress since April 2013, was £83.3m².

The reviews examined a number of regulatory issues, 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.
- risk management, including prudential risk
- complaint handling

During 2017/18, the following skilled persons firms were appointed to undertake s.166 reviews:

- BDO LLP
- Bovill Limited
- Deloitte LLP
- Duff & Phelps
- Eversheds LLP
- Grant Thornton UK LLP

1 This includes reviews where a Requirement Notice has been issued but work has not yet started and so no costs have been incurred.

2 Costs quoted are net of VAT except where reviews are directly appointed, where costs are reported as gross. One review constitutes a significant proportion of the total costs quoted. The Financial Statements (Note 6) give information about costs related to directly appointed s166 reviews.

- Mazars LLP
- Moore Stephens LLP
- Ocreus Ltd
- Pricewaterhouse Coopers LLP.
- RSM Risk Assurance Services LLP
- The Consulting Consortium Limited

Lots	Firm classification		Total
	Fixed	Flexible	
Client Assets	0	2	2
Governance and individual accountability	0	0	0
Controls and risk management frameworks	1	2	3
Conduct of Business	1	9	10
Financial Crime	1	10	11
Prudential – credit, market, pension and liquidity risk within investment firms, intermediaries and Recognised Investment Exchanges	1	1	2
Prudential – operational risk, recovery & resolution & wind-down within investment firms, intermediaries and Recognised Investment Exchanges	0	0	0
Technology and Information Management	1	0	1
Total	5	24	29

The table above relates to reviews where the FCA exercised its powers under s166 for 2017/18. For PRA and Bank of England information please refer to their publications.

Notes

1. Lots is a term used to describe the different subject areas in which a skilled person review can be carried out. The Panel was updated in April 2018 to include 4 additional lots covering penetration testing and threat intelligence.
2. The updated costs in relation to the 15 reviews of Interest Rate Hedging Products first stated in the 2013/14 Annual Report, some of which are still on-going, now stands at £416.1m. These costs are as at 31 March 2018.
3. For 2016/17 one skilled person review commissioned during that period was omitted from both quarterly and annual reporting. Therefore, the total number of reviews commissioned was 50 but the additional review did not incur costs in the financial year.

Appendix 2

Regulatory Decisions Committee Annual Review for the year to 31 March 2018



Introduction from Tim Parkes, Chair of the Regulatory Decisions Committee

Welcome to the third annual review published by the Regulatory Decisions Committee (RDC) of the Financial Conduct Authority (FCA). As in prior years, we look back at what the RDC has done and look forward briefly to some of the things we might expect to see over the next 12 months.

As you will see from the overview section of this report, it has been another busy year for the RDC; 508 cases were opened and 510 cases concluded in the period, compared to 445 and 431 in the previous year. The cases which we have dealt with over the last year have come predominantly from the FCA's Enforcement and Market Oversight Division (EMO). They ranged from complex cases involving allegations of very serious misconduct to cases where firms or individuals had failed to submit returns or pay fees due to the Authority. We also dealt with a number of contested cases which came to us from the FCA's Authorisations and Supervision Divisions.

The RDC always aims to make fair and appropriate decisions on the FCA's behalf and to do its work efficiently. In complex cases the RDC now generally operates with panels of three RDC members throughout the process. The panels are responsible for assessing both the material produced by the Authority in support of its proposed action and the material (including representations) provided by the subject of the proposed regulatory action. The use of panels of three – which we previously increased to five at the representations stage – seems to have worked fairly and efficiently. In particular, we aim to reach the final stage of a case, when the RDC decides whether or not to give a Decision Notice and, if so in what form as quickly as possible. I am conscious that the RDC process can be difficult and stressful, particularly for unrepresented individuals, and it is clearly desirable to ensure that our process is not unnecessarily delayed. We will also be looking to move towards a greater use of electronic case management over the next year, and I hope that before long we will be in a position to run case meetings either wholly or largely using materials in electronic form.

I would like to take the opportunity to highlight the Financial Services Lawyers Association's pro bono scheme, which in appropriate cases provides free legal representation by solicitors and counsel to individuals appearing before the RDC, who would otherwise be unrepresented. I have seen this scheme in action recently and can attest to its value.

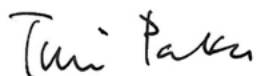
As in prior years, we have decided in some cases not to follow the regulatory action proposed by the relevant Division of the FCA. This has meant either not giving a Decision Notice at all or imposing different sanctions. We have also had our first partly-contested case under the new regime which came into force in early 2017. This involves a streamlined process, designed to limit issues for decision by the RDC and to arrive at a determination of such cases more quickly than would otherwise be the case. I hope we will see more of these in the future.

The RDC has considered some interesting and important cases this year. For example, we issued a decision notice in the case of Neil Danziger (formerly an interest rate derivatives trader at RBS), imposing a substantial financial penalty and prohibition in respect of LIBOR manipulation¹; and we imposed a financial penalty of £60,000 on a former bond trader, Paul Walter, in relation to market abuse carried out by him in the context of algorithmic trading.²

Looking forward, I would expect a largely similar mix of cases to those we have seen over the last year (though we appear to be approaching the end of the Authorisations cases in relation to firms with interim permissions in relation to consumer credit activities). We shall however look out for our first case involving the new Senior Managers and Certification Regime, since I know it is of interest to the industry and advisors, to understand how the RDC will deal with cases involving the new Duty of Responsibility which the SMCR has introduced.

I have continued to take opportunities outside the FCA to communicate what the RDC does to those involved in financial services and their advisers. This has allowed me to speak at seminars and roundtables, to explain what is involved in appearing before the RDC and to emphasise the fact that we are separate from the parts of the FCA, which are responsible for investigations and proposing regulatory or other action. Just as importantly, it has allowed me to hear and respond directly to concerns about the RDC. I will continue to look out for suitable occasions to continue this interaction.

I summarise below our review of the FCA's enforcement settlement process during the past year, and present our conclusions and recommendations. Finally, I would like to thank the RDC's members for their hard work over the last year and to recognise the excellent support provided by our secretariat which includes our own legal advisers, case-handlers and administrator. Without their collective dedication and commitment, the RDC would not be able to meet its objectives.



Tim Parkes

1 See the press release and Final Notice at www.fca.org.uk/news/press-releases/fca-fines-and-bans-former-rbs-trader-neil-danziger

2 See the press release (and Final Notice) at www.fca.org.uk/news/press-releases/fca-fines-bond-trader-60k-market-abuse

Overview

The RDC is a committee of the FCA Board and makes specific decisions on its behalf. The Board appoints the RDC's Chair and members although, apart from the RDC Chair, RDC members are not employees of the FCA. So the RDC is a part of the FCA, but is operationally independent of the executive. As the RDC's Terms of Reference make clear, 'The RDC is separate from the FCA's executive management structure.'³

The RDC Chair reports quarterly to the External Risk and Strategy Committee (ERSC) of the FCA Board about resourcing and performance, for example, how long it takes to complete cases. The RDC Chair does not report on individual decisions made by the RDC.

Case work

The RDC made 609 decisions on cases (at either the first or final stage) during the year. Many of these are about enforcement action against firms for failure to pay regulatory fees or submit regulatory returns. This figure is a slight increase on the previous year.

The Committee also makes decisions on:

- contested enforcement and supervisory actions alleging serious breaches by regulated and unregulated firms and individuals
- applications by firms and individuals for authorisation or approval which the Authorisations team proposes to refuse and which are contested
- whether to give authority for the FCA to bring civil or criminal proceedings

Making decisions

The RDC is supported by a secretariat of FCA staff, made up of case management, legal and administrative functions. These staff work in a separate division from the FCA staff involved in conducting investigations and making recommendations to the RDC; they report through the Company Secretary to the FCA Chair. The RDC's dedicated legal function advises the RDC Chair and members on the legal and evidential soundness of cases. This assures an objective and independent approach to issues arising from cases brought to the RDC.

The secretariat also monitors case inputs and timeliness. It ensures that cases are progressed appropriately, taking into account complexity, the requirements of the subjects of regulatory action and resourcing.

The FCA's website includes a detailed description of what the RDC's role is in contested cases and explains the different notices which the RDC may issue.⁴ The RDC determines what is an appropriate decision based on its understanding of the issues before it. In each case, the RDC assesses the evidence and legal basis for any recommendation for regulatory action.

The process allows the subject of the action or their legal representative to make both written and oral representations to the RDC.⁵ Members use their experience and knowledge in their assessment. When appropriate, the RDC will depart from the recommendations made to it, for example:

- to change the basis of a case from deliberate to negligent misconduct, or vice versa

3 Paragraph 2(a) of the RDC's Terms of Reference: see www.fca.org.uk/publication/corporate/fca-corporate-governance.pdf

4 www.fca.org.uk/about/committees/regulatory-decisions-committee-rdc

5 The Financial Services Lawyers Association may provide pro-bono legal assistance to a subject: see www.fsla.org.uk/scheme

- to change the amount of a proposed financial penalty
- to conclude that no disciplinary action is appropriate
- to decide that an application for authorisation of a firm or approval of an individual should be granted

As we explain below, the RDC's decision-making remit has been extended to include cases where the firm or individual only wants to contest a part of the case against them.

RDC decisions are decisions of the FCA. They can therefore only be challenged by the subject of the action, who may refer the matter to the Upper Tribunal for a re-hearing.

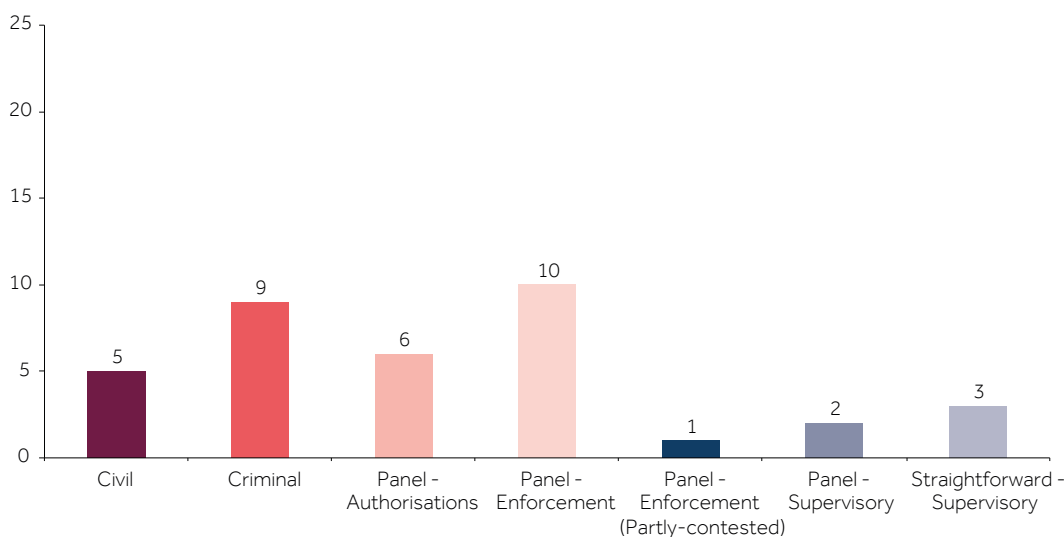
Operational performance

Cases received

Cases received during the year have increased by over 14% since the previous year. This continues the upwards trend seen in recent years. The largest increase continues to be in straightforward enforcement actions against firms that fail to submit returns or pay fees. This is partly due to the significant increase in the number of firms regulated by the FCA. These actions may result, ultimately, in a firm's permissions being cancelled. In approximately 15% of cases brought to the RDC last year, the firms rectified the regulatory breach during the process, so ending the regulatory action and enabling the firms to continue trading.

The majority of cases received by the RDC (472) were Straightforward – Enforcement cases. Cases received in addition to these are shown in the graph below.

Figure 1: Cases opened during the year by case type⁶



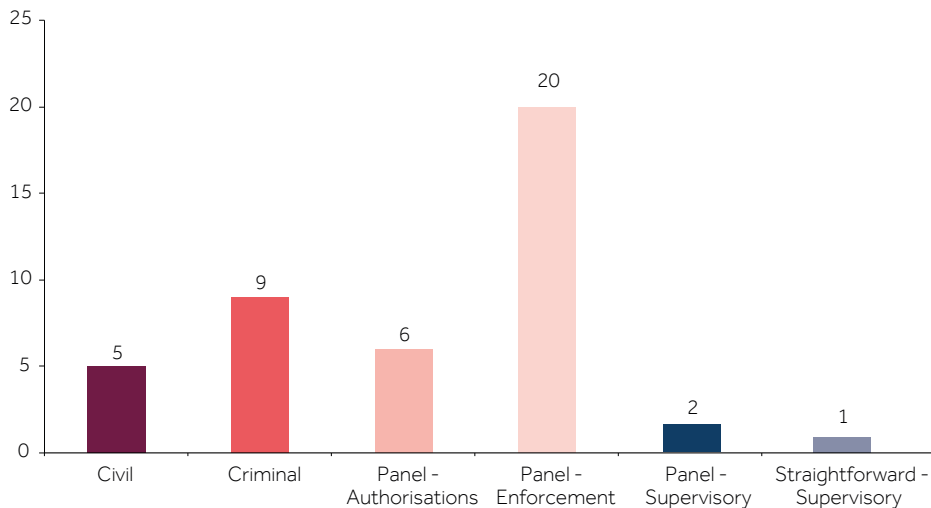
⁶ Panel – Enforcement/Supervisory: enforcement or supervisory actions, other than straightforward cases, against firms/individuals for regulatory breaches. Straightforward– Enforcement: enforcement actions decided by the RDC Chair or a Deputy Chair alone where the use of a panel is not necessary or appropriate (the majority being for failure to pay regulatory fees or submit regulatory returns). Straightforward – Supervisory: supervisory matters decided by the Chair or a Deputy alone (for reasons of urgency). Civil/Criminal: cases where permission is sought from the RDC Chair or a Deputy Chair alone for the FCA to begin proceedings against firms or individuals in the civil or criminal courts. Panel – Authorisations: cases where it is proposed to refuse an application by a firm for authorisation or for an individual to be approved.

Outputs and outcomes

The number of cases completed during the year has also increased compared to the previous year.

The RDC completed 467 Straightforward – Enforcement cases during the year. Cases completed in addition to these are shown in the graph below.

Figure 2: Cases completed during the year by case type



The outcomes of the 22 completed Panel – Enforcement/Supervisory cases were that:

- the RDC issued seven prohibition orders preventing an individual from carrying on certain activities
- the RDC imposed financial penalties on four individuals
- two cases were settled after the RDC had issued warning notices against a firm (which agreed a financial penalty) and an individual (who agreed a financial penalty and prohibition)
- four cases were withdrawn by the EMO team before we received the papers
- the RDC decided not to take the action requested by EMO (the imposition of financial penalties and prohibitions) against two individuals
- EMO discontinued one case due to the serious ill-health of the individual against whom a warning notice had previously been issued
- the RDC cancelled one firm's permission
- the RDC issued a First Supervisory Notice withdrawing a firm's permissions and imposing a requirement restricting its ability to deal with its assets without the FCA's permission
- the RDC issued a Second Supervisory Notice to a firm confirming requirements not to carry on any regulated activities, and restricting its ability to deal with its assets without the FCA's permission

The 6 completed Authorisations cases had the following outcomes:

- Two applications by firms for authorisation were refused. One of these was a firm which had held interim permission under the consumer credit transitional regime.
- One application for an individual's approval for controlled functions was refused (although the RDC found the individual to be fit and proper for other controlled functions at the same firm).
- The RDC stayed its proceedings at the request of the Authorisations team and one firm, following an agreement between them for a variation of permission with a view to a phased withdrawal from the market. The application was withdrawn at the end of this process.
- The Authorisations team approved an application for an individual to perform a controlled function, after receiving further information.
- One other application for an individual's approval was withdrawn by the applicant.

Timing

The average time taken to complete a 'Panel – Enforcement' case was approximately 7.8 months from the RDC receiving the case papers until it either gave a Decision Notice or decided not to give a notice. This compares with 6.5 months last year. However, had it not been for two linked cases which required substantial extensions of time, as well as the provision of further information, this year's average would have been 5.4 months.

We completed Panel – Authorisations cases in 2.8 months on average, an improvement on last year's average of 3.7 months.

Upper Tribunal decisions

Where there are disagreements between the FCA and firms or individuals about the FCA's regulatory decisions, the firm or individual can refer the RDC's decision to the Upper Tribunal (Tax and Chancery Chamber) for a re-hearing. The Tribunal is an independent judicial body established by the Tribunals, Courts and Enforcement Act 2007.

Tribunal proceedings involve a full re-hearing of the case, not an appeal. They also involve different evidence – most notably live witness evidence, including cross-examination before the Tribunal. The RDC does not have any role in the proceedings. The FCA's case is presented by EMO, which can choose to present the case to the Tribunal on a different basis from that presented to the RDC, for instance by arguing for a higher financial penalty.

For these reasons, the RDC does not and cannot directly assess the quality of its decisions in referred cases based on whether the Tribunal reaches the same conclusion as the RDC. Nevertheless, Tribunal decisions are frequently informative and illuminating, and the RDC actively reviews them for any learning points, either about the specific case or about RDC processes and procedures more generally.

During the year, there were three substantive Tribunal decisions, covering liability and sanction, or the outcome of an authorisation application, on cases decided by the RDC. In two of these cases, which each concerned action by the Authority to cancel the permissions of a firm to carry on regulated activities, the firm's reference was struck out as having no reasonable prospect of success. In the other case (a disciplinary and prohibition case), the Tribunal reached the same conclusion as the RDC.

The Tribunal also made a decision in a case where the RDC had refused permission for firms to carry on debt adjusting and debt counselling activities. The firm applied to suspend the effect of those

decisions, which otherwise take immediate effect. In this case, the Tribunal refused to grant the suspension. In another case, where the RDC had decided to prohibit an individual who had been convicted of serious offences of dishonesty, the Tribunal stayed the reference as the individual's case was being considered by the Criminal Cases Review Commission.

8 RDC cases which were referred to the Tribunal during the year were awaiting a decision on the reference at the year-end (31 March 2018).

Ongoing case loads

At the end of the period of this review (31 March 2018), the RDC had 73 ongoing cases:

- 12 open Panel – Enforcement cases
- 8 stayed Panel – Enforcement cases (stayed following requests by the Serious Fraud Office)
- 4 imminent referrals that had been notified to the RDC (including 3 Panel – Enforcement cases)
- 45 Straightforward Enforcement cases
- 2 Supervisory cases
- 1 Panel – Authorisations Panel case
- 1 Criminal case

Membership of the RDC

The membership of the RDC is made up of current and recently retired financial services industry practitioners and non-practitioners. Members are appointed for a fixed term which is normally three years, but can be extended to six. There are currently nine practitioners⁷ and ten non-practitioners.⁸ Six members of the Committee, including the Chair, are lawyers⁹ and three are accountants.¹⁰ The FCA's website gives further details.¹¹

RDC members are selected on the basis of their:

- experience of making independent, evidence-based decisions
- work in senior and expert positions in financial services, or other relevant sectors
- knowledge and understanding of consumers and other users of financial services

This range of skills and experience is intended to improve the objectivity and balance of the FCA's decision-making and to help achieve fairness and consistency across cases.

7 Iraj Amiri, Niki Beattie, Kevin Brown, John Callender, Peter Craddock, Chris Cummings, Nick Lord, Stuart McIntosh and Caroline Ramsay

8 Tim Parkes, Elizabeth France, Peter Hinchliffe, John Hull, Karen Johnston, Robin Mason, Philip Marsden, Elizabeth Neville, Malcolm Nicholson and Pauline Wallace

9 Tim Parkes, Peter Hinchliffe, John Hull, Karen Johnston, Philip Marsden and Malcolm Nicholson

10 Iraj Amiri, Caroline Ramsay, Pauline Wallace

11 www.fca.org.uk/about/committees/rdc-members

The full RDC meets regularly. The object of these meetings is to: enhance the effectiveness of the Committee by sharing insight and experience in relation to decided cases, undertake training in relevant technical aspects of regulation by the FCA and keep members informed of likely workloads and areas of focus.

We plan to conduct a recruitment exercise during 2018 to enhance the RDC's expertise in the banking/corporate finance sector. We will also consider whether we need to replace three members who will retire from the Committee during 2018. We consider the diversity of the Committee when recruiting new members, as it is important that the Committee reflects the different sectors of the regulated community and consumers.

Review of the enforcement settlement process

In its report on enforcement decision-making at the financial services regulators¹², the Treasury recommended that the RDC (as the FCA's decision-maker in contested cases) should regularly review the FCA's processes in settled cases. It recommended this review should include seeking comments from all or a sample of those who have settled cases and speaking with the relevant EMO staff. It also said the RDC should monitor the effectiveness of the recommended changes to the settlement process, identify whether there may be settlement process lessons to be learned, and make generic public recommendations. The RDC undertook to do this, and to publish in the RDC's Annual Review any recommendations from its review. The first review was included in the RDC's Annual Review for 2016-2017.

Similarly to last year, the RDC invited relevant firms or individuals who had settled a disciplinary or prohibition case with EMO during the financial year to take part in a survey to give their views on the settlement process. We summarise the results of the survey below.

The RDC sent surveys to five firms and five individuals, and received responses from two firms. Considering the low response rate, the RDC has adopted a cautious approach to drawing conclusions from what is a very small data-set. The comments below should be read with that in mind.

The firms that provided answers to the questionnaire said that they had received adequate information, noting: open lines of communication, regular updates about timescales and the clarity of the information received.

One of the firms, which had requested extra time, was given extensions. Both firms said that they had enough time to respond and that settlement negotiations progressed quickly.

The firms stated that the clarity of the documentation was good. They believed that FCA staff conducted themselves well, and that staff of the right level were involved.

On reviewing the responses, the RDC did not identify specific concerns that would require a change to the settlement process.

12 www.gov.uk/government/uploads/system/uploads/attachment_data/file/389063/enforcement_review_response_final.pdf

The next 12 months

This will see our move to the FCA's new offices in Stratford. We do not expect this to cause any disruption to the RDC's work; indeed, we expect the new facilities and technology which will be available to us to enhance our ability to deal with cases efficiently.

The FCA made a significant extension to the RDC's remit in the Policy Statement published on 1 February 2017.¹³ As a result the RDC has recently considered its first partly contested case, where a firm has agreed certain elements of a case while contesting other elements before the RDC.

The continuing expansion of the FCA's regulatory responsibilities and the impact of the Senior Managers and Certification Regime are likely to increase the number of cases seen by the RDC over time. Otherwise, the RDC expects to see cases reflecting the priorities set out in the FCA's Business Plan for 2018/19.

¹³ www.fca.org.uk/publication/policy/ps17-01.pdf

Appendix 3 Sustainability report

The FCA's Environmental Impact

The FCA is committed to good environmental practice, including support of the United Nations Sustainable Development Goals (UN SDG) as part of our overall approach to Corporate Responsibility. We seek to follow industry best practice in all that we do and provide value for money (VfM). Effective environmental management and prudent use of resources also fits within the remit set by FSMA in so far as it supports one of the principles of good regulation; to make the most efficient and economic use of resources. As a regulator we also have a firm commitment to UN SDG 8 'Decent Work and Economic Growth' to encourage and expand access to banking and financial services for all.

The key focus this past year has been to:

- use resources wisely to deliver both environmental and financial benefits
- make all FCA employees aware of their responsibility for ensuring that they understand the environmental management policy
- commit to measuring, reporting and reducing our impact on the environment wherever practicable
- set objectives and targets for each of our key impacts and review them regularly to ensure that they remain achievable, and
- engage our suppliers to ensure that they reflect our commitments to sound environmental practice and good corporate responsibility

The FCA manages its business in an environmentally responsible manner with an on-going focus on sustainability. This involves careful control over the use of resources and consumables and minimising waste. We have made progress through a number of initiatives:

- maintained a high rate of recycling at 86% and won the 'Best Recycler' award from our waste service provider, Paper Round
- achieved a 6% reduction in printing through use of 'Follow Me' and purged printing
- trialled reusable lunchboxes in the staff restaurant and committed to eliminating single-use plastics (SUP) consumables in 2019

We are moving to a new, more efficient, head quarters in Stratford which will combine our two London offices. The building has achieved Building Research Establishment Environmental Assessment Method (BREEAM) Excellent rating. We have also invested in new technology which will allow us to work more flexibly and efficiently. Using tablets in meetings rather than printing and Skype for business to reduce avoidable travel will have a positive impact on our paper consumption and CO2 emissions.

Performance Commentary

Plant and Equipment

The FCA has two offices in London and one in Edinburgh: sole occupancy of 25 The North Colonnade (25TNC) which accounts for the majority of the FCA's estate two floors of 1 Canada Square as a tenant and one floor of Quayside House in Edinburgh, also as a tenant.

We refurbished our 25TNC headquarters in 2008 to improve the building's infrastructure which reduced the overall energy consumption from 18m to 12m kWh pa. We are committed to UN SDG 13 'Climate Action' and seek to reduce our carbon footprint wherever possible. The FCA has participated in the Carbon Reduction Commitment since 2010.

During 2017/18 we have again balanced our commitment to sustainable practice with the need to provide VfM. Therefore we have endeavoured to maintain and improve on performance without significant investment in our current property portfolio. In November 2018 our lease at 25TNC ends and the owners will decide the future use of the building.

We strive for increasing efficiency and reducing energy consumption year on year. However, opportunities to gain further significant savings in our current premises are limited due to previous successful initiatives and our impending move which constrains capital investments.

Sustainable Construction

Our new office is BREEAM 'Excellent' rated. It also benefits from chilled beam heating and cooling which uses less power and is more efficient and environmentally friendly. A district heating and cooling system operating in the Olympic Park will provide heated and cooled water. This is more sustainable and resilient as its primarily powered by biofuel.

This is one of the first buildings in the UK to have a fully integrated triple glazed active window system. This means that our blinds are integrated with the building management system and activated through sensors on the roof which track the sun's trajectory, light intensity and heat. This has huge environmental benefits reducing the running costs of heating and cooling.

Rainwater harvesting will be used to flush our toilets and will reduce our overall water consumption.

Greenhouse Gas Emissions

There has been a slight increase in our energy consumption and related energy costs. We have offset our emissions through the CRC.

		2018	2017	2016
Non-financial indicators (CO ² e in tonnes)	Total gross emission for scopes 1 and 2	4,488.4	4,987	4,837
	Total net emissions for scope 1 ¹	49.4	50	56
	Total net emissions for scope 2	4,439	4,937	4,781
	Gross emissions scope 3 – business travel ³	1,664	1,783	1,171
Related energy consumption (kWh)	Electricity: non-renewable	11,638,810	11,222,271	10,866,214
	Gas	268,885	265,436	295,030

		2018	2017	2016
Financial indicators (£'000 excl. VAT)	Total expenditure on energy	1,310	1,229	1,418
	Total expenditure on electricity	1,302	1,221	1,406
	Total expenditure on gas	8	8	12
	CRC offsetting payments	87,238	109,850	98,400
	Total expenditure on official business travel (excluding accommodation and subsistence)	1,604	1,421	1,327

1 Excluding 1 Canada Square as included in the service charge.

2 Excluding 1 Canada Square and Edinburgh as included in the service charge.

3 Emissions for air and rail (domestic, European and international).

Business Travel

FCA staff visit regulated firms across the UK and globally. To minimise the impact of our business travel, we have a policy that encourages sustainable travel and prioritises the use of public transport.

Overall, there has been a decrease in UK domestic and Europe short haul air travel. Long haul international air travel has increased due to business demand and cabin selection, Business class is available to staff who travel more than 5 hours, which generates a higher Co2 emission. UK rail travel has increased slightly compared to 2017 although Eurostar has slightly decreased in comparison to 2017 and the class of cabin is mainly standard.

	Mode of travel	2018	2017*	2016
Air Business travel CO²e kg	Air – Domestic (between UK airports)	445,199	453,145	615,042
	Air – Europe (short haul up to 3,700 km)	106,885	171,220	65,242
	Air – International (long haul over 3,700km)	1,090,593	1,014,189	416,249
Rail Business travel CO²e kg	Rail	35,350	31,394	31,718
Eurostar Business travel CO²e kg	Standard	26,848	20,272	N/A
	Economy	11,593	16,190	N/A
	Premium Economy	25,308	30,010	N/A
	Business	143	310	N/A
Taxi Business travel CO²e kg	Executive Taxi	53	82	26
	MPV Taxi	15	64	51
	Premium Executive Taxi	32	41	70
	Standard Executive Taxi	1,745	1,458	1,690
Car Hire Business travel CO²e kg	Car Hire	10,847	28,500	23,407
Mileage Business travel CO²e kg	Mileage	16,061	15,679	17,200
Total		1,663,787	1,782,554	1,170,695

* Corrected figures for 15/16 and 16/17 data

Notes:

1 CO₂e conversion rates calculated under the class of average passenger as per guidance on the DEFRA's website for business travel.

2 Radiative forcing (RF) is a measure of the additional environmental impact of aviation. Figures are "with RF factors" which incorporate a 90% increase in emissions to include the effect of radiative forcing. These include emissions of nitrous oxides and water vapour when emitted at high altitude.

3 Flight distance uplift factor – figures do not include the 9% uplift factor.

4 Excludes travel booked and then claimed through expense reimbursement except mileage.

Waste generation

We follow the waste hierarchy ('reduce, reuse, recycle, recover, disposal') to lower costs and reduce environmental impacts. This demonstrates our commitment to UN SDG 12 'Responsible Consumption and Production'.

There has been an increase in overall waste as we dispose of items ahead of the office move. However, we remain committed to recycling wherever possible and have recycled 86% of our general (non-hazardous) waste. This is an increase of 20% since the introduction of 'Mixed Recycling'.

We continue to operate a policy of zero waste to landfill and to convert organic waste produced in FCA's kitchens into biogas and liquid fertiliser through aerobic digestion.

		2018	2017	2016
Non-financial indicators (tonnes)	Total waste	561	490	538
	Hazardous waste total	1.7	1.6	1.0
	Non-hazardous waste			
	Incineration	78.7	92.8	170
	Recycled	482	396	369
Financial indicators (£'000 excl. VAT)	Total disposal cost	139	141	127
	Hazardous waste – disposal cost	12	11	8
	Non-hazardous waste – disposal cost			
	Incineration	41	41	36
	Recycled	89	89	83

Paper Consumption: Printing

Our 'Follow Me' printing across all multi-functional device printers has continued to be more efficient and less paper intensive. Printers are configured to black and white and double sided by default to ensure the most efficient use of paper. In 2017/18, we have seen a 6% reduction of overall printing against the previous financial year. All printing paper is recyclable and ordered through a sole supplier, Xerox, and print levels are continuously monitored and reported. All printer equipment and consumables are disposed of and/or recycled by Xerox in accordance with best practice print industry guidelines

Our printer paper is made from recycled material and FSC and EU Ecolable which supports UN SDG 'Life on Land' and sustainable management of forests.

Indicators	2018	2017	2016
Non-financial indicators (sheets of paper)	17,765,289	18,794,456	20,060,516
Financial indicators (£'000 excl. VAT)	89,244	94,415	100,775

These data does not include the reduced energy consumption from having more environmentally friendly printers; however, the reduced energy consumption levels are included in the kWh calculation given earlier.

Purged printing

'Follow Me' printing has saved us 1,685,771 sheets of paper in 2017/2018, the equivalent of 158 trees from purged print jobs. These are print jobs that were sent to the printer but never released to print by the user and so cancelled for printing.

Deleted Pages	Expired pages	Sheets	Trees	Water (gallons)	CO2 (pounds)
1,169,328	1,815,738	1,685,771	158	65,071	148,179

Reprographics

Our staff use the in-house Reprographics function for any specialist printing or photocopying over 100 sheets.

		2018	2017	2016
Non-financial indicators (sheets)	Paper consumption (A4)	3,757,436	3,739,526	5,474,308
	Paper consumption (A3)	66,832	67,167	91,621

Reprographics has experienced a slight increase in A4 paper consumption and a slight decrease in A3 paper consumption during this current period.

Water Usage

The 25TNC headquarters has reduced cistern capacity from 9 litres to 6 litres and uses sensors to reduce the amount of water used in the toilets.

		2018	2017	2016
Non-financial indicators (m ³)	Water consumption	52,698	49,922	39,964
Financial indicators (£'000 excl. VAT)	Water supply costs	109	106	85

The FCA supports UN SDG 14 'Life Below Water' by significantly reducing the chemicals used for cleaning, replacing them with Stabilized Aqueous Ozone (SAO). This is a cleaning agent made from tap water which safely replacing traditional chemical cleaners, deodorizers and sanitizers. This method of cleaning means less chemicals are released into the water system.

Sustainable Procurement

The FCA's Supplier Environmental, Diversity and Inclusion and Social Policy Statement supports UN SDG 12 'Responsible Consumption and Production'. It requires suppliers to meet our commitment to sound environmental practice. It encourages them to develop and supply goods and services that help improve both our and their environmental performance.

Our catering provider has the Sustainable Restaurant Association (SRA) Three Star Champion Status and adopts the SRA three pillars of sustainability. Food is sourced locally, regionally and seasonally to help support UK producers. Seafood, including caught and farmed fish and shellfish, follows the Marine Conservation Society's 'Good fish guide'.



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