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AUTHORITY

Annual Report and Accounts 2018/19

(for the year ended 31 March 2019)

HC 2415

Financial Conduct Authority

Annual Report and Accounts 2018/19

(for the year ended 31 March 2019)

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Chair's foreword
Charles Randell

This Annual Report covers the sixth year of the FCA's existence and my first as Chair. It's an opportunity both to reflect on the FCA's performance in its first chapter and to look forward to the challenges of the future.

Looking back to the FCA's first chapter

The FCA began in 2013, when the Financial Services Authority's prudential and conduct roles were divided between the Prudential Regulation Authority and the FCA. The FCA then had two major tasks. The first was tackling the mountain of conduct issues in large firms identified in the wake of the financial crisis. The second was taking over regulating and supervising some 34,000 consumer credit firms and tackling major consumer harm in parts of this sector.

FCA staff can be rightly proud of its achievements in this first chapter. They include the PPI programme, enforcement cases which levied around £3 billion of penalties and redress, and bold interventions which transformed the high cost credit sector, including capping payday lending charges. Our staff have also overseen the successful roll-out of the Senior Managers and Certification Regime to large firms, fundamentally changing senior managers' accountability for their firms' conduct failings.

The FCA today

The current, second chapter of the FCA's life began with the publication of our Mission in 2017, under the leadership of Andrew Bailey. This makes consumer harm a clear guiding principle when we prioritise and allocate our resources. We also published a series of documents explaining how we will approach our work in the future. However, the job of fully implementing these to ensure we can identify serious harm, and respond to it as quickly and as effectively as possible, is by no means complete.

As we transform the FCA, we recognise the serious questions that consumers and businesses have asked about aspects of our past performance. The weight of the tasks in the FCA's first chapter and their demand on our resources led to a focus on regulated activities in large firms and a more reactive supervisory approach to smaller firms and activities at our regulatory boundary.

Reviewing our past actions

We must be transparent about what we can and cannot deliver within our current remit, but also address whether we could have done more. So we are doing two things. First, publishing a report alongside this Annual Report to explain the perimeter of our regulation, to foster understanding and discussion of the limits of our remit. Secondly, commissioning an independent review of our supervision of London Capital & Finance, an authorised firm which issued

retail mini-bonds and whose failure has had a profound impact on its investors.

We are also proceeding with independent reviews of two cases which go back to the period before the FCA came into existence: the FSA's supervision of the Connaught Income Series 1 Fund, a retail investment fund which collapsed in 2012, and the supervisory interventions initiated by the FSA for Interest Rate Hedging Products, which many banks sold to small businesses and which led to a major redress programme.

Completing the FCA's transformation

Change is here to stay for all of us, so the FCA must change too.

Technology change means major new risks to our objectives can develop more rapidly than ever. These risks increasingly come from beyond large authorised firms and regulated products, such as when scammers use the internet to target victims. We must continue to develop our own use of technology and our supervision and enforcement capabilities to respond rapidly where our remit allows.

Global change includes the UK's withdrawal from the European Union. We have started the debate about the future of UK regulation and that will be a priority for the FCA this year. We will work closely with the Treasury as part of their review of related issues including the payments system and regulatory co-ordination. One key question is about the freedom to focus more on principles and outcomes than detailed rules – the duty of care debate is part of this. But equally important is whether UK regulation should permit ordinary consumers to be exposed to high risk, often unregulated, products. It's clear that risk warnings alone are not enough to provide adequate levels of protection for some of these products.

Our stakeholders expect us to provide more protection to consumers in an uncertain, fast-changing world, and to provide it faster.

So we are not waiting for the outcome of the reviews of Interest Rate Hedging Products, Connaught and London Capital and Finance as we continue to embed the Mission and transform how we operate. We are already implementing a new approach to authorising and supervising firms, to ensure we are better at spotting and stopping firms which should not be authorised and can supervise smaller firms more proactively. We are extending the Senior Managers and Certification Regime to smaller firms, in a proportionate way. We are acting swiftly against firms with harmful business models: banning the sale of binary options to retail consumers, heavily restricting the sale of Contracts for Difference and setting out reforms to the peer-to-peer lending market so consumers are better protected.

In this second chapter, our focus is on transforming our capabilities, our use of technology and our regulatory framework to put us in the best position to deliver our objectives.

Concluding remarks

I would like to thank all the consumers, consumer representatives, voluntary organisations and firms who have given me frank and useful insights on our work, in meetings in Stratford, Edinburgh and around the UK during the past year.

I also thank all the FCA staff and Board members who have helped me in my first year as Chair. I would pay tribute to Brad Fried, who left the Board at the end of June 2018 to become chair of Court at the Bank of England, and to Ruth Kelly and Jane Platt, who retired on 31 March 2019 on completion of their Board terms. I was delighted to welcome Richard Lloyd, who joined the Board on 1 April 2019, bringing further consumer insight and experience to support and challenge our work.

Charles Randell
Chair

Chief Executive's statement
Andrew Bailey

Welcome to our 2018/19 Annual Report, which explains what we've achieved against our Business Plan priorities.

Following last year's commitment, this report includes additional, more meaningful measurements of the public value our work delivers. I hope it offers a more complete picture of the breadth and impact of our regulation.

EU Withdrawal

Our Brexit preparations have been a resource-intensive area of this year's work, involving planning for all scenarios. Our priority has been to ensure that, whatever the eventual outcome, consumers and the integrity of UK markets remain protected as far as possible.

As part of our planning for a no deal scenario, we worked with HM Treasury and the Bank of England to develop the Temporary Permission Regime for firms doing business in the UK from the European Economic Area. Since applications opened in January, over 1,000 solo-regulated firms have notified us that they want to apply, plus around 700 fund managers. We have extended the window for notifications until 31 October.

As part of this work we have prepared to take on new responsibilities after Brexit in relation to transaction reporting, and have completed our preparations to become the UK regulator of both trade repositories and Credit Rating Agencies (CRAs).

We have also intensified our cooperation with EU counterparts, while building on international leadership in innovation, technology and standards. As part of this we have put in place new, or updated, cooperation agreements to help ensure continued cooperation with our EU and global counterparts even in the event of a 'no deal' scenario.

Our Brexit preparations have coincided with an exceptionally busy year.

Bringing claims management under our regulation

We undertook an extensive programme of work with Claims Management Companies (CMCs) to prepare them for their transition from the Claims Management Regulator's regulation to ours. Around 36 million people received around 2.7 billion calls, texts or emails from CMC's in the preceding year, so regulating this activity will have a significant impact. Between the start of January and the end of March, 953 of the 1,200 CMC firms in the market applied to us for temporary permission to operate, pending the full authorisations process. Those who have not done so can no longer offer these services.

Reducing harm to consumers

Over 3 million people in the UK use high-cost credit, many of them among the most vulnerable. This year we delivered wide-ranging remedies to prevent excessively high charges. This includes a cap on prices and charges in the rent-to-own market, ensuring consumers have more clarity and control over home-collected, catalogue and store card credit, and preventing Buy Now Pay Later firms from charging backdated interest on debt already paid.

We also tackled high overdraft charges, particularly for unarranged overdrafts. Firms make around £2.4bn revenue from overdrafts a year, but just 1.5% of customers pay 50% of unarranged overdraft fees. We developed and published proposed changes to deliver simpler and fairer pricing. This will directly benefit the UK's 26 million overdraft users, particularly the 14 million using unarranged overdrafts.

Reviewing our rules to prevent harm

Rarely, our own regulation can have harmful consequences for consumers. Our responsible lending rules have inadvertently left 120,000 mortgage customers trapped on higher interest rates with another 20,000 mortgage prisoners stuck with inactive lenders. So in March we published proposals to change these rules. We will publish final rules later this year, freeing consumers to find better deals.

Maintaining integrity in wholesale markets

The UK's financial markets are attractive for many reasons, including the clean and level playing field they offer. This year we have taken steps to combat the risks of market abuse, including opening 484 preliminary market abuse investigations and a programme of visits to improve monitoring in fixed income, commodity and derivative markets.

The challenges ahead

The last year has seen a number of incidents which demonstrate the risk to consumer protection from unacceptable conduct including outright scams. At the FCA we are transforming our response to intervene more swiftly, directly and severely to prevent and stop harm from occurring and ensure those responsible face the consequences. Technology enables criminals to develop increasingly sophisticated ways of targeting consumers. Last year we issued 521 warnings about unauthorised firms, against 328 in the previous year.

Firms own resilience, systems and controls must also keep pace. We have required 40% of the sponsor firms in our supervisory reviews to improve their market systems and controls to keep these standards high. MiFID II has seen an encouraging increase in wholesale firms reporting suspicious behaviours to us. The numbers of these reports this year is around 18 times higher than in the reporting regime's first year. Whistleblowing too is on the rise; this year we assessed over 1,750 separate allegations.

As our activity increases, we are developing our own use of data analytics to identify areas of emerging harm, and respond, more swiftly.

I would like to end by thanking all my colleagues at the FCA for their drive and determination during this demanding year, and the FCA Board for their expertise and the valuable perspectives they bring to our decision making.

Andrew Bailey
Chief Executive
Financial Conduct Authority

Highlights from 2018/19

Improving protection for users of high-cost credit

We implemented new rules to cap the charges of Rent to Own products. These changes will save some of the most vulnerable consumers up to £22.7m a year.

Stopping people becoming scam victims

Our 2018 campaign to warn pension holders about pension scams saw a five-fold increase in visitors to our Scamsmart site. Over 173,000 people – around 3,145 a day – visited the site.

Preparing for EU Withdrawal

We have been preparing for all scenarios to ensure as much continuity as possible for firms, markets and consumers.

This has included:

- advising Government on financial services, including onshoring EU legislation
- ensuring we have a robust regulatory regime at exit
- setting up a Temporary Permissions Regime to ensure that firms and funds that currently passport into the UK can continue to do so
- working with firms on their exit preparations
- agreeing and updating cooperation agreements with our European and international counterparts

Making financial services more accountable

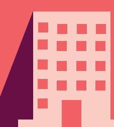
We extended the Senior Managers & Certification Regime to all 560 insurers. By the end of 2019 almost every firm we regulate will be covered by the SM&CR, increasing individual accountability and making firms' staff clearer about their responsibilities.

Supervising professional bodies

The Office for Professional Body Anti-Money Laundering Supervision(OPBAS), housed within the FCA, completed its first-year assessment of the 22 professional bodies it supervises. It found the accountancy sector and some smaller professional bodies focus on representing members rather than strongly supervising standards.

Authorising firms to enter the market

We have improved our approach to authorisation, focusing on applications with the greatest risk of harm and helping firms meet the required standards. We determined almost 4,400 applications for authorisation and registered 953 claims management companies for Temporary Permission – the vast majority of active firms in the market.



Enforcement action

We've taken action against firms and individuals who break the rules and don't protect consumer.

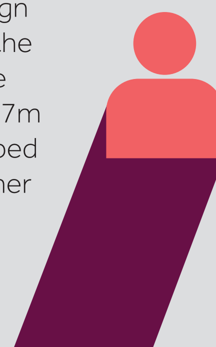
We fined Santander £32,817,800 for failing to manage the accounts of deceased customers properly and ensure funds were transferred to beneficiaries. The programme to transfer these funds is almost complete, covering nearly 40,500 customers with assets of over £183m.

We fined Standard Chartered Bank £102,163,200 for anti-money laundering breaches. This was our second largest financial penalty for AML controls failings.

Our related Enforcement Annual Performance Report 2018/19 gives more details of our work here

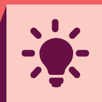
Helping consumers to take action on PPI

Before the 29 August 2019 deadline for PPI claims we are working with firms to ensure they make it easier for consumers to check if they have PPI and to complain. Firms have improved their complaints processes and provided online checking systems, information and help for vulnerable customers. Our campaign helped millions of people claim. In the 10 months after launch, there were 8.4m PPI checking enquiries and 3.7m complaints. Our campaign has helped more people complain directly, rather than using claims management companies, allowing them to keep all their awarded refunds.



Promoting innovation across the world

As part of an international group of financial regulators we helped launch the Global Financial Innovation Network. This will help innovative firms navigate between countries' regulatory systems as they develop and launch new ideas.



Improving outcomes for consumers in the asset management sector

We've implemented a broad package of remedies to tackle the harm we found in the asset management industry. This includes changes so that fund managers focus on their duties to their investors.

Strengthening our presence in Scotland

We have committed to expanding and strengthening our presence in Edinburgh, which is the UK's biggest financial services centre outside London. Over the next 2 years, the size of FCA Scotland will double as we build stronger functions in retail lending, investment and intermediaries, as well as our casework with financial advisers, wealth managers and pension scams. We will also use our new Head of Scotland post to expand our partnerships and networks there.

Move to Stratford

We moved 3,500 employees to our new office in Stratford during the summer of 2018. Our new building gives us the opportunity to find new and smarter ways of working and achieve better value for money. New technology supports more collaborative, joined-up working, making us more efficient. The building has also helped us reduce the resources we need to run it, from water to heating, and has already been shortlisted for several architectural, accessibility and sustainability awards.

Taking action on anti-competitive behaviour

We concluded a formal investigation in which we found 3 asset management firms breached competition law, our first formal decision using our competition enforcement powers.

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 work well. FSMA also gives us 3 operational objectives to achieve this:

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

We are responsible for regulating the conduct of around 59,000 of the UK's financial services firms and around 150,000 approved persons.

We are also the prudential regulator for approximately 46,000 firms. We set detailed standards for the largest 18,000 of them to meet, including requirements on minimum financial resources. Even firms without minimum financial requirements must still ensure they have adequate resources as part of our threshold conditions for being authorised or registered.

Our activities

This report sets out our main areas of focus over the past year including EU withdrawal, issues of what we do and don't regulate and sector and cross-sector priorities.

Firms and individuals offering financial services must run their businesses in the best interests of consumers and uphold the integrity of the financial services industry. We are responsible for authorising, supervising and taking any action needed against firms and individuals who carry out financial services activities.

We are committed to being open and transparent about how we regulate and how we make our decisions. We have also published a range of documents that explain our approach to each aspect of our regulation in more depth.

Sector views

We prioritise and analyse issues by splitting the financial services industry into 7 specific sectors. In January 2019, we published a summary of our Sector views which outline the issues and potential harm in these sectors. We consider outcomes in financial sectors as a whole, identifying how markets are performing and guiding our strategic approach. We report on these in individual chapters in this report.

Cross-sector priorities

We also tackle issues that cut across multiple sectors. These are generally the most significant issues in financial services and are likely to be the most enduring harms. We report on our specific activities and how we have monitored change over the past year in our cross-sector chapters.

2 EU Withdrawal

Preparing for and implementing the changes resulting from the UK's exit from the European Union (EU) has been our number one priority and has had a substantial impact on the way we work.

Over the past year we have been assisting the Government on a range of issues and planning for all scenarios. This will help ensure as much continuity as possible for customers and firms operating in the UK, even in the event of a no-deal exit from the EU (ie without a deal or an implementation period).

This included providing technical advice on the legislative changes relating to the UK's withdrawal from the EU, to ensure an effective regulatory framework on exit. As part of this, the Treasury tasked us with amending EU binding technical standards (detailed EU rules). We have set out, in consultation and policy statements, amendments to our Handbook to ensure it is consistent with changes the Government is making and that it functions effectively when the UK leaves the EU.

The Government has also legislated to UK regulators powers to create a Temporary Permissions Regime and introduce a Financial Services Contracts Regime for EEA firms which are currently operating in the UK under passports. We have worked on the design and implementation of the regimes over the past year to ensure the FCA is operationally ready.

When the UK leaves the EU, the FCA will also become the UK regulator of Trade Repositories and Credit Rating Agencies. We have made preparations to ensure we are operationally ready to take on these new responsibilities, as well as preparing for other changes that may be necessary as a result of EU withdrawal, such as in relation to the systems that support transaction reporting.

Our ongoing engagement with industry has included monitoring firms' contingency plans and working with them to understand their plans for future operations.

Our aim has been to minimise any detrimental impact of EU withdrawal on the market and consumers where we can. We have liaised closely with the Bank of England on dual-regulated firms and areas of joint responsibility.

We have continued our close cooperation with the European Supervisory Authorities, national competent authorities and other international regulatory authorities. This engagement has been both in relation to EU withdrawal as well as on broader issues relating to cross-border financial services regulation.

We have also focused on maintaining and promoting effective international standards that will continue to underpin the UK regime through regular international engagement.

While we cannot completely mitigate the risk of potential disruption as a result of a no-deal exit, as a result of our work we have reduced the risk of harm. Legislation is on-shored, key international cooperation agreements are signed and frameworks are in place that will help minimise uncertainty and disruption for firms, markets and consumers in preparation for withdrawal.

3 Our cross-sector priorities

Firms' culture and governance

Good governance, which enables effective oversight of decision-making, is critical for reducing potential harm to consumers or markets. Culture also plays a critical role. A healthy culture, focused on delivering consumer outcomes, helps individuals in firms to make the right judgements that do not result in consumer or market harm.

The Senior Managers and Certification Regime (SM&CR) aims to increase individual accountability in financial services by ensuring that the most senior staff know what they are accountable for and that every individual within a firm takes responsibility for their own behaviour.

We want firms and individuals to create and maintain cultures that reduce the potential for harm. The SM&CR is integral to this and directly targets the culture of firms. It aims to improve conduct across the industry by setting basic standards for everyone working in financial services and bringing clarity to who is accountable for what.

Accountability

In December 2018, we extended the SM&CR to all insurers. We have also published near final rules to extend the SM&CR to the 47,000 authorised firms not yet covered. These rules will be effective from 9 December 2019. This extension will mean that most firms we regulate will be covered by the SM&CR.

We also produced practical guidance for firms to help them prepare senior managers' Statements of Responsibilities (SoRs) and responsibilities maps. This builds on the information we published in the Guides to the SM&CR for solo-regulated firms in mid-2018.

Some firms told us they were still uncertain about how the SM&CR would work for them. So in January 2019, we began consulting on measures to clarify these outstanding questions – including the status of firms' legal functions. The consultation proposes that the individual responsible for the legal function be excluded from the overall responsibility requirement. We will consider feedback and intend to publish our rules and guidance in a Policy Statement in summer 2019.

Assessing what drives culture

Our Approach to Supervision underlines our focus on firms' business models and culture as key causes of harm. When looking at culture, we focus on 4 drivers of behaviour – purpose, leadership, approach to rewarding and managing people, and governance (including systems & controls and oversight of the business).

In 2018, we introduced the Firm Assessment Model – a practical tool we use in Supervision to assess the largest firms. This is the model our supervisors use to assess how effective the 4 drivers of behaviour are in reducing the potential harms from a firm's business model.

A similar model is used to assess portfolios of firms on an ongoing basis and as part of our regular Portfolio assessment.

Register and Directory

We have made changes to the Financial Services Register to make it simpler to navigate and easier to understand. The changes include making it easier for users to see when requirements, including suspensions, apply to individuals or firms.

In September 2018, we launched a 'Consumer Beta' search function to improve access, understanding and intelligibility of some of the most commonly searched-for Register entries. This allows users to search more easily for local financial advisers on mortgages, pensions and investments and we plan to make further improvements in the coming year.

In late 2018, we began testing a free Application Programming Interface (API) from the Register with a group of early adopters. It allows developers to provide services to integrate Register data with other data used by consumers.

In March 2019, we published new rules to introduce the 'Directory'. This is a new public resource for checking the details of a wider group of people working in financial services, including those certified by firms to provide important services to customers, such as financial advice. We will launch the Directory to the public in phases from March 2020 through a new, more user-friendly interface for consumers and firms.

While the Register has undoubtedly helped consumers and firms and prevented harm there have been instances when information displayed on the Register has been out of date or otherwise inaccurate. We acknowledge that there remain data quality issues within the details of the approximate 750,000 records it holds and that it is necessary to overhaul the Register and make it fit for the now larger remit of the FCA. The work described above is part of this as are other projects to strengthen the regime for the reporting of firm data with the overall objective to improve the quality and reliability of key pieces of information that consumers and firms rely upon.

Remuneration

We have carried out a thematic review to look at whether paying commission to brokers resulted in consumer harm. Firms we looked at include retailers selling goods on finance, online loan brokers, price comparison websites and commercial finance brokers. We did not look at motor finance brokers, who are subject to a separate review. While we did not find widespread evidence of this, we did see some examples of poor customer outcomes.

Through our approach to supervision, we will monitor how effectively firms' incentive arrangements are reinforcing healthy cultures, and will tackle harm in individual firms where we see it.

Whistleblowers

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

To ensure whistleblowers are handled consistently and fairly, we are increasing resources in our dedicated whistleblowing team and have rolled out training to ensure our staff, who consider whistleblowing intelligence, act on it appropriately. We have also been reviewing our practices on an ongoing basis, to ensure we maintain whistleblower confidentiality, track whistleblowing intelligence properly, and share it across the FCA.

This year we:

Managed and assessed 1,119 whistleblower reports. These consisted of 1,755 separate allegations, and resulted in the following outcomes:

- in 10 cases, we took significant action to mitigate harm
- in 85 cases, we took action to mitigate harm
- 195 cases helped to inform our work and were relevant to the prevention of harm, but did not lead to any specific action
- 144 cases were not considered relevant to the prevention of harm
- 685 cases are still being assessed to determine their outcome

Outcomes and monitoring change

Our aim is to transform culture in financial services firms, so that firms cause less harm to consumers, businesses and the real economy. We aim to review upheld complaints levels, consumer redress levels and feedback from consumers as potential indicators of progress. However, there are significant challenges in both measuring culture objectively and in establishing the causal link between cultural change and consumer, market and business outcomes.

In 2018/19, we had high levels of engagement from industry in our webinar and CultureSprint. Our CultureSprint also saw positive commitments from participants to create speak up, listen up environments within their organisations. It remains too early to judge how our activities translate into creating and promoting healthy cultures.

In the coming year and beyond we expect firms to demonstrate awareness of our expectations, reflect this in their practices, and make specific improvements including where we identify shortcomings. We will monitor this using our Firm Assessment Model (as well as the similar model we use in relation to portfolios of firms) to assess how effectively firms are managing their cultures to reduce the potential harm from their business models.

Financial crime (fraud & scams) and anti-money laundering (AML)

Money laundering and other financial crime undermines the integrity of the entire financial system. Addressing it remains a key priority for us. We continue to strive to make the UK's financial sector a tough target for criminals. We do this by ensuring that financial firms establish and maintain robust systems and controls and by closely aligning our activity with the Government's overall agenda on tackling economic crime.

Combatting money laundering requires a coordinated, multi-agency and international approach. We maintain strong relationships with a range of domestic and international partners including regulators and law enforcement agencies. Sharing information and close cooperation with these organisations are key parts of our daily work.

We are active with our international partners, as illicit finance is a global threat and all countries need to build strong anti-money laundering regimes. We play a full role in developing and promoting international standards on anti-money laundering, counter-terrorist financing and counter-proliferation financing at the Financial Action Taskforce and other international bodies.

Alongside this Annual Report we have published our Anti-Money laundering Report that describes our work in this area in more detail.

Supervisory approach and outcomes

We need to be aware of emerging threats, and as such helped develop the UK's 2017 National Risk Assessment of Money Laundering and Terrorism Financing (NRA). This identified the UK's capital markets were exposed to a high money laundering risk. We have undertaken a thematic review to ensure we better understand those risks, and the findings of that thematic review were published in June 2019 which will feed in to the 2019 NRA.

Risk-based and data-driven

We use a risk-based approach to Financial Crime Supervision. We look for the most effective and proportionate means to ensure firms have good financial crime standards. We use firms' responses to the data return on reporting criminal activity and other intelligence sources to help us identify risk. We are also further developing how we use analytics to focus most closely on firms and activities with the highest risks of money laundering, as in our programme of regular anti-money laundering assessments of firms.

Through firm-specific assessments and a thematic review we now have a better understanding of the potential for harm from money laundering and terrorist financing in this sector.

We are becoming more data-driven, using different sources of information to help assess the inherent dangers from firms' business models. In November 2018 we published, for the first time, data from our annual financial crime return. This offers a new collective

view of financial crime. Other examples of data include our outbound call campaign and intelligence received through referrals from a variety of sources including whistleblowers, law enforcement, international agencies, regulators or self-reporting by firms.

Ensuring strong anti-money laundering standards in professional body supervision

The Office for Professional Body AML Supervision (OPBAS) began work within the FCA in January 2018. OPBAS oversees the quality of professional bodies' supervision of legal and accountancy firms. OPBAS completed its first round of supervisory assessments and published its anonymised findings in March 2019. It has also established an Expert Working Group between the National Crime Agency and the accountancy bodies to enable them to collaborate and share information and intelligence.

Building on the Financial Action Task Force's findings

The Financial Action Task Force's recent mutual evaluation, found that the UK's anti-money laundering system has both strengths and areas for improvement. We are addressing their findings to ensure that we can meet new challenges.

Our enforcement approach

We have evolved our approach to enforcement over the last 3 years. In the past we have opened investigations on either a regulatory or criminal basis. In some of our anti-money laundering investigations we now use a 'dual track' method, that is we investigate on both a regulatory and criminal basis. This helps us fully understand what happened, what action to take and which tools to use.

As a result, we have a small number of ongoing investigations into firms' systems and controls where there may have been misconduct that might justify a criminal prosecution under the Money Laundering Regulations.

Combatting scams

Fraud affects many of the sectors we oversee. These frauds are varied and differ in their levels of complexity and sophistication but they all seek to exploit vulnerabilities, human or technological.

As well as our new ScamSmart campaign against pension scams, we have also participated in the Joint Fraud Taskforce and have worked with the Payment Systems Regulator (PSR) on the Advanced Push Payment Scams Steering Group. We have also seconded FCA staff to the National Economic Crime Centre to lead on counter-fraud activity.

There are more details about ScamSmart in the Pensions and retirement income chapter.

Collaborating with partners and agencies on technology

We already promote the use of regulatory technologies and run a world-leading programme of data analysis to detect activities like market abuse. In May 2018, we held an International Anti-Money Laundering and Financial Crime TechSprint focused on how new technology can be used more effectively to combat money laundering and financial crime.

One of the key themes was the importance of information-sharing. In July 2019, our follow-up TechSprint will examine the potential for new technologies to improve information-sharing to detect and prevent money laundering and financial crime.

Outcomes and monitoring change

Our reviews of larger firms have found improvements in their anti-money laundering controls, although progress has sometimes been too slow. Where we found significant failings we have used a range of tools to ensure these are corrected, including launching investigations.

Our thematic review of risks in the e-money sector for products such as prepaid cards and e-wallets were broadly positive, while findings from our risk assurance work show we have focused resources in the highest risk areas.

In 2018/19, over 523,000 people visited the ScamSmart website, and 6,400 users were warned about unauthorised firms after using the Warning List. This gives information about the risks of investment and lets users check a list of firms we know have been operating without authorisation.

Over the coming year, we will continue to monitor firms progress on improving their AML controls as this is one indicator of whether the potential harm to consumers and market integrity has been reduced. We will also use data from our Annual Financial Crime Data Return and other sources of information to monitor changes in risk over time.

We have identified some clear weaknesses in oversight provided by Professional Body AML Supervisors, most notably the accountancy sector and many smaller professional bodies focus more on representing their members than robustly supervising standards. Nearly a quarter of professional bodies undertook no form of supervision and not enough are sharing intelligence on money laundering risks. Strategy plans by the Packaged Bank Accounts (PBSs) are in place to address weaknesses and OPBAS will be monitoring the timely implementation of these, taking robust and proportionate action if required. We expect PBSs to actively share intelligence with other supervisors and law enforcement agencies. In addition to participation in the Expert Working Groups, we will also be monitoring PBSs' membership of, and contribution to, the existing information sharing arrangements, SIS and FIN-NET.

Review of the European system for financial supervision

We also provided technical assistance to HM Treasury throughout negotiations in the Council of the EU on the review of the European system for financial supervision (ESFS) which aimed to improve the mandates, governance and funding of the 3 European Supervisory Authorities (ESAs) and the functioning of the European Systemic Risk Board (ESRB). One of the key outcomes of the review was to provide new powers to the European Banking Authority (EBA) to oversee how EU Member States supervise banks and other financial institutions' AML systems and controls.

Data security, resilience and outsourcing

Technology plays a central role in delivering virtually all financial products and services and continues to evolve. It can bring efficiencies, reduce human error and deliver benefits including wider and faster access to products and business services. While this kind of innovation has a fundamentally positive impact on UK finance services, it can also cause harm if not effectively managed. So, operational resilience is a vital part of protecting the UK's financial system, institutions and consumers.

Operational resilience has become even more demanding given the hostile cyber-environment and the large scale of technological changes. When a cyber-attack or service disruption occurs, we work with other authorities, including the Bank of England, Prudential Regulation Authority (PRA), the Treasury, the National Cyber Security Centre (NCSC), the National Crime Agency and the Information Commissioner's Office, using the Authorities Response Framework to ensure a joined-up response.

We have continued to contribute to the work of several international bodies focused on cyber and resilience. These include the International Organisation of Securities Commissions (IOSCO), the Committee on Payments and Market Infrastructures (CPMI), the Financial Stability Board (FSB) and the Group of Seven (G7). We provided input to the following G7 publications during 2018: Threat-led Penetration Testing, Third Party Cyber Risk Management and the FSB Cyber Lexicon.

Addressing industry's operational resilience

Based on the data available to us, we continue to see increased reporting of technology and cyber incidents affecting UK financial services: reports to us increased by 187% in the 2018 calendar year. Our aim is to help firms become more resilient to such attacks, to strengthen market integrity and protect consumers.

In July 2018, together with the PRA and the Bank, we explored ways of strengthening firms' operational resilience in a Discussion Paper (DP). This paper highlighted the risks from cyber-attacks and other disruptive operational incidents, and the financial system's increasing reliance on, and connectedness through, technology and data.

Since the DP we have continued to work jointly with the Bank and PRA to analyse the responses and engage with respondents to clarify discussion points. We aim to issue a consultation paper with proposals later in 2019.

Our improved communications approach commits to giving firms, particularly smaller firms, additional information on how to improve their cyber resilience. This year we published 2 infographics, in conjuction with the PRA and NCSC, on Network Security and Ransomware.

Assessing the risks of outsourcing and third-party providers

Firms continue to outsource the delivery of important business services to third-party providers, some of which are unregulated. The increasing use of cloud computing, for example, benefits firms through cost savings and faster deployment cycles. However, cloud services also pose unique risks, including to data privacy, cross-border infrastructure and market concentration, due to many firms being reliant upon a single provider. In response to new European Banking Authority EBA Guidelines in July 2018, we published updated guidance for firms outsourcing to the cloud and other third-party IT services. Our guidance highlights areas that a firm should consider when preparing to use, evaluate and monitor third parties.

Our Discussion Paper on operational resilience stressed the importance of understanding and mapping important third-party providers. It was also one of the areas which attracted the most feedback, and we will include it in our 2019 consultation paper.

Joining up our work on resilience

The ring-fencing related changes were completed by banks in 2018 with no significant operational disruption to their services.

Under a voluntary agreement developed alongside the industry, larger banks and building societies started to publish several service quality metrics for the first time in August 2018. These metrics include quarterly reporting of major operational and security incidents. We have made this information available to help people choose a current account provider that gives them what they value, while increasing firms' incentive to offer better service.

Outcomes and monitoring change

We have seen a significant rise in firms reporting incidents this year. This is due to new reporting requirements for all payment service providers under PSD2, introduced in January 2018, the implementation of the General Data Protection Regulation in May 2018 and firms' improved understanding of our expectations for incident reporting.

While it is too early to assess if the changes firms are making and how much they are improving operational resilience are a result of our activities, early indications are positive. Our work with international bodies has led to increasing harmonisation of frameworks used globally for cyber resilience. Cloud service providers have also welcomed the extra clarity provided by our updated guidance for firms outsourcing to the cloud and other third parties.

We will also monitor change through our reactive work which identifies how effectively firms respond to cyber and technology resilience incidents. Aspects we assess include how promptly firms notify us of incidents, whether they proactively notify other relevant authorities, and the quality of firms' overall handling of incidents. This enables us to identify whether firms are responding to incidents appropriately. It also helps us understand the challenges they face, which helps us assess the effectiveness of our activities and inform our future proactive work.

Innovation, big data, technology and competition

Financial Technology (FinTech) can help firms to deliver better financial products and services. It can lower costs and lead to greater participation that can benefit consumers. But it also has the potential to quickly spread problems or system errors, so exposing more people to harm. Fraud and misuse of data may be exacerbated where risk controls and governance around technology are poor.

If technologies move very quickly they can leave some customers behind, particularly the most vulnerable. As firms develop technologies we expect them to ensure that the right safeguards are built in to new products and services to protect all consumers.

Problems can also occur because of data loss and weak cyber resilience. This theme is strongly linked to our cross-sector theme of 'Data security, resilience and outsourcing'.

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

Our Competition Annual Report 2018/19 gives more details of our work this year to promote competition

Helping firms with FCA Innovate

Our Innovate and RegTech programmes directly promote innovation. We offer a range of services to support firms developing innovative ideas offering benefits to consumers or the wider financial service market. Through this programme of developing policy and engaging with the FinTech and wider technology environment, we identify barriers to entering the market and try to bridge gaps in regulation where uncertainty stifles innovation.

Our globally renowned Sandbox gives innovative firms the opportunity to test their proposals in a controlled environment with real consumers before they invest more heavily in them, while providing safeguards for consumers. We are now on our fifth cohort, with applications coming from a diverse range of firms.

Our other services include Direct Support and the Advice Unit which provide regulatory feedback to firms developing innovative businesses. This ranges from help with the permissions firms require to individual guidance about how the rules apply to new business models.

Global Financial Innovation Network (GFIN)

The Global Financial Innovation Network (GFIN) launched in January 2019. It is an international group of financial regulators and related organisations, including the FCA, committed to supporting financial innovation in the interests of consumers.

The GFIN seeks to provide a more efficient way for innovative firms to interact with regulators, helping them navigate between countries as they look to scale new ideas.

The GFIN is working on its first cohort of firms for a pilot phase of cross-border testing of innovative products and services and for business models. Firms will benefit from the opportunity to test and compete in the regulated space across different jurisdictions, and the results will be used to inform the future work of the network.

In addition to GFIN, we have continued actively to work on issues related to innovation and FinTech in a range of international and EU organisations and groups.

Testing and applying RegTech and advanced analytics

We have undertaken work to assess the viability of machine executable regulatory reporting, following the 'proof of concept' model developed at an earlier TechSprint. At the start of 2018 we published a Call for Input to seek wider industry views.

Both the feedback we received and the helpful industry participation in the pilot suggests that Digital Regulatory Reporting is a concept that firms consider would be worth regulators investigating further.

Last year we held a TechSprint to explore the role technology can play in preventing and detecting money laundering and financial crime. One of the key learnings from the event was the need for improved ways to safely and legally share data among relevant parties in order to identify and impede criminal networks. We will hold a follow-up event in 2019 to further explore how this data can be shared while remaining compliant with data protection laws.

Recognising the importance that data and intelligence have in enabling regulation we have started to increase data science skills across the organisation. We have built a central advanced analytics team and undertaken 15 pilot projects across the organisation. These projects have focused on testing and exploiting new tools – such as web crawling and scraping, network analytics and natural language processing — for a wide range of use cases.

Reviewing how firms use data

We have completed initial work to identify specific aspects of firms' use of data. From this, we are planning a programme to better understand how firms use of data and machine learning could shape products and services. This work will also look at the potential implications for consumers and for the way markets function.

We continue to work closely with the Information Commissioner's Office. In February 2019, we updated our Memorandum of Understanding with them to better reflect how we coordinate our actions across areas of joint interest, including developing policy and guidance.

Reviewing retail banking business models

Our strategic review of retail banking business models looked at the business models of different types of firms and the role of personal current account banking including free-if -in credit. Among other issues (see the chapters on Retail banking and Retail lending), it also considered how technological change and innovation may affect competition and firms' conduct in the future and the impact of retail bank branch closures on consumers.

Our Final Report, published in December 2018, found that the Personal Current Account (PCA) is an important source of competitive advantage for major banks, bringing cheap funding and revenues from overdraft fees and other charges. Major banks also benefit from advantages in lending markets, generating higher yields from relatively low levels of capital in comparison to other lenders. The results for many consumers and small businesses are little or no interest on credit balances, high charges, and pricing models that can work against loyal customers.

We believe that innovative business models and competition could deliver better value and improved customer service. But coordinated action is needed in the future to ensure a retail banking sector that works well for consumers: for example to ensure all consumers have continued access to banking services; banks use customer data appropriately; have resilient systems; and effectively prevent financial crime and fraud.

Crowdfunding post-implementation review

In June 2019, our Policy Statement, [Loan-based 'peer-to-peer' and investment-based crowdfunding platforms] introduced changes to the way we regulate loan-based crowdfunding platforms.

The changes address the actual and potential harm our post-implementation review identified. These included investors having insufficient information to adequately understand the investment risk of the product and the nature of their relationship with the platform.

We have also supported the Treasury in providing technical assistance throughout the ongoing Council negotiations on the EU Commission proposal for a Regulation governing the activities of European crowdfunding service providers.

Cryptoassets

The cryptoasset market in the UK is currently small but is developing quickly. Providers need to be clear if they are conducting activities that fall within our regulatory remit and for which they may require authorisation.

Cryptoassets have no intrinsic value. Evidence suggests that consumers may buy and trade cryptoassets without realising they have limited regulatory protections. Advertising, which is often targeted at retail investors, is often not fair or clear, and can be misleading. The design of some of these products can also support financial crime and a lack of transparency and oversight can lead to harm to market integrity.

In October 2018 we, together with the Bank of England and the Treasury, published a report on the UK's policy and regulatory approach to cryptoassets, which also discussed the opportunities and risk of cryptoassets and distributed ledger technology (DLT).

We also continue to work closely with the UK Cryptoasset Taskforce and the Treasury on their consultation on unregulated cryptoassets, which will be published in autumn 2019. And we continue to engage in EU and international discussions about the future regulation of cryptoassets.

Outcomes and monitoring change

In April 2019, we published a report on the Impact and Effectiveness of our Innovate programme. This summarised evidence suggesting that our work gives firms the regulatory certainty to develop their innovations and deliver them at speed, improves consumer outcomes and encourages positive innovation both domestically and internationally.

Since launch, we have provided support to nearly 700 firms. Evidence suggests we are having a positive impact on the time it takes for firms to come to market. For example, there has been almost a 40% reduction in time to determine authorisation applications from firms we support.

We are starting to see that the work we do is improving outcomes for consumers. For example, 5 firms that received Innovate support have gone on to launch robo-advice models in the market. Although the development of robo-advice models is fairly slow, we believe they have the potential to provide low cost, suitable investment advice at a significant scale over the next few years.

We expect to be able to draw clearer conclusions on Innovate's impact as firms spend more time in the market and the evidence base grows. But we have identified ways in which we can do more now to expand our assessment capabilities. We will broaden the information we collect from firms we support and expand how we formally monitor their progress over time. This should allow us to make clearer comparisons with similar firms that do not receive our support.

We have seen a range of different cryptoasset firms asking for Innovate support through the Regulatory Sandbox and our Direct Support function. These include firms using cryptoassets to facilitate cross border money remittance and those focusing on issuance of tokenised debt and equity. Many of the cryptoasset-related business models we see seem to be becoming increasingly complex.

Reliable information on the marketplace is not yet available. But our research and engagement suggests there are around 15 cryptoasset spot exchanges headquartered in the UK, out of a global market of 231. UK exchanges appear to have a combined daily trading volume accounting for approximately 1% of global trade cryptoassets volumes. We have authorised only a small number of firms to date and are working with several more that are seeking authorisation for various regulated activities. Data from our Contact Centre show the number of queries we receive that relate to cryptoassets has been consistently increasing since May 2018, the majority of which relate to scams.

The UK Cryptoassets Taskforce report identified 3 major potential harms from cryptoassets – to market integrity, of financial crime and to consumers. We have since published consumer research which reiterated these individual harms but changed our views on the scale of harm. Recognising the relatively small survey sample size, only 3% of those we surveyed had ever brought a cryptocurrency and half of those who bought cryptoassets spent under £200. We found that consumers who bought or researched cryptoassets saw it as a shortcut to easy money and wealth. We found that one in 5 consumers didn't complete any research before buying cryptoassets. We will also consult in summer 2019 on a potential ban on selling, distributing and marketing to retail consumers derivative products that reference certain types of cryptoassets. We are currently carrying out work, including data collection from firms and a cost-benefit analysis, to assess the level of potential harm from UK firms offering these products to retail consumers. We will publish this analysis as part of our consultation paper.

Treatment of existing customers

Existing customers, as well as new ones, should enjoy the benefits of competition and innovation. All customers should be kept well informed about the products they have bought, or are invested in, including performance and charges. Our aim is to identify situations where existing customers in the markets we regulate are treated differently from new customers, and address any resulting harms.

Effective competition relies on consumers responding to the quality and value of products, and providers competing as a result. Existing customers should not be disadvantaged by receiving poorer service or paying higher charges.

We have seen many firms making progress in putting customers more firmly at the centre of their business. However across many essential services, consumers are often being penalised for their loyalty. There is still plenty of work to be done to ensure long-term, consistent, fair treatment of customers.

Understanding firms' pricing practices in retail general insurance

Our goal is to ensure that there is effective competition in retail general insurance markets for the benefit of all consumers and firms adopt fair pricing practices.

We completed our supervisory work on general insurance pricing practices and published the findings in October 2018.

We found that people who stay with their home insurance provider for a long time tend to pay much more than newer customers with similar risks. This is even though the costs and risks of providing both groups with home insurance may be the same. This can cause significant harm and poor outcomes for consumers.

We sent a Dear CEO letter to relevant insurers and intermediaries, setting the clear expectation that they take immediate action on the key issues our work identified.

Following this, we are carrying out a package of work, to address the poor conduct of individual firms and a market study on general insurance pricing practices. We expect to publish our final report in the first Quarter of 2020.

In December 2018, the Competition and Markets Authority (CMA) published its response to the Citizens Advice super-complaint on loyalty pricing. The CMA report included a recommendation that we investigate insurance pricing practices and consider pricing interventions that limit the extent of insurers increasing prices every year the customer stays with them.

Enforcing fair customer treatment

We continue to be on the lookout for firms with poor systems and controls and take action to deter failings. This is to ensure customers are properly protected.

We fined Santander £32,817,800 for failing to effectively process the accounts and investments of deceased customers and transfer those funds to beneficiaries when it should have done. The remediation exercise to return funds to deceased customer

representatives has now been substantially completed. It covers an estimated 40,428 customers who died during the period 1 January 1980 to 31 December 2014 with assets valued at over £183m.

Regulation of claims management companies

On 1 April 2019, we took over the regulation of claims management companies (CMCs). While CMCs can help consumers who are unwilling or unable to bring a claim themselves, we have found that some firms may not operate in consumers' best interests.

We have developed a package of information for CMCs to ensure they understand the rules and principles they must adhere to. Our aim is to ensure that CMCs are trusted providers of high quality, good value services that help people pursue legitimate claims for redress.

Our work with CMCs ensured they had the relevant temporary permission to continue trading after 1 April 2019, before applying for FCA authorisation.

In December 2018, we issued our Policy Statement to explain how we will regulate claims management companies, including conduct, rules and fees.

Assessing claims inflation in general insurance

We carried out some diagnostic work to assess whether brokers and motor insurers are inflating claims through referrals to CMCs, and not passing on the benefits of volume discounts gained by using their own repairers. Our analysis of motor insurance claims rates from 2013 to 2018 did not identify any material issues which merited intervention at this time.

Increases in motor premiums in recent years have mostly been driven by increases to Insurance Premium Tax, levels of car theft and repair costs. More recently we are starting to see some limited evidence that motor premiums may be reducing as a result of the Civil Liability Act and we will continue to monitor data in this space.

Helping consumers make informed decisions on their insurance needs

In August 2018, we produced the third set of data from our value measures pilot. The value measures data give firms, market commentators and organisations such as consumer groups common indicators of value across a range of insurance products.

By publishing this information, our aim is to create incentives for firms to compete on wider elements of product value than just price, and to improve the value of their products and services.

We evaluated the data collected and found it had a positive impact in improving transparency and consumers' awareness of different indicators of product value.

In the first Quarter of 2019 we set out our proposals to require firms to report General Insurance value measures data to us for publication. This consultation period closed on 30 April 2019 and we will issue our Policy Statement in Summer 2019.

Improving competition in current accounts

Since August 2018, we have required current account providers to publish standardised service information. This is designed to help consumers and small businesses find the right service for them, get the most out of it, and get help if things go wrong. It will also help others such as comparison services and the media to compare current accounts.

As part of our High Cost Credit Review we required firms to automatically enroll customers into overdraft alerts to increase their awareness of overdraft use. We have also required firms to provide overdraft charge calculators and eligibility tools. These tools will allow customers to check whether they might be eligible for an overdraft with another provider and make it easier for them to shop around.

Following our research, banks and building societies have also committed to deliver a wider package of prompts to encourage consumers' engagement with their current account, raise awareness of the switching service, and highlight developments in the retail banking market, for example open banking.

We have also published our final rules on overdrafts to simplify overdraft pricing.These will ensure that the price for each overdraft will be a simple, single interest rate which firms will advertise in a standard way. Further information can be found in our chapter on High-cost Credit.

Providing access to Alternative Dispute Resolution for Small and Medium-sized Enterprises (SMEs)

In early 2018 we consulted on extending the Financial Ombudsman Service and our wider Dispute Resolution (DISP) complaint handling rules to larger SMEs. Our consultation recognised that, like individual consumers and micro-enterprises, these businesses also struggle to protect their interests in disputes with financial services firms.

As well as furthering our consumer protection objective, ensuring these businesses receive a common minimum standard of complaint handling will help promote effective competition.

Our final rules, published in December 2018, explain who will be eligible. Since 1 April 2019, SMEs with annual turnover below £6.5m and either a balance sheet below £5m or fewer than 50 employees have been able to refer complaints to the Ombudsman. Larger charities and trusts, as well as a new category of personal guarantors, are also eligible for the service.

Royal Bank of Scotland's (RBS) treatment of small and medium-sized enterprise (SME) customers transferred to its Global Restructuring Group (GRG)

Following the publication of our final summary of the Skilled Person review into the treatment of SME customers transferred into GRG in November 2017 and the subsequent publication by the Treasury Select Committee of the full review in February 2018, we launched a comprehensive and forensic investigation into the serious concerns identified in the Skilled Person review to see if there was any action that could be taken against senior management or RBS itself. We gave an update on this in July 2018.

The business of GRG was largely unregulated and our powers to take action even where the mistreatment of customers has been identified and accepted, are very limited. As such, after carefully considering all the evidence, and consulting with independent, external leading counsel we concluded that our powers to discipline for misconduct did not apply and that an action in relation to senior management for lack of fitness and propriety would not have reasonable prospects of success.

We recognise the significant public interest in GRG and in the July 2018 update, committed to publishing a fuller account into our investigation where permitted by law and following a "Maxwellisation" process for relevant individual. This fuller account into our investigation of potential misconduct of individuals involved in GRG was published in June 2019.

The fact that we can't take action in no way condones the behaviour of RBS. We expect high standards from the firms we regulate and RBS fell well short in its treatment of GRG customers. We feel strongly that those companies that have suffered loss as a result of how they were treated whilst in GRG must be appropriately compensated. We continue to closely monitor the complaints process which is being overseen by an independent third party, to ensure that things are put right.

Although commercial lending to SMEs is not regulated by us, the Senior Managers Regime which came into effect in 2016 has enhanced how we are able to hold senior management of banks to account for their conduct in relation to the unregulated activities of their firm.

Competition in the cash savings market

We are concerned that competition is not working well in the cash savings market. This is particularly the case for consumers staying with the same provider for a long time, who generally receive lower interest rates compared to those who shop around.

Our Discussion Paper, published in July 2018, asked for feedback on a range of options to address this harm. This includes whether we should directly intervene in how firms design and price products, such as by introducing a basic savings rate.

The concerns in our Discussion Paper were echoed by the Citizens Advice Bureau super complaint to the Competition and Markets Authority (CMA) on the loyalty penalty. In response, the CMA made recommendations to us, including further work on the basic savings rate and considering the feasibility of extending Open Banking to savings and collective switching.

Outcomes and monitoring change

A number of remedies to improve competition in current accounts have now been implemented, including the launch of PSD2 and Open Banking in January 2018. Firms have introduced new technologies, and new digital players are entering the market, offering customers more choice and better access to information. But while some new digital entrants have gained a large number of new customer accounts, there are no clear signs of significant increases in customers actually seeking and moving for better options, especially for main bank accounts.

The switching data from the current account switching service (CASS) provider, show that in the 12 months from January to December 2018, there were 929,070 switches of current accounts compared to 931,956 switches in the full year of 2017.

A similar study of switching by IPSOS-Mori[1] shows that 3.5% of current account customers switched accounts in the 12 months up to December 2018, only a small increase compared to 3.2% switches in the prior comparable period.

Overall, available data suggest that the rate of switching has not improved. However, the recent changes, including the publication of service metrics and compliance with Open Banking, are pushing larger retail banks to improve their services and offer customers better information and distinct products.

For competition in cash savings, our 2017 Financial Lives Survey found that 45% of customers had held their savings accounts for more than 5 years. In the previous 3 years, only 9% of consumers had switched cash savings provider and just 10% had switched cash ISA provider. As we move to the next phase of our cash savings work, we will continue to use future Financial Lives Surveys to monitor these switching rates. We will also use data from the Moneyfacts UK Savings Trends to monitor the number and percentage of cash saving accounts that pay over the base rate, as well as the average live rate versus the average closed rate. We will treat increased interest rates on closed accounts as one indicator that consumer harm may be reducing.

In January 2019, we consulted on rules to require General Insurance firms to report and publish value measures data. This consultation followed our pilot, which had a positive impact on firms' senior management using the data to assess the value of their products and make improvements. We expect that publishing value measures data will further improve market transparency and competition. It should also continue to encourage firms to improve their products and give us an additional tool to help supervise firms.

For claims inflation, we have found that recent increases in motor premiums have mostly been driven by increases to Insurance Premium Tax, levels of car theft and repair costs. More recently, we are starting to see some limited evidence that motor premiums may be reducing as a result of the Civil Liability Act. We will continue to monitor data in this area.

Our rules to extend access to the Financial Ombudsman Service to over 200,000 additional small and medium-sized enterprises (SMEs) came into force in April 2019. We aim to start our post-implementation review of our new rules to assess consumer outcomes by April 2021. In Summer 2019 we will also publish an interim report from our market study into the pricing practices of motor and home insurance providers. This will assess the current scale of consumer harm from pricing practices and developments in the market.

We completed the transfer of claims management regulation on 1 April 2019. 953 claims management companies (CMCs) registered for Temporary Permission, which was higher than expected and represents the vast majority of active firms in the market. Our CMC department is fully up and running and visiting CMCs to investigate conduct issues. We will monitor our progress against our vision for the CMC sector through the results of our authorisation assessments and our supervision activity (including the multi-firm work). We will also use the Financial Lives Survey which gathers information on consumer engagement with and perception of CMCs.

1 IPSOS MORI Financial Research Survey to the 6 months ending December 2017 (base: 30 139) and December 2018 (base: 30 362).

Long-term savings, pensions and intergenerational differencies

Long-term savings, pensions and the financial differences between generations are all affected by changes in the UK population and its financial needs.

Our work in sectors including Pensions and retirement income, Retail banking, General insurance and protection and Retail lending, shows that some consumers face potential harm from unmet financial needs. General increases in longevity, difficulty building up assets and continued low interest rates have left many unable to meet their expectations of sufficient retirement savings.

There are no easy solutions for these issues; our work is focused on the interventions we can make that will have the biggest impact.

Retirement Outcomes Review

Our Retirement Outcomes Review has been looking at how the retirement income market is changing since the pension freedoms were introduced in April 2015. In June 2018, we published our final findings.

We found that this market is still evolving and firms and consumers are continuing to adjust to the freedoms. While many consumers have welcomed them, the freedoms also require people to make more complicated decisions about retirement than before. We found that consumers need more support and protection than they currently receive, and that competition is not working well for some of them.

We set out a package of proposed remedies to address the harms and emerging issues we identified, and to put the market on a good footing for the future. In January 2019, as part of this package, we finalised our rules and guidance to improve the information consumers get about their pensions and retirement income products. This includes changes to make the cost of drawdown products clearer and easier to compare.

At the same time, we also consulted on further aspects of our remedy package. This included our proposals to require firms to offer their non-advised drawdown customers a range of investment solutions – with carefully designed choice options – to help them choose investments that meet their objectives. We described these as 'investment pathways'. The consultation closed in April 2019 and we aim to publish final rules and guidance in July.

Unsuitable advice on transferring pensions

We have continued to prioritise pension transfer advice over the past year, focusing on the most active firms in the market. We have also looked closely into some firms based on the intelligence (for example whistleblowing) we received.

We are disappointed to have found that only around half of the advice we reviewed was suitable. Our findings, published in December 2018, are based on the most active firms and so are not representative of the whole market. However, we are particularly

concerned that, despite our feedback to the sector, some firms still do not give consistently suitable advice.

We expect all firms to take prompt action to review their approach to pension transfer advice to ensure that it is not resulting in harm to customers.

We have recently received data from every firm that advises on defined benefit pension transfers. This has given us a complete picture of the market from 2015 to date. We will conduct a wide-ranging programme of activity with firms.

Adequate savings for retirement

We are undertaking research on the levels of saving for retirement. We published a short research note in May 2019 that focuses on the current wealth distribution in Britain and what it tells us about preparedness for retirement.

Effective competition in non-workplace pensions

In February 2018, we published a discussion paper on effective competition in non-workplace (private) pensions. We have delayed publishing our Feedback Statement until summer 2019.

The Statement will provide feedback on the themes from the responses, as well as the findings from our data collection and consumer research exercise. If the evidence demonstrates consumer harm in non-workplace pensions, we will then consult on proposals to remedy this.

Outcomes and monitoring change

We, along with The Pensions Regulator (TPR), have identified the prospect of people not having an adequate income in retirement as a cause of harm in the pensions and retirement income sector. Our research into savings adequacy shows that preparedness for retirement is something of a mixed picture. While the majority of wealthier individuals can expect a modest or comfortable retirement, at least half of poorer individuals are likely to be dependent on state pension and benefits. We are considering undertaking future research into this.

Our Retirement Outcomes Review has provided a clear view on how the market is changing since pension freedoms and where we can intervene to generate better outcomes for consumers. Our study found that a third of consumers not taking advice in drawdown are investing entirely in cash and that over half of these are at risk of losing out by this.

Many of our remedies are in the early stages of implementation and we will continue to monitor the market over the coming months and years to assess their effectiveness. For example, our final rules on investment pathways will be published in July. We will assess if firms have implemented investment pathways as intended and, in our post implementation review, carry out analysis to understand if non-advised drawdown customers are maximising their retirement income by making investment choices that are aligned to their objectives.

Non-workplace pensions are an important part of how people are saving for their retirement. At least 1 in 4 adults have accumulated benefits in a non-workplace pension which represent assets of around £400bn. We have gathered feedback from customers and firms to better understand the market for non-work place pensions and are in the process of analysing this. This will allow us to take a view on consumer engagement, price complexity and switching speed, and the impact this has on consumers' ability to make well-informed decisions and create competitive pressure in the market, should we decide to put remedies in place to address consumer harm or strengthen competitive pressure. Part of our remedy package would include a commitment to look at the extent to which interventions were changing market outcomes and the extent to which any consumer harm identified is reduced.

Throughout 2019/20 we will be carrying out a nationwide programme of firm engagement to obtain a more complete picture of suitability across the market. Using this we will assess how firms have responded to feedback from previous supervisory projects and recent changes to rules and guidance, and will monitor the proportion of suitable cases throughout the programme.

High-cost Credit

Over 3 million people in the UK use high-cost credit, some of whom are the most vulnerable in society. Millions more use overdrafts. The harms from high-cost credit products tend to disproportionately affect vulnerable consumers.

We have already made a significant impact in the high-cost credit sector, most notably with the cap on high-cost, short-term credit which we found has saved consumers £150m a year. Over the past year, we have developed a comprehensive package of remedies to improve consumer protection for the millions of people who use other forms of high-cost credit, including overdrafts.

Rent-to-own

We finalised rules for a price cap in the rent-to-own (RTO) market to reduce the harm to vulnerable customers from high prices. We introduced the cap in April 2019.

The cap on these products will control prices by limiting both the cost of the product and the charge for credit. Under the cap, credit charges cannot be more than the cost of the product. RTO firms are also required to benchmark the cost of products against the prices charged by 3 other retailers.

These rules will also stop firms from increasing their prices for insurance premiums, extended warranties or arrears charges as a way of recouping lost revenue from the price cap.

We have also introduced rules to stop firms making sales of extended warranties at the same time as the rent-to-own product, giving consumers more time to decide if they want these additional services.

Home-collected credit

We identified that some forms of refinancing in the home-collected credit market were leading to consumers paying significantly more than they would pay if they took out a separate loan. Our changes, which were finalised in December 2018, aim to give consumers more control over whether to discuss new or additional borrowing to ensure any repeat borrowing is consumer-led, and to help them fully understand their options and so choose credit products that meet their needs.

We expect these changes to lead to improved sales practices, fewer hidden costs to consumers, and protection against harmful repeat borrowing.

Retail finance

We identified similar concerns about catalogue credit and store cards causing financial distress as we had previously addressed for credit cards. These included whether consumers understand these complex products, what fees and charges they might be charged and when they might be charged them. We have also identified harm from consumers' lack of control over credit limit increases, and a lack of protection for consumers at risk of financial difficulties and problems of persistent debt.

Our new rules are designed to improve consumers' understanding of the products and when to make payments to avoid charges. They will also introduce stronger protection for consumers with longer-term debt on these products who are at risk of, or in, financial difficulties.

Our new rules on Buy Now Pay Later offers, require firms to provide better information about these offers and they prevent firms from charging backdated interest on sums that customers have already repaid during the offer period.

Overdrafts

We identified harm – particularly to vulnerable consumers – from the disproportionate burden of high charges and repeat use of overdrafts. Our package of proposed changes to overdrafts is intended to reduce this harm.

Our new rules will radically reform the ways banks and building societies charge for overdrafts. The changes are significant and wide-ranging and have been shaped by the results of our Strategic Review of Retail Banking Business Models.

The package of remedies we have introduced includes:

- stopping firms from charging higher prices when customers use an unarranged overdraft than an arranged one
- banning most fixed fees for borrowing through an overdraft
- simplifying overdraft pricing – ensuring the price for each overdraft will be a simple, single interest rate – no fixed daily or monthly charges
- requiring firms to advertise arranged overdraft prices in a standard way, including an APR

Alternatives to high-cost credit

An essential part of our work on high-cost credit is our commitment to help increase the availability and awareness of both lower cost credit options and non-credit alternatives that meet consumers' underlying needs, in particular essential household goods.

We set out our approach in detail in November in a Consultation Paper (CP18/35). This included the actions we are taking, and how we are working with the Government, the private sector and the not-for-profit sector to support their initiatives on alternatives to high-cost credit. We will publish an update on this work in July 2019.

Outcomes and monitoring change

Our review of High-cost credit has given us a clear overview of how the market is operating and changing and enabled us to intervene in the areas where we can have the most impact.

Many of our interventions are in their early stages and we will continue to monitor the market over the coming months and years to assess their effectiveness. For example, we introduced our price cap for RTO in April 2019 and will use our firm visits to closely monitor that the cap has been properly implemented. In 2020, we will undertake analysis to review how well the price cap is working and how far fairer pricing has reduced the costs for RTO customers, against our estimate that the RTO cap could deliver net consumer benefits of between £19.6m and £22.7m a year.

We published our final rules on overdrafts in June 2019. We will assess if firms have introduced repeat borrowing strategies that address our concerns. We will monitor both the impact on overdraft prices from our interventions and any changes in these prices after firms have implemented our package. We will begin a detailed review 12 months after full implementation to understand the impact of our package of remedies, including how far harmful repeat overdraft use has been reduced. We indicatively estimate that, as a result of our remedies, the 30% of Personal Current Accounts (PCA) consumers living in the most deprived areas in the UK could see an aggregate reduction in overdraft charges of around £101m per year.

We have already reviewed the impact of the high-cost, short-term credit (HCSTC) price cap. When we assessed this cap in 2017 we found consumers were paying less for loans and were better able to repay them on time. Our cap was saving 760,000 borrowers around £150m per year and significantly reducing lending to those who cannot afford to repay. Fewer customers were seeking help from debt advice charities because of HCSTC products, though some continue to face problems repaying their loans.

Consumers who have been turned down for HCSTC/payday loans after our interventions had generally seen positive outcomes. Most (63%) believe they are better off as a result, few had turned to other high-cost products and there was no evidence that customers who had been declined loans were more likely to turn to illegal money lenders. We plan to review the HCSTC price cap again in 2020.

4 Our sector priorities

Wholesale financial markets

Healthy wholesale financial markets are important to the UK and the global economy. They enable firms and governments to access finance and provide investment opportunities for retail and institutional investors. They fulfil a broad range of financial needs and to be effective, they need to be visibly fair, transparent and efficient. Clean markets where competition works well are vital to the UK's prosperity.

Our work over the last year has continued to focus on 4 broad principal drivers of harm in wholesale markets: serious misconduct including market abuse; participants not dealing with each other appropriately due to conflicts of interest, poor governance or inadequate systems and controls; poor operational resilience leading to, for example, disorderly failures, successful cyber-attacks or market disruption and markets not operating at their best due to structural inefficiencies.

We had planned as part of our 2018/19 Business Plan to publish our 'Approach to Market Integrity' document to help firms and individuals take responsibility for their part in maintaining clean, fair, effective and competitive markets and be clear about our approach. We have decided to postpone this publication in light of EU Withdrawal and the resource we have needed to dedicate to it.

Promoting clean financial markets

Market abuse covers several illegal behaviours in financial markets, including insider dealing, unlawful disclosure of inside information and market manipulation. These behaviours impact the cleanliness of our markets and can cause harm by, for example, unfairly exploiting information asymmetries to the detriment of an effective price formation process and law-abiding market participants. This can result in a loss of confidence in the integrity of our markets and reduce market participation with a consequent impact on the broader economy.

We have continued to actively monitor financial markets and have taken a range of actions to help address market abuse. This year we received a total of 5,604 Suspicious Transaction and Order Reports (STORs) from the industry and 578 other external notifications about potential market abuse. As a result, we opened 484 preliminary market abuse reviews resulting in various outcomes detailed in the section below.

To improve market abuse control environments at firms, this year we carried out a range of activities including an engagement programme to improve the monitoring of fixed income, commodity and derivative markets, which included 29 STOR-related supervisory visits. We also published our updated Financial Crime Guide for Firms to clarify our expectations of financial crime controls in the market abuse space and we reviewed certain market abuse systems and controls on a sample basis at approximately 20% of UK sponsor firms.

We also provided technical advice to the Treasury during negotiations with EU Member States on the EU Commission proposal to promote the use of SME Growth

Markets, which included seeking to make targeted amendments to the Market Abuse Regulation (MAR) in relation to matters such as the maintenance of insider lists. (The final legislation is expected to be formally adopted later this year.)

Addressing conflicts of interest

As noted above, conflicts of interest and market participants being unclear about the capacity they are acting in can be a driver of harm in wholesale markets. MiFID II introduced new rules on research unbundling and underwriting and placing, and strengthened existing obligations on best execution and managing conflicts of interest. We also introduced new domestic rules to improve the range, quality and timeliness of information in the IPO process.

We published guidance to reduce conflicts of interest when analysts of prospective syndicate banks work with an issuer's representatives on underwriting and placing mandates. Our supervision work this year has focused on ensuring firms are complying with these changes and assessing if rules are working as intended.

We have also conducted further supervisory work on 'payment for order flow' (PFOF) practices by brokers in listed derivatives markets and published our findings in April 2019.

Addressing operational resilience

MIFID II provides us better tools to deal with potential harms from algorithmic High-Frequency Trading (HFT). Our report on Algorithmic Trading Compliance in Wholesale Markets, published in February 2018, looked at good and poor practice in firms that undertake this trading activity. Since then, we have continued our supervisory work across a number of firms to ensure that they have suitable systems and controls to identify and manage resilience issues and conduct risks.

As part of our supervisory work, we also met a range of asset management firms to see how they use technology, both in-house or third-party, in their front-offices to carry out portfolio management and risk analysis. The firms we met with varied in size, business model and investment strategy. In aggregate, these firms manage assets of £2.8 trillion. We have set out some of the weaknesses identified in our outcomes section below.

Improving the effectiveness of primary and secondary markets

In our Business Plan 2018/19, we identified 3 areas to which we would give further focus following our review of the effectiveness of primary markets:

- the future structure of the UK listing regime (premium listing and standard listing)
- the provision of patient capital to companies that require long-term investment and
- retail access to debt markets

Elements of each of these are based on EU legislation. Our main focus has been on implementing the necessary changes as we prepare for EU Withdrawal while delivering some core aspects of this work (as detailed in the outcomes section below). The timing and content of further work will continue to be affected by the outcome of EU withdrawal negotiations and clarity on future arrangements. We currently expect to revisit these topics in 2019/20.

We have continued preparing for the expected Europe-wide adoption of electronic filing of annual financial reports in formats supporting structured data (machine readable format) for accounting periods starting in and from 2020. These reforms aim to help investors evaluate the performance of listed companies. We are aiming to publish our proposals later in the year.

To enable greater investor access to patient capital we have proposed changes to our permitted links rules for unit-linked business and have explored how UK authorised funds can be used to invest in patient capital through a discussion paper. Following analysis of responses, we anticipate publishing a feedback statement for authorised funds by end of Quarter of 3 2019 and a policy statement and final rules for permitted links by end of Quarter 4 2019.

Promoting industry codes of conduct

We are seeking to encourage the industry to develop and adopt new or existing codes for regulated firms to achieve 'proper standards of market conduct' when they carry out activities in financial markets outside our regulatory perimeter.

This year we established a process and criteria for recognising industry codes for unregulated financial markets and activities, and industry groups can now apply to us for FCA recognition of their codes.

Review of the European Market Infrastructure Regulation (EMIR)

In May 2017, the EU Commission put forward a proposal to amend the European Market Infrastructure Regulation (EMIR). The proposal was part of the Commission's Regulatory Fitness and Performance Programme and is known as "EMIR REFIT". The main aim of EMIR REFIT is to make some the EMIR requirements for firms trading in over-the-counter (OTC) derivatives simpler and more proportionate. In particular, EMIR REFIT introduces new exemptions from the clearing and reporting obligations for smaller firms. We supported the Treasury in providing ongoing technical advice throughout the EMIR REFIT negotiations in the Council of the EU, and engaged with firms and trade associations in the lead up to EMIR REFIT coming into force in June this year to provide clarity on upcoming changes and our expectations. We also updated the FCA IT systems which firms can access to submit the relevant notifications and applications to allow them to comply with the new regime.

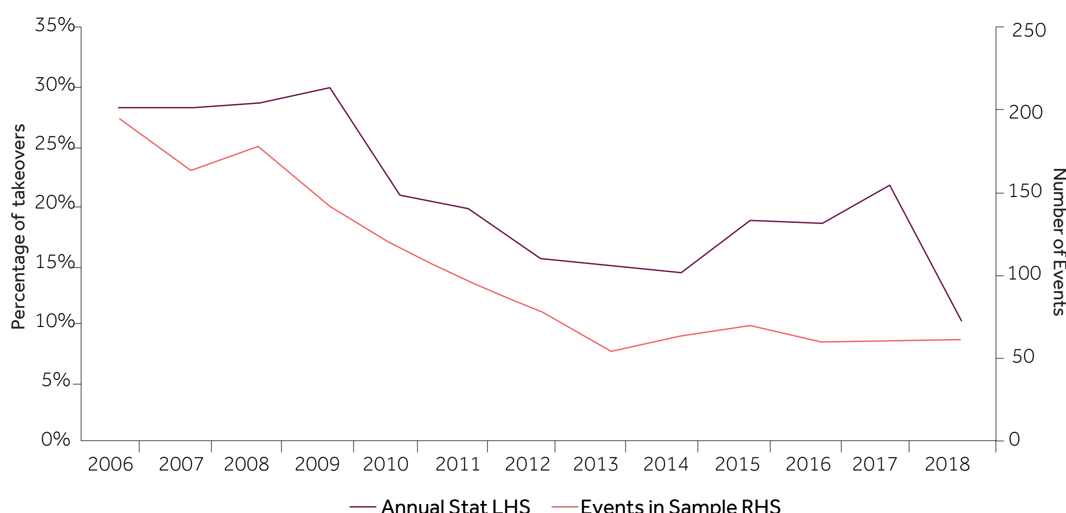
Outcomes and monitoring change

Our 2018 Sector View identified areas of focus where harm is already occurring, or where there is a potential for harm to occur within the wholesale financial markets sector.

We use a number of sources of information to monitor these. For example, since the reporting regime was first introduced in 2005, there has been a continued increase in reporting of suspicious behaviours in wholesale markets. The number of STORs sent to us this year is around 18 times higher[2] than in 2007. The market abuse reporting regime was expanded in 2016 with the introduction of MAR. This led to a sharp increase in regulatory reporting.

For 2018, our Market Cleanliness Statistic (MC Statistic) suggests that 10% of takeovers in the UK were associated with abnormal price movements ahead of a takeover announcement.

Figure 4.1: Annual MIC Sat and number of event per year



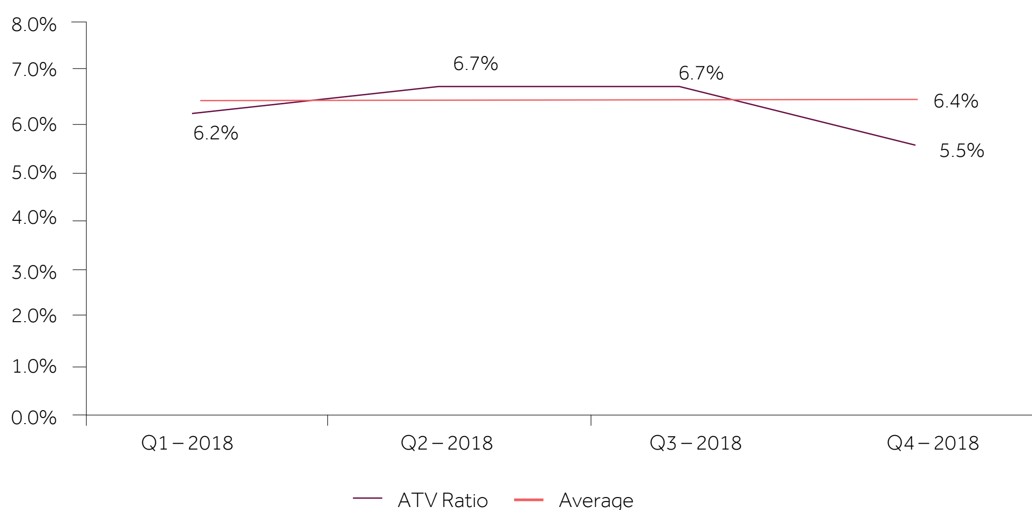
While this represents a 12% reduction compared to last year, it is difficult to make meaningful conclusions from year-on-year changes. The MC Statistic is one indicator of possible insider dealing in equity markets, but it has limits as a measure of broader market cleanliness. We cannot use it to identify the reason for the abnormal price movements and so whether insider dealing has actually occurred. Other factors, such as financial analysts, or the media correctly assessing likely takeover targets or significant legitimate trades that happen to fall before an announcement, can influence the statistic.

We are developing additional indicators to help assess market cleanliness more broadly. This year we have introduced the new Abnormal Trading Volume (ATV) metric. It looks for abnormal increases in trading volumes ahead of potentially price sensitive announcements, covering equity instruments and some equity derivatives. The scope of the ATV metric is broader than the MC Statistic. We have published details of its scope and methodology on our website (Measuring Market Cleanliness – the Abnormal Trading Volume ratio). The graph below depicts the quarterly ATV ratios with the adjacent table detailing the sample used and specific quarterly ratios.

2 The market abuse reporting regime was expanded in 2016 with the introduction of MAR. This led to a sharp increase in regulatory reporting.

The ratio is relatively stable throughout 2018, with the fourth Quarter being the lowest at 5.5%. Overall, of all unscheduled announcements (included in our calculation) in the UK during 2018, 6.4% saw abnormal increases in trading volumes ahead of them. This represents 68 out 1070 announcements tested and involves a small fraction of all equity market activity during the same period. The existence of announcements where we have found statistically significant increases in volumes, does not mean that market abuse occurred before each of those announcements, as volumes can fluctuate for a variety of reasons but it is an indicator that market abuse may have occurred. We cannot currently compare the ATV ratios with those of previous years, as the ATV metric relies on MiFID II data which we only started receiving in the first Quarter of 2018.

Figure 4.2: Abnormal Trading Volume (ATV) ratio



Year-Quarter	Announcements Tested	Announcements that have a statistically significant increase in volume	ATV Ratio
Q1 – 2018	273	17	6.2%
Q2 – 2018	401	27	6.7%
Q3 – 2018	195	13	6.7%
Q4 – 2018	201	11	5.5%

Good systems and controls are critical to helping protect our markets. Our supervisory reviews of market abuse systems and controls at sponsor firms have, so far, resulted in improvements being required at 40% of firms reviewed. While this is not indicative of widespread failures in the UK's sponsor community, which already operate to high standards, it is indicative of the high standards we expect to be continuously upheld. Additionally, having carried out work to improve the market abuse control environment at a range of firms, the numbers of STORs about fixed income and commodity markets have increased. Our initial findings also indicate that the quality and interaction between financial crime and market abuse systems and controls is improving.

Following our 484 preliminary market abuse reviews, we have initiated 91 enforcement investigations and 72 non-enforcement actions, including supervisory interventions

and issuing letters of education. The number of market abuse-related investigations we opened in 2018/19 is broadly in line with 2017/18, when we opened 87 enforcement investigations. While this level of activity cannot be used as a proxy for the level of market abuse in UK financial markets, it demonstrates our focus on detecting and investigating market abuse, deterring wrongdoers and educating market participants on the harm market abuse causes to the economy.

Outside market abuse, this year firms responded positively to our IPO reforms and MiFID II underwriting and placing rules. Prospectuses are being published earlier in the process and at least 7 pieces of unconnected research were produced on 2 IPOs last year. This contrasts with the pre-reform period where we found that out of 169 UK IPOs transactions that took place between January 2010 and May 2015, only one piece of unconnected research was published. Early feedback suggests that the reforms are achieving the aim of improving the range, quality and timeliness of information available to investors during the UK equity IPO process. We however recognise that there have only been a small number of IPOs subject to the new requirements. Consequently, we will continue to monitor developments and maintain dialogue with market participants on the impacts of these reforms

Our supervisory work at asset management firms found weaknesses in the second line oversight of technology used for portfolio management and risk analysis. Many firms also did not have realistic contingency plans to deal with service interruptions. We wrote to these firms setting out these concerns and we plan to publish guidance in coming months.

We also completed our work to tailor the premium listing requirements for issuers controlled by sovereign countries and published our policy statement and final rules (PS18/11). For these issuers, the Listing Rules now include a separate chapter which covers modified requirements for related party transactions and the premium listing of depository receipts.

Investment management

The UK's investment management sector covers asset management, institutional intermediary and advice services, and custody and investment administration services. Estimates indicate that the assets under management (AUM) in 2018 remained broadly flat compared to 2017 at £9.1trn.

In recent years, the industry has also undergone significant regulatory change including MIFID II, PRIIPs and the Asset Management Market Study. These interventions have sought to ensure fair treatment and value for money for investors by improving transparency, comparability and, accountability.

We have continued to contribute to international level work on asset management, including at IOSCO, where we chair the policy committee on Asset Management (C5) which is conducting work on leverage in investment funds as well as a range of other issues.

Key pieces of work relating to the Investment management sector are also reported on in our cross-sector priorities. These include work in relation to governance, technology and cyber issues that can be found in our chapter on Data security, resilience and outsourcing.

Asset Management Market Study

We have implemented a package of remedies to tackle the harm we have found in the asset management industry. Our aim is to promote increased competition to improve outcomes for consumers and protect those least able to engage with their asset manager.

Our Policy Statement in April 2018 presented remedies to improve fund governance for authorised funds and deliver better outcomes for investors. We also issued a Policy Statement in February 2019 with measures, including the introduction of new rules, to ensure that firms provide investors with clear, comprehensive and consistent information.

In September 2017, we referred investment consulting and fiduciary management sector to the Competition and Markets Authority (CMA) for a full market investigation. The CMA issued their final findings on this in December 2018. We support the CMA's remedies and plan to consult on bringing the rules for fiduciary management into the FCA's Handbook following the CMA's order.

We will also work with the Treasury and the CMA to help take forward the CMA's recommendation to bring investment consultancy services under our regulation.

PRIIPs Regulation

The aim of the EU Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation is to help consumer understanding and outcomes by standardising the disclosures firms give to retail investors, giving them the ability to compare competing products.

Following our Call for Input and subsequent Feedback Statement we have concerns about potentially conflicting requirements or lack of clarity about how PRIIPs requirements are actually applied.

We will consider how far providing our own domestic interpretive guidance could mitigate our concerns about: performance scenarios (that current methodology for presentation of performance scenarios produce misleading illustrations across almost all asset classes) Summary Risk Indicators; and the scope of the PRIIPs legislation.

We will also continue to work closely with the European Supervisory Authorities and the European Commission (subject to the nature of the UK's relationship with the EU) as they conduct a full review during 2019 of the Regulatory Technical Standards under the Regulation. The review will primarily focus on improving how risk and reward are displayed in the Key Information Document.

Funds investing in assets

We proposed a package of measures in our Consultation Paper (CP18/27) in October 2018 to tackle the harms we found from illiquid assets and open-ended funds marketed to ordinary retail clients. These measures include a requirement on firms to suspend dealing when there is significant uncertainty over the valuation of property and other 'immovables', measures to improve liquidity management and to increase disclosure about these funds and their inherent liquidity risks to potential investors.

We are considering the feedback to these proposals and will also take into account the lessons learned from the Woodford fund when finalising the new rules.

In December 2018, we proposed changes to our rules which would enable retail investors to invest in a broader range of long-term assets through unit-linked funds, while continuing to have relevant protection. These proposals would allow fund managers to choose investment opportunities that better match consumers' needs.

At the same time, we issued a Discussion Paper (DP 18/10) to explore how UK authorised funds can be used to invest in patient capital (long-term investments such as infrastructure etc). It invited feedback to help identify the barriers to authorised funds investing in this type of capital, and how these barriers can be overcome.

We are now assessing the feedback we received to both these publications to develop our next steps.

Strengthening governance

As well as our proposed governance remedies following the Asset Management Market Study, we are currently considering whether we should extend similar remedies to with-profits and unit linked funds.

The SM&CR is being extended to cover most of the firms we regulate, including investment managers. We give more information on this work in the section on Firms' culture and governance.

Investment Firms Review

In December 2017, the EU Commission issued proposals for a new prudential regime for investment firms authorised under MiFID. This regime is intended to develop more proportionate rules for these firms, rather than regulate them under a regime primarily intended for banks.

During the past year we have provided technical assistance to the Treasury during the Council of European Union negotiations. In February 2019, there was political agreement on the text by the European Parliament and Council of the European Union.

We expect the final text to be published in the EU Official Journal by the end of 2019, leading to implementation by summer 2021.

These measures will establish a prudential regulatory framework that is more appropriate for the business models of non-banks, including investment managers.

Cross-border distribution of collective investment funds

In March 2018, the EU Commission published proposals aimed at improving the cross-border distribution of collective investment funds, amending the EuVECA and EuSEF Regulations, and the UCITS and the AIFM Directives. The objective of the proposed amendments was to improve the transparency of national requirements, remove burdensome requirements and harmonise diverging national rules, for example in the area of marketing requirements, regulatory fees, and administrative and notification requirements.

We provided technical advice to the Treasury during the negotiations with Member States and, following the conclusion of negotiations in February, we expect that the final legislative text will be approved in the coming months.

Impact of Passive Investment

We have published a research note reviewing the academic literature on the impact of passive investing and undertaken research on the rise of passive investing in the UK. We also organised a major conference (co-sponsored by the London School of Economics and the Securities and Exchange Board of India) on 'Paying for Efficient and Effective Markets'.

Building upon our research to date and the conference, we are leading an IOSCO workstream on the impact of passive investing. This will help us identify and explore the key regulatory issues that the rise of passive investing creates.

Outcomes and monitoring change

Our 2018 Sector View identified areas of focus where harm is already occurring, or where there is a potential for harm to occur within the investment management sector.

We use a number of sources of information to monitor these. For example, pricing and quality of asset management products and services was a key priority in 2018/19. Our Asset Management Market Study (AMMS) identified weak price competition for actively managed products as one of the drivers of harm related to the quality and value of products. Various pieces of analysis led us to this conclusion, but one key piece was evidence of price clustering.

Price clustering by itself does not mean competition is not working effectively. When we considered it together with other evidence, however, such as our findings on profitability, firms' pricing decisions and the absence of a clear relationship between prices and performance, this is an indicator that price competition is not working effectively. This is likely to lead to prices that are too high for 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% (for all UK-domiciled funds, active and passive). Our latest figures show these clusters remain unchanged so far.

Many of our interventions aiming to tackle the harm we have found in the asset management industry are at an early stage of implementation. We will continue to monitor the market over the coming months and years to assess their effectiveness.

For example, along with price clustering, we plan to publish anonymised summary data on the performance, after fees, of UK-domiciled index funds that track certain popular indices. We will publish summary statistics on long-term underperforming active funds, again after fees, as a factor that potentially indicates how effectively competition is driving investor behaviour. We will also publish data that track price trends for active and passive funds investing in specific comparable asset sectors.

We found that passive funds now account for 25% of total assets under management in the UK (up from 17% in 2006). Explicit management fees in both active and passive funds that invest in the FTSE 350 have been falling since 2009. The combination of this decline and the shift to lower cost passive funds has led to a decrease in the weighted average fund expense ratio from 1.3% to 1.08% over this period.

We have seen good industry engagement on our Discussion Paper on how UK authorised funds can invest in patient capital, and on our proposed rule changes to enable retail investors to use unit-linked funds to invest in a broader range of long-term assets. We are currently considering the feedback from these publications. Should we subsequently make any changes, we will review how far our interventions change market outcomes and ensure that our rules provide the necessary consumer protection.

We currently expect the new prudential regime for investment firms to be implemented by spring 2021. The new prudential rules are more closely aligned to the way in which a MiFID portfolio management investment firm runs its business, and allow for better conversations between supervisors and firms on the potential for harm. The rules will also potentially make the relevant regulatory reporting simpler and more useful. After implementation, we will subsequently review how the regime is operating to ensure it is meeting its intended outcomes.

Pensions and retirement income

Our overall aim – as set out in our Pensions Strategy developed with The Pensions Regulator is to provide pensions and retirement income products that support people and increase financial provision for later life; pensions that are well funded, well governed and deliver value for money; and which provide the tools to enable people to make well informed decisions. Our work promoting these outcomes has advanced our consumer protection and competition objectives.

We have also covered some key areas of work in our Long-term savings and pensions and intergenerational differences chapter, including: our Retirement Outcomes Review, unsuitable pension transfer advice, adequate savings work and effective competition in non-workplace pensions.

The overarching harm in this area is consumers not having adequate income, or the income they expected, in retirement. This is not something that we can tackle alone but our Pensions Strategy addresses some of the key issues behind it.

Pensions strategy

This year, our focus has been on producing our joint regulatory strategy with The Pensions Regulator (TPR) that sets out our vision for the sector over the next 5 to 10 years. The strategy makes clear our priorities and how we plan to address the issues we see in the sector. It also makes it easier for all our stakeholders to understand our role in the pensions and retirement income sector.

The strategy includes 2 new priority areas for joint action: a strategic review of the entire consumer pensions journey; and using our powers to help drive value for money for pension scheme members, including setting and enforcing clear standards for delivering value for money where relevant.

We believe that implementing our strategy will make a significant difference in enabling pension scheme members and consumers to make good decisions, make the most of their savings, and in ensuring that their money is being well looked-after and managed in line with their needs.

Extending the remit of Independent Governance Committees for workplace pension schemes

In June 2018, we responded to the Law Commission's recommendations that we extend Independent Governance Committee (IGC) oversight to firms' policies on environmental, social and governance (ESG) issues in relation to workplace personal pensions.

We said that we broadly agreed with the Law Commission's proposals and would consult as part of a wider package of rule changes for IGCs. Our subsequent consultation paper proposed rule changes to require IGC oversight of both firms' policies on ESG issues and the value for money provided by our proposed investment pathways for non-advised consumers entering drawdown. There is more information about this work in the chapter on Long term savings and pensions pensions, where we report on investment pathways.

Helping consumers avoid scams

The number of people seeking information about pension scams has soared since the launch of our joint ScamSmart campaign with the TPR in the summer of 2018. The campaign urged all pension holders to be on their guard against pension scams.

Outcomes and monitoring change

Our 2018 Sector View identified areas of focus where harm is already occurring, or where there is a potential for harm to occur within the retirement income sector.

We use a number of sources of information to monitor these. For example, if consumers choose pension products without taking advice or guidance, this could reduce shopping around and increase the risk that they buy poorer value or unsuitable products. In Quarter 2 to Quarter 3 2018 the proportion of consumers taking advice or guidance before choosing an income drawdown product was 66% and 10% respectively. 24% of consumers took neither. This compares to the previous six-month period where 69% of drawdown consumers took advice.

The proportion of consumers choosing an annuity with advice or guidance in Quarter 2 to Quarter 3 2018 was 27% and 29%. This shows many more consumers were choosing an annuity without getting advice or guidance when compared to drawdown. While this is partly expected, these consumers may be failing to get enhanced annuity rates or not shopping around to get the best deal.

Our Financial Lives Survey 2017 shows that in the 1-3 years before 2017, just 46% of consumers shopped around when choosing to enter pensions drawdown and just 51% of consumers shopped around when buying an annuity.

The threat of pension scams remains a key harm in this sector. A 2018 poll commissioned by us and The Pensions Regulator (TPR) revealed that almost a third (32%) of pension holders aged 45 to 65 would not know how to check whether they are speaking with a legitimate pensions adviser or provider. One in eight 45 to 65-year-olds surveyed (12%) said they would trust an offer of a free pension review from someone claiming to be a pension advisor. Our specialist teams continue to monitor the market to identify and tackle cases of pension mis-selling and fraud by both regulated and unregulated firms.

With regards to confidence and participation, our Financial Lives Survey 2017 showed that consumers who held decumulation products, had a high level of confidence and trust in decumulation pensions providers particularly annuity (42%) and income drawdown (46%). Trust in defined contribution (accumulation) pension providers was lower, however, with only 14% having a high level of trust and 29% having moderate levels of trust. We plan to continue to monitor this through future iterations of the survey.

Our work with Independent Governance Committees (IGCs) has found considerable variation in the way they have assessed value for money. We have seen examples of reports that set out very clearly how the IGC has made its assessment, with a clear framework and scoring system. But other reports provide less explanation. We plan to review IGC effectiveness in 2019/20. We also plan a review of the impact of the wider investment pathway proposals from our Retirement Outcomes Review. This will include analysis of the charges providers are applying to pathway solutions and will help us evaluate how well IGCs are helping to make sure that investment pathway solutions are good value for money.

Following the launch of our ScamSmart campaign with TPR, traffic to the ScamSmart site rose five-fold. More than 173,000 people – an average of 3,145 a day – visited the site during the campaign period. Additionally, 370 users were warned about an unauthorised pensions firm after using our Warning List of firms we know are operating without authorisation.

Our joint pension strategy with TPR sets out a vision for the pensions sector over the next 5 to 10 years. We will use a range of quantitative data, as well as our more qualitative judgements, to assess whether our work is having the intended impact in reducing consumer harms and achieving our objectives. We will undertake a comprehensive review of the strategy and the associated action plan in 3 years time.

Finally, pension transfers have remained a priority for us throughout 2018. The number of transfers out of defined benefit pensions and into defined contribution pensions has risen steadily since the introduction of pension freedoms. There were 24,000 transfers reported in the period April-September 2017 compared to just over 5000 in October 2015-March 2016. Our work this year has continued our focus on the advice firms that are most active in the market.

Retail banking

The retail banking sector is the gateway into financial services for most consumers, and is central to the lives of virtually every consumer, business and organisation in the UK.

Innovation in payment services has created alternatives to many services traditionally provided by banks alongside current accounts. For example, payment and e-money firms offer products and services which complement or substitute products and services previously provided by banks, building societies and traditional firms.

Regulation, technology and changing consumer behaviour are driving significant change and the sector is in a period of transition. The implementation of PSD2 and Open Banking is expected to increase the pace of development and use of innovative online payment services for the benefit of consumers.

A number of technology firms have started to enter the payments market. Some of these firms' activities are outside or at the margin of the regulatory perimeter. Further detail about these can be found in our Perimeter report.

As well as the work that we report on in this chapter, key pieces of work that impact on the Retail banking sector are included in our cross-sector priorities, these include:

- Our strategic review of retail banking business models which is covered in the chapter on Innovation, big data, technology and competition
- Providing access to dispute resolution for SMEs, which is included in Treatment of existing customers
- Dealing with frauds and scams which is reported on in the chapter on Financial crime
- Our work in relation to Data security, resilience and outsourcing
- Steps we have taken in relation to overdrafts and the cash-savings market. These are reported on in High-cost Credit and Long-term savings, pensions and inter-generational differences

Helping firms prepare for ring-fencing

The ring-fencing rules came into force on 1 January 2019. They are designed to protect customers, and the day-to-day banking services that they rely on, from unrelated risks elsewhere in the banking group and shocks affecting the wider financial system.

We have worked closely with the Prudential Regulation Authority (PRA) and firms affected by ring-fencing to assess, monitor and manage the key issues. This work included the supervision of firms' ring-fencing plans, regulatory transactions and participating in the ring-fencing transfer schemes, which moved parts of the banks to newly created ring-fenced banks or non-ringfenced banks.

Our focus in our work with firms has been on ensuring good outcomes for customers and limiting the impact on service provision. We have also worked towards ensuring that ring-fencing did not increase the role of fraud in transition.

Developing a payments sector strategy

The sector strategy for payments has focused on developing our understanding of – and tackling – issues in the payments system, particularly among non-bank payment firms.

We have addressed these objectives via a programme of proactive and reactive supervision. We have engaged with payment firms to learn more about the key issues they face, for example via our Live and Local events.

We have worked closely with the Payment Systems Regulator as the industry develops a code to address harms arising from Authorised Push Payment (APP) fraud, sharing analysis where this was helpful. We published new rules that improve the way that firms must handle complaints when made to the Payment Service Provider (PSP) receiving their payment. We published new rules to require firms to report these complaints.

In July 2017, the Bank of England announced that it was extending access to Real Time Gross Settlement (RTGS) accounts for non-bank PSPs seeking to join payment schemes as a direct member. We have completed assessments of 6 firms in the areas of governance, safeguarding and financial crime. We are currently in the process of assessing a further 4 who will be looking to gain access over the next year.

We carried out a eview of 11 firms' safeguarding arrangements to assess whether customer funds would be protected if firms were to fail. Where we have identified issues with these firms' safeguarding arrangements, we will require them to act to ensure that consumers do not face financial loss in an insolvency event. With this learning as a backdrop, we will seek to communicate our expectations on these issues more broadly.

We extended our Principles for Business and some communication rules to the payment services and e-money sectors to improve standards and promote better protections and outcomes for customers.

Delivering the revised Payment Services Directive (PSD2)

In January 2018, the revised Payment Services Directive (PSD2) introduced new requirements for authorised payment institutions and e-money institutions to strengthen consumer protection, promote innovation and improve the security of payment services. These included changes to the conduct of business rules, complaints handling and new reporting duties.

Following consultation, we implemented the European Banking Authority's guidelines on security measures for operational and security risks in July 2018. In September 2018, we consulted on new rules and guidance to implement Regulatory Technical Standards on Strong Customer Authentication (SCA-RTS) and Common Secure Communication (CSC). These bring about critical changes to the security that providers place around payments and online banking, and bring about important changes to how customers interact with them (such as two-factor authentication). We published our Policy Statement in December 2018. We met firms and other stakeholders to discuss the challenges they face in implementing SCA-RTS. We will be closely monitoring firms' progress in the run up to the 14 September 2019 deadline to implement these changes.

In 2018, over 200 new firms were successfully authorised or registered. Many of these have been approved for activities related to Open Banking. PSD2 has brought 2 new services into FCA regulation – Account Information Service and Payment Initiation Service Providers.

Account providers, such as banks, are also under obligations to prepare for Open Banking services under PSD2. Providers of online accounts may apply to us for their Open Banking interfaces to be exempted from certain requirements of the SCA-RTS. We have started to assess firms and accepted exemption requests in January 2019.

We are also now supervising over 90 firms who are undertaking the newly regulated activities of providing payment initiation and account information services. This includes initial engagement with each firm after they have been authorised or registered.

Additionally, for the purposes of contingency planning for a no-deal Brexit, we published a Consultation Paper (CP18/44) on how we propose to make technical standards substantially the same as the SCA-RTS if there is no implementation period following the UK's departure from the EU.

Access to cash and branches

Our Strategic Review of Retail Banking recognised that consumers and small businesses who rely on cash may also be affected by branch and ATM closures. Cash transactions are declining rapidly and are set to fall further, as contactless payments and other electronic payments increase.

Over the course of 2019/20 we will continue to identify the impacts of innovation on customers' access to payment services. In relation to the declining use of cash, we are also working closely with the Treasury, the Bank of England and the Payment Systems Regulator through the Joint Authorities Cash Strategy Group.

Payment Protection Insurance (PPI) Complaints Deadline

The deadline for making complaints about mis-sold PPI is 29 August 2019. We launched our PPI complaints campaign in August 2017. It uses a wide range of channels, including TV, print, digital and radio, to raise awareness of the deadline and prompt anyone who intends to check or complain to do this before it's too late.

Outcomes and monitoring change

Our 2018 Sector View identified areas of focus where harm is already occurring, or where there is a potential for harm to occur within the retail banking sector.

We use a number of sources of information to monitor these. For example, we monitored nearly 300 firms' technology and cyber capabilities to better assess the industry's technological resilience. This confirmed we needed to continue to increase our focus in this area.

The UK Finance half year fraud update shows that total losses due to APP scams were £145.4 million in the first half of 2018. This is an increase of 44% compared to the same

period in 2017. There were also 34,128 cases of APP scams in the first half of 2018, compared to 19,370 in the first half of 2017, an increase of 76%. While these figures are not directly comparable, they show this problem is growing.

Our Financial Lives Survey 2017 showed that 3% of UK adults are unbanked and that 77% of them have characteristics of potential vulnerability. We will continue to monitor this in our next Financial Lives Survey.

We assess how well competition is working by looking at several indicators, including how many customers switch current accounts. In 2017, the Current Account Switching Service data showed that 931,956 customers switched current accounts. In 2018 this figure had fallen to 929,070..

The aim of our ring-fencing work was to limit the impact on customer services and ensure ring-fencing was not used as a cover for fraud. Firms completed their restructuring with minimal disruption. Our proactive supervision will continue to monitor whether firms are embedding rules effectively, along with managing any operational risks, such as resilience. We will carry out further evaluation in 2020/21, and the Treasury will set up an independent review of the operation of ring-fencing legislation before 2021.

Under PSD2, payment firms are now required to report fraud data, and we have started to use this data in our diagnostic work. We are also using insights from other PSD2 reporting on major incidents, operational resilience, and access to payment accounts, to drive our strategy.

We are developing the way we use PSD2 data, focusing on anti-fraud measures for payments and access to accounts for open banking. These data will be available from 14 September 2019.

In October 2018, we reported on our PPI campaign's progress one year on from launch. The results are positive against our main performance measures. Our national tracking survey shows that 73% of the UK population over 25 know about our campaign and over 3 million people have visited our dedicated PPI website.

Encouragingly, we have also seen more consumers taking action. In the 10 months after the campaign's launch, people made 8.4m PPI checking enquiries and 3.7m PPI complaints. This is an increase of 63% on the 10 months before we launched the campaign. We also found that more consumers were complaining directly themselves, rather than using claims management companies, giving them better financial outcomes where awards are made.

Retail lending

Around 39 million people in the UK have outstanding borrowing, estimated at more than £1.63trn. Of this £1.42trn is mortgage borrowing and £216bn is consumer credit borrowing.

Retail lending allows consumers to borrow to meet their financial needs and can help them manage cash flow or make purchases. However, a minority of consumers may experience significant harm as a result of unsuitable lending. Vulnerable customers are disproportionately affected, with some business models relying on unaffordable lending to subsidise those who repay on time.

Our role is to ensure that firms sell products to customers that are affordable and appropriate for their circumstances, and that they take appropriate action when customers are in financial difficulty. Our focus is on the harms caused by poor conduct, particularly when more vulnerable customers are affected.

Over the past year the pace of growth of consumer credit lending has slowed, mainly due to a significant reduction of new motor finance agreements. The sector continues to evolve due to regulatory change. This is also covered in the chapter on High-cost credit.

Assessing creditworthiness in consumer credit

On 1 November 2018, new rules came into force which were designed to clarify our expectations on firms in relation to the assessment of creditworthiness for consumer credit. In our Policy Statement (PS18/19), we stated that we want firms to make a reasonable assessment, not just of whether the customer will repay, but also of their ability to repay affordably and without this significantly affecting their wider financial situation.

The rules make clear what we expect of firms, particularly on:

- the distinction between affordability and credit risk
- ensuring that credit assessments are proportionate
- the role of information about consumers' income and expenditure
- the need for clear and effective policies and procedures

The changes should help ensure that consumers are protected from harm from unaffordable lending. We will track the effectiveness of firms' compliance with these rules through our ongoing supervisory work.

Making the mortgage market work better for consumers

We have published the final report of our mortgages market study. It found that the mortgage market works well in many respects. Engagement is high and consumers are getting mortgages that are suitable and affordable. But it could also work better in other ways. In particular, there are limitations to the effectiveness of the information and tools available to consumers. This means many consumers miss out on cheaper deals that are just as suitable.

We want to encourage widespread participation by lenders in innovative tools to help customers more easily identify, at an early stage, what mortgages they may qualify for.

We are also concerned that some consumers cannot switch to a more affordable mortgage, despite being up-to-date with their mortgage payments. This includes those who cannot switch because of changes to lending practices during and after the 2008 financial crisis and the subsequent regulation that tightened lending standards. We have published a Consultation Paper aimed at helping these borrowers. The proposed changes to our responsible lending rules will enable lenders to make more proportionate affordability assessments for consumers looking to move to a more affordable mortgage without borrowing more.

Our market study also identified 3 harms related to mortgage advice and distribution, namely that:

- our advice rules and guidance are a barrier to developing tools to help consumers choose and buy a mortgage
- consumers who would like to buy a mortgage on an execution-only basis find it hard, both because they are diverted to advice and because execution-only sales channels are not always easy to use
- many consumers are overpaying for their mortgages, even when they do get advice

We are consulting on further proposed changes to our advice rules and guidance to address these harms.

Credit broking remuneration models at the point of sale

We carried out a review of commission and other remuneration models between credit brokers and other firms (such as lenders) to see if they create poor customer outcomes. We did not look at motor finance brokers, who we have reviewed separately.

We did not find evidence that inter-firm commissions paid to credit brokers are causing significant widespread harm to consumers. However, this does not mean harm is not occurring for reasons other than commission, and our report does identify some examples of poor customer outcomes.

Our work showed that some commercial finance firms use commission models where the amount of interest charges is linked to the amount of commission the broker will earn. We looked at this commission model more widely as part of our motor finance review.

As a result, we will continue to monitor credit broking activity as part of our ongoing supervisory strategy and address harm in individual firms where we see it.

Ensuring the debt management sector works well

Poor quality debt advice and debt management services pose a very high risk to consumers, particularly those in vulnerable circumstances.

In March 2019, we published the findings from our second thematic review of the debt management sector. This looked at commercial firms and not-for-profit debt advice bodies that provide debt advice and administer debt management plans. We found many improvements in the standard of advice and outcomes for consumers since our previous review in 2014/15.

Our findings showed firms were devoting more time and resources to administering debt management plans, particularly in reviewing the suitability of debt management plans through making and maintaining contact with customers to carry out annual reviews.

Some firms need to work harder to make sure they consistently deliver good outcomes. Some areas still need significant improvement, particularly the identification and treatment of vulnerable customers and the quality of advice given to customers who seek advice together (for example as a couple), or who are already on a joint debt management plan.

We are taking further action with firms to address persistent problems. Debt management remains a priority and we will continue to closely monitor and intervene where firms fail to meet our standards.

Motor finance

Our review of the motor finance sector found widespread use of commission models which allow brokers to set the customer interest rate, and so earn higher commission. This can lead to conflicts of interest which lenders are not adequately controlling, and to customers paying significantly more for their motor finance.

We found that the widespread use of commission models which allow brokers discretion to set the customer interest rate and thus earn higher commission, can lead to conflicts of interest which are not controlled adequately by lenders. This can lead to customers paying significantly more for their motor finance.

Because of these higher commission payouts, we found that some customers may be paying over £1000 more in interest charges over the term of their agreement. We estimate this could be costing UK consumers more than £300 million annually. We are assessing the options for intervening in this market which would address the harm identified. This could include strengthening existing rules or other steps such as banning certain types of commission model or limiting broker discretion.

We also found that firms may be failing to meet their existing obligations on pre-contract disclosure and explanations to consumers, as well as on affordability assessments. We are following up with individual firms where failures were identified but we expect all firms, both lenders and brokers, to review their policies, procedures and controls to ensure they are complying with all relevant regulatory requirements and treating customers fairly.

Review of the retained provisions of the Consumer Credit Act 1974

We were required by legislation to review the provisions of the Consumer Credit Act 1974 (CCA) that were retained in legislation when responsibility for consumer credit regulation transferred to the FCA in April 2014, and to report to the Treasury by 1 April 2019.

In particular, we were required to consider whether the repeal of CCA provisions would adversely affect the appropriate degree of protection for consumers, including considering which CCA provisions could be replaced by FCA rules whilst taking into account proportionality on firms.

We presented our final report to the Treasury in March 2019. We did not include formal recommendations, but the report provides analysis and evidence to enable the Government to make decisions.

Market study on credit information

In our Business Plan 2018/19, we said that we would launch a market study on credit information in Quarter 4 2018/19. Our aim is to ensure that this important market works as well as possible to maximise the benefits that it can deliver for consumers. This was delayed until June 2019 while we focused resource on launching the market study on general insurance pricing practices.

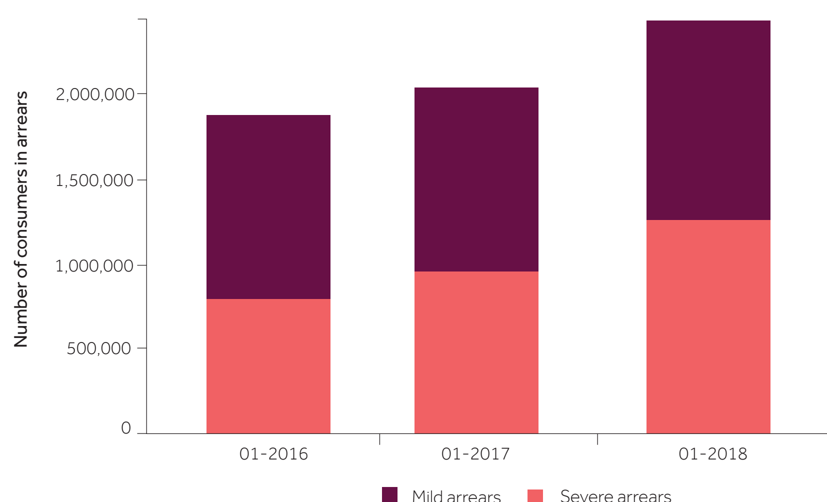
Outcomes and monitoring change

Our 2018 Sector View identified areas of focus where harm is already occurring, or where there is a potential for harm to occur within the retail lending sector.

We use a number of sources of information to monitor these for example, while arrears data can be a useful indicator of unsuitable credit products and poor lending and/or borrowing decisions. While we know that missed payments can be the result of life events such as changes in employment or household status, early arrears can indicate poor affordability at the outset.

Figure 4.3 below shows the number of consumers in mild arrears (those who have missed 1 or 2 payments) or severe arrears (those who have missed 3 or more payments) in at least 1 retail lending product (excluding motor finance). The increase in the number of consumers in arrears in part reflects the growth in the number of individuals using consumer credit products. We will explore further whether any particular products or firms are particularly responsible for the increase.

Figure 4.3: Consumers in arrears



Our Financial Lives Survey 2017 showed that in total 15% of UK adults were over-indebted (in that they find keeping up with bills and credit commitments to be a heavy burden and/or they have missed payments in any 3 or more of the last 6 months).

With regard to mortgages, we have seen little change in arrears levels since 2017. Our data show that, at the end of 2018, around 25 out of every 10,000 mortgages were currently in shortfall 6 months after taking them out. This indicates that the scale of consumers taking on unaffordable mortgages is currently controlled.

Figure 4.4 shows the percentage of mortgages with payment shortfalls in the first 2-6 months after being sold in the first half of 2017, compared to the first half of 2018.

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

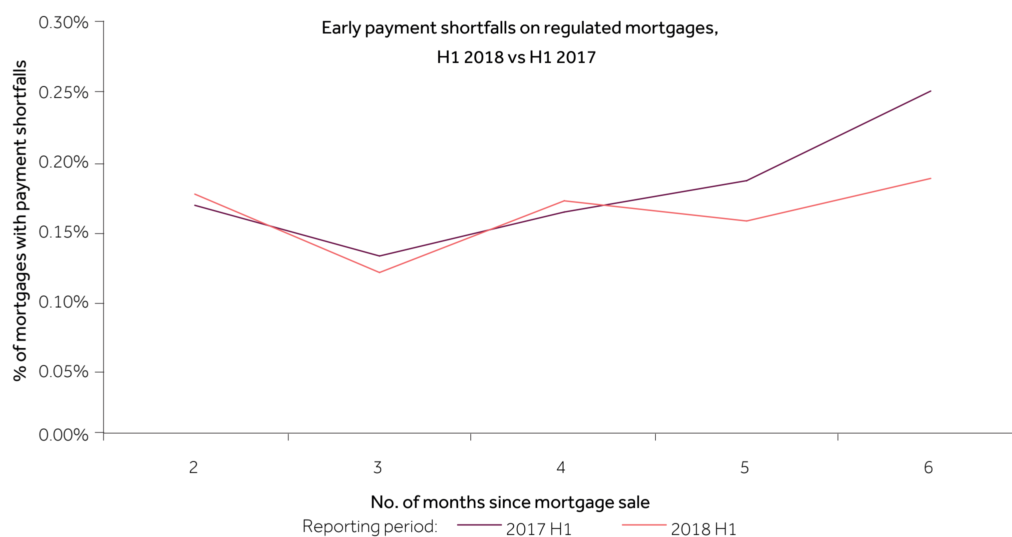
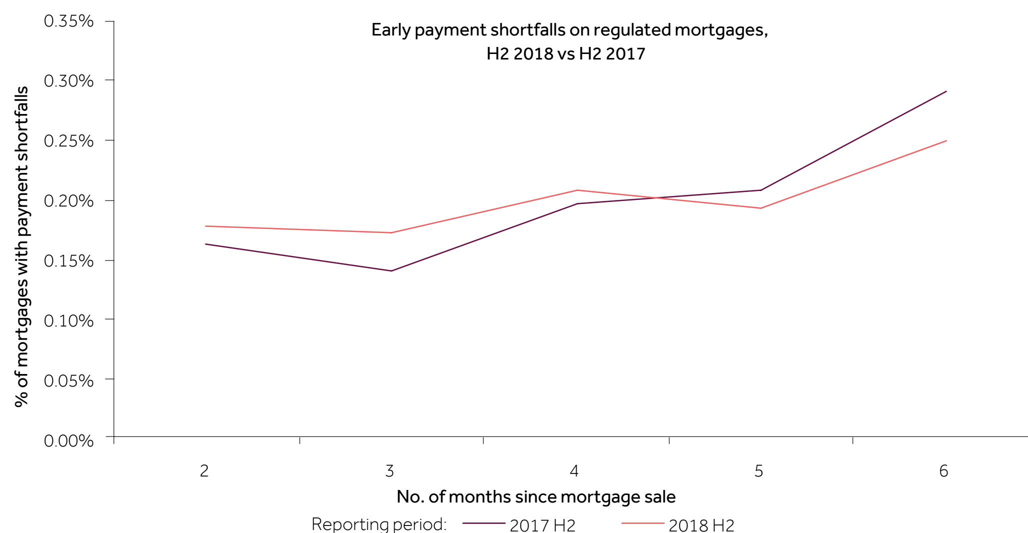


Figure 4.5 shows these data from the second half of 2017 compared to the second half of 2018. These figures rely on firms sending us data which are accurate and on time. We continue to review the quality of these data and monitor this indicator. Any sustained increases in shortfall rates could indicate we need to carry out further work to assess if unaffordable lending is increasing.

Figure 4.5: Incidence of payment shortfalls occurring soon after mortgage sale



Our previous debt management thematic review in 2014/15 found that the standard of debt advice was unacceptably low. In our recent thematic review, we found improvements in the standard of advice and outcomes for consumers prompted by our continuing scrutiny and close supervision. However, we also found some areas still needed significant improvement, particularly in the way firms identified and treated vulnerable customers and the quality of advice given to customers who seek advice together.

In March 2019, we published the final findings of our review of the motor finance sector. It found that commission arrangements in motor finance can lead to consumer harm and that such commission models could be costing customers £300 million more annually than under flat fee models (where there is no broker discretion). We are currently assessing the options for intervening to address this harm.

Firms are required to carry out appropriate assessments of consumers' creditworthiness. This includes assessing affordability, to minimise the risk of consumers taking on unaffordable debt. We expect firms to have responded to our revised consumer credit rules on assessing creditworthiness by reviewing their lending policies to ensure that they have effective processes in place to consider affordability.

We are working with industry to implement remedies arising from our mortgages market study and we will monitor the outcomes of any changes we make. We will continue to monitor the traction that new tools aimed at helping consumers choose and buy a mortgage gain with lenders, intermediaries and consumers. We will evaluate the success of any changes we make to our advice and responsible lending rules through our supervision of firms and monitoring of regulatory returns. We may also carry out research or work with firms to assess the impact of changes they have made, including on consumer outcomes.

We will also carry out further work to understand the characteristics of those mortgage customers that do not switch (when they would benefit from doing so). This includes considering whether these consumers have particular needs or common characteristics, or whether the numbers are concentrated in specific lenders such as those who do not proactively offer internal switches.

General insurance and protection

Our Financial Lives Survey shows that most UK adults – 82% – have one or more general insurance (GI) products, with home and motor insurance being the most commonly held. The UK economy is underpinned by wholesale insurance that provides protection for large, complex and specialist risks, such as infrastructure. Our aim is to ensure the wholesale insurance markets operate efficiently and with integrity. At the same time, our aim for retail markets is to ensure that they deliver competitive and fair value for consumers.

Our priorities in this sector are fairness, access and value for retail customers, and an effectively functioning wholesale market. Consumers in both wholesale and retail markets face a number of potential harms including being sold unsuitable products, low value products and cyber-crime.

As well as the work that we report on in this chapter, key pieces of work that impact on the retail general insurance and protection sector are covered in our cross-sector

priority work on Treatment of existing customers. These include our work on assessing claims inflation and understanding firms' pricing practices. We are also focused on managing the impact of EU Withdrawal in this sector, including firms' restructuring such as transfers of business under Part VII FSMA.

On aspects of EU Withdrawal and ongoing general regulatory work in the sector, we have continued to be active in the European Insurance and Occupational Pensions Authority (EIOPA) and with our counterpart regulators. We have also strengthened our participation in the International Association of Insurance Supervisors (IAIS)

Insurance Distribution Directive

Some insurance products do not deliver the benefits that consumers expect, or do not provide value. Poor conduct by firms, or an excessive focus on price by customers, can lead to customers buying products which do not meet their needs. This can potentially cause significant harm to consumers, particularly the vulnerable.

The Insurance Distribution Directive (IDD) came into force in October 2018. We introduced a range of new rules to implement it. These focus on customers being better informed and firms providing products which meet their needs. This should then mean customers get good value from their insurance products and the services.

Publishing our interim findings on wholesale insurance brokers

In November 2017, we launched a study in the wholesale insurance broker market in response to evidence of potential concerns about competition. To assess these concerns, we looked at the role insurance brokers play, how well competition is working and how the market is developing.

Our final report, published in February 2019, did not find overall evidence of significant levels of harm that would require us to introduce intrusive remedies. However, we did find some areas that need further action, including conflicts of interest, the information firms disclose to clients and some specific contractual agreements between brokers and insurers. We will work with the industry to ensure these are addressed.

Value in general insurance distribution chains

We recently completed our diagnostic work on value in the distribution chain. This considered 3 insurance products – tradesman insurance, travel insurance and motor ancillary insurances, including Guaranteed Asset Protection (GAP) insurance.

The problems we found can potentially harm customers. These include prices that are too high, customers being sold unsuitable products and firms not handling claims or complaints in the way they should.

We also found similar issues in a piece of multi-firm work on delegated authority, following up on our 2015 thematic review.

Our consolidated findings from both reviews of the GI distribution chain, published in April 2019, set out our actions, expectations and next steps.

We will carry out further supervisory work in this area to monitor how firms are implementing IDD and responding to our proposed guidance, and will intervene if firms do not meet their regulatory obligations.

Protecting vulnerable customers – access to travel insurance

Following our earlier consultation, in June 2018 our Feedback Statement made 2 key recommendations:

- Some consumers may have relatively severe pre-existing medical conditions (PEMCs) and find it difficult to get appropriate travel insurance. Firms should direct these consumers to providers that cater for their needs.
- Consumers need to be better educated about the importance of insurance when travelling abroad, the effect of PEMCs exclusions in policies and the costs of medical treatment abroad.

In response, we have worked with travel insurance providers and medical charities to learn more about the barriers facing consumers. Our view is that the best way to provide signposting is to build on the current arrangements of many mainstream firms to ensure that consumers with more severe PEMCs are referred to specialist providers.

Taking action against mis-selling

Over the past year we have taken a number of successful enforcement actions against firms and individuals that have not followed our rules.

We fined The Carphone Warehouse £29,107,600 for failings that led to the mis-selling of 'Geek Squad', a mobile phone insurance and technical support product. The Carphone Warehouse did not provide their staff with adequate training to give suitable advice to customers purchasing Geek Squad. Also, staff were trained to recommend Geek Squad to customers who already had cover, causing some customers to buy insurance that they did not need or had no value to them.

Further details of our enforcement work can be found in our Enforcement Annual Performance Report.

Keeping our rules on Guaranteed Asset Protection (GAP) insurance under review

We evaluated the effectiveness of our 2015 rules on GAP insurance to assess if they are leading to better consumer outcomes and improving competition in the market.

We found that our intervention had a positive impact and has reduced harm in the market. Consumers now engage more with the decision-making process, and the level of shopping around has more than doubled. Add-on sales are 16%-23% lower than they would have been had we not intervened, and add-on prices are 2-3% lower, although we had expected add-on prices to drop further.

Outcomes and monitoring change

Our 2018 Sector View identified areas of focus where harm is already occurring, or where there is a potential for harm to occur within the general insurance and protection sector.

We use a number of sources of information to monitor these. For example, we monitor the number of complaints submitted to us by firms and the Financial Ombudsman Service. The volume of motor and transport insurance complaints increased by 13% between the first half of 2018 and the second half of 2018. Other general insurance product complaints remained unchanged. Complaints about these 2 products take longer to resolve on average than other products, such as credit cards and current accounts.

We used the Wholesale Brokers Market Study to assess the trend for wholesale brokers to innovate to create revenue streams through their use of 'consultancy-style' services which are sold to Insurers (including complex data analytics), whilst we use this trend to monitor we did not find clear evidence of significant levels of harm to competition making intrusive remedies inappropriate.

More broadly, we also use our Financial Lives Survey to assess the number of consumers that complain they have a problem with their general insurance products, which we will report on in next year's Annual Report.

Insurance Distribution Directive (IDD) was fully implemented into UK law and FCA rules on 1 October 2018, enhancing key conduct standards for all firms in the insurance sector. We see the IDD as a powerful way to tackle many of the harms we see in the insurance sector.

Disappointingly, we have identified a high number of firms failing to comply with some of the key IDD requirements. In particular, there has been a widespread failure by firms to recognise the changes that they need to make to their sales process, product design and governance. We have also seen instances of firms' practices which are banned by the IDD. We are working with the industry to address these failings and will consider the use of our full range of regulatory powers to do so.

Our thematic report on the General Insurance Distribution chain highlighted significant risks and potential harms to customers within GI distribution chains. This is disappointing given our work in this area, particularly on conduct and customer outcomes. We published non-Handbook guidance, which we are currently consulting on, alongside the report to clarify our expectations of firms. We plan to undertake future supervisory work to monitor progress and levels of compliance. This will allow us to consider how effective our work in this area has been, and whether we need to intervene further.

Our work on access to travel insurance has shown that there are providers able to offer cover to people with severe, even terminal, conditions but that consumers can struggle to access them. As a result of this work, we have seen industry initiatives to help consumers with more severe pre-existing medical conditions better access specialist providers. In the summer we will consult on policy proposals to make sure consumers are signposted to better information about providers who might be able to cover their condition. We will continue to monitor the sector to see how effective this work is.

Retail investments

The retail investments sector covers the distribution of investment products to consumers via different channels: financial advisers, wealth managers and platforms. It also covers some specific retail investment products that are generally sold direct to the consumer. In recent years, there has been a steady growth in numbers of investors and value of assets invested.

Where consumers decide to take advice, they need to know that it is suitable for their needs and consistent with their approach to risk. They also need to know they are not being overcharged. This is increasingly important as many consumers now face complex financial choices following the introduction of the pension freedoms.

We have a two-fold strategy for supervising the quality of retail investment advice. First, we aim to improve standards across the market and periodically assess this. Second, we focus on specific areas of advice where levels of suitability are lower, including high risk investments and pension transfers.

We also report on work relating to this sector in our cross-sector chapter Financial crime (fraud and scams) and anti-money laundering.

Retail Distribution Review (RDR) and Financial Advice Market Review (FAMR)

The RDR was introduced at the end of 2012. It aimed to improve the quality of advice, ensuring it is free from bias and given by appropriately qualified advisers, and that the costs of advice are clear to consumers.

The FAMR was launched in August 2015 to explore ways in which government, industry and regulators can take individual and collective steps to stimulate the development of a market to deliver affordable and accessible financial advice and guidance to everyone.

FAMR's final report in 2016 made recommendations to improve access to financial advice and guidance by seeking to lower costs and improve availability of automated advice for consumers. The Post Implementation Review (PIR) in 2014 concluded that, since it came into force in December 2012, there were positive signs that RDR was on track to achieve its objectives.

During 2019 we are carrying out a review that combines the intermediate and final stages of the RDR PIR with a review of the FAMR outcomes. However, as the market has evolved considerably since the RDR and FAMR, we will also use this review to assess the future of the market for advice and other guidance services. We launched the review in May 2019 with the publication of Call for Input to get an extensive view from stakeholders.

High-risk and complex investments

High-risk investments are characterised by unusual, speculative or complex investment structures, strategies or terms and features. These products are often only suitable for investors who are willing and able to accept the risk of significant fluctuations and/or substantial losses in their investments.

We have opened several investigations this year into high risk investments including: financial advisers providing unsuitable pension transfer advice, firms using unfair or unclear financial promotions about the risks of investments and scams where interconnected firms induce investors to invest without disclosing their conflicts of interest, fees and charges. We continue to work to disrupt and intervene where we suspect consumers are at risk from pension scams.

We have improved our ability to detect firms that are at high risk of running up liabilities (ie phoenixing firms) and have strengthened our authorisation gateway by proactively identifying firms and associated individuals applying for authorisation.

In October 2018, we issued a 'Dear CEO' letter to self-invested personal pension (SIPP) operators. This letter reminds firms of our expectations, particularly in light of past due diligence failings, and draws specific attention to the fair treatment of customers and firms' obligations to be open and cooperative with us.

London Capital & Finance Plc (LCF)

LCF was authorised by the FCA in 2016 to carry on limited permission credit broking. LCF's principal activity, however, was to raise funds by issuing its own mini-bonds. This is not ordinarily a regulated activity. LCF used the proceeds to finance loans to corporate borrowers, which is also not a regulated activity. However, LCF's communication of financial promotions relating to the mini-bonds was subject to regulatory requirements.

In December 2018 and January 2019, we issued supervisory notices directing LCF to withdraw all of its existing marketing materials for its Fixed Rate ISA or Bond. This was because we considered that LCF's promotions in relation to its mini-bonds failed to meet our standards, which require (for example) that communications should be clear, fair and not misleading. In particular we found that LCF's bonds were not ISA-qualifying investments, as advertised, and that LCF gave undue prominence in its promotions to its FCA-authorised status despite the non-regulated nature of its bond-issuing activities.

Due to the seriousness of our concerns about LCF's wider conduct and business model we have also started an enforcement investigation using both our criminal and civil powers. We also restricted LCF's use of its assets.

Our concerns are mainly about the unsustainability of its business model, as it appeared that coupon (interest) payments to existing investors were being funded by new bond issuances. Also, we considered that not all the corporate borrowers to which LCF made loans were unlikely to be able to support the rates of return that LCF advertised. Finally, we had concerns that a number of the corporate borrowers had close connections with the individuals who ran LCF. A number of our concerns were about activities that we do not regulate.

In January 2019, we referred these matters to the National Economic Crime Centre (NECC).

As a result of our referral, on 18 March 2019, the Serious Fraud Office announced that they had begun an investigation into individuals associated with LCF.

The Financial Services Compensation Scheme is currently exploring whether investors have compensatable claims.

In March 2019 our Chair, Charles Randell, wrote to the Economic Secretary to the Treasury to ask that the Treasury direct the FCA to commission an investigation by an independent person into the issues raised by the failure of LCF.

He asked that the investigation should cover:

1. whether the existing regulatory system adequately protects retail purchasers of mini-bonds from unacceptable levels of harm
2. the FCA's supervision of LCF

On 23 May 2019, the Economic Secretary to the Treasury issued a direction to the FCA to conduct an investigation into the circumstances surrounding the collapse of LCF and approved the appointment of Dame Elizabeth Gloster to lead the investigation. The Treasury also announced that it will review the regulation and marketing of certain products issued by LCF and other authorised and non-authorised firms: 'mini-bonds' and other non-transferable securities.

As there are a number of other mini-bond providers promoting products to retail customers, we published information for consumers in May 2019 explaining more about mini-bonds and why retail investors should exercise caution when buying them.

Reforms to the Retail Sector

Contracts for differences (CFDs) and binary options

We have finalised permanent product intervention measures to prohibit binary options sold to retail clients. The rules took effect from 2 April 2019 for binary options. In July we intend to publish a final Policy Statement and rules to restrict the sale, marketing and distribution of contracts for differences (CFDs) and comparable CFD-like options products to retail clients.

Our interventions address actual and potential consumer harm from the sale of CFDs and binary options to retail consumers. We expect the proposed restrictions on selling CFDs to save retail consumers between £267.4m to £450.7m per year and the prohibition on binary options to save consumers £17m per year.

We expect these measures will ensure that complex derivatives are sold to an appropriate target market of retail consumers who understand the risks and are capable of bearing potential losses.

Futures and other leveraged derivative products

As well as our restrictions on selling CFDs, we have also set out a discussion on the wider UK retail derivatives market and whether similar consumer harms may arise from other leveraged derivative products, such as futures. We have suggested possible policy approaches with a focus on leverage limits. We have not yet made any decision as to whether to consult on further rules in this area, but expect to communicate our next steps later in 2019.

Derivatives referencing certain cryptoassets

In 2019/20, we are undertaking further product intervention work in relation to derivatives that reference cryptoassets. Following the commitment made in the UK Cryptoassets Taskforce final report we published a Consultation Paper in July 2019. This proposes a possible ban on the sale, marketing and distribution of all derivatives

(including CFDs, options, and futures) and exchange-traded notes referencing certain types of cryptoasset tokens to retail consumers.

We outlined our concerns that the inherent features of these products pose a risk of harm to retail consumers from sudden and unexpected losses due to valuation issues, financial crime and extreme volatility in the underlying market. The CP closes at the end of September 2019.

Investments platforms market study

Consumers and financial advisers are increasingly using investment platforms to access retail investment products and manage investments online. These platforms can play an important role by encouraging asset managers to compete for business, and we wanted to assess how far platforms are competing to deliver these benefits in practice.

We carried out a market study to explore how investment platforms compete to win new customers and keep existing ones.

We found that while competition is generally working well, some consumers and financial advisers can find it difficult to shop around and switch to a platform that better meets their needs. Consumers can find it difficult to switch due to the time, complexity and cost involved – driven in part by the exit charges they incur and difficulties switching between unit classes.

Our Final Report, published in March 2019, sets out our final findings and a package of measures to help consumers who invest through investment platforms find and switch to the right one for them more easily. The package includes a Consultation Paper on unit class switching and a discussion on exit fees in the retail investments distribution market.

Review of the European Market Infrastructure Regulation (EMIR)

In May 2017, the EU Commission put forward a proposal to amend the European Market Infrastructure Regulation (EMIR) in relation to counterparty classification, clearing, margin and reporting requirements. We supported HM Treasury in providing ongoing technical advice throughout negotiations in the Council of the EU, with the rules entering into force on 17 June this year.

Outcomes and monitoring change

Our 2018 Sector View identified areas of focus where harm is already occurring, or where there is a potential for harm to occur within the retail investments sector.

We use a number of sources of information to monitor these. For example, in May 2017 we published the results of our review of the suitability of pension and investment advice. The results showed that there is suitable advice in 93.1% of cases. However, this still leaves room for improvement, with one in every 14 cases receiving unsuitable or unclear advice.

In 2019, we will be beginning our work to re-assess the suitability of investment and pension advice. Once we have completed the work, using this to compare the results to that of May 2017 will help us identify potential trends in the reasons customers get poor advice and shape our future action.

Consumers can also be harmed if they pay too much for a service or pay for more services than they need. Stocks and shares ISAs are the most widely owned retail investment product, with almost 2 in 10 (17%) of UK adults having one. Mintel's ISAs UK 2017 report shows that the most important factor for retail investors when choosing these products is clarity about charges (45%). Data published as part of our investment platforms market study showed average charges were 0.6% but they vary widely. A pot of £5,000 investing in stocks and shares ISA can vary widely from 20 bps to 240 bps which, assuming a 5% growth rate, creates a potential £650 difference in returns over a 5-year period.

Evidence from Financial Lives 2017 suggests that 3% of UK adults with retail investments had a problem with complex fees or charges in the previous 12 months. 1% found an investment product cost more than expected. Taken together, this suggests we need to continue our work to ensure that the charges consumers pay for their products are as expected and accurately reflect the value they deliver.

On poor service, the number of consumers using platforms to invest has continued to rise. At the same time, our complaints data show that in 2018 there were 19,089 consumer complaints about their platform service, caused by general administrative or customer service problems, compared to 15,590 in 2017. This suggests that consumers may not be receiving the service they reasonably expect and are paying for from their platforms. As a result, we are continuing to undertake work to ensure that operational issues are as low as possible.

We are also closely monitoring the level of consumers holding potentially high risk and/or unregulated products. Data from IPSOS FRS[3] show that from December 2016 to December 2018 the percentage of GB adults with holdings in retail bonds or mini-bonds increased from 0.8% to 1.2%. Overall the data show that 9% of GB adults are currently invested in alternative assets, which include peer-to-peer lending, equity and debt crowdfunding, buy-to-let property, crypto-currencies, and collectable assets.

Our Investment Platform Market Study found low levels of switching. On average, only 3% of non-advised consumers switched directly without help from an adviser each year. Consumers should be able to switch when an alternative provider better meets their needs, yet we found 7% of non-advised consumers had tried and failed to switch platforms because of barriers in the process. We also found consumers had low awareness of charges and many did not know the charges they pay.

We have set out a package of measures which aim to ensure consumers and advisers can shop around and switch easily, at low cost, when another provider better meets their needs. We will continue to monitor the percentage of consumers shopping around and switching platforms and how easy they find this process through our future Financial Lives surveys.

We have addressed harm in retail contracts for difference (CFD) and the binary options sector by restricting how CFDs are sold and stop firms selling binary options to retail clients. We have taken action when firms have tried to circumvent ESMA's CFD

3 To the 6 months ending December 2016 (base: 29 640) and December 2018 (base: 30 092).

measures through unfair, unclear or misleading financial promotions or by offering similar products. We will continue to monitor compliance and intervene as needed.

In 2017 we developed a range of baseline indicators to provide a snapshot of the market for financial advice. Our follow-up consumer research, published in September 2018, aimed to track any subsequent movement in these indicators. Indicative findings show that more people chose to get regulated financial advice in the last 12 months. Those who received financial advice were generally satisfied with the quality of the service they received and the price they paid. We give more information in our consumer research report.

We will continue to evaluate the impacts of both RDR and FAMR. We published a Call for Input on 1 May 2019 to start this review. Both the RDR and FAMR have defined outcomes and indicators to measure their success, and we will use evidence from industry and consumer research to evaluate the impact against these measures. We aim to publish our findings in 2020.

5 Perimeter issues

The activities we regulate are primarily set out by the Government, in the Financial Services and Markets Act 2000 (Regulated Activities) Order (the RAO).

The RAO contains the financial services activities, known as 'regulated activities', that require our authorisation before firms or individuals can carry them out. The RAO also sets out some regulated activities, such as arranging, advising and dealing, which require authorisation if they relate to particular types of financial products (such as shares, debt instruments, fund units and derivatives). The boundary set by the RAO, and other relevant legislation which sets out activities we regulate, is commonly referred to as the 'FCA perimeter'

The perimeter is important as it determines which firms require our authorisation. It also affects the level of protection consumers can expect for the financial services and products they purchase.

Our Mission provides a framework for when we should consider taking action in respect of activities outside the perimeter carried on by firms that we regulate for other activities. If we believe an issue is serious, but the relevant activity falls outside the perimeter, there are some cases where we may still be able to act. We will be more likely to act where:

- an unregulated activity is illegal or fraudulent
- has the potential to undermine confidence in the UK financial system
- where there is a risk of severe consumer detriment
- it is closely linked to, or may affect, a regulated activity.

Where we have concerns about our ability to act, we raise these with Government and other bodies.

Perimeter issues that we have considered this year

Firms operating on the edges of the perimeter can cause serious harm to consumers and damage public trust in the regulated financial services sector. Financial services markets also evolve and change over time, and innovation can lead to new products and services emerging that may fall outside the perimeter.

We have looked at a wide range of potential perimeter issues over the past year and propose to focus on those that have recently emerged or evolved – and that have the potential to cause significant harm in the future.

Cryptoassets

Cryptoassets have developed over the past decade due to technological advancement. Many cryptoassets straddle the boundary between being regulated and unregulated. We consulted in January 2019 on draft perimeter guidance and will publish finalised guidance in summer 2019. We also announced that we will consult later in 2019 a potential ban on the sale to retail consumers of products (for example, derivatives) referencing some cryptoassets that are outside the regulatory perimeter.

Unregulated mortgage book purchasers

When a lender ceases to do business its mortgage contracts can be transferred to another firm, which may be unregulated – meaning that an authorised administrator is required. This issue has come under scrutiny this year during consideration of the problems facing mortgage 'prisoners'.

We are now consulting on changes to our rules to ensure that they do not stop consumers switching to a more affordable mortgage. These changes will enable active regulated mortgage lenders to make more proportionate affordability assessments for consumers whose payments are up-to-date and want to borrow the same amount or less. This could allow customers whose current mortgage is with an unregulated lender to access a more affordable external remortgage option that was previously unavailable.

Mini-bonds

The mini-bonds market has changed over recent years, with more complex mini-bonds being issued and marketed to retail investors. Issuers of these more complex products have often been able to rely on the same exclusion as ordinary commercial companies to issue their securities without the need for authorisation. In a low-interest environment, these high-risk investments, offering the potential higher returns on capital, have increasingly been offered as retail investments.

Mini-bonds have attracted widespread attention after the collapse of London Capital & Finance (LC&F) last year. This has left approximately 14,000 consumers who had invested in its mini-bonds at risk of losses Following our direction to LC&F to immediately withdraw promotional material about mini-bonds, and the start of investigations by both us and the Serious Fraud Office, LC&F went into administration.

Following the failure of LC&F, we asked the Treasury to direct an investigation into our actions, policies and approach in this case, and we have appointed a senior judge to conduct this investigation. The Treasury has also announced a review of the wider policy questions this case raises, including the current regulatory arrangements for the issue of mini-bonds and other non-transferable securities. We report further on LC&F in our chapter on Retail Investments

Investment consultancy services

These firms provide unregulated services that can significantly influence the investment strategies of asset owners and asset managers. Investment consultants advise pension fund trustees on issues such as asset manager selection, while proxy advisors issue voting advice and recommendations.

In our Asset Management Market Study, we identified serious competition concerns with investment consultancy and fiduciary management. We referred these sectors to the Competition and Markets Authority (CMA) for a detailed investigation. The CMA recommended that investment consultancy services should be brought within the FCA supervisory remit, and the Treasury plans to consult to bring these services into our perimeter.

Delivering financial services digitally

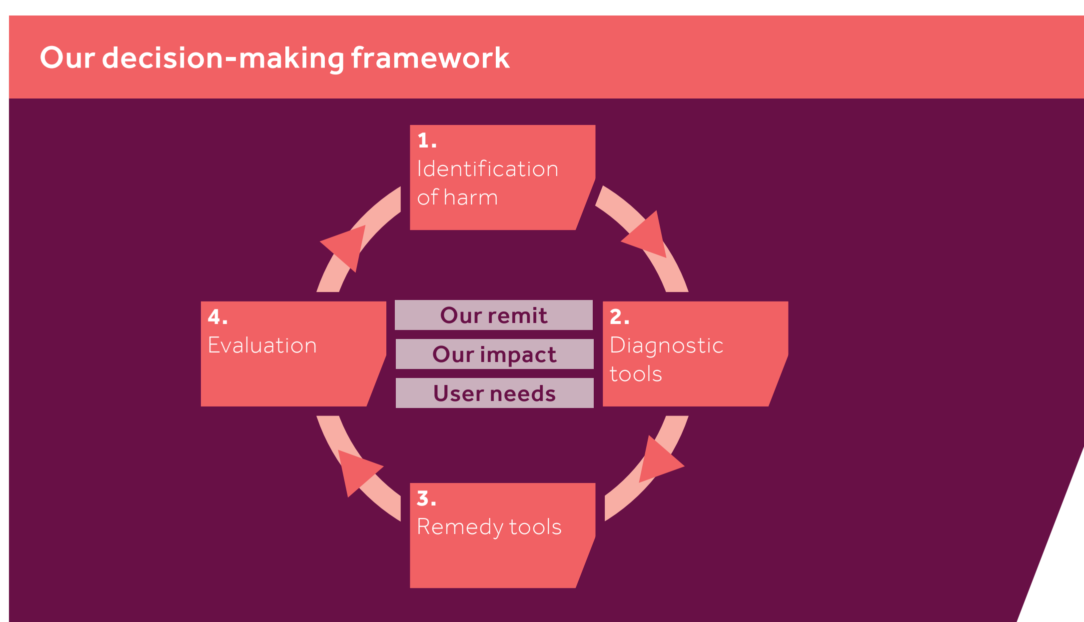
Digital channels enable firms to create, market and sell financial services products very quickly. This means that the speed at which harm can be caused by a misleading or unfair financial promotion has greatly increased. We are considering how the Financial Promotions Regime can become more effective in a digital age. This may include consideration of additional powers for us in respect of internet service providers. We are also developing and deploying automated tools for detecting online market developments, such as new products or practices that pose potential risks to our objectives.

In June 2019 we published our first annual Perimeter report. This aims to provide clarity about our role. We report further on these and other issues in this report.

6 The way we operate

Our Mission provides the framework for the strategic decisions we take. We concentrate our resources on the markets and firms that are most likely to cause harm to consumers, damage market integrity or weaken competition. This report outlines the work we have done in and across key sectors to reduce harm during 2018/19. This reflects the work we committed to do in our Business Plan.

Our decision-making framework



Our Mission outlines 5 categories of harm, which reflect our operational objectives. We aim 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/treatment	Consumer protection Effective competition
Important consumer needs are not met because of gaps in the existing range of products, consumer exclusion, lack of market resilience	Consumer protection Effective competition
Prices are too high, or quality too low	Effective competition Consumer protection
Risk of significant harmful side-effects on wider markets, the UK economy and wider society, eg crime/terrorism	Market integrity Consumer protection

Between July 2018 and April 2019 we published most of our final 'approach documents', which explain how we regulate in more detail. These documents are part of our Mission commitment to be open and transparent about how we regulate and the way we take key decisions. Together, they provide examples of how we have advanced our statutory objectives. These final documents are:

- Approach to Consumers – This explains how we use our powers and tools to protect consumers, and commit to review and adapt these as needed. Alongside this, we also published a Discussion Paper to explore any gaps in our regulatory and legal framework, or how we apply it, that could be addressed by introducing a Duty of Care.
- Approach to Competition – This outlines how we identify and diagnose potential harm in the market, the tools that we use to resolve it and how we measure our impact.
- Approach to Authorisation – This explains how we test whether firms and individuals will comply with our regulations.
- Approach to Supervision – This explains our more forward-looking and pre-emptive approach in our work with firms, taking prompt and incisive action once harm has been identified.
- Approach to Enforcement – This outlines how we address harm through the use of our statutory powers to investigate and, where appropriate, take civil, criminal and/or disciplinary action where there has been a contravention.
- Approach to Market Integrity – In our 2018/19 Business Plan, we committed to publishing an 'Approach to Market Integrity' document to set out our approach to our market integrity objective. We have decided to postpone this publication in light of EU Withdrawal and the resource we have had to dedicate to it.

Our regulatory principles and functions

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

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

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

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

For example, Our Mission and our final 'Approach to' documents highlighted how we work and our approach to regulation, demonstrating transparency and openness by explaining the rationale behind our decisions.

Measuring performance

Our Mission explained the three-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 are improving the way we measure value for money in our processes and the way we work. We know that being efficient with our resources also includes how we make the best use of the data and information available to us to measure the impact of our actions.

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

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

Tier 2: The impact of our interventions

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

We also assess the effectiveness and impact of our past interventions to develop a strong evidence base to guide our future decisions. In December 2018, we published our final post-event Impact Evaluation Framework, showing how we assess this impact on consumers, firms and markets. We will continue to develop how we measure the impact of our specific interventions. This will help us understand if we have reduced harm as intended and ensure we learn lessons from experience.

Tier 3: Outcomes in the sectors we regulate

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

In this report, each of our cross-sector and sector themes contains a 'Outcomes and monitoring change' section. Here, where we have available data, we use a mix of qualitative and quantitative data to show the direction of travel for our key harms against a baseline of indicators established last year. We also begin to report on the outcomes of our work and also how we plan to monitor these outcomes moving forward.

We are still developing our approach and will continue to identify indicators to demonstrate outcomes in the sectors we regulate and the effectiveness of our work and publish these in the future annual reports.

Firm ratings on 'FCA as effective regulator'

The FCA and Practitioner Panel survey is a joint survey of FCA-regulated firms. The survey is conducted annually and gives firms an opportunity to provide their views on how we regulate industry. It is valuable in monitoring the industry's perception of us and to what extent we are meeting our objectives. The survey took place between January and March 2019. In total 2,888 firms completed the survey, constituting a response rate of 29%.

The survey asked 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 6.1) increased from 7.1 out of 10 to 7.2. The mean overall score that rates satisfaction with the relationship with the FCA (figure 6.2) remained unchanged at 7.6 out of 10

Figure 6.1: Scores rating how effective the FCA has been in regulating the financial services industry in the last year (out of 10)

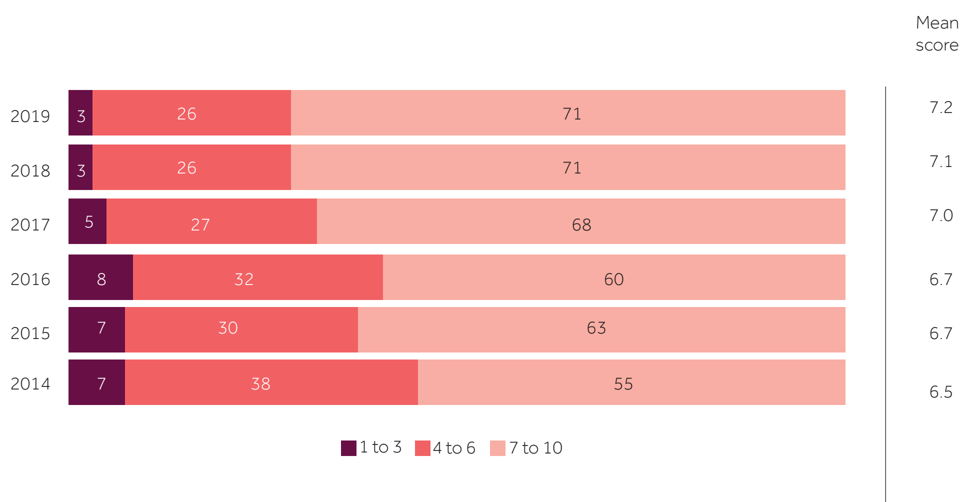
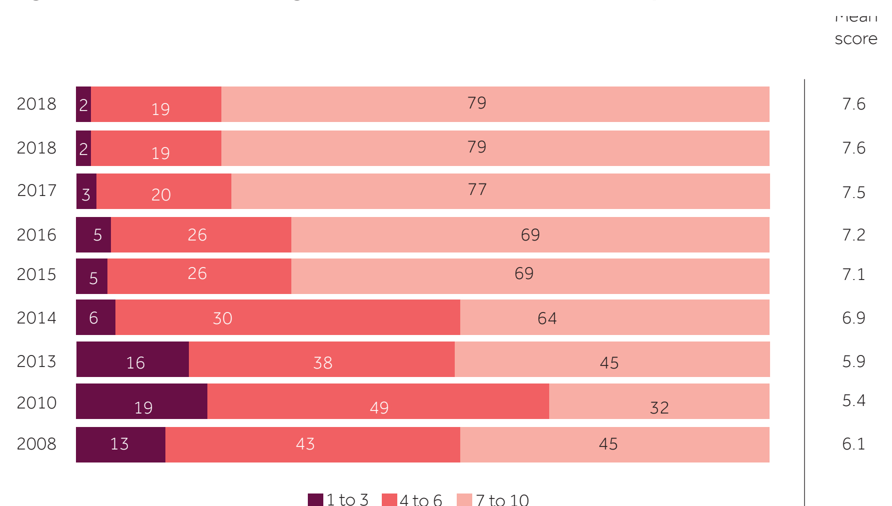


Figure 6.2: Scores rating satisfaction with relationship with the FCA (out of 10)



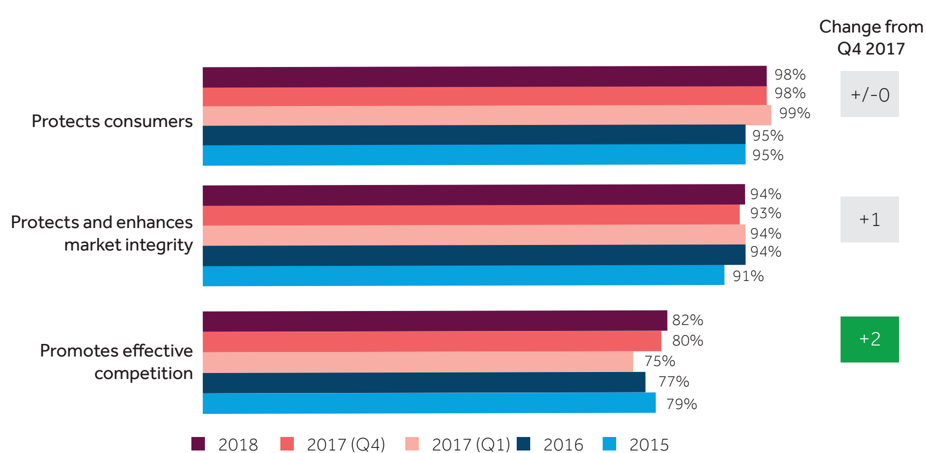
The views of our stakeholders

Every year, we commission independent research through BritainThinks. This asks a wide range of stakeholders – including trade bodies, consumer organisations, parliamentarians and the media – about their views of us.

Trade and representative bodies continue to feel broadly positive about the FCA. Perceptions of open engagement, growing expertise, and effective leadership are key to these perceptions. This group's key ask is for better signposting and tailoring of communications, and greater consistency between teams and people at the FCA.

Consumer bodies seem to have had any concerns about a possible 'softening' of our approach to consumers assuaged, and continue to benefit from excellent engagement with us. However, there is appetite to see us be more ambitious in tackling issues causing consumers detriment, and in building our consumer-facing profile.

Figure 6.3: Perceived importance of each of the FCA's statutory objectives



7 Working with our partners

We work with a range of partners to support the UK's framework for financial regulation. This wide-ranging cooperation includes global regulators and bodies and domestic partners, in areas such as competition, consumer protection and the safety and soundness of financial markets.

Payment Systems Regulator (PSR)

The PSR is the economic regulator for payment systems in the UK. It's a subsidiary of the FCA but operates independently, with its own statutory objectives, board and management structure. Its purpose is to make payment systems in the UK 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 work closely on monitoring compliance with requirements of these regulations. We also coordinate on a number of different areas such as access to cash and authorised push payment scams, and ensure that we take coordinated action where it is needed.

There's more information about the PSR's activity over the last year in its own Annual Report.

Since March 2015 we have had a Memorandum of Understanding (MoU) with the Bank of England, Prudential Regulation Authority (PRA), and Payment Systems Regulator (PSR). The MoU, which is reviewed annually, governs how we work with each other in relation to payment systems in the UK. Our latest review of the MoU indicates that it continues to work well.

Prudential Regulation Authority (PRA)

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. This includes arrangements for how we carry out our responsibilities and how we measure our performance under the MoU, using detailed quarterly reporting. It also underlines our aim of working in an independent but coordinated way.

The PRA identifies specific firms as 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 from the external auditor's work.

The PRA can veto our actions if it considers they may threaten financial stability or cause the failure of a PRA-authorised firm in a way that would adversely affect financial stability. They have not used this power this year.

This year we have worked closely with the PRA on EU withdrawal, ring-fencing, operational resilience, managing the financial risks from climate change and the transition away from LIBOR.

We have coordinated effectively with the PRA on recent policy issues such as extending the Senior Managers and Certification Regime to all regulated firms, MiFID II and the Insurance Distribution Directive and in coordinating our engagement in international bodies and the European Supervisory Authorities on an ongoing basis. We have also worked closely together to respond effectively to specific incidents through the Authorities' Response Framework. This ensures a coordinated 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 the FCA and the PRA 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 risks to financial stability. 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 2018/19, this work focused primarily on EU Withdrawal, funds investing in illiquid assets, leverage in non-banks, 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. It is responsible for providing support and advice to the Board on its relationship with the Financial Ombudsman Service and the Financial Services Compensation Scheme. From time to time, the Committee may extend its scope to carry out other assignments as specifically mandated by the Board. Between April-December 2018 it was also responsible for providing support and advice to the Board on its relationship with the Money Advice Service until the creation of the Single Financial Guidance Body.

Financial Ombudsman Service

Consumers who are dissatisfied with regulated firms' response to their complaints can complain to the Financial Ombudsman Service. We have recently extended access to the Ombudsman for more small and medium-sized enterprises (SMEs).

The change means that SMEs with an annual turnover below £6.5m and fewer than 50 employees, or an annual balance sheet below £5m are now able to refer unresolved complaints to the Ombudsman service. Around 210,000 additional UK SMEs are now eligible to complain. We also recently increased the award limit for acts and omissions referred from 1 April from £150 000 to £160 000. We increased the award limit for acts occurred from 1 April 2019 to £350 000.

Financial Services Compensation Scheme (FSCS)

The FSCS protects customers when they have a regulated product with a regulated firm. Last year, we introduced 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.

Money and Pensions Service (MAPS)

On 1 January 2019, the Single Financial Guidance Body created one organisation from the three existing providers of money guidance: the Money Advice Service, Pensionwise and the Pensions Advisory Service. The new organisation, known as the Money and Pensions Service (MAPS) from 6 April 2019, is an arm's length body of the Department for Work and Pensions (DWP). The new body brings together provision of debt advice, money guidance and pensions guidance for the first time. The FCA has no oversight role for the MAPS budget, but we are responsible for collecting funding for the MAPS to carry out its functions. We work with MAPS, DWP and the Treasury to deliver our consumer protection objective.

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. From 1 April 2019 we also have concurrent competition powers in relation to the provision of claims management services in Great Britain. 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 continued to assist the CMA in its market investigation into investment consultancy and fiduciary management services. The market investigation was launched in 2017 following a reference from us to the CMA. We have also worked closely with the CMA on implementing Open Banking, a result of the Retail Banking market investigation, and on the CMA's response to the super-complaint from Citizens Advice regarding concerns about the 'loyalty penalty' faced by longstanding customers.

We provided the CMA with industry expertise for its 2 investigations into suspected anti-competitive arrangements in financial services. We also provided sector and regulatory knowledge to assist the CMA in its review of mergers involving financial services.

The Pensions Regulator (TPR)

TPR protects the UK's workplace pensions, making sure that employers, trustees and pension specialists can fulfil their duties to scheme members. In October 2018, we issued our joint regulatory strategy outlining how we will work together to address changes in the pensions and retirement income sector. Our joint strategy will help pension scheme members and consumers to make the most of their savings, and ensure their money is managed to meet their needs.

Information Commissioner's Office (ICO)

This year, we have continued to work closely with the ICO. In February, we updated our joint Memorandum of Understanding. This update better reflects how we coordinate

across areas of mutual interest, including developing policy and guidance. The agreement outlines the framework for information and intelligence sharing to support our supervisory and enforcement functions. It also reflects our increased and growing coordination across a number of areas and provides a framework for our engagement with the ICO, including on innovation, cyber and big data.

International partners

Over the past year, our participation in European and global bodies and their 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 that markets work well in the UK, that supervisory co-operation remains effective, and that regulatory standards around the globe are appropriate and consistent with our statutory objectives.

The international organisations we continue to closely engage with include 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

We have also continued to work closely with key European and global regulators on a bilateral basis in the interests of promoting effective co-operation and understanding.

Key specific international initiatives are also reported in our sector priorities.

Independent panels

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

All 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, firms 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 on its website.

The Panels are:

- The Financial Services Consumer Panel
- The FCA Practitioner Panel
- The FCA Smaller Business Practitioner Panel
- The FCA Markets Practitioner Panel
- The Listing Authority Advisory Panel

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 also work with a growing range of other groups, through our programme of engagement with the nations and regions of the UK. 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 a registered charity or community group. We encourage volunteering by allocating paid time off for employees to be active in the community. Last year 1061 people across our Edinburgh and London offices volunteered a total of 10,376 hours. This represents 28.98% of employees, against our target of 30%.

In September 2018 we launched Inspiring Futures, our flagship corporate responsibility programme which aims to build skills, confidence and resilience in young people. It is being piloted with 120 students across two Newham schools, Sarah Bonnell and Rokeby. The programme is aligned to our social mobility agenda.

Details of this can be found in our Diversity Report.

Charitable donations

Our Charity Committee supported Richard House Children's Hospice and the Alzheimer's Society throughout 2018. All donations come from staff fundraising efforts. Excluding gift aid they raised:

- Alzheimer's Scotland – £208.00
- Alzheimer's Society – £10,021.54
- Friends of Braidburn School – £313.42
- Richard House Children's Hospice – £6,777.98
- Save the Children – £1,019.36

Through Payroll Giving in 2018, our employees donated £161,361.46 to various charities. Due to our office move we were able to make a one-off, in-kind furniture donation to Big Bright Future which amounted to an equivalent value of £107,120. Big Bright Future ethically donated our furniture to their charitable partners across the globe.

Andrew Bailey
Chief Executive

8 Group operational overview

This review focuses on the financial performance of the Group in 2018/19. In particular, it covers:

a. Results for the year
b. Analysis of income and operational costs
c. Overall financial position at 31 March 2019
d. Principal risks and uncertainties facing the group.

To deliver our objectives as effectively as possible we:

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

Section 1 – Results for the year

The Group generated a £25.8m surplus for 2018/19 (see Table 1) primarily resulting from improvements in the funding position of the defined benefit pension scheme due to contributions to the scheme combined with positive investment returns on assets. As planned, we overspent against fees collected for Ongoing Regulatory Activities (ORA) due to EU Withdrawal activities and 12ES dual running costs. This was partially off-set by net recoveries of scope change (largely reflecting the continued recovery of Consumer Credit set up costs).

This surplus has resulted in an improvement in the Group's net deficit position to £61.5m (see Table 3).

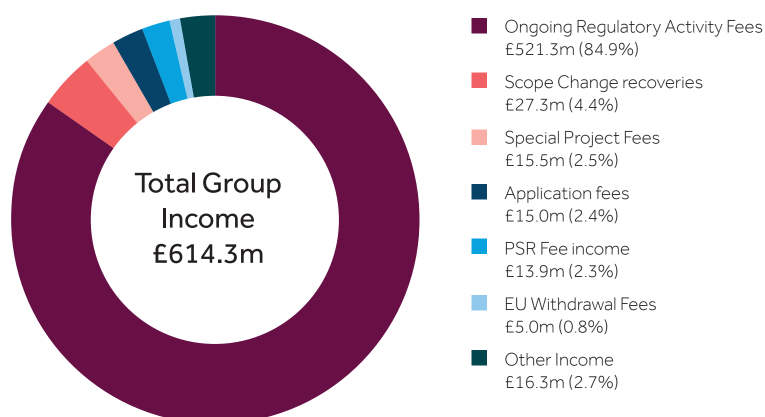
Table 1

Group Surplus/(Loss)	2019 £m	2018 £m
Net actuarial gains/(losses) on Pension Scheme	7.1	32.9
Pension contribution income taken to Balance Sheet	29.0	29.1
Pension interest charge	(3.8)	(3.9)
Total Defined Benefit Pension Scheme	**32.3**	**58.1**
FCA over recovery of ORA	8.0	17.3
ORA Reserves Utilised	(32.4)	-
PSR over/(under) recovery of ORA	1.6	(3.0)
Net recovery of Scope Change	16.3	13.7
Total Group surplus	**25.8**	**86.1**

Section 2 – Analysis of Income and operational costs

Income

Chart 1 – The Income breakdown 2018/19



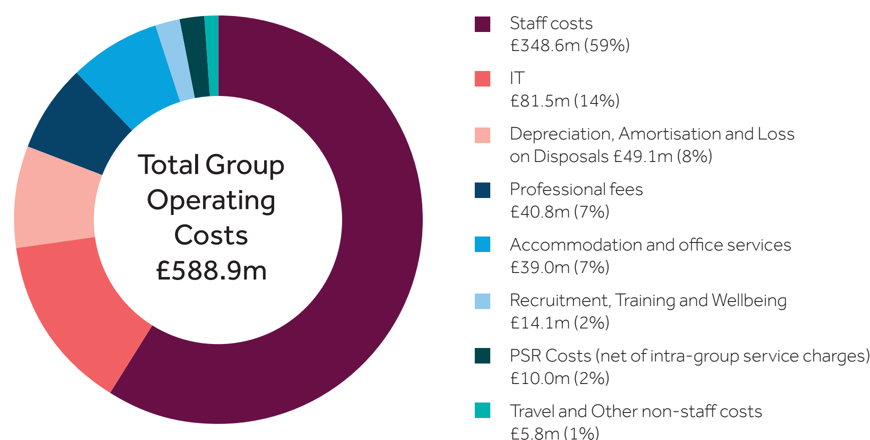
Fees: We do not receive funding from the UK government. We are funded by raising fees from the firms we regulate. FSMA gives us the powers to raise fees to cover our budgeted Ongoing Regulatory Activity (ORA). This represents the net costs of our core operating activities after offsetting Other Income. In 2018/19, we utilised £5.0m of reserves to reduce the fees raised to fund our budgeted Ongoing Regulatory Activity.

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

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

Operational costs

Chart 2 – How we spend our money



2.1 Investing in our people

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

Our 'At our best' values, which directly support the embedding of our Mission and reinforce the right behaviours across the organisation.

A refreshed Capability Framework that drives the performance and behaviours needed to deliver our Mission.

A strategic Employee Capability Plan that tells us what capabilities we will need in the future and helps us ensure these are in place.

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

Table 2

Average staff numbers	2019	2018
Supervision	1,400	1,342
Enforcement and market oversight	693	643
Strategy and competition	565	522
Operations	723	750
Central services*	274	239
FCA full-time equivalent employees	**3,655**	**3,496**
Payment Systems Regulator	76	65
Group full-time equivalent employees	**3,731**	**3,561**
Group temporary and contract staff	220	160
Total Group	**3,951**	**3,721**

* Central services consists of our International, General Counsel, Corporate Services, Risk and Compliance and Internal Audit departments as well as our CEO's and Chairman's Office.

Staff numbers increased in 2018/19 primarily as a result of our preparation for EU Withdrawal and the delivery of the demanding change portfolio.

Attracting and keeping talent

In 2018, we recruited 41 graduates and 20 summer interns. This year the annual intake will increase to 92 graduates and 40 summer interns as a strategic intervention to meet future capability gaps. We have designed new programmes in areas such as Data Science, Cyber Security and Technology, placing a stronger focus on recruiting Science, Technology, Engineering and Mathematics (STEM) graduates. We have received over 11,500 applications to date, a 143% increase compared to 2017/18.

We increased our new hire apprenticeship programme from 17 to 25 and introduced degree level apprenticeship programmes. We received 1,311 applications for 25 places. 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 1,250 appointments (1,216 FCA, 34 PSR), through a combination of 656 internal moves (644 FCA, 12 PSR) and 594 external appointments (572 FCA, 22 PSR). External turnover has remained static this year at 11.4%.

Listening to our employees

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

In the 2018/19 employee survey, 69% of our employees said they were positively engaged in working at the FCA (up from 68%). Our employees consistently tell us through this annual survey that what they value most about the FCA as a workplace is the purpose of our work, our collegiate ethos and our focus on wellbeing.

Our highest scoring categories remain the same as last year and are diversity at 81%, job security at 74% and corporate social responsibility at 73%. Our top priority areas identified for the coming year are leadership and management, career and pay structure and supporting a 'speak up listen up' culture.

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

Employee development

Giving our people access to the right development opportunities is an essential part of what we offer as an employer, and we continue to develop our people to achieve their potential and to retain our best talent. The FCA Academy offers employees high quality structured learning and our rolling programme of events keeps our employees up to date with economic and market developments. In 2018/19, we have:

- Increased the number of employees undertaking apprenticeship studies to 106 across 17 different fields of study. 22 employees have enrolled to undertake the MSc in Regulation and Compliance.
- Continued to develop the FCA curriculum and internal Academy programme. We delivered a total of 6,514 training days across the year. 74% of employees have attended at least one training event this year.

- Arranged 26 secondments to the FCA and 61 from the FCA to partner organisations. These include authorised firms, the U.S Department of Justice, National Economic Crime Centre, the Treasury, the Central Bank of Ireland and consumer bodies.
- All our leaders are benefitting from our investment in new development programmes designed to help balance our people's technical expertise with broader people and operational management skills. We continue to strengthen our management succession through the Future and Advanced Manager Programmes.

Employee wellbeing

We offer a range of wellbeing services working with several third-party providers. Our employee network groups are very engaged in the wellbeing agenda and help to drive a large part of our delivery.

We have a well-established wellbeing strategy, with a current focus on several areas including Mental Health, Musculoskeletal and Cancer.

During 2018/19 an average of 7.0 days per year (2018: 7.1 days) was lost per person due to sickness absence.

Commitment to diversity and inclusion

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

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

- 45% of the FCA's Senior Leadership Team (SLT) to identify as female by 2020, and 50% by 2025. Currently 40% of the SLT identifies as female. This is a 1% increase from last year.
- 8% of the FCA's SLT to identify as BAME by 2020, and 13% by 2025. Currently 7% of the SLT identifies as BAME. This is a 3% increase from last year.

We recognise that we need to maintain our focus on diversity and inclusion. Our Positive Action Framework guides our work internally and is about learning to value differences. We continue to embed the framework to deliver progress in all aspects of diversity and inclusion, whether we have targets or not. Priority areas continue to be leadership role modelling, recruitment and work allocation.

We have published our gender pay gap figures for the year ending 31 March 2019 on our external website. Our gender pay gap is 20.6% (median) and 17.8% (mean). The figures have changed slightly compared to those reported in 2018. The overall median has decreased by 0.6% (from 21.2% to 20.6%) and the mean has decreased by 0.7% (from 18.5% to 17.8%). Our gender bonus gap is 23.5% median and 20.5% mean. The bonus gap is based on the gross bonus paid in the period from 1 April 2018 to 31 March 2019. There has been a 2.7% decrease in the median while the mean has remained static since last year.

We have also published details of our ethnicity pay gap for the first time. This is not a legal requirement but we consider it an important step to take as we believe that data transparency drives positive action. Figures are also for the year ending 31 March 2019. Our BAME pay gap is 28.7% median and 27.2% mean and our BAME median bonus gap is 31.8%, and the mean is 30.9%.

We are not content with either of our pay gaps. We know we have work to do and are taking a number of actions to help address our pay gaps, and to further our diversity and inclusion agenda. For more information please see our Diversity Report.

Following our successful move to 12ES, we were awarded the 'Workplace adjustments innovation of the year' award from the Business Disability Forum. The award recognised an office move of 3,500 employees, taking into consideration different types of disability, and, in particular, neurodiverse conditions and mental health problems. We will continue to work closely with our internal and external partners to provide innovative solutions, advice and guidance that support colleagues' health and wellbeing in the workplace.

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 have seen an increase in IT maintenance costs in 2018/19, delivering refreshed and enhanced end user computing to all employees.

In 2018, we moved into our new building at 12ES. 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. The increase in building related costs in 2018/19 reflect the dual running costs associated with the move to 12ES.

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 decrease in expenditure on Professional Fees in 2018/19 reflects a lower use of S166 reports this year. PPI campaigns continued during the year and are due to conclude in 2019/20; these are funded by the industry. We continue to utilise consultants to fill skills shortages, particularly to deliver specialist change.

Section 3 – Overall Financial Position

The Group **accumulated deficit has decreased by £25.8m**, from £87.3m to £61.5m at 31 March 2019. 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 a net recovery of scope change costs;

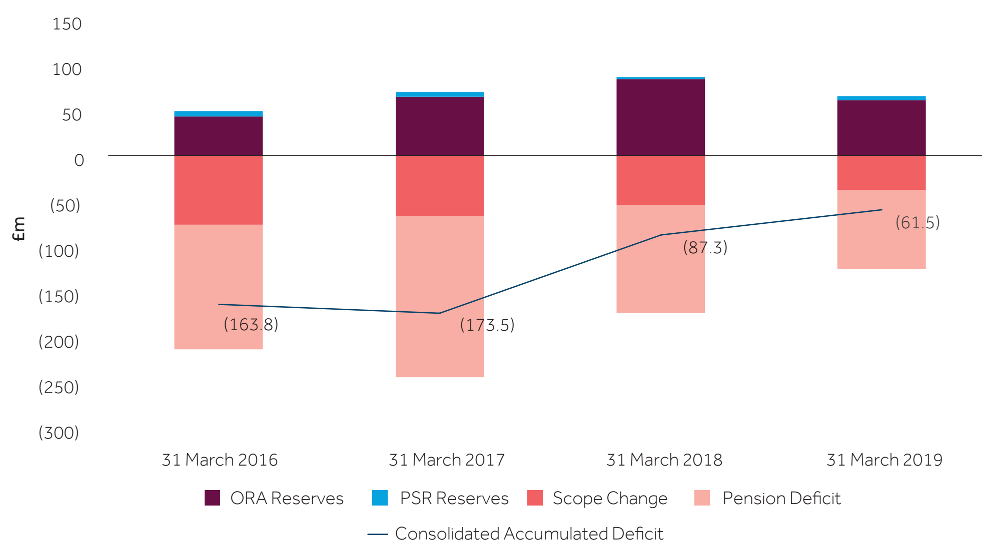
partially off-set by:

- utilisation of Ongoing Regulatory Activity (ORA) reserves to fund dual running costs as we transitioned to our new offices in 12ES and work on EU Withdrawal activities.

The **pension liabilities of £87.1m** will not crystallise for many years. We explain the approach to managing and funding the pension deficit in note 17 to the financial statements.

Table 3

Reserves	FCA ORA Reserves £m	FCA Scope Change £m	FCA Net Assets/ (Liabilities) £m	FCA Pension Deficit £m	FCA Total Accumulated Deficit £m	PSR £m	Group Accumulated Deficit £m
At 1 April 2017	66.7	(68.0)	(1.3)	(177.5)	(178.8)	5.4	(173.4)
Over/(Under) 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)**
Over recovery against budget	8.0	-	8.0	-	8.0	1.6	9.6
ORA Reserves Utilised	(32.4)		(32.4)		(32.4)		(32.4)
Net Scope Change recoveries	-	16.3	16.3	-	16.3	-	16.3
Pension movement	-	-	-	32.3	32.3	-	32.3
At 31 March 2019	**59.6**	**(38.0)**	**21.6**	**(87.1)**	**(65.5)**	**4.0**	**(61.5)**



The **ORA Reserves of £59.6m** are driven by historical underspends. In 2018/19, as planned, we utilised reserves to fund dual running costs for the move to 12ES and costs attributable to EU Withdrawal activity.

The **Scope Change deficit of £38.0m** 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 4).

Table 4

Scope Change	Consumer Credit[1] £m	MIFID[2] £m	SM&CR[3] £m	EU Withdrawal £m	Claims Management £m	Other[4] £m	Total £m
At 1 April 2017	51.7	14.4	0.8	-	0.2	0.9	68.0
2018 costs	-	10.4	2.7	-	0.7	0.6	14.4
2018 recoveries	(14.8)	(12.3)	-	-	-	(1.0)	(28.1)
At 31 March 2018	**36.9**	**12.5**	**3.5**	**-**	**0.9**	**0.5**	**54.3**
2019 costs	-	1.0	2.7	3.8	2.6	0.8	10.9
2019 recoveries	(15.9)	(11.2)	-	(0.9)	-	0.8	(27.2)
At 31 March 2019	**21.0**	**2.3**	**6.2**	**2.9**	**3.5**	**2.1**	**38.0**

1. Consumer Credit recoveries additional £9.7m to set against the deficit.
2. Markets in Financial Instruments Directive.
3. Senior Managers & Certification Regime.
4. This relates to EU Benchmarks (£1.5m) and Securitisation Repositories (£0.4m), a total of £0.8m was returned to fee payers relating to Parliamentary Commission on Banking Standards £0.6m and Mortgage Credit Directive £0.2m

Penalties collected on behalf of the Exchequer

We collected penalties of £114.6m (2018: £70.4m), of which £16.0m (2018: £19.5m) 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.

Risks of harm are the external risks that arise from the decisions, behaviours and actions (or lack of) of individuals and firms or the functioning of markets that the FCA and PSR regulate. When these risks materialise, the harm impacts on the users of financial services.

The FCA's risks of harm relate to the single strategic objective under the Financial Services and Markets Act 2000 (FSMA), which is to ensure the markets we regulate function well, underpinned by three operational objectives:

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

The FCA is focused on taking a strategic approach to risk, using firm, sub-sector, sector and market wide analysis to identify the key risks of harm and prioritise its resources to prevent or mitigate them. The FCA's key sector risks of harm are set out in detail in the FCA's Business Plan 2019/20 alongside the key cross-sector priorities, as follows:

1. EU withdrawal – working closely with firms given the delay in UK's exit from the European Union to ensure that consumers are appropriately protected and the integrity of the financial system is maintained throughout. A significant proportion of our resources is already focused on this.
2. Firms' culture and governance – continuing to work with industry to promote and embed healthy culture and robust governance, including the extension of the Senior Managers and Certification Regime to all FSMA authorised firms, establishing a Directory of individuals in key roles in firms, and

continuing to improve our approach to authorisation, including the accessibility and security of the Financial Services Register.

3. Operational resilience – providing clarity on our expectations and assessing the adequacy and effectiveness of firms' systems and controls for preventing and managing disruption, including cyber security, change management and oversight of third party service providers.
4. Innovation, data and data ethics – sustaining a regulatory environment where consumers and firms can maximise the opportunities of competition, innovation and data while mitigating or preventing the associated potential harms.
5. Demographic change – considering the changing financial needs of different generations and how regulation needs to respond to meet them.
6. Financial crime and anti-money laundering – seeking to make the UK financial system a hostile environment for criminal money.
7. Fair treatment of existing customers – ensuring existing customers can appropriately access and benefit from competition and innovation.
8. The future of regulation – ensuring that we continue to be an effective regulator for the future, harnessing data, technology and innovation to improve efficiency and enhance the benefits of regulation.

The PSR's risks of harm relate to its 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, Payment System Providers 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 in our annual plan and budget 2019/20):

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

FCA and PSR key environmental, execution and operational risks are the key risks associated with the operating environment of the FCA or PSR.

1. Environmental risks: 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. As at the time of writing, the terms of the UK's exit from the EU remain subject to negotiation, which will 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 or PSR has failed to achieve a reduction/prevention in harm that would otherwise have been possible with the resources available. Appropriately 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. We continue to mitigate these risks as part of our People Strategy.
- Process Risk: including risks from inefficient, inadequate or failed internal processes. Managing process risks to ensure we are efficient is key to delivering value for money.
- 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.

FCA and PSR public confidence risk: which includes risks which could constrain the FCA's and PSR's ability to deliver against their 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.

These risks could result from the inappropriate management of our other risks.

Going concern and key financial risks

The directors have considered the FCA's Business Plan 2019/20 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 (£21.0m) which are planned to be recovered at circa £6.2m per annum; and (ii) capital expenditure, including 12ES 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 (excluding Right Of Use (ROU) lease assets) as yet unrecovered through fees is £176.8m at 31 March 2019. The ROU assets have been accounted this year for the first time as part of the introduction of IFRS 16 – Leases (see note 1d to the Financial Statements). This asset is funded by way of lease payments over the term of the lease.
   b. The triennial valuation of the FCA Pension Plan at 31 March 2019 is underway 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 52.5% of those fees (2018: 54.3%).
   d. The FCA is currently well placed from a liquidity perspective, with cash deposits of £249.4m at 31 March 2019 and an available overdraft facility of £50m.

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 has only had a slight impact on 2019/20 fee rates from firms moving some of their business outside the UK. The impact on 2020/21 fees will therefore depend on whether firms continue to move part of their operations outside the UK and reduce the tariff data they report for the calendar year ending 31 December 2019.
   c. The placement of those fees as deposits with various counterparties: 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 counterparties to avoid the concentration of credit risk.

3. **Significant Accounting Judgments and Key Sources of Estimate Uncertainty** that have been considered by the directors are the estimated intangible assets useful lives (as set out in Note 8 to the Financial Statements) and the assumptions underpinning the pension deficit (as set out in Note 17 to the Financial Statements).

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

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

By Order of the Board

S Pearce

Secretary

27 June 2019

9 Directors' report and corporate governance statement

Directors' report

The directors present their report for the year ended 31 March 2019.

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 Strategic Report also contains information on the following matters and can be found at pages 12 to 81

- Investing in our people
- Listening to our employees
- Employee development and wellbeing
- Commitment to inclusion and diversity

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 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.

The Financial Statements are prepared on the going concern basis. Further details may be found in the Group Operational Overview in the section Going Concern and key financial risks on page 91 of the Report.

Events after the reporting period

There were no material events after the reporting period.

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 2019 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

S Pearce

Secretary

27 June 2019

Corporate governance statement for the year ended 31 March 2019

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 FCA Board is the FCA's governing body and has collective responsibility for the long-term success of the company. There is a clear division of responsibilities between the Board and executive management. The Board provides strategic leadership and sets our strategic aims and ensures that we have the necessary financial and human resources to allow us to meet our statutory objectives. The Chief Executive is responsible for implementing the strategy agreed by the Board, the leadership of the organisation and managing it within the authorities delegated by the Board.

The Board's role includes:

a. Deciding which matters it should make decisions on, including exercising our legislative functions and other matters as set out in the Schedule of Matters Reserved to the Board.
b. Making strategic decisions about our future operation.
c. Overseeing the executive management of our day-to-day business.
d. Setting appropriate policies to manage risks to our operations and the achievement of our regulatory objectives.
e. Seeking regular assurance that our system of internal control is effective in managing risks.
f. Maintaining a sound system of financial control.
g. Taking specific decisions that are not included in the Schedule of Matters Reserved to the Board, which the Board or executive management consider are novel, contentious or so significant that the Board 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 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.

To support the efficient discharge of its function and facilitate effective decision making, the Board is supported by its principal committees, shown in Chart 1. Mechanisms are in place to ensure that relevant information flows through the committees. The Chairs of the Audit Committee, External Risk

and Strategy Committee and the Oversight Committee report on the work of each committee at the following board meeting. The Chair of the Regulatory Decisions Committee reports to the External Risk and Strategy Committee. 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. The Executive Committee (ExCo) is chaired by the Chief Executive and takes decisions on internal operational issues. The Executive Regulation and Policy Committee (ERPC), also chaired by the Chief Executive, sits alongside ExCo and takes decisions on significant regulatory and policy issues.

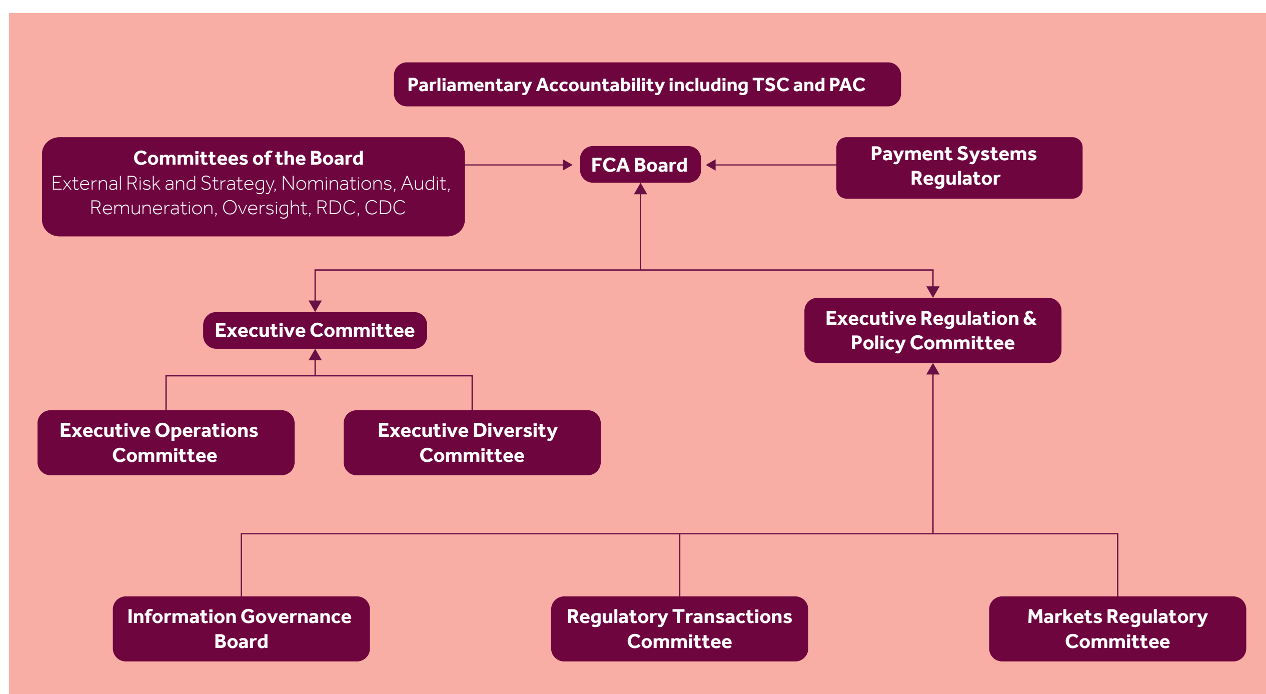
Below these two committees, there are several sub-committees, including the:

- 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
- Information Governance Board – which oversees implementation of the FCA's data strategy
- Regulatory Transactions Committee – which makes decisions on matters affecting specific firms and individuals, including authorisation and approvals and waivers and statutory notices.
- Markets Regulatory Committee – which exercises oversight and takes decisions on certain regulatory and market issues, and is also responsible for the function and decision making of the Market Oversight division

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. However, 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.

Board Composition

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 three non-executive directors appointed by the Treasury

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
Amelia Fletcher Non-Executive Director	1/04/13	31/03/20[1]
Bradley Fried Non-Executive Director	1/04/16	30/06/18
Baroness Hogg Non-Executive Director – Senior Independent Director	1/04/16	31/03/22[2]
Ruth Kelly Non-Executive Director	1/04/16	31/03/19
Jane Platt Non-Executive Director	1/04/13	30/03/19
Charles Randell Non-Executive Director – Chairman	1/04/18	31/03/23
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

1 Amelia Fletcher OBE's second term as a Non-Executive Director has also been extended for a further year, up to 31 March 2020.

2 Baroness Sarah Hogg has also been re-appointed as a Non-Executive Director for a second three-year term, starting on 1 April 2019.

Charles Randell 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.

This year, Amelia Fletcher was reappointed for a period of one year, and Baroness Hogg was reappointed for a further term of three years, both with effect from 1 April 2019. Bradley Fried retired from the Board on 30 June 2018 and Jane Platt's and Ruth Kelly's terms ended on 31 March 2019.

During the year, a recruitment exercise to appoint non-executive Directors was undertaken. All non-executive appointments are made in accordance with the Government's Governance Code and regulated by the Office of the Commissioner for Public Appointments. Richard Lloyd was appointed for a three-year term with effect from 1 April 2019. This appointment followed an open recruitment process conducted with the assistance of executive recruitment firm, Audeliss.

Simon Ricketts, a member of the Payment Systems Regulator Board, was appointed to the Audit Committee with effect from 1 March 2019.

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

The Board aims to ensure it has a diverse membership. Particular attention is paid to the recruitment process to ensure a variety of candidates with an appropriate balance of relevant skills and experience is attracted to the roles. For the reporting year, our female membership is above the 33% target figure for the boards of UK FTSE 350 companies as proposed by the Hampton-Alexander review.

Charles Randell has no additional commitments over and above his Chairmanship of the FCA and PSR.

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)	Charles Randell (Chair)	Charles Randell (Chair)
Catherine Bradley	Amelia Fletcher	Amelia Fletcher	Catherine Bradley	Catherine Bradley
Bradley Fried (until 30/06/18)	Ruth Kelly	Bradley Fried (until 30/06/18)	Amelia Fletcher	Baroness Hogg
Jane Platt	Nick Stace	Charles Randell	Bradley Fried (until 30/06/18)	Christopher Woolard
			Ruth Kelly	Nick Stace
			Baroness Hogg	
			Jane Platt	
			Nick Stace	

The activities of the Board

The Board has a formal schedule of matters reserved to it, and meets regularly to discharge its duties effectively. There were 11 scheduled meetings during the year which included an extended strategy meeting in November. A small number of decisions were taken by written procedure outside of formal meetings and were noted at the subsequent meeting and recorded in the respective minutes.

The Board committees also met frequently during the year. Table 4 provides details of all the board and committee meetings and attendance. At meetings, the Board considers a number of standard agenda items including a report from the Chief Executive, Independent Panels, updates from the Prudential Regulation Authority and progress against the Business Plan. Non-executive Directors provide rigorous challenge on strategy, performance, responsibility and accountability to hold the executive to account and ensure that the Board's decisions are robust and aligned to the strategy of the FCA and its Mission.

Table 4 provides details on board and committee attendance during the year.

Table 4

Name	Board meetings	Audit Committee	External Risk & Strategy Committee	Remuneration Committee	Nominations Committee	Oversight Committee
Andrew Bailey	11/11					
Catherine Bradley	11/11	4/6			3/3	9/10
Amelia Fletcher	10/11		4/5	5/6	3/3	
Bradley Fried	3/3	2/2		1/1		
Charles Randell	11/11			6/6	3/3	10/10
Baroness Hogg	10/11			6/6	1/3	8/10
Ruth Kelly	10/11	6/6	5/5		1/3	
Jane Platt	11/11	5/6	5/5		3/3	
Nick Stace	11/11		4/5		2/3	8/10
Sam Woods	9/11					
Christopher Woolard	11/11					10/10
Simon Rickets		0/1				

During the year, the Non-Executive Directors met privately, both with and without the Chair and without members of the executive present.

The Chair and Company Secretary ensure that the Board's agendas 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.

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; approving major policy initiatives and approving the annual report and accounts for the year ending 31 March 2019.

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 non-executive Directors 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. The Chair, in consultation with the Nominations Committee, monitors 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.

Board effectiveness review

Reviews of Board effectiveness are conducted annually, with regular external reviews in accordance with best corporate governance practice. The most recent external review was commissioned in June 2017 and so an internal review was conducted this year.

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

The Board considered the findings from the effectiveness evaluation at its meeting in April 2019, allowing it to review the year as a whole. Four main themes emerged from the review:

a. Defining success and tracking performance
b. Managing agendas and areas of focus for the Board and committees
c. Oversight of major IT projects
d. Structure and remit of the Board committees

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

Conflict of interests

All directors are required to declare relevant interests. 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. The Board reviewed its policy on the management of conflicts of interests in 2019.

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 risk[1] 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: reviewing internal audit reports; scrutinising significant projects and contracts for IT and major change programmes; cyber security planning; FCA's compliance framework; considering the outcomes from the annual risk and control self-assessments and joint organisational internal control assessments; and reviewing the annual report and accounts.

The Committee also oversaw the FCA's relationship with the external auditor, the National Audit Office (NAO), and reviewed the NAO's audit strategy. Information on fees paid to the auditor is given on page 129.

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.

The Committee met on six occasions during the year, scheduled to coincide with the risk reporting and external audit cycles. It also held two additional meetings 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, and representatives from the NAO.

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

1 Further information on the principal risks and uncertainties facing the FCA can be found in the Group operational overview (Chapter 8).

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.

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 help 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 risk management framework and internal controls have been maintained during the year. However, the Board recognises that the risks facing the organisation continually 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 mainly operating effectively but with some improvements required.

Operational risks are overseen by the Audit Committee and external 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, diagnosing and remedying or 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 management 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, 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. The Audit Universe is considered in the development of the three year strategic internal audit plan. Internal Audit adopted a risk based approach in its periodic review of the Audit Universe and annual audit plan.
- Clear reporting lines and delegated authorities, which were reviewed on a regular basis.
- Clear segregation between the FCA's regulatory function and the internal treasury function to avoid either endorsing or criticising any financial institution through investment activities.
- Ensuring appropriate policies and procedures were included in the employee handbook.
- Directors and senior managers regularly communicated their commitment to maintaining an appropriate control culture across the FCA to all staff.

External Risk and Strategy Committee

The External Risk and Strategy Committee has responsibility for the review and oversight of the external risks[2] 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).

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

During the year the Committee reviewed the updated FCA risk management framework and received regular reports from the Risk and Compliance Oversight and Internal Audit Divisions. It considered a review into the risk that a combination of political uncertainty including EU withdrawal, regulatory reform, managing legacy IT systems and a weakening economic environment could result in firms not managing risks adequately and which could potentially lead to non-compliance with FCA rules. It scrutinised the risks surrounding the FCA's move to Stratford. It undertook detailed examinations of the risks in certain sectors, and considered the organisational approach to risk. It also considered the effectiveness of risk identification and mitigation, including potential for unintended consequences of FCA interventions.

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

The Committee consists entirely of non-executive directors. The Chief Operating Officer, the Director of Risk & Compliance Oversight and the Director of Internal Audit attended all ordinary meetings of the Committee. 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 relevant members of staff invited to attend relevant items.

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.

Remuneration Committee

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

During the year the Committee's principal areas of activity included: approving the annual budget for pay and performance awards and approving the remuneration of the SMR Directors. To help with this, the Committee received information on, and assessment of, each director's 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.

2 Further information on the principal risks and uncertainties facing the FCA can be found in the Group operational overview (Chapter 8).

During the year, the Committee met on six occasions.

The 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 areas of activity also included: considering the performance objectives of the Chief Executive and persons who fall within the scope of the Senior Managers Regime, supporting NED recruitment and considering succession planning for senior managers.

The Committee met on three 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 areas of activity also included: assuring itself of the capabilities and performance of these organisations including providing support and oversight to the FOS following the Richard Lloyd review; 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; overseeing the transfer of the MAS to the Single Financial Guidance Body; providing review and challenge of the basis of preparation, and underlying assumptions, of each organisation's annual budget and business plan; and providing scrutiny on the extension of the FOS' remit to include Small and Medium Sized Enterprises.

The Committee met on ten occasions during the reporting period, with relevant senior individuals from each organisation in attendance.

Regulatory Decisions Committee

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

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

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

The RDC 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.

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

The RDC's separate annual review of its activities for the year ending 31 March 2019 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 certain competition law investigations on behalf of the FCA. The decisions include whether there has been a competition law infringement, whether to impose a financial penalty for an infringement and any directions to be given, other than in settlement cases.

By Order of the Board

S Pearce

Secretary

27 June 2019

Remuneration report

Remuneration Principles

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

The 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 2018/19

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

2018/19 Remuneration review

All salary increases and performance awards for staff in 2018/19 were a matter for management judgement against our common set of performance standards. The aim has been to ensure that employees at all levels received appropriate recognition for their performance. We allocated a budget of 2% for salary increases, supplemented by an additional 0.5% to address anomalies. This year 76% of eligible employees received a salary increase.

We set the budget for performance awards at 13.4% of average salaries. The distribution of awards is shown in Table 5.

Table 5: FCA bonus awards distribution

Bonus percentage received	Percentage of workforce who received a bonus
0%	11%
0.1-5%	0%
5.1-9.9%	9%
10-14.9%	48%
15%-19.9%	14%
20-24.9%	15%
25-29.9%	3%
30-35%	0%

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 SMR Directors were reviewed in line with the policy. When making decisions on base salary, the Remuneration Committee took into account the importance of remuneration packages being sufficient to retain staff while awarding any salary increases responsibly to ensure careful use of our resources.

Performance bonus

During the period under review, from 1 April 2018 to 31 March 2019, the SMR Directors were eligible to be considered for a performance-related award up to a maximum of 35% of average base salary applying during the previous year. Non-executive directors were not eligible to be considered for an award. Performance bonus decisions are made by the Remuneration Committee in February each year.

Following the collapse of the investment firm London Capital & Finance the FCA Board has initiated an independent investigation. The findings of this review are expected to inform performance bonus decisions the Remuneration Committee will take in February 2020. Should the outcome of the review not be known by then a decision on performance bonuses will be deferred until the outcome is known.

Other benefits

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

Pensions

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

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

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

Directors' remuneration (audited)

The table below sets out the remuneration paid or payable to any person that served as a Board Director during the years ending 31 March 2019 and 2018. The remuneration figures shown are for the period served as Board Directors.

Table 6

	Basic salary		Performance-related pay		Other benefits		Total FCA Remuneration (excluding pension)		Pension		Total FCA Remuneration	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Chair												
John Griffith-Jones [1]		170	**-**	-		3	**-**	173		20	**-**	193
Charles Randell [1,5]	**170**	-	**-**	-	**-**	-	**170**	-	**-**	-	**170**	-
Executive Directors												
Andrew Bailey [2,6]	**449**	440	**68**	75	**35**	34	**552**	549	**40**	40	**592**	589
Christopher Woolard [3,6]	**306**	300	**45**	48	**32**	31	**383**	379	**30**	30	**413**	409

Non-Executive Directors [4]	Group Fee Paid		FCA Fee Paid	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Bradley Fried [11]	**11**	43	**9**	35
Amelia Fletcher [6]	**43**	43	**35**	35
Baroness Hogg [7]	**65**	65	**65**	65
Jane Platt [8]	**45**	45	**45**	45
Catherine Bradley	**35**	35	**35**	35
Ruth Kelly [9]	**45**	45	**45**	45
Sam Woods [10]	**-**	-	**-**	-
Nick Stace	**35**	35	**35**	35

Notes

Chair

1. John Griffith-Jones' tenure as Chair ended on 31 March 2018. John was succeeded by Charles Randell who took office from 1 April 2018.

Executive directors of the FCA

2. Andrew Bailey 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%) was held in deferment and was paid in March 2019 following approval by the Remuneration Committee. For the performance year ending in March 2019 Andrew was awarded a performance bonus of £68,000, of this £27,200 (40%) was paid in March 2019, the remaining £40,800 (60%) will be held in deferment until March 2020 and paid at the discretion of the Remuneration Committee. Andrew also 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 receives an annual pension contribution equivalent to 12% of his salary. He elects to have £10,000 of the employer pension contribution paid into the Pension Plan and the remaining employer contribution paid as a a non-

pensionable cash supplement at a rate of 9% of his annual salary. The total amount is included under `Pension' in the table above.

Non-executive directors of the FCA

4. In accordance with FSMA, HM 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. Charles Randell received a fee of £170,000 as Chair of the FCA and a separate fee of £20,000 for his role as Chair of PSR.
6. Amelia Fletcher receives a separate fee of £7,500 for her role on the PSR Board. Andrew Bailey and Christopher Woolard received no separate fee for their respective roles on the PSR Board.
7. Baroness Hogg continued to serve as Chair of the Remuneration Committee and Chair of FCA Pension Plan Trustee Limited during the year.
8. Jane Platt continued to serve as Chair of the External Risk & Strategy Committee during the year.
9. Ruth Kelly continued to serve as Chair of the Audit Committee during the year.
10. Sam Woods, the Deputy Governor of the Bank of England for prudential regulation, is a non-executive of the FCA in accordance with FSMA. Sam does not receive a fee from the FCA for this role.
11. Bradley Fried resigned as a non-executive director on 30 June 2018.

Fair pay disclosure (audited)

	Group		FCA (Parent Company)	
Remuneration ratio	**2019**	**2018**	**2019**	**2018**
Highest Paid Director's Total Remuneration	£551,435	£548,974	£551,435	£548,974
Median Remuneration of Total Workforce	£66,009	£65,905	£65,917	£65,737
Ratio (to Total Workforce)	8.4	8.3	8.4	8.4
Number of employees paid in excess of highest paid Director	Nil	Nil	Nil	Nil

The Accounts Direction from HM 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 2019 and 2018.

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 2019 and 2018.

Excluding the highest-paid director, remuneration ranged from £21,522 to £511,297 (2018: £20,356 to £510,794).

In 2019 no employees (2018, nil) received remuneration in excess of the highest paid director. All figures are based on full time equivalent basis.

Senior Pay Disclosure (audited)

The table below sets out the remuneration paid or payable to any person that served as a voting member of the Executive Committee during the year ending 31 March 2019.

Name	Basic salary 2019 £'000	Performance-related pay 2019 £'000	Other benefits 2019 £'000	Total FCA Remuneration (excluding pension) 2019 £'000	Pension 2019 £'000	Total FCA Remuneration 2019 £'000
Megan Butler	306	45	31	**382**	38	**420**
Jonathan Davidson	306	45	26	**377**	28	**405**
Nausicaa Delfas	260	39	30	**329**	39	**368**
Georgina Philippou	260	26	28	**314**	31	**345**
Mark Steward	306	40	32	**378**	38	**416**

Other Directors' salaries and benefits

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

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

The Board of the FCA

Charles Randell
Chair

Andrew Bailey
Chief Executive

Catherine Bradley
Non-executive Director

Amelia Fletcher OBE
Non-executive Director

Baroness Sarah Hogg
Non-executive Director

Richard Lloyd
Non-executive Director

Nick Stace
Non-executive Director

Sam Woods
Non-executive Director

Christopher Woolard
Executive Director

Simon Pearce
Company Secretary

10 Financial statements of the Financial Conduct Authority for the year ended 31 March 2019

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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 2019 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 and International Financial Reporting Standards as adopted by the European Union and the Financial Services and Markets Act 2000. 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 2019 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.

Conclusions relating to Going Concern

I am required to 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 group's and the Financial Conduct Authority's ability to continue as a going concern for a period of at least twelve months from the approval of the financial statements. 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. We have nothing to report in these respects.

Responsibilities of the Directors for the financial statements

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

- the preparation of the 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.
- 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

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 parts of the Remuneration Report to be audited have 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.

Gareth Davies **Date: 4 July 2019**

Comptroller and Auditor General (Statutory Auditor)

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

Statement of comprehensive income for the period ended 31 March

	Notes	Group		Parent Company	
		Total 2019 £m	Total 2018 £m	Total 2019 £m	Total 2018 £m
Income					
Fee income	4	598.0	580.6	584.1	572.8
Other income	4	16.3	19.7	18.6	21.6
Total income		**614.3**	**600.3**	**602.7**	**594.4**
Operating costs					
Staff costs	5	(364.4)	(334.3)	(356.3)	(327.1)
Staff costs capitalised during the year	5	7.7	5.5	7.7	5.5
Administrative and general costs	6	(232.2)	(218.3)	(230.3)	(216.6)
Total operating costs		**(588.9)**	**(547.1)**	**(578.9)**	**(538.2)**
Operating surplus for the year		**25.4**	**53.2**	**23.8**	**56.2**
Interest payable and similar expenses	7	(6.7)	-	(6.7)	-
Net actuarial gains for the year in respect of the defined benefit pension scheme	17	7.1	32.9	7.1	32.9
Total comprehensive surplus for the year		**25.8**	**86.1**	**24.2**	**89.1**

Statement of changes in equity for the year ended 31 March

	Accumulated Surplus	
	Group £m	Parent Company £m
At 1 April 2017	**(173.4)**	**(178.8)**
Total comprehensive surplus for the year	86.1	89.1
At 31 March 2018	**(87.3)**	**(89.7)**
Total comprehensive surplus for the year	25.8	24.2
At 31 March 2019	**(61.5)**	**(65.5)**

The notes on pages 119 to 145 form part of the accounts.

Statement of financial position as at 31 March

Company Number: 01920623

		Group		Parent Company	
	Notes	Total 2019 £m	Total 2018 £m	Total 2019 £m	Total 2018 £m
Non-current assets					
Intangible assets	8	94.1	75.2	94.1	75.2
Property, plant and equipment and ROU assets	9	365.5	90.4	365.5	90.4
		459.6	**165.6**	**459.6**	**165.6**
Current assets					
Trade and other receivables	10	48.8	19.7	48.8	20.5
Cash and cash equivalents	10	257.8	250.9	249.4	241.4
		306.6	**270.6**	**298.2**	**261.9**
Total assets		**766.2**	**436.2**	**757.8**	**427.5**
Current liabilities					
Trade and other payables	11	(436.7)	(387.2)	(432.3)	(380.9)
Short-term provisions	11	(2.5)	(3.6)	(2.5)	(3.6)
Lease liabilities	11	(0.3)	-	(0.3)	-
		(439.5)	**(390.8)**	**(435.1)**	**(384.5)**
Total assets less current liabilities		**326.7**	**45.4**	**322.7**	**43.0**
Non-current liabilities					
Long-term provisions	12	(17.1)	(13.3)	(17.1)	(13.3)
Lease liabilities	12	(284.0)	-	(284.0)	
		(301.1)	**(13.3)**	**(301.1)**	**(13.3)**
Net liabilities excluding retirement benefit obligation		**25.6**	**32.1**	**21.6**	**29.7**
Retirement benefit obligation	17	(87.1)	(119.4)	(87.1)	(119.4)
Net liabilities including retirement benefit obligations		**(61.5)**	**(87.3)**	**(65.5)**	**(89.7)**
Accumulated deficit		**(61.5)**	**(87.3)**	**(65.5)**	**(89.7)**

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

The financial statements were approved by the Board on 27 June 2019, and signed on 27 June 2019 on its behalf by

Charles Randell
Chair

Andrew Bailey
Chief Executive

Statement of cash flows for the year ended 31 March

		Group		Parent Company	
	Notes	Total 2019 £m	Total 2018 £m	Total 2019 £m	Total 2018 £m
Net cash generated by operations	3	**71.4**	**152.4**	**72.6**	**156.2**
Investing activities					
Interest received on bank deposits	4	1.2	0.6	1.1	0.6
Expenditure on intangible software development	8	(42.2)	(28.3)	(42.2)	(28.3)
Purchases of property, plant and equipment	9	(23.5)	(70.2)	(23.5)	(70.2)
Proceeds from sale of equipment		0.2	-	0.2	-
Net cash used in investing activities		(64.3)	**(97.9)**	(64.4)	**(97.9)**
Financing activities					
Lease repayments		(0.2)	-	(0.2)	-
Net increase in cash and cash equivalents		**6.9**	**54.5**	**8.0**	**58.3**
Cash and cash equivalents at the start of the year	10	250.9	196.4	241.4	183.1
Cash and cash equivalents at the end of the year	10	**257.8**	**250.9**	**249.4**	**241.4**

Notes to the financial statements

1. General information

The Financial Conduct Authority Limited (FCA) is a company incorporated in England and Wales under the Companies Act 2006 and is a company limited by guarantee with no share capital. The directors of the company are the members and have agreed to contribute £1 each to the assets of the company in the event of it being wound up. The FCA only requires nominal capital due to its legal status and funding model. i.e. it operates within a statutory framework that enables it to raise fees to recover the costs of carrying out its statutory function. The nature of the FCA's operations is set out in the Operational Overview.

These accounts have been prepared on a consolidated basis to include the Payment Systems Regulator Limited (PSR), The registered office for both the FCA and PSR is 12 Endeavour Square, London, E20 1JN.

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

2. Core accounting policies

a) Basis of preparation

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

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

b) Significant judgements

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 (note17) – 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 8) - asset lives are reviewed on an annual basis and, where necessary, adjusted to reflect the remaining expected asset life. Changes to asset lives arise as a result of changes in technology or business need; and

- The lease liability for 12 Endeavour Square ("lease") and related Right of Use (ROU) asset is calculated using an interest rate of 2.46% (being the published rate at the date of implementation) based on a 20 year loan from Public Works Loan Board as a proxy discount rate to calculate the present value of the lease payments. The lease states the rent payable in the first five years, and specifies minimum and maximum rent for the next five years. The discounted cash flow is based on the maximum rent stated.

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 adopted IFRS 9 - Financial Instruments and IFRS 15 - Revenue from Contracts with Customers in 2017/18.

The group has early adopted IFRS 16 – Leases in the current year.

General Impact

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 adoption of IFRS 16.

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 on the ROU asset and interest on the lease liability, and also classes lease payments between principal and interest and presents them in the statement of cash flows in accordance with IAS 7.

Impact on FCA accounting

Given the significance of the effect of this new standard on the accounting for the new property in Stratford, the group has implemented IFRS 16 with effect from 1 April 2018 and has accounted for ROU assets of £296.6m and related lease liabilities of £277.8m in the year in respect of both the Stratford building and the office space leased in Edinburgh. Charges for depreciation of £15.1m and interest expense of £6.7m in relation to these assets and liabilites are included in the financial statements where appropriate.

The group has elected to apply the modified retrospective approach, which does not require restatement of comparative figures. This approach recognises a lease liability at the date of initial application for leases previously recognised as operating leases under IAS 17. The lease liability is calculated by discounting the future payments due under the terms of the lease. At the date of implementation, the ROU asset comprised the lease liability (£277.8m), required provisions (£17.0m), and any other related expenditure (for example, stamp duty) (£1.8m).

Charges which would have been recorded under the previous accounting arrangements for these leases would have been: operating lease costs of £18.6m; and depreciation of £0.9m. The FCA did not account for any finance leases under the previous standard.

The group has considered whether any further contracts contain a lease element and has concluded that any such contracts identified are in respect of low value or short term arrangements.

Transition disclosures

The standard requires a reconciliation to explain the movements from operating lease commitments disclosed at 31 March 2018 (applying IAS17) to the liabilities under IFRS 16 as at 1 April 2018, which is as follows:

	Notes	Total 2019 £m
Operating lease commitments reported at 31 March 2018	15	346.4
Expense related to short term leases		(9.9)
Commitments relating to low value assets leases		(0.3)
Discounting of future cash flows		(96.7)
Difference between min and max value of rent increase [1]		38.3
Lease liabilities recognised at the date of initial application		**277.8**

1 Minimum rent at first review used for operation lease commitments at 31 March 2018,maximum rent at first review used as basis of ROU assets/liabilities .

Short term arrangements include leases that are for less than twelve months, or have less than twelve months remaining at implementation. At implementation, the existing properties in Canary Wharf had less than twelve months remaining on their lease and have been accounted for as short term liabilities. This cost will only apply to the financial year ended 31 March 2019.

The Group has taken advantage of the lease recognition exemptions permitted by the new standard as follows:

	Notes	Total 2019 £m
Expenses related to short term leases liabilities	15	7.8
Expense related to low value asset leases	15	0.1

e) Income

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

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

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

In doing so, management have broadened the definition of a contract to include legislation and regulation. In this circumstance, a "contract" is the underlying statutory framework set out in FSMA for

the FCA and FSBRA for the PSR. This framework enables the FCA and PSR to raise fees to recover the costs of carrying out their statutory functions. The performance obligation under the "contract" is the granting of the ability to operate and remain authorised during the course of the year.

The group's revenue streams are categorised as either fee income or other income.

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

- Annual periodic fees are levied and measured at fair value when recognised.
- Special project fees (SPFs) are charged to recover exceptional supervisory costs where a firm undertakes certain restructuring transactions such as raising additional capital or a significant change to a firm's business model. SPFs are recognised at 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 as set out in IFRS 15 to be recognised as revenue.

Other income includes:

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

Resulting contract assets and liabilities are accounted for as fees receivable within Current assets and Fees received in advance in Current liabilities.

f) Intangible assets - capitalisation and amortisation

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

i. the FCA can demonstrate the technical feasibility of completing the software

ii. the FCA has adequate technical, financial and other resources available to it as well as the intent to complete its development

iii. the FCA has the ability to use it upon completion

iv. the asset can be separately identified, it is probable that the asset will generate future economic benefits, and the development cost of the asset can be measured reliably.

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

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

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

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

g) Impairment of intangibles, property plant and equipment:

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

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

h) 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) is not subject to corporation tax because regulatory activity does not constitute a 'trade' for corporation tax purposes.

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

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

The application of the corporation tax regime for intangible assets has also led to an

unrecognised deferred tax asset in relation to unused tax losses carried forward as it is not sufficiently certain that the FCA will actually have taxable income to set against these losses in future. As at 31 March 2019 this deferred tax asset equated to £44.8m (2018: £40.7m).

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

		Group		Parent Company	
	Notes	Total 2019 £m	Total 2018 £m	Total 2019 £m	Total 2018 £m
Surplus for the year from operations		25.4	53.2	23.8	56.2
Adjustments for:					
Interest received on bank deposits	4	(1.2)	(0.6)	(1.1)	(0.6)
Amortisation of other intangible assets	8	22.6	28.4	22.6	28.4
Loss on disposal of non-current assets	6	0.1	0.4	0.1	0.4
Impairment of non current assets	8	0.7	-	0.7	-
Depreciation of property, plant and equipment including ROU assets	9	25.7	8.4	25.7	8.4
Increase/ (decrease) in provisions	11	2.7	14.4	2.7	14.4
Difference between pension costs and normal contributions		3.8	3.9	3.8	3.9
Payments made against unfunded pension liability		0.2	0.1	0.2	0.1
Additional cash contributions to reduce pension scheme deficit		(29.0)	(29.0)	(29.0)	(29.0)
Operating cash flows before movements in working capital		**51.0**	**79.2**	**49.5**	**82.2**
(Increase)/ decrease in receivables	10	(29.1)	2.3	(28.3)	2.2
Increase in payables	11	49.5	70.9	51.4	71.8
Net cash generated by operations		**71.4**	**152.4**	**72.6**	**156.2**

4. Income

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

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

	Group		Parent Company	
	Total 2019 £m	Total 2018 £m	Total 2019 £m	Total 2018 £m
Ongoing Regulatory Activity fees[1]	536.1	515.8	522.2	508.0
Additional Ongoing Regulatory Activity fees	(0.9)	0.9	(0.9)	0.9
EU Withdrawal fees	5.0	2.5	5.0	2.5
Scope change costs recovered - Consumer credit (CC)	15.9	14.8	15.9	14.8
Scope change costs recovered - non CC	11.4	13.3	11.4	13.3
Application fees and other regulatory income	15.0	13.4	15.0	13.4
Special project fees	15.5	19.9	15.5	19.9
Total	**598.0**	**580.6**	**584.1**	**572.8**

1 Of the £522.2m (2018: £508.0m) Ongoing Regulatory Activity fees £47.6m (2018: £46.7m) related to penalties collected in the previous year for the sum of enforcement costs and returned to fee payers through reduced fees. See note 13.

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

	Group		Parent Company	
	Total 2019 £m	Total 2018 £m	Total 2019 £m	Total 2018 £m
Skilled person reports (s.166) income[1]	1.7	4.2	1.7	4.2
Services provided to other regulatory bodies	10.6	10.9	13.1	12.9
Publications and training services	0.5	0.4	0.5	0.4
Interest received on bank deposits	1.2	0.6	1.1	0.6
Other sundry income	2.3	3.6	2.2	3.5
Total other income	**16.3**	**19.7**	**18.6**	**21.6**

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

5. Staff information

	Notes	Group Total 2019 £m	Group Total 2018 £m	Parent Company Total 2019 £m	Parent Company Total 2018 £m
Gross salaries and taxable benefits		272.4	258.8	266.3	253.2
Employer's national insurance costs		31.4	29.8	30.7	29.2
Apprenticeship levy		1.2	1.2	1.2	1.2
Employer's defined contribution pension costs		26.0	24.3	25.4	23.8
Payments made against unfunded pension liability	3	0.2	0.1	0.2	0.1
Net interest on defined benefit pension scheme	17	3.8	3.9	3.8	3.9
Permanent staff costs		**335.0**	**318.1**	**327.6**	**311.4**
Temporary		3.4	3.2	3.4	3.3
Secondees		1.0	1.4	0.8	1.3
Contractors		25.0	11.6	24.5	11.1
Short-term resource costs		**29.4**	**16.2**	**28.7**	**15.7**
Total staff costs		**364.4**	**334.3**	**356.3**	**327.1**

Of which the following was capitalised during the year:

	Group Total 2019 £m	Group Total 2018 £m	Parent Company Total 2019 £m	Parent Company Total 2018 £m
Staff Costs	7.7	5.5	7.7	5.5

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 2019	Total 2018	Total 2019	Total 2018
Supervision - Retail & Authorisation	859	807	859	807
Supervision - Investment, Wholesale and Specialist	541	535	541	535
Enforcement and Market Oversight	693	643	693	643
Strategy and Competition	565	522	565	522
Sub-total	**2,658**	**2,507**	**2,658**	**2,507**
Operations	723	728	723	728
Other central services	274	261	274	261
PSR	76	65	-	-
Total	**3,731**	**3,561**	**3,655**	**3,496**

As at 31 March 2019, there were 3,826 (2018: 3,614) full-time equivalent employees of which 3,742 (2018: 3,541) were FCA and 84 (2018: 73) were PSR.

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

	Group		Parent Company	
	Total 2019	Total 2018	Total 2019	Total 2018
Temporary	78	87	77	87
Secondees	19	23	16	23
Contractors	123	50	120	45
Total	**220**	**160**	**213**	**155**

As at 31 March 2019, there were 243 (2018: 190) short-term resources of which 238 (2018: 185) were FCA and 5 (2018: 5) were PSR.

Exit packages

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

Exit package cost band £'000	Number of compulsory redundancies 2019	Number of other departures agreed 2019	Number of Long-term ill health settlements 2019	Total 2019	Number of compulsory redundancies 2018	Number of other departures agreed 2018	Number of Long-term ill health settlements 2018	Total 2018
0 -10	1	-	-	1	-	-	-	-
>10 - 25	4	2	-	6	1	2	-	3
>25 - 50	11	3	-	14	-	1	-	1
>50 - 100	11	-	-	11	1	-	-	1
>100 - 150	-	-	-	-	-	-	1	1
>150 - 200	-	-	-	-	-	1	-	1
>200	-	-	-	-	-	-	-	-
Total number	27	5	-	32	2	4	1	7
Gross costs	£1.3m	£0.1m	£0.0m	£1.4m	£0.1m	£0.2m	£0.1m	£0.4m

6. Administrative and general costs

		Group		Parent Company	
	Notes	Total 2019 £m	Total 2018 £m	Total 2019 £m	Total 2018 £m
IT running costs		63.0	57.7	62.8	57.7
IT project scoping costs		18.7	18.2	18.7	18.2
Professional fees		40.5	42.7	39.1	41.4
Professional fees: s166[1]		1.7	4.2	1.7	4.2
Accommodation and office services		39.0	39.2	39.0	39.2
Amortisation of intangible assets	8	22.6	28.4	22.6	28.4
Loss on disposal of intangible assets	8	-	0.4	-	0.4
Impairment of intangible assets	8	0.7	-	0.7	-
Depreciation of property, plant and equipment	9	10.6	8.4	10.6	8.4
Depreciation of the ROU assets	9	15.1	-	15.1	-
Loss on disposal of tangible assets		0.1	-	0.1	-
Recruitment, training and wellbeing		14.3	12.2	14.1	11.8
Travel		3.6	3.5	3.6	3.5
Other costs		2.3	3.4	2.2	3.4
Total		**232.2**	**218.3**	**230.3**	**216.6**

1 These Professional fees are the costs of the s166 ('skilled person') reports recharges to the firm in questions . overall this has a net zero impact on the statement of Comprehensive income for the FCA as the recharges for these costs are recognised in other income.

Auditors

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

	Group		Parent Company	
	Total 2019 £'000	Total 2018[1] £'000	Total 2019 £'000	Total 2018[1] £'000
Fees payable to the National Audit Office for the audit of the financial statements	120	127	100	107

1 Comparative restated to include additional costs agreed subsequent to completion of prior year audit

The National Audit Office has not provided any non-audit related services to FCA group in 2019 (2018 : £nil)

7. Interest payable and other similar expenses

	Group		Parent Company	
	Total 2019 £m	Total 2018 £m	Total 2019 £m	Total 2018 £m
Interest on lease liability	6.7	-	6.7	-

8. Intangible assets

The PSR does not hold intangible assets.

	Internally generated software £m	Other software costs £m	Work in progress £m	Total £m
Cost				
At 1 April 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**
Additions	-	0.1	42.1	42.2
Transfers	15.3	2.2	(17.5)	-
Disposal	(10.9)	(6.0)	-	(16.9)
Impairment	-	-	(0.7)	(0.7)
Reclassification	(0.1)	0.1	-	-
At 31 March 2019	**191.1**	**21.7**	**43.2**	**256.0**
Amortisation				
At 1 April 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**
Charge for period	22.1	0.5	-	22.6
Disposal	(10.9)	(6.0)	-	(16.9)
At 31 March 2019	**143.2**	**18.7**	**-**	**161.9**
Net carrying value				
At 31 March 2018	**54.8**	**1.1**	**19.3**	**75.2**
At 31 March 2019	**47.9**	**3.0**	**43.2**	**94.1**

Internal software development costs of £42.1m (2018: £28.1m) have been capitalised as additions during the year. Internally developed software is designed to help the FCA carry out its various statutory functions, such as holding details relating to regulated firms. These functions are particular to the FCA, so this internally developed software generally has no external market value. Management judgement has been applied in quantifying the benefit expected to accrue to the FCA over the useful life of the relevant assets. Those expected benefits relate to the fact that such software allows the FCA to carry out its functions more efficiently than by using alternative approaches (for example, manual processing). If the benefits expected do not accrue to the FCA (for example, if some aspect of its approach to discharging its statutory functions changes) then the carrying amount of the asset would require adjustment.

Of the net carrying amount of internally generated software of £47.9m:

i. £18.6m relates to INTACT, a case management tool for authorising firms and individuals (three years useful life remaining)

ii. £12.3m relates to MiFID (Market in Financial Institution Directive), a regulated platform to ensure all trading is appropriate and covers both retail and wholesale investment markets (four years useful life remaining)

iii. £8.1m relates to Gabriel, a system for submitting regulatory data online (two years useful life remaining)

Of the net carrying amount of work in progress of £43.2m:

i. £16.9m relates to INTACT, including £7.4m relating to EU Withdrawal related developments.

ii. £8.1m relates to Data Centre Exit, moving out from our current data centre into the Cloud.

iii. £5.0m 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.

The balance is related to projects including the replacement of the current business intelligence and reporting platform. The new platform will deliver the strategic analytic and reporting capability needed to support the FCA vision of being a data led organisation.

Work in Progress relating to EU Withdrawal of £7.4m may be subject to partial impairment depending on the final arrangements.

9. Property, plant and equipment, and Right of Use Assets

Property, plant and equipment, and Right of Use Assets are stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated to write off the cost less estimated residual value on a straight-line basis over the expected useful economic life. The principal useful economic lives used for this purpose are:

Right of Use Assets (leased office in Stratford)	Lease term - 20 years
Right of Use Assets (leased office in Edinburgh)	Lease term - 2 years
Leasehold improvements	Up to lease term - 20 years
Furniture and equipment	10 years
Computer equipment (excluding software)	Up to 5 years

	Right of Use Assets £m	Leasehold improvements £m	Computer equipment £m	Furniture and equipment £m	Work in progress £m	Total £m
Cost						
At 1 April 2017	**-**	**25.7**	**51.3**	**15.0**	**14.6**	**106.6**
Additions	-	-	-	-	70.0	70.0
Transfers	-	-	0.3	-	(0.3)	-
Reclassification	-	-	-	-	-	-
Disposal	-	-	-	-	-	-
At 31 March 2018	**-**	**25.7**	**51.6**	**15.0**	**84.3**	**176.6**
ROU Assets - implementation	277.6	-	-	-	-	277.6
Additions	3.8	0.4	-	-	19.3	23.5
Transfers	15.2	64.2	9.1	10.2	(98.7)	-
Disposal	-	(25.6)	(33.0)	(13.4)	-	(72.0)
At 31 March 2019	**296.6**	**64.7**	**27.7**	**11.8**	**4.9**	**405.7**
Depreciation						
At 1 April 2017	**-**	**21.5**	**44.8**	**11.5**	**-**	**77.8**
Charge for year	-	3.3	3.2	1.9	-	8.4
At 31 March 2018	**-**	**24.8**	**48.0**	**13.4**	**-**	**86.2**
Charge for year	15.1	4.2	5.0	1.4	-	25.7
Disposal	-	(25.6)	(33.0)	(13.1)	-	(71.7)
At 31 March 2019	**15.1**	**3.4**	**20.0**	**1.7**	**-**	**40.2**
Net book value						
At 31 March 2018	**-**	**0.9**	**3.6**	**1.6**	**84.3**	**90.4**
At 31 March 2019	**281.5**	**61.3**	**7.7**	**10.1**	**4.9**	**365.5**

Of the ROU assets cost of £296.6m, £296.0m related to the new property based in Stratford and £0.6m to the transitional carrying value of the existing property that is based in Edinburgh. Leasehold improvements relate to the cost of fitting out the new property.

The PSR does not hold property, plant and equipment or RoU Assets.

10. Current assets

Trade receivables are recognised initially at amortised cost. The group has applied the simplified approach to impairment of financial assets by providing for expected credit losses on trade receivables as described by IFRS 9. This requires the use of lifetime expected credit loss provisions for all trade receivables. These provisions are based on an assessment of risk of default and expected timing of collection, and an allowance for loss is made for potentially impaired receivables during the year in which they are identified based on a periodic review of all outstanding amounts. Allowance losses are recorded within administrative costs in the statement of comprehensive income when there is objective evidence that an asset is impaired.

Cash and cash equivalents comprise cash and short-term fixed-rate bank deposits with a maturity date of 12 months or less and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates to their fair value. Of the £257.8m (2018: £250.9m), £16.5m (2018: £6.8m) related to fees collected on behalf of other financial regulatory organisations (disclosed in trade creditors, note 11).

The FCA currently has a £50m (2018: £50m) unsecured overdraft facility with Lloyds Banking Group (LBG) available until further notice and reviewed periodically by LBG. The PSR does not have, or require, its own credit facilities.

		Group		Parent Company	
	Notes	Total 2019 £m	Total 2018 £m	Total 2019 £m	Total 2018 £m
Fees receivable		1.7	2.6	1.7	2.5
Net penalties receivable	13	34.4	1.4	34.4	1.4
Other debtors		1.8	1.6	1.8	1.6
Prepayments and accrued income		10.9	14.1	10.9	14.1
Intragroup receivable – PSR		-	-	-	0.9
Trade and other receivables		**48.8**	**19.7**	**48.8**	**20.5**
Cash deposits		244.6	240.5	240.1	238.0
Cash at bank		13.2	10.4	9.3	3.4
Cash and cash equivalents		**257.8**	**250.9**	**249.4**	**241.4**
Total current assets		**306.6**	**270.6**	**298.2**	**261.9**

The average credit period is 39 days (2018: 36 days).

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

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

	Group		Parent Company	
	Total 2019 £m	Total 2018 £m	Total 2019 £m	Total 2018 £m
At 1 April	0.7	0.6	0.7	0.6
Increase in provision for fees receivable	0.2	0.1	0.2	0.1
Total at 31 March	**0.9**	**0.7**	**0.9**	**0.7**

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 2019 £m	Total 2018 £m	Total 2019 £m	Total 2018 £m
Not more than three months	0.3	0.2	0.3	0.2
Between three and nine months	0.4	0.1	0.4	0.1
Total unimpaired fees receivable	**0.7**	**0.3**	**0.7**	**0.3**

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

11. Current liabilities

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

		Group		Parent Company	
	Notes	Total 2019 £m	Total 2018 £m	Total 2019 £m	Total 2018 £m
Trade creditors and accruals[1]		98.7	134.2	97.5	133.1
Other taxation and social security		12.4	12.6	12.4	12.6
Net penalties payable	13	140.4	55.9	140.4	55.9
Fees received in advance		185.2	184.5	180.3	179.3
Intragroup payable - PSR		-	-	1.7	-
Trade and other payables		**436.7**	**387.2**	**432.3**	**380.9**
Short-term provisions		2.5	3.6	2.5	3.6
Lease liabilities		0.3	-	0.3	-
Total current liabilities		**439.5**	**390.8**	**435.1**	**384.5**

1 As at 31 March 2018,£51.2m had been collected from Capita in respect of a redress payment to former investors in the Connaught Income Fund, Series 1. A further £10.2m was collected subsequently .During 2018-19 £55.6m has been distributed to investors with the balance of £6.1m (including interest) being distributed (or returned to Capita) subsequent to the year end.

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 (2018: 23 days).

Intragroup payable includes fees collected by the FCA but not paid over to the PSR at 31 March, less services charged by the FCA on a provision of services agreement between the two entities (which sets out the services supplied and the respective costs of those services). The costs are based on charges the FCA has incurred and have been eliminated in the consolidated figures.

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

	Within 6 months		6 to 12 months	
	2019 £m	2018 £m	2019 £m	2018 £m
Trade creditors and accruals	96.2	132.4	2.6	1.8
Fees received in advance	185.2	184.5	-	-
Other liabilities	155.4	71.9	0.1	0.2
Total current liabilities	**436.8**	**388.8**	**2.7**	**2.0**

Of the amounts due within 6 months, Trade creditors and accruals include £1.2m (2018: £1.2m), and Fees received in advance include £4.9m (2018:£5.2m) for the PSR.

12. Non-current liabilities

As at 31 March, the Group and FCA (parent company) had non-current liabilities consisting of:

	Notes	2019 £m	2018 £m
Long-term provisions for dilapidations	18	17.1	13.3
Lease liabilities		284.0	-
Total non-current liabilities		**301.1**	**13.3**

The non-current lease liabilities relate to the lease of the new office at 12 Endeavour Square. The lease commenced on 31 March 2018 with a twenty year term. The initial rent free period ends in September 2021. The contract provides for rent reviews every five years with the minimum and maximum charge specified for the first review in 2023. Subsequent reviews will reflect market rates.

The statutory basis for the FCA fees is described in note 4. The annual charges in respect of the depreciation of the underlying ROU asset and the finance charge related to the lease are part of the Ongoing Regulatory Activties of the FCA and form part of the underlying costs on which fees are based. The liquidity risk of not being able to meet the lease payments as they fall due is assessed as minimal.

The interest rate used to discount the lease for IFRS 16 purposes is 2.46% as quoted by the Public Works Loan Board. Of the carrying value of the discounted future cash flows, £284.0m relates to the new office at 12 Endeavour Square.

Lease liabilities movements:

	Total 2019 £m	Total 2018 £m
Value of discounted future cash flows on ROU assets at implementation	277.8	-
Payments in year	(0.2)	-
Interest expense on lease liabilities	6.7	-
Lease liabilities at 31 March	**284.3**	**-**

Lease liabilities fall due as follows:

	Total 2019 £m	Total 2018 £m
Within one year	0.3	-
Within two to five years	51.7	-
Within six to ten years	93.4	-
Greater than ten years	138.9	-
Lease liabilities at 31 March	**284.3**	**-**

13. Penalties

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

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

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

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

Net penalties receivable

	Notes	Group	
		Total 2019 £m	Total 2018 £m
Penalties receivable at 1 April		10.1	12.3
Penalties issued during the period		227.7	69.9
Write-offs during the period		-	(1.7)
Penalties collected during the period		(114.6)	(70.4)
Penalties receivable at 31 March		**123.2**	**10.1**
Allowance for bad debts		(88.8)	(8.7)
Net penalties receivable at 31 March	10	**34.4**	**1.4**

Allowance for bad debts[1]

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

	Total 2019 £m	Total 2018 £m
At 1 April	8.7	10.9
Increase/ (decrease) in allowance for bad debts	80.1	(2.2)
Total at 31 March	**88.8**	**8.7**

1 Allowance for bad debts includes £76.0m in respect of one penalty issued in the year. A contingent debt was included in the individual's 2013 sequestration (Scottish form of bankruptcy). To date, the trustee in sequestration has identified no assets for distribution to creditors. The FCA is ensuring that steps are taken to identify any potentially recoverable assets.

Penalties collected during the period

	Total 2019 £m	Total 2018 £m
Retained penalties to be returned to fee payers	47.6	46.7
Penalties paid to Exchequer during the period	16.0	19.5
Penalties payable to Exchequer	58.4	7.4
Payable to Exchequer from previous years	(7.4)	(3.2)
Penalties collected during the period	**114.6**	**70.4**

Net penalties payable

	Notes	Total 2019 £m	Total 2018 £m
Retained penalties to be returned to fee payers		47.6	46.7
Penalties over released to fee payers		-	0.4
Penalties payable to Exchequer		58.4	7.4
Net penalties receivable		34.4	1.4
Net penalties payable	11	**140.4**	**55.9**

The PSR did not issue any penalties during the year ended 31 March 2019.

14. Losses and Special Payments

The Accounts Direction from the Treasury requires a statement showing losses and special payments by value and by type where they exceed £300,000 for the year to 31 March 2019 only (no comparative figures required).

There are no losses and special payments to report for 2018/19.

15. Operating lease arrangements

At the reporting date, the FCA had outstanding commitments for future minimum lease payments under non-cancellable operating leases for low value items which fall due as follows. (Comparative information is in respect of all leases in place at 31 March 2018 prior to implementation of IFRS 16):

	2019 £m	2018 £m
Within one year	0.1	25.8
In the second to fifth years inclusive	0.3	62.9
Greater than five years	-	257.7
Total	**0.4**	**346.4**

Lease expenses recognised in the Statement of Comprehensive Income in respect of short term and low value leases are:

	2019 £m	2018 £m
Short term leases (properties at Canary Wharf)	7.8	-
Low value leases	0.1	-
Lease expenses under IAS 17	-	13.4
Sublease income	(0.1)	(0.2)

The FCA has implemented IFRS 16 - Leases with effect from 1 April 2018. The comparative information above reflects reporting under IAS 17 - Leases. A reconciliation from the reported commitments above to the lease liabilities recognised as ROU assets and related liabilities is given in note 2d Changes in accounting policy.

16. Capital commitments

The FCA had entered into contracts at 31 March 2019 for future capital expenditure totalling £4.1m relating to intangible assets (2018 £4.5m).

At 31 March 2018 the FCA had entered into contracts totalling £13.5m relating to furniture and fittings for 12 Endeavour Square. There are no such commitments at 31 March 2019.

The total commitments of £4.1m (2018: £18.0m) are not provided for in the financial statements.

There were no capital commitments for the PSR.

17. Retirement benefit obligation

The FCA operates a UK registered occupational pension scheme, the FCA Pension Plan (the Plan), The FCA is the Plan's Principal Employer. The Financial Ombudsman Service (FOS) also participates in the Plan. The Plan was established on 1 April 1998. It has two sections, the Money Purchase (defined contribution) Section which is open to all employees of the FCA and FOS, and a Final Salary(defined benefit) Section, which is closed to new members and to future accruals. The disclosures have been prepared for the purposes of reporting under IAS19, 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, the FCA is consulted on key areas such as investment strategy and funding requirements. The Plan is exposed to several key areas of risk.

These 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 £26.0m (2018: £24.3m) represents contributions payable to the Plan by the FCA at rates specified in the rules of the Plan.

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

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

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

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

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

Guaranteed Minimum Pension (GMP) is the minimum pension which a United Kingdom occupational pension scheme has to provide for those who were contracted out of the State Earnings Related Pensions Scheme (SERPS). SERPS was a UK Government pension arrangement, to which employees and employers contributed between 6 April 1978 and 5 April 2002, when it was replaced by the State Second Pension.

Where pension schemes have members with a GMP, the GMP accrual rate for females is generally higher

than for males which has caused unequal benefits between males and females. On 26 October 2018 the High Court ruled in the Lloyds Banking Group case that UK pension schemes that have contracted out of SERPS will need to equalise benefits for the effect of unequal GMP between men and women. The equalisation is retrospective and the period to be reviewed is GMP accrued between 17 May 1990 and 5 April 1997 (after which GMP stopped accruing). The FCA's GMP equalisation adjustment is 0.15% of the defined benefit obligation for 31 March 2019 and has been recognised as a past service cost.

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 2019, allowing for any changes in assumptions and movements in liabilities over the period.

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

- Pension 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

- Level of annual pension increases – generally the rate for annual pension increases awarded by the Plan for pensions in payment is the annual increase in RPI, or 5.0% a year if lower, although some of the pension rights transferred in from the FCA's predecessor organisations receive different levels of pension increases.

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

At 31 March	2019	2018
Discount rate	2.30%	2.40%
Retail price inflation (RPI)	3.40%	3.25%
Future pension increases	3.10%	3.00%
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 assumed life expectancy for males and females in 2018 has been restated in order to align them with 2019 life expectancies. This has no impact on the net liabilities. The mortality assumptions for 2019 are based on CLUB VITA tables and reflect an update to the CMI 2017 mortality improvements on the mortality assumptions from 2017.

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

	2019 Males	2019 Females	2018 Males	2018 Females
Retiring today aged 60 (years)	27.0	29.8	27.1	29.8
Retiring in 15 years aged 60 (years)	28.1	30.9	28.2	31.0

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 2019	
		£m	%
Present value of funded obligation	Assumptions as above – no change	886.7	-
Discount rate	10 bps increase to 2.40%	(17.1)	(1.9%)
Discount rate	10 bps decrease to 2.20%	17.6	2.0%
Inflation	10 bps increase to 3.50%	14.6	1.6%
Longevity	Life expectancy for a 60 year old increases by 1 year	26.9	3.0%

The amounts recognised in the statements of financial position are:

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Fair value of Plan assets	803.0	742.7	712.5	590.1	585.3
Less: Present value of funded obligations	(886.7)	(858.7)	(886.6)	(724.2)	(727.9)
Deficit in the Plan	**(83.7)**	**(116.0)**	**(174.1)**	**(134.1)**	**(142.6)**
Unfunded pension liabilities	(3.4)	(3.4)	(3.4)	(3.0)	(3.0)
Net liability	**(87.1)**	**(119.4)**	**(177.5)**	**(137.1)**	**(145.6)**

Amounts recognised in the statement of comprehensive income in respect of the defined benefit plan are as follows:

	Notes	2019 £m	2018 £m
Net interest on the net defined benefit liability		(2.5)	(3.9)
Past service cost[1]		(1.3)	-
Other net finance costs	5	**(3.8)**	**(3.9)**

1. Past services cost relates to GMP equalisation.

Actuarial gain of £7.1m (2018: £32.9m) 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:

	2019 £m	2018 £m
Losses at 1 April	(255.7)	(288.6)
Net actuarial gain recognised in the year	7.1	32.9
At 31 March	**(248.6)**	**(255.7)**

Changes in the present value of the defined benefit obligation are as follows:

	2019 £m	2018 £m
Opening obligation	(858.7)	(886.6)
Benefits paid	29.0	29.5
Interest cost on Plan liabilities	(20.3)	(21.3)
Past service cost	(1.3)	-
Actuarial (losses)/ gains	(35.4)	19.7
Closing obligation	**(886.7)**	**(858.7)**

Actuarial gains/ (losses):

	2019 £m	2018 £m
Experience losses arising on the Plan liabilities	(2.3)	(2.9)
Losses arising from change in discount rate	(16.7)	(8.9)
(Losses)/ gains arising from change in assumptions linked to price inflation	(21.5)	13.6
Gains arising from change in demographic assumptions	5.1	17.9
Total actuarial (losses)/ gains	**(35.4)**	**19.7**

Changes in the fair value of the Plan assets are as follows:

	2019 £m	2018 £m
Opening fair value of plan assets	742.7	712.5
Expected return on plan assets	17.8	17.4
Actuarial gains	42.5	13.3
Contributions by the employer	29.0	29.0
Benefits paid	(29.0)	(29.5)
Closing fair value of Plan assets	**803.0**	**742.7**

The fair value of the Plan assets and asset allocation at 31 March were as follows:

	Asset allocation 2019 %	Fair value 2019 £m	Asset allocation 2018 %	Fair value 2018 £m
Equity securities	**13.9**	**111.5**	**19.8**	**146.8**
UK Equity	3.9	31.4	5.8	42.8
European Equity	3.3	26.2	4.7	35.1
Japanese Equity	1.9	14.9	2.8	20.6
Pacific Rim Equity	1.2	9.9	1.8	13.2
US Equity	3.6	29.1	4.7	35.1
Debt securities	**50.4**	**404.6**	**50.1**	**372.1**
Absolute Return Bond Fund[2]	17.0	136.5	19.5	144.9
LGIM Liability-Driven Investment Fund (LDI)[3]	33.4	268.1	30.6	227.2
Real estate/property	**7.4**	**59.7**	**8.2**	**60.7**
Diversified Growth Fund[2]	**11.2**	**89.6**	**11.9**	**88.2**
Buy-in asset[1]	**15.4**	**123.5**	**8.8**	**65.5**
Other	**1.7**	**14.1**	**1.2**	**9.4**
Sterling Liquidity Fund	1.3	10.6	0.9	6.7
Cash	0.4	3.5	0.3	2.7
Closing fair value of Plan assets[4]	**100**	**803.0**	**100**	**742.7**

1 In September 2016 and February 2019, the Trustee of the Plan completed the purchase of an insurance contracts to cover the pension payments for a tranche of the Plan's pensioner members. Under these policies the insurer makes pension payments to the Plan that match the payments due to the members covered and are an asset of the Plan.

2 The absolute return bond funds and Diversified Growth Funds will hold a mixture of quoted and unquoted assets. Underlying assets held within these funds are typically expected to be quoted, although the managers have discretion to hold some unquoted assets.

3 The Plan uses gilts and gilt based derivatives within the LDI portfolio to hedge some of the interest rate and inflation risk associated with the liabilities – about 66% of the total Plan's liabilities on a gilts +0.3% pa basis after taking into account the buy-in policies. The derivatives used to achieve this can be unquoted, and the Plan's exposure to these instruments will change over time depending of the level of leverage in the LDI portfolio (about 2.3x as at 31 March 2019). The value of the derivatives (and other unquoted assets) is not expected to be material in the overall context of the Plan assets. The LDI portfolio includes c.£15.15m of sterling liquidity funds.

4 The remaining underlying assets held within these funds are all quoted except for the buy-in asset and real estate/property.

The Trustees' investment strategy includes investing in liability-driven investments and bonds whose values increase with decreases in interest rates (and vice-versa). This is done within a broad liability driven investing framework that uses cash, gilts and other hedging instruments like swaps in a capital efficient way. These funds help to manage the interest rate and inflation risks in the Plan. In combination, this efficiently captures the trustee risk tolerances and return objectives relative to the Plan's liabilities.

There are no deferred tax implications of the above 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 cease to participate, calculated in line with section 75 debt provisions. Our understanding is that surplus can, ultimately, be returned to the principal and associated employers on wind-up, but there is currently no agreement in place that sets out how this would be achieved.

As the Plan closed to future benefit accrual with effect from 31 March 2010 no accrual funding contributions were paid after that date. A Recovery Plan was put in place following the Scheme Specific Valuation as at 31 March 2016 and required an annual deficit contribution 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 by 31 March 2027.

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 66% (previously 50%) 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.

18. Provisions

	End of lease obligations		
	<1 year £m	>1 year £m	Other short term provisions £m
At 1 April 2018	3.1	13.3	0.5
Additional provision in year	-	3.8	0.9
Utilised in year	-	-	(0.2)
Unused provision released in year	(1.5)	-	(0.3)
Closing provision at 31 March 2019	**1.6**	**17.1**	**0.9**

End of lease obligations greater than one year are in respect of both Right of Use properties.

The lease for 12 Endeavour Square requires that the building is returned to the Landlord at the end of the lease term with any building alterations and additions removed. This obligation is therefore expected to crystallise in 2038. As with any provision of this nature with an extended timeline there are a number of uncertainties and necessary assumptions to determine a likely provision value. The provision is included as an End of lease obligation > 1 year and is currently assessed as £17.0m (2018: £13.2m), which is based on a survey completed by professional advisors in 2019 and assumes that the final obligation will be the result of a negotiated settlement taking account of the actual final build and fit out, the obsolescence of building fabric (and related components), and the future intention for the building at that time. The provision and underlying assumptions will be reassessed on a regular basis through the lease term and adjustments made if required.

19. Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Key management personnel include the chairman, executive board members and directors that report directly to the CEO or COO. This includes senior management acting in the role of director for more than 3 months. Of this group, 16 (2018:16) personnel received remuneration of £100k or more for the year (for further information see the Remuneration report on page 106).

	Group		Parent Company	
	2019 £m	2018 £m	2019 £m	2018 £m
Short-term benefits	5.6	5.0	5.0	4.5
Post-employment benefits	0.4	0.4	0.4	0.4
Total	**6.0**	**5.4**	**5.4**	**4.9**

Simon Ricketts is a non-executive Director of the PSR. During the year, he carried out a consulting assignment on behalf of the FCA for which he received a fee of £10,000.
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, the Financial Ombudsman Service, and the Money Advice Service can carry out their functions. The FCA has the right to appoint and remove the directors of these organisations, with the approval of HM Treasury. However, the appointed directors have to exercise independent judgement in accordance with the Companies Act 2006. IFRS 10 Consolidated Financial Statements defines control as 'the ability to use power to vary returns'. On the basis of this, the FCA does not control these entities and hence is not required to prepare consolidated financial statements including these organisations.

During the year, the FCA provided agency services to collect tariff data, issue levy invoices and collect levy monies. In addition to these services, the FCA also provides services relating to information systems, enforcement and intelligence services, contact centre and data migration to The Prudential Regulation Authority.

The charge for the services, and net amount of fees collected that remained to be paid over at 31 March were as follows:

	Service charge		Fees collected not remitted	
	2019 £m	2018 £m	2019 £m	2018 £m
The Financial Services Compensation Scheme	0.4	0.3	10.2	2.6
The Financial Ombudsman Service Limited (FOS)	0.1	0.1	4.4	0.5
Money Advice Service	0.1	0.1	0.1	0.4
The Prudential Regulation Authority	8.4	8.5	1.4	3.5
Her Majesty's Treasury	0.1	0.2	0.3	0.1
Pensions Guidance Service	0.1	0.1	0.1	0.1

The FCA is a guarantor to a lease agreement for FOS's premises in Exchange Tower, Harbour Exchange, London, E14. The lease is for a 15 year term commencing 1 September 2014.

FOS is also a participating employer in the FCA Pension Plan described in note 17 and makes contributions at the same overall rate as the FCA.

The Office of the Complaints Commissioner (OCC)

Following legislative changes which took effect on 1 April 2013, the OCC deals with complaints against the FCA, 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 2020.

The FCA funds the activities of the OCC through the periodic fees it raises. During 2018/19, the FCA transferred £0.4m (2018: £0.4m) to the OCC to cover running costs, which have been expensed in the FCA group financial statements. At 31 March 2019, the balance owing to the FCA from the OCC was £0.1m (2018: £0.1m).

By virtue of certain provisions contained in FSMA, the FCA (together with the Bank of England and HM Treasury) has the right to appoint the Complaints Commissioner, who is both a member and a director of the company and as such has the ability to control the OCC. However the OCC activities are immaterial compared to those of the FCA and have been accounted for at fair value through the statement of comprehensive income.

20. Events after the reporting period

There were no material events after the reporting period. The Board authorised these Financial Statements for issue on 4 July 2019.

Appendix 1
Use of Skilled Person Reports

Section 166 of FSMA (s166) gives the FCA the power to get an independent view of aspects of a firm's activities that cause us concern or if we need further analysis. Either the firm or, under the Financial Services Act 2012, the FCA can appoint the skilled person firm(s) to do this. In each case, we set the scope of the review and the firms pay the costs.

Key activities

In 2018/19, we used the s166 power in 34 cases; in 2 of those cases we appointed the skilled person firm. A total of 19 different skilled persons firms were appointed to undertake these reviews.

The aggregate cost incurred by regulated firms for s166 work undertaken in this financial year, including any reviews that remain in progress from previous years, was £51.2m.

The reviews examined a number of regulatory issues, including:

- 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
- complaints handling
- technology and cyber resilience

FCA Sectors	Number of Skilled Person Reports Commissioned in 2018/19
Retail Banking	8
Retail Lending	1
Retail Investments	2
General Insurance & Protection	6
Pensions & Retirement Income	2
Investment Management	2
Wholesale Financial Markets	13
Total	**34**

Lots	FCA Firm Supervision Category		Total
	Dedicated Supervision	Portfolio Supervision	
Client Assets	2	2	4
Governance and individual accountability	1	0	1
Controls and risk management frameworks	3	4	7
Conduct of Business	2	3	5
Financial Crime	3	11	14
Prudential – operational risk, recovery & resolution & wind-down within investment firms, intermediaries and Recognised Investment Exchanges	1	0	1
Lot L – CBEST Threat Intelligence	1	0	1
Lot N – CBEST Penetration Testing	1	0	1
Total	**14**	**20**	**34**

The tables above cover reviews where we exercised our powers under s166 for 2018/19. For PRA and Bank of England information please refer to their publications.

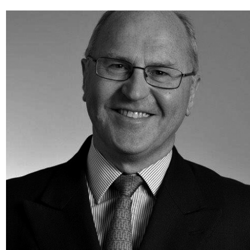
Notes

1. The number of 2018/19 cases includes reviews where a Requirement Notice has been issued but work has not yet started and so no costs have been incurred.
2. Costs quoted are net of VAT except where reviews are directly appointed, where costs are reported as gross. One review constitutes a significant proportion of the total costs quoted. The Financial Statements give information about costs related to directly appointed s166 reviews.
3. Lots is a term used to describe the different subject areas in which a skilled person review can be carried out. The Panel was updated in April 2018 to include 4 additional lots covering penetration testing and threat intelligence.
4. FCA Firm Supervision Category refers to the way the FCA supervises firms. Most are supervised as members of a portfolio of firms that share a common business model; those firms with the greatest potential impact on consumers and markets are assigned a dedicate supervision team.
5. The updated costs in relation to the 15 reviews of Interest Rate Hedging Products first stated in the 2013/14 Annual Report, some of which are still on-going, now stands at £418.1m. These costs are as at 31 March 2019.

For 2017/18 one skilled person review commissioned before the financial year end was subsequently cancelled, with no costs being incurred. The total number of s166 reviews commissioned for the last financial year was therefore reduced to 28.

Appendix 2
RDC Annual Review to the year to 31 March 2019

Introduction from Tim Parkes, Chair of the Regulatory Decisions Committee



This is the fourth annual review published by the Regulatory Decisions Committee (RDC) of the Financial Conduct Authority (FCA). As in prior years, we look back at what the RDC has done in the last 12 months and look forward briefly to some of the things we might expect to see over the next year.

As you will see from the overview section of this report, it has been another busy year for the RDC; 516 cases were opened and 539 cases concluded in the period, compared to 509 and 510 in the previous year. As in previous years most cases we have dealt with over the last year have come from the FCA's Enforcement and Market Oversight Division (EMO). They ranged from complex cases involving allegations of very serious misconduct to cases where firms or individuals had failed to submit returns or pay fees due to the FCA. We also dealt with a small number of contested cases which came to us from the FCA's Authorisations and Supervision Divisions.

During the year 4 RDC members retired. 5 more members are due to retire before the end of 2019. We have therefore recently completed an exercise to recruit new members to fill the vacancies on the committee by advertising and with the help of search agents. 4 of the new members started on 1 February 2019 and their details appear on the FCA website. 5 additional members will start on 1 July 2019.

The RDC always aims to make fair and appropriate decisions on the FCA's behalf and to do its work efficiently. Panels of 3 members are responsible for assessing both the material produced by the FCA in support of its proposed action and the material (including representations) provided by the subject of the proposed regulatory action. We continue to deal with cases as expeditiously as possible and, in recent years, have significantly improved timeliness on straightforward case processing. In addition, in the past year, we have taken significant steps forward in managing cases electronically where possible and we plan to continue to develop our processes in this direction in the coming year.

As in prior years, we have decided in some cases not to follow the regulatory action proposed by the relevant division of the FCA or to impose different sanctions in light of representations received from the subjects of proposed action.

The RDC has considered some interesting and important cases this year across various areas of concern to the FCA, including market abuse, misconduct in the area of pensions advice and breaches of market standards.

We have also seen an increase in cases of a relatively new type, namely partly contested cases. This type 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. The 3 cases we have dealt with to date (involving Standard Chartered Bank, Carphone Warehouse and Linear Investments respectively) have been ones, in which the relevant facts and liability based on those facts have been agreed with the FCA, leaving only the appropriate penalty to be determined by the RDC.

This year there has been a slight increase in cases where the RDC decided whether to give approval for EMO to initiate civil or criminal procedures, such as applications for restraint orders or European Arrest Warrants.

Looking forward, I expect a largely similar mix of cases to those we have seen over the last year. We shall however look out for our first case involving the 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 Duty of Responsibility which the SMCR introduced. In addition, as the FCA takes over the regulation and supervision of claims management companies, the RDC may soon receive contested Authorisations cases in relation to claims management firms with interim permissions.

I meet each member of the committee every year to provide feedback on individual and collective performance and to receive feedback on how we can continue to improve our procedures, training and recruitment processes.

I have also continued to take opportunities both inside and outside the FCA to communicate what the RDC does and to answer questions about and to listen directly to any concerns about the RDC.

I summarise below our review of the FCA's enforcement settlement process during the past year, and present our conclusions and recommendations.

As usual, I would like to thank the RDC's members for their hard work over the last year – especially those who have retired – and to recognise the excellent support provided by our secretariat which includes our own legal advisers, case-handlers and administrator. Without their collective dedication and commitment, the RDC would not be able to meet its objectives.

Tim Parkes

Overview

The RDC is a committee of the FCA Board and makes specific decisions on its behalf. The Board appoints the RDC's Chair and members although, apart from the RDC Chair, RDC members are not FCA staff. While the RDC is a part of the FCA, it is operationally independent and separate from the FCA's executive management structure.

The RDC Chair reports quarterly to the FCA Board's External Risk and Strategy Committee (ERSC) on resourcing and performance, such as how long it takes to complete cases. The RDC Chair does not report on individual decisions made by the RDC.

Case work

The RDC made 770 decisions on cases (at either the first or final stage) during the year. Most of these were about enforcement action against firms for failing to pay regulatory fees or submit regulatory returns. This figure is an increase on the previous year, which was 609.

The Committee also makes decisions on:

- enforcement and supervisory actions alleging serious breaches, which the relevant firm or individual is contesting
- applications for authorisation or approval which the Authorisations team proposes to refuse and which are contested
- whether to give the FCA authority to bring civil or criminal proceedings

Making decisions

The RDC is supported by a secretariat of FCA staff, made up of case management, legal and administrative functions. These staff work in a separate division from the FCA staff involved in conducting investigations and making recommendations to the RDC; they report through the Company Secretary to the FCA Chair. The RDC's dedicated legal function advises the RDC Chair and members on the legal and evidential soundness of cases. This assures an objective and independent approach to issues from cases brought to the RDC.

The secretariat also monitors case inputs and timeliness. It helps ensure that cases are progressed appropriately, taking into account their complexity, the requirements of the subjects as well as resourcing.

The FCA's website includes a detailed description of what the RDC's role is in contested cases and explains the different notices which the RDC may issue. The RDC takes decisions based on its understanding of the issues, and the RDC assesses the evidence and legal basis for any recommendation for regulatory action.

The process allows those who are the subject of the action or their legal representative to make both written and oral representations to the RDC. The Financial Services Lawyers Association may provide them with pro-bono legal assistance. When appropriate, the RDC will depart from the recommendations made to it, for example, to:

- change the basis of a case from deliberate to negligent misconduct, or vice versa
- change the amount of a proposed financial penalty
- decide that no disciplinary action is appropriate
- decide that the FCA should grant an application for authorisation of a firm or approval of an individual

The RDC's decision-making remit includes cases where the firm or individual only wants to contest part of the case against them, rather than all of it.

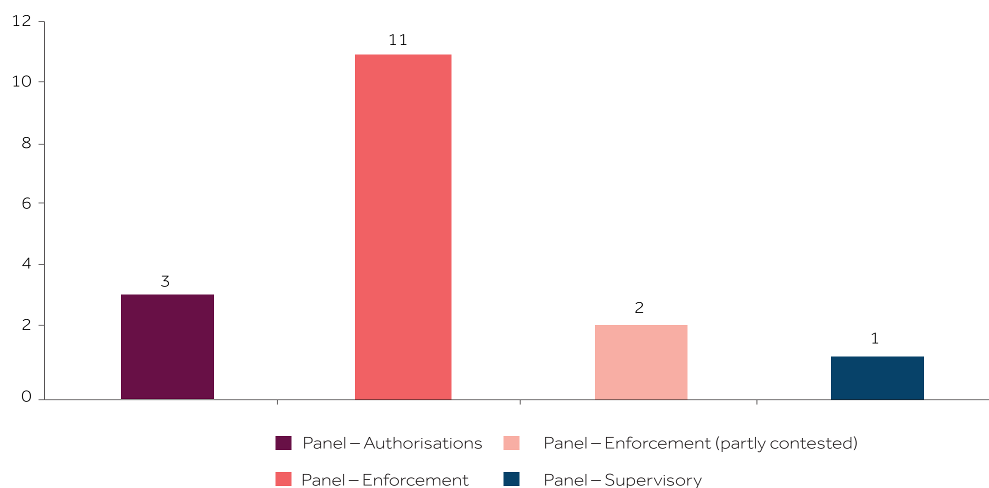
RDC decisions are decisions of the FCA. This means they can only be challenged by the subject of the action, who may refer the matter to the Upper Tribunal for a re-hearing.

Operational performance

Cases received

Cases to the RDC during the year have increased by 1.5% since the previous year, continuing the recent upwards trend. The largest increase continues to be straightforward enforcement actions against firms that do not submit returns or pay fees. This is partly due to the significant increase in the number of firms the FCA regulates. These actions may ultimately result in the FCA cancelling a firm's permissions. However, in approximately 20% of cases the RDC considered last year, the firms took the required steps during the process, so ending the regulatory action and enabling the firms to continue trading.

Figure 1: Panel cases opened during the year by case type[4]



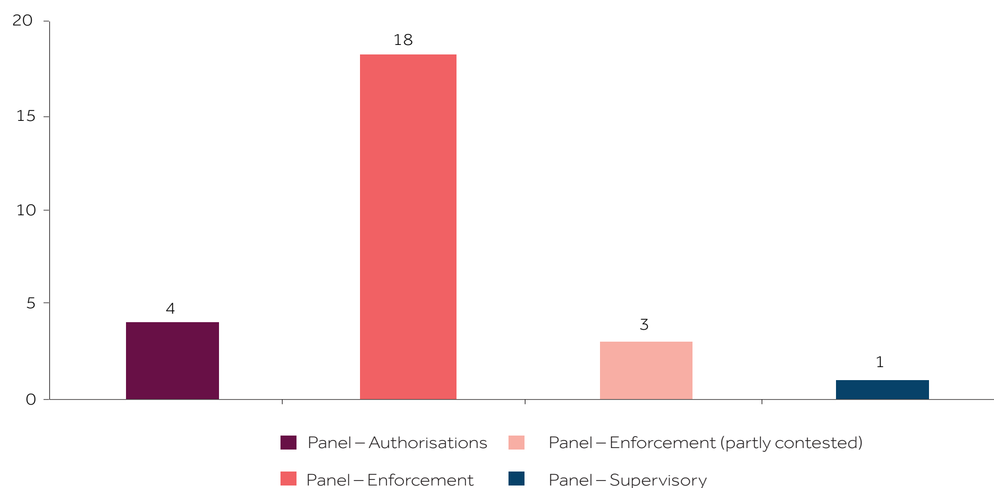
In addition to the cases shown in the above graph, the RDC received 499 straightforward cases last year. These were: 9 Civil, 6 Criminal, 477 Straightforward – Enforcement and 7 Straightforward – Supervisory.

Outputs and outcomes

The RDC also completed more cases during the year, compared to the previous year.

4 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: The Chair or a Deputy Chair of the RDC will decide whether a decision is straightforward based on a number of factors including the novelty of the decision and the complexity of the relevant considerations.
Civil/Criminal: cases where permission is sought from the RDC Chair or a Deputy Chair alone for the FCA to begin proceedings against firms or individuals in the civil or criminal courts.
Panel – Authorisations: cases where it is proposed to refuse an application by a firm for authorisation or for an individual to be approved.

Figure 2: Panel cases completed during the year by case type



As well as the cases in Figure 2 above , the RDC completed 512 straightforward cases last year. These were: 9 Civil, 6 Criminal, 488 Straightforward – Enforcement, and 9 Straightforward – Supervisory.

Outcomes of completed Panel cases

The outcomes of the 26 completed Panel cases were:

- the RDC imposed financial penalties and prohibitions preventing 6 individuals from performing functions related to regulated activities, resulting in the FCA withdrawing approval for controlled functions for 4 of those individuals
- the RDC issued 4 further prohibition orders preventing individuals from performing functions related to regulated activities
- the RDC imposed financial penalties on 2 individuals
- the RDC imposed financial penalties on 4 firms, 3 of which were imposed within procedures for partly contested cases
- the RDC issued public censures against 2 firms, which would have received financial penalties if they had not been in liquidation when the decision notices were issued
- the FCA withdrew 4 cases
- the FCA discontinued 1 case
- the RDC issued a Second Supervisory Notice to a firm imposing a requirement not to carry on any regulated activities
- 2 applications by firms for authorisation were refused, 1 of which was a firm which had held interim permission under the consumer credit transitional regime.

Timing

The average time the RDC took to complete a Panel – Enforcement case was approximately 11 months from receiving the case papers until either giving a Decision Notice or deciding not to give a notice. This compares with 7.8 months last year. The reasons for the increase in time taken include requests from subjects for extensions to prepare representations, the need to allow time for third parties to make representations, and to ensure that linked notices were appropriately timetabled.

Partly-contested enforcement cases were completed in, on average, 2.75 months.

Panel – Authorisations cases were completed in 3 months on average, a slight increase on last year's average of 2.8 months.

Upper Tribunal decisions

Where there are disagreements between the FCA and firms or individuals about the FCA's regulatory decisions, the firm or individual can refer the RDC's decision to the Upper Tribunal (Tax and Chancery Chamber) for a re-hearing. The Tribunal is an independent judicial body established by the Tribunals, Courts and Enforcement Act 2007.

Tribunal proceedings involve a full re-hearing of the case, not an appeal. They also involve different evidence – most notably live witness evidence, including cross-examination before the Tribunal. The RDC does not have any role in the proceedings. The FCA's case is presented by EMO, which can choose to present the case to the Tribunal on a different basis from that presented to the RDC, such as by arguing for a higher financial penalty.

For these reasons, the RDC does not and cannot directly assess the quality of its decisions in these cases based on whether the Tribunal reaches the same conclusion as the RDC. Tribunal decisions are often informative and illuminating, and the RDC actively reviews them for any lessons either about the specific case or about RDC processes and procedures more generally.

During the year, there were four substantive Tribunal decisions (Arif Hussein, Stewart Owen Ford and Mark John Owen, Alistair Rae Burns, Lewis Alexander Limited), covering liability and sanction, limitation and refusal of an application for permission on cases decided by the RDC. In 3 of those cases the Tribunal agreed with the RDC's action, although in one case (Arif Hussein) this was for different reasons than the RDC's. In one case (Alistair Rae Burns) the Tribunal upheld part of the RDC's decision but reduced the amount of financial penalty imposed and also awarded costs to the individual because it took the view that part of the RDC's decision was unreasonable.

The Tribunal also made a decision in a case where the RDC had varied the permission of a consumer credit firm so that the firm could no longer carry out regulated activities. The firm applied to suspend the effect of those decisions, which otherwise take immediate effect. In this case, the Tribunal refused to grant the suspension because it would potentially have prejudiced consumers' interests. In another case, the Tribunal has confirmed that there were no third party rights created by supervisory notices.

11 RDC cases referred to the Tribunal were awaiting decisions at the year-end (31 March 2019).

Ongoing case loads

At the end of the period of this review (31 March 2019), the RDC had 51 ongoing cases:

- 9 open Panel – Enforcement cases
- 27 open Straightforward – Enforcement cases
- 7 stayed cases
- 8 imminent referrals that had been notified to the RDC (including 1 Panel – Enforcement and 1 Criminal case)

The RDC's membership

The RDC's members are current and recently retired financial services industry practitioners and non-practitioners. Members are appointed for a fixed term which is normally 3 years, but can be extended to 6. There has been and will be in the coming year significant changes in the RDC's composition, as some members' terms come to an end and new members are recruited. We considered the composition of the RDC when recruiting new members, as it is important that it reflects the different sectors of the regulated industry and consumers. There are currently 8 practitioners (Iraj Amiri, Kevin Brown, John Callender, Peter Craddock, Julie Hepworth, Charles Laughton-Scott, Nick Lord, and Caroline Ramsay) and 11 non-practitioners (Tim Parkes, Elizabeth France, John Hull, Karen Johnston, Robin Mason, Philip Marsden, Sidney Myers, Elizabeth Neville, Jeremy Newman, Malcolm Nicholson and Pauline Wallace). 6

members of the Committee, including the Chair, are lawyers (Tim Parkes, John Hull, Karen Johnston, Philip Marsden, Sidney Myers and Malcolm Nicholson) and 4 are accountants (Iraj Amiri, Jeremy Newman, Caroline Ramsay, Pauline Wallace). The FCA's website gives further details.

RDC members are selected on the basis of their:

- experience of making independent, evidence-based decisions
- work in senior and expert positions in financial services, or other relevant sectors
- knowledge and understanding of consumers and other users of financial services

This range of skills and experience aims to improve the objectivity and balance of the FCA's decision-making and to help achieve fairness and consistency across cases.

The full RDC meets 3 times each year. The object of these meetings is to: enhance the effectiveness of the committee by sharing insights and experience for decided cases, undertake training in relevant technical aspects of regulation by the FCA and keep members informed of likely workloads and areas of focus.

Review of the enforcement settlement process

Each year the RDC, as the FCA's decision maker in contested cases, reviews the FCA's process for settling enforcement cases. This year the RDC sent surveys to 7 firms and 3 individuals, and received responses from 2 firms and 1 individual. 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.

Those who answered the questionnaire said that they had received adequate information; however, the individual noted that the FCA did not disclose part of the evidence until quite late into the process.

The individual had requested extra time and was given an extension. Both the firms and the individual said that they had enough time to respond. The firms said that settlement negotiations progressed quickly but the individual said that there was unexplained delay in the negotiations and the process did not progress quickly enough.

The firms and the individual 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.

One firm said that, although they were made aware of the partly-contested process, whereby it is possible to agree certain elements of a case while contesting other elements, they thought they would have welcomed a more positive discussion with the FCA about the process, before deciding to settle.

On reviewing the responses, the RDC did not identify specific concerns that would require a change to the settlement process.

The next 12 months

The FCA's regulatory responsibilities continue to expand. For example, from April 2019 they now include claims management companies, many of which are in the process of applying for authorisation. We also expect the impact of the Senior Managers and Certification Regime to be felt more widely, as this is extended later in the year to almost all firms the FCA regulates. Both these developments could potentially bring greater numbers of cases to the RDC over time. We also expect to see more use made of the partly-contested case procedure after an encouraging start last year. Otherwise, the RDC expects to see cases reflecting the priorities set out in the FCA's Business Plan for 2019/20.

Appendix 3
Sustainability report

The FCA's Environmental Impact

We are committed to good environmental practice, including supporting the United Nations Sustainable Development Goals (UN SDG) as part of our overall approach to Corporate Responsibility. We aim to provide value for money and to follow industry best practice in all that we do.

Effective environmental management and using our resources prudently also fits the Financial Services and Markets Act's remit in so far as it supports one of the principles of good regulation; to make the most efficient and economic use of resources. As a regulator, we also have a firm commitment to UN SDG 8 Decent Work and Economic Growth to encourage and expand access to banking and financial services for all.

In 2018 we moved from 2 London-based buildings into a single and more efficient office in Stratford, which also allows us to invest in new technology to support more flexible and efficient ways of working. Using hybrid computers in meetings rather than printing papers has significantly reduced the amount of paper we use. Using Skype for Business means we can avoid unnecessary business travel and therefore lower our CO_2 emissions.

We have met our commitment to continuous improvement over the past year by:

- using resources wisely to deliver both environmental and financial benefits
- making all our staff aware of their responsibility for ensuring that they understand the environmental management policy
- measuring, reporting and reducing our impact on the environment wherever practicable
- setting objectives and targets for each of our key impacts and reviewing them regularly to ensure that they remain achievable
- working with our suppliers to ensure that they reflect our commitments to sound environmental practice and good corporate responsibility

We manage our business in an environmentally responsible way, with an ongoing focus on sustainability. This involves careful control over using resources and consumables and minimising waste. We have made progress through a number of targeted initiatives:

- achieved Building Research Establishment Environmental Assessment Method (BREEAM) Excellent rating in our new premises in Stratford
- achieved ISO14001 recertification for the new Stratford office
- adopted a policy of reuse, community support and charity donations of surplus office electrical and IT equipment during the office move to Stratford
- maintained our commitment to sending zero waste to landfill
- reduced waste by almost 50% by increasingly replacing disposables with reusable items such as coffee cups and water bottles for staff
- achieved a near 50% reduction in printing overall through the use of technology and introducing digital packs for paperless committees

The new office environment also provides a number of employee wellbeing benefits:

- providing more natural daylight throughout the office

- located in the Olympic Park which covers 560 acres, has 6.5km of waterways, 15 acres of woods, hedgerow and wildlife habitat and 4,300 new trees
- stairs that are easily accessed and help to reduce our lift usage and impact on our carbon footprint
- increased fresh air intake from outside to maintain a higher level and quality of air inside

Our Performance

Plant and Equipment

In 2018, we moved all of our London-based staff to our new headquarters at 12 Endeavour Square (12ES) in Stratford. The building has achieved Building Research Establishment Environmental Assessment Method (BREEAM) Excellent rating. It has chilled beam heating and cooling which uses less power and is more efficient and environmentally friendly. BREEAM Excellent is awarded to the top 10% of new non-domestic buildings. A district heating and cooling system operating in the Olympic Park provides heated and cooled water. This is more sustainable and resilient as it is primarily powered by biofuel and means we save on heating costs and reduce our carbon footprint.

12ES is also one of the first buildings in the UK to have a fully integrated triple glazed active window system. The blinds within the windows are integrated with the building management system. They are opened and closed to help heat and cool the building based on the internal temperatures and the sun's trajectory, light intensity and heat. This has significant environmental benefits, reducing the running costs of heating and cooling.

Sustainable Construction and Fit Out

The building's design included a reduction from 3.5kn to 3kn of concrete, which has a direct positive impact on the amount of concrete needed and reduces the number of heavy lorries travelling to site.

The glazing in the building allows more sunlight to the office floor and actively dims the LED lighting to the floor when needed. We have installed a rainwater harvesting system which filters rainwater, significantly reducing mains water usage.

We took a lot of our old furniture with us to be used in the new office. The furniture that we didn't need was donated to charity to be refurbished and reused. Our carpet comes from a British manufacturer and can be recycled after its use.

Greenhouse Gas Emissions

The table below includes figures for both old and new offices as there was a significant period of overlap during transition. It is therefore not possible to make direct comparisons between this and previous years. However, we will use the figures we are collecting from 12ES now that it is fully occupied to form the baseline for future comparisons. We will continue to offset the emissions from the old office in Canary Wharf until it closes in 2019 through the Carbon Reduction Commitment (CRC) scheme.

		New Office Stratford 2018/19	Legacy 2018/19	Legacy 2017/18	Legacy 2016/17
Non-financial indicators (CO^2e in tonnes)	Total gross emission for scopes 1 and 2	503	1,531	4,488	4,987
	Total net emissions for scope 1	Information not available*	21.6	49.4	50
	Total net emissions for scope 2	Information not available*	1,509	4,439	4,937
	Gross emissions scope 3 – business travel	1,793	n/a	1,664	1,783
Related energy consumption (kWh)	Electricity: non-renewable	1,779,905	5,330,783	11,638,810	11,222,271
	Gas	21,844	117,413	268,885	265,436
	Cooling	2,257,287	n/a	n/a	n/a
	Heating	616,866	n/a	n/a	n/a
Financial indicators (£'000 excl. VAT)	Total expenditure on energy	396	660	1,310	1,229
	Expenditure on electricity	254*	656	1,302	1,221
	Expenditure on gas	5.6*	4	8	8
	Expenditure on cooling	113*	n/a	n/a	n/a
	Expenditure on heating	22*	n/a	n/a	n/a
	CRC offsetting payments	n/a	79,862	87,238	109,850

*Not a full year. We are working with our providers to put in place appropriate policies and procedures for recording and reporting data.

Business Travel

Our staff visit regulated firms across the UK and the world. To minimise the impact of our business travel, we have a policy that encourages sustainable travel and prioritises the use of public transport.

	Mode of travel	2018/19	2017/18	2016/17
Air Business travel CO^2e kg	Air – Domestic (between UK airports)	534,727	445,199	453,145
	Air – Europe (short haul up to 3,700 km)	105,284	106,885,	171,220
	Air – International (long haul over 3,700km)	1,008,321	1,090,593	1,014,189
Rail Business travel CO^2e kg	Rail	31,248	35,350	31,394

	Mode of travel	2018/19	2017/18	2016/17
Eurostar Business travel CO^2e kg	Standard	20,298	26,848	20,272
	Economy	3,327	11,593	16,190
	Premium Economy	37,536	25,308	30,010
	Business	91	143	310
Taxi Business travel CO^2e kg	Executive Taxi	63	53	82
	MPV Taxi	26	15	64
	Premium Executive Taxi	31	32	41
	Standard Executive Taxi	1,541	1,745	1,458
Car Hire Business travel CO^2e kg	Car Hire	34,481	10,847	28,500
Mileage Business travel CO^2e kg	Mileage	16,689	16,061	15,679
Total		1,793,663	1,770,672	1,782,554

Financial indicators (£'000 excl. VAT)	Total expenditure on official business travel (excluding accommodation and subsistence)	1,681	1,604	1,421

Notes

1. CO2e conversion rates calculated under the class of average passenger as per guidance on 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 (prevent, reuse, recycle, recover, disposal) to lower our costs and reduce environmental impacts, in line with our commitment to UN SDG 12 Responsible Consumption and Production.

During the office move we diverted all reusable items of furniture and equipment from landfill by donating them to charities. These included Emmaus (tackling homelessness), Fairfield Farm College (a specialist college for students with learning disabilities and difficulties) and School-in-a-Box (which helps to deliver and support educational opportunities overseas).

Following a full upgrade of our IT equipment, 94% of the surplus equipment (including monitors, hard drives, replicators, printers, and phones) was either reused directly or sold to a sustainable technology company, only 6% being recycled.

We continue to operate a policy of zero waste to landfill and to convert organic waste produced in our kitchens into biogas and liquid fertiliser through aerobic digestion.

Following an extensive campaign of new ways of working in our new building we have seen waste reduce by almost 50%. This reduction is not fully apparent in the table below because of the period of running

two buildings. Recyclable waste, as a percentage of total waste, has decreased from the previous year, due to the direct positive action to use less disposable items and a significant reduction in paper use.

			2018/19	2017/18	2016/17
Non-financial indicators (tonnes)	Total waste		468	562	490
	Hazardous waste total		2.3	1.7	1.6
	Non-hazardous waste	Incineration	108.8	78.7	92.8
		Recycled	357	482	396
Financial indicators (£'000 excl. VAT)	Total disposal cost		160	142	141
	Hazardous waste – disposal cost		11	12	11
	Non-hazardous waste – disposal cost	Incineration	51	41	41
		Recycled	98	89	89

Paper Consumption:

Printing

Our Follow Me print system across all multi-functional device (MFD) printers continues to be more efficient and less paper intensive than our previous print system. Printers are configured to black & white and double sided by default to ensure the most efficient use of paper. In 2018/19, we have seen an overall reduction in printing of 46% against the previous financial year (an overall 50% when the reduction in reprographics is included). All printing paper is recyclable and ordered through a sole supplier and print levels are continuously monitored and reported. All printer equipment and consumables are disposed of and/or recycled according to best practice print industry guidelines.

Our printer paper is made from recycled material meeting FSC (Forest Stewardship Council) and EU Ecolable standards, in support of the UN SDG 15 Life on Land'and sustainable management of forests.

Indicators	2018/19	2017/18	2016/17
Non-financial indicators (sheets of paper)	7,359,842	13,779,745*	18,794,456
Financial indicators (£'000 excl. VAT)	36,972	69,223*	94,415

*Figures corrected due to accounting error from supplier

This data does not include the reduced energy consumption from having more environmentally friendly printers. The reduced energy consumption levels are included in the kWh calculation disclosed above.

Cancelled printing

Follow Me printing has saved us over 1 million sheets of paper in 2018/19 from purged print jobs, the equivalent of 94 trees. 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 (m^3)	CO2 (tonnes)
611,385	1,148,925	1,005,099	94.19	173	40

Reprographics function

The in-house Reprographics function provides specialist printing or photocopying of over 100 sheets.

Reprographics printing has decreased by 62% during this period due to using the new technology and new ways of working.

		2018/2019	2017/2018	2016/2017
Non-financial indicators (sheets)	Paper consumption (A4)	1,401,457	3,757,436	3,739,526
	Paper consumption (A3)	45,403	66,832	67,167

Water Usage

The water used at 12ES comes from the mains water supply and through rainwater harvesting. Rainwater is collected in the building, reducing our mains water consumption and water costs.

		New Office Stratford 2018/19	Legacy 2018/19	Legacy 2017/18	Legacy 2016/17
Non-financial indicators (m^3)	Water consumption	22/795	31,713	52,698	49,922
Financial indicators (£'000 excl. VAT)	Water supply costs	66	71	109	106

We support 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 is safely replacing traditional chemical cleaners, deodorisers and sanitisers. This method of cleaning means less chemicals are released into the water system.

Sustainable Procurement

Our Supplier Environmental, Diversity and Inclusion and Social Policy Statement supports UN SDG 12 Responsible Consumption and Production. It requires suppliers to meet our commitment to sound environmental practice. It encourages them to develop and supply goods and services that help improve both our and their environmental performance.

Our catering provider ensures that food is sourced locally, regionally and seasonally to help support UK producers. Seafood, including caught and farmed fish and shellfish, follows the Marine Conservation Society's Good Fish Guide. Our provider is also a member of Planet First with a demonstrated commitment to sustainability.

Our furniture provider has FSC and PEFC certification and ensures that their timber supply chain provides protection for forests and the wildlife and indigenous communities that depend on them. Their production facility is managed against the ISO 9001 quality process to ensure efficiency and sustainable resource use. They are also ISO 14001 accredited and a foundering member of the Furniture Industry Sustainability Programme.

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