Annual Report and Accounts 2020/21

(for the year ended 31 March 2021)

HC 372

Financial Conduct Authority

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(for the year ended 31 March 2021)

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Charles Randell
Chair

Chair's foreword

2020/21 was a challenging year for everyone – the people we serve, the industry we regulate, and all of us at the Financial Conduct Authority.

We prioritised protecting vulnerable people. We helped millions of people and hundreds of thousands of businesses, large and small, through the Covid-19 pandemic. Our targeted litigation achieved fairer and faster outcomes for business interruption policyholders. We continued our work to reduce the harm from unsustainable credit and unfair pricing. We also made sure that essential financial services weren't disrupted when the UK left the EU transition period.

At the same time, we continued to transform the FCA to better support consumers and markets in a fast-changing digital age. Our new leadership team – led by Chief Executive Nikhil Rathi – is driving forward our programme to become more efficient and effective. Our Business Plan sets out the next steps we'll take to complete our transformation programme.

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Our transformation plans reflect our need to prepare for the future, as well as to learn from the past. Last year, we received two of the three independent reviews into the past performance of the FCA and its predecessor the FSA. We took immediate action in response to their recommendations and have published an update on our actions today.

I am grateful to the many people who contributed to our work last year. I am proud of the way we responded to the pandemic. But we wouldn't have been able to do it without the essential insights into the needs of consumers and small businesses that our independent panels and network of consumer organisations gave us. I am also grateful to Christopher Woolard who, as interim Chief Executive, led the first stage of our pandemic response.

Finally, I would like to thank everyone who helped keep essential financial services running. Your work meant people across the UK could access the support they needed, with very little disruption.

Despite the many challenges of the last year, I am confident that, through our transformation plans, we will realise our ambition to be a more agile, preventative and data-driven regulator and reinforce our commitment to demonstrating the public value we create. We will be clear about the measurable improvements we aim to deliver in outcomes for consumers as they use financial services to meet their everyday needs. We will also redouble our efforts to tackle bad actors, focusing on scams and other financial crimes in the areas we regulate. These are essential foundations for a world-leading financial sector which serves the interests of our society.

Charles Randell
Chair
Financial Conduct Authority

I would like to thank everyone who helped keep essential financial services running

Highlights from 2020/21

Protecting consumers

Our guidance to firms ensured **4.5 million** payment deferrals for mortgage and credit customers during the pandemic

Issued **1,292** consumer warnings

Our ScamSmart high risk investment campaign drove over **150,000** visits to the ScamSmart site

Our Supervision Hub answered **150,000** queries from consumers

Number of clients advised to transfer out of a DB pension fell from **69% to 57%**

Our changes to general insurance pricing will save consumers an estimated **£4.2 billion** over 10 years

Taking action against firms

Ensured **£21.7m** in consumer redress for unauthorised investment business and froze nearly **£7m** of funds following our enforcement work

Opened **1,715** supervision cases into high-risk investments or scams

Imposed financial penalties totalling **£189.8m**

Opened **1,293** Enforcement enquiry cases

Keeping markets clean and resilient

Handled **223** applications for registration from cryptoasset businesses to assess their anti-money laundering (AML) measures

Assessed **1,046** whistleblower reports with **2,754** separate allegations

1 in 6 firms either withdrew their applications for authorisation or had it refused

Handled **175** applications to our Direct Support service for innovative products

Over **1,500** EEA-based firms are now in the Temporary Permissions Regime

1 Our role

Our 2020/21 Annual Report gives updates on what we have delivered and achieved over the past year. It demonstrates how we have targeted our resources to respond to the pandemic, while also delivering the best results for consumers, firms and markets against our strategic and operational objectives set by Parliament.

The report is structured to outline the work we have undertaken in response to the pandemic, our key priorities, our cross-cutting priorities and our work with specific sectors. Many of the activities deliver against multiple objectives.

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

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

Our regulatory principles and functions

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

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

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

These principles underpin all our work and are all equally important. As required by FSMA, we include a compatibility statement in all our consultation papers. These statements explain why we believe our proposals are compatible with our duty to have regard to these principles. It also recognises that more than 1 principle may be involved in a case and that not all the principles will always be relevant in every case.

We are also responsible for registering mutual societies and have published an update to our registration function for these societies for 2020/21.

Our core work

We authorise and supervise firms and individuals who carry out regulated financial services. Where necessary, we also take action against them. We use a range of tools and independent powers to deliver our objectives.

Authorisations

The Authorisations Division is the gateway to financial services. In order to be regulated and to operate in financial markets, firms and individuals must be able to meet the conditions for authorisation on an ongoing basis, stringent minimum standards (such as the Threshold Conditions, or the Fit and Proper Test for individuals). This helps to protect consumers from harm and helps us to promote the integrity of financial markets. In 2020/21, we received more than 29,000 applications from firms and more than 55,000 applications from individuals to enter, change or leave the industry. As part of both authorisation and ongoing oversight, we look closely at whether a firm's business model, purpose and culture will lead to unacceptable risks of harm, whether the firm has adequate financial resources for the regulated activities it wants to provide and whether the people are suitable. Of all of the firms that sought a new authorisation, 1 in 6 (16%) either withdrew their application or had it refused – often because they were unable to meet our minimum standards.

We are also the first point of contact for many firms and consumers. The Supervision Hub helps individuals with a range of queries. Examples of contacts include where consumers enquire about a product, want to check a firm's status, raise concerns about a firm, or are reporting scams. Where concerns and scams are raised, information is shared with relevant parts of the FCA in order for us to take appropriate action. The Supervision Hub guides authorised firms about systems, processes, regulatory obligations and increases firms' understanding of rules and regulations. The Supervision Hub refers supervisory cases to Events Supervision to take additional action. In these incidents, they may be responding where firms have not adhered to regulatory responsibilities or where consumers have difficulties in contacting the firm. Our team manages a diverse caseload through these channels, and responded to nearly 200,000 firm contacts during the year, and 150,000 contacts from consumers.

We also publish the Financial Services Register, which is viewed by up to 7.5 million users every year. As a tool used by consumers to avoid scams, we wanted to make sure the Register is easier to use. We listened to feedback from consumers and firms and refreshed the Register in July 2020 to make it easier to understand and navigate. By the end of the financial year, we had also delivered on our public commitment to provide a new directory of certified and assessed persons as part of the Register, to help consumers and professionals check the details of individuals working in financial services. While we strive to make the Register as accurate as possible, information such as contact details and addresses is owned by firms.

Supervision

We maintain ongoing supervision of around 51,000 firms. We supervise firms and individuals to reduce actual and potential harm to consumers and markets. Our approach to supervision is forward-looking and involves making judgements.

We apply a framework of principles and rules to drive good conduct and help firms to meet standards. We expect firms and individuals to meet these standards and we hold them to account when they do not. We believe that firms' culture and governance significantly influences the way they behave towards their customers and the markets they operate in. We look carefully at the drivers of culture including firms' leadership, purpose, governance and approach to managing and rewarding their employees.

The effects of the coronavirus (Covid-19) pandemic on customers across the UK have been significant. Over the last year we have acted quickly to help firms and customers manage this impact. We give details in our 'Response to coronavirus' in Chapter 2. Highlights from this are our supervisory work on business interruption (BI) insurance policies, providing payment deferrals and our Tailored Support Guidance covering 3 areas of retail lending.

Our work on business interruption provided policyholders and insurers with clarity about whether customers have cover, can make a valid claim and the amount they are due. Since March 2020 around 4.5 million deferrals across mortgages and consumer credit products have been granted using our Payment Deferral Guidance. Our Tailored Support Guidance covering Mortgages, Consumer Credit and Overdrafts was designed for firms to support their customers affected by circumstances due to the pandemic through a period of financial uncertainty.

We cover other key pieces of work later in the report.

Competition

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

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

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

We have powers to enforce UK competition law for the provision of financial services in the UK and claims management services in Great Britain. We also had powers to enforce EU competition law until the end of the Transition Period on 31 December 2020. During 2020/21 we closed an investigation into suspected anti-competitive arrangements (opened in March 2019) and opened a new investigation into suspected anti-competitive arrangements. The FCA can issue advisory and 'on notice' letters in situations where there are potential concerns that certain practices may be restricting competition but for which a formal investigation has not been launched. Such letters are softer enforcement tools that are designed to increase awareness of competition law and encourage compliance. We have issued 4 'on notice' letters. The types of behaviour which led to the 'on notice' letters included potentially anti-competitive coordination between competitors. We also issued 14 advisory letters during the period of this report. The types of behaviour that led to advisory letters included potentially anti-competitive contractual clauses and potentially anti-competitive information exchange.

Enforcement

Our approach to enforcement is to achieve fair and just outcomes where we identify serious misconduct by firms or individuals in our remit in failing to act according to our rules and principles or other applicable requirements. If serious misconduct is not tackled, it causes loss of trust and integrity in our markets as well as financial losses to consumers and firms. Our aim is to detect serious misconduct early so that we can intervene and prevent harm from continuing. Through our enforcement activities and powers, we identify and drive out behaviour that fails to meet our standards or is dishonest or unlawful. When we suspect serious misconduct has already occurred, we investigate fairly to find out the facts and decide what action we should take. We and the courts before which we bring relevant cases have a range of both deterrent sanctions and remedial powers to put things right.

Our investigations and enforcement focus on wide-ranging issues. These include taking action against firms and individuals who try to carry on regulated activities without authorisation and those that do not meet our minimum standards. To do this, we work with a range of partners including other regulators and law enforcement agencies. We also take enforcement action where we uncover financial crime and money laundering. Our enforcement also targets market abuse as we drive forward our agenda for clean markets. While by its nature enforcement action is a backward-looking exercise, we also undertake proactive enforcement action through our urgent intervention work to prevent consumer harm.

During 2020/21, we saw a significant increase in cases of firms and individuals which appeared to be carrying out regulated business without our authorisation. We issued 1,292 consumer alerts during 2020/21, which is an 80% increase from 2019/20. We also opened 1,293 enquiry cases. In total, there are 184 individuals and firms under investigation for carrying out unauthorised business. We also imposed financial penalties totalling £189.8m and commenced a number of prosecutions alleging insider dealing, investment fraud, money laundering as well as the first criminal prosecution under the Money Laundering Regulations.

Working with our partners

To support the UK's framework for financial regulation, we work closely with a range of different partners. These include, consumer groups, trade associations and professional bodies, EU legislators and many other stakeholders, each with their own duties and objectives.

We have a Memorandum of Understanding with the Prudential Regulation Authority (PRA) which sets out how we coordinate our actions and activities, and measures how well we work together to achieve collective outcomes. As part of this MoU, senior members of the FCA and PRA have agreed to meet every quarter to discuss areas of concern and to ensure ways of managing any emerging risks are considered. The PRA can veto our action where it considers it may threaten financial stability; it did not use this power during 2020/21. The PRA also 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. 31 of these meetings took place over the last year.

In April 2020, the Financial Services Regulatory Initiatives Forum was launched to strengthen coordination between members. It is made up of representatives of the Bank of England, Financial Conduct Authority, Prudential Regulation Authority, Payment Systems Regulator, the Competition and Markets Authority, the Information Commissioner's Office, The Pensions Regulator and the Financial Reporting Council. The Financial Services Regulatory Initiatives Forum publishes the Grid twice a year, which sets out the regulatory pipeline so the financial services industry and other stakeholders can understand and plan for the timing of initiatives that may have a significant operational impact on them.

We also have a Memorandum of Understanding with the Department for Work and Pensions (DWP) and the Money and Pensions Service (MaPS). It sets out our roles and responsibilities and how we will coordinate, cooperate and exchange relevant information.

During the year, we have coordinated on a range of issues including coronavirus, debt and approval of the MaPS Quality Standards which set out the principles MaPS and its contracted delivery partners must comply with when providing pensions guidance, debt advice or money guidance to consumers.

Measuring our performance

Performance measurement helps ensure we are achieving the outcomes we want to achieve for users of financial services, while making the best possible use of resources. Performance measurement drives accountability and demonstrates to our stakeholders the value our activities add.

As we explain in our Business Plan, we have made progress in building the foundations of our performance measurement framework. We already publish a wide range of data and a number of key metrics – including market cleanliness statistics and enforcement data. Our published Service Standards also gives information about our performance, including dealing with regulatory applications, variations of permission, contact with our Supervision Hub and complaints. We have set out in our Business Plan some key strategic metrics linked to the outcomes we want to achieve as part of our ongoing transformation and we will be developing the measurement framework and metrics further in the coming year.

We continue to measure the likely impact of our actions before we intervene, including using cost benefit analyses, and the realised impact after our interventions. In December, we published an impact evaluation of our price cap on rent-to-own products. We have also published findings from our review of the Retail Distribution Review (RDR) and the Financial Advice Market Review (FAMR).

Our surveys:

Financial Lives survey

The survey is a key source of insight for us and informs our consumer protection and competition work. Our first survey concluded in April 2017, and our second in February 2020, so we can compare how UK adults' product holdings, attitudes to finances and their experiences and perceptions of financial firms have changed over these 3 years. In October 2020 we ran an additional survey specifically to explore how the pandemic had affected people's lives between March and October last year. Our 'Financial Lives 2020 survey: the impact of coronavirus' report draws on all 3 surveys.

Data tables for all 3 surveys are available on our website. The raw data is available by applying to the Consumer Data Research Centre (CDRC) archive at University College London.

The FCA and Joint Practitioner Panel survey

The survey gives a sample of around 12,000 regulated firms the opportunity to provide feedback on our performance, informs our strategy to become a better regulator and is part of the way we measure our operational performance.

Our 2021 joint survey took place between May and June this year and we will publish the results in Autumn 2021.

Who we regulate

We regulate the conduct of around 51,000 UK financial services firms in the UK, serving both retail and wholesale consumers. These firms vary in size, complexity and the level of harm they may cause consumers, competition and market integrity.

We are also the prudential supervisor for around 49,000 firms. Around 18,000 of these must meet our specific prudential standards. We prioritise the areas and firms that pose a higher risk to customers, counterparties or market stability. We also actively seek to reduce the impact of firm failures.

The boundaries of regulation

The firms, activities and markets we regulate are primarily set out by the Financial Services and Markets Act 2000 (Regulated Activities) Order (the RAO) and other relevant legislation. This legislation sets out the boundary of the activities we regulate, called the 'FCA perimeter'. The perimeter is important as it decides the limits of our regulation. It also affects how much protection consumers can expect when they buy financial services and products. Services and products that come within our perimeter have higher levels of protection than those outside it.

Many of the toughest issues we face involve activity that straddles this boundary or takes place wholly outside it. Mini-bonds issued and sold without triggering prospectus requirements can be an example of a financial product outside our perimeter. We think markets work better if consumers can understand whether financial products and services are regulated by us as well as what other protections, such as access to the Financial Ombudsman and Financial Services Compensation Scheme (FSCS) are available. We make recommendations to the Government where we think there is a case for adjusting the perimeter. To this end, we publish an annual Perimeter Report, and our CEO meets annually with the Economic Secretary to the Treasury to discuss the issues it raises.

Independent reviews

2 of the 3 independent reviews into how we handled specific cases have been published this year. The final review on interest rate hedging products is likely to be published in 2021/22, and we are committed to supporting the timely conclusion of this investigation. We are implementing a programme in response to all the recommendations from both the completed reviews. Our work to improve is continuous and we have already brought in or are making changes to address the LCF (London Capital and Finance) Review's recommendations. We will learn the lessons from the LCF case and will report on our progress at 6-monthly intervals to demonstrate that we are implementing the programme as promised. We give an update in Chapter 5 of this report.

2 Our response to coronavirus

We responded rapidly to the economic impacts of the pandemic, bringing in payment deferrals, restricting repossessions of homes, goods and vehicles and ensuring essential services for consumers remained available.

We reprioritised work to direct our own resources to work that would have the greatest impact on consumers and firms. We list our delayed and postponed activities on our website.

Supporting consumers

Our swift response to the economic impact of the pandemic ensured consumers could benefit from payment deferrals and we also issued clear guidance to regulated firms on how to treat customers in financial difficulty.

Payment deferrals and tailored support

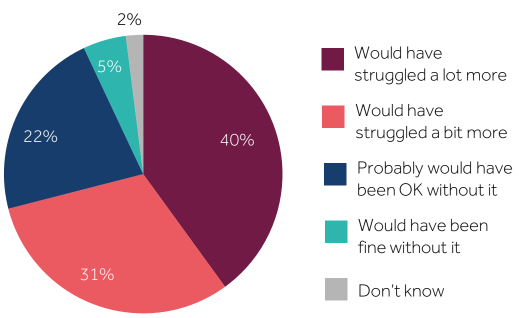
At the start of the crisis, we introduced guidance for firms on the treatment of customers who were struggling financially as a result of coronavirus. This included guidance on the provision of payment deferrals for mortgages and credit products, as well as support with the cost of overdraft borrowing and restrictions on repossessions.

As the crisis continued, we extended these measures until 31 October and put in place the Tailored Support Guidance for consumers who were coming to the end of their payment deferrals, or who were newly impacted when the Payment Deferral Guidance came to an end.

In November 2020, we extended the period during which borrowers could apply for payment deferrals to end-March 2021 and the deadline for ending all payment deferrals under our guidance to July 2021. We also updated our guidance on repossessions as lockdown restrictions changed to ensure that firms treated customers at risk of repossession fairly and appropriately.

We estimate that (as of June 2021) a payment deferral had been taken on 1.9m mortgages (21% of regulated mortgages). Our Covid-19 panel survey from October 2020 revealed that 4 in 10 (40%) mortgage holders who took a deferral reported that they would have struggled a lot more without this.

Figure 1: Extent to which payment deferrals helped mortgage borrowers (Oct 2020)



Source: *Covid-19 survey, Oct 2020* ***Base:*** *All UK adults who have taken a mortgage payment holiday because of Covid-19 (Oct 2020:1,146)* ***Question:*** *PH2. How would you have coped financially, if you had not had a mortgage payment holiday?*

Mortgage deferral helped cover reduced income from furlough

Prisha and Divyansh

Prisha and Divyansh are a couple in their early 30s and have a young child. Prisha works part-time for the NHS and has a weekend job in a supermarket. Divyansh works in the airline industry in an office-based job.

Before coronavirus, other than their mortgage, the couple had no debts and a small amount of savings.

Divyansh was furloughed at the start of the pandemic. Due to this uncertainty, the couple felt they had no choice but to apply for a mortgage deferral. Divyansh contacted their mortgage lender and within 24 hours their deferral was arranged. This was made possible because their lender was following the guidance that we had issued. Divyansh was very pleased with how simple the process was.

Divyansh found temporary work for a supermarket during his furlough and after a few months returned to his job. While they had the option of extending their deferral for another 3 months, the couple chose not to because they didn't want to extend their mortgage term. While their repayments have gone up a little as a result of the deferral, they are still affordable.

> **"We felt that we didn't have any other choice, but to put a hold on our mortgage. I'm glad we did it, because we had one less thing to worry about."**

Our Tailored Support Guidance and additional overdraft guidance initially published in September, remains in force due to the exceptional circumstances arising out of the pandemic. We will keep the guidance under review, using our ongoing supervisory work and other intelligence, and make any changes if we consider them necessary.

Guidance for insurance and premium finance firms

We reminded insurers of their obligation to treat their customers fairly, including where customers could not meet the requirements of their insurance policies due to the pandemic.

In May 2020, we issued guidance to premium finance firms that we expected them to offer customers a payment deferral until October 2020, unless this was not obviously in the customer's interests.

In October 2020 we updated our insurance and premium finance guidance. We set out our expectations for firms to provide tailored support to customers who were still in difficulty after a payment deferral, as well as those newly struggling due to coronavirus. Our review of the way firms were implementing our guidance found that firms had mechanisms in place to support consumers in difficulty, but there was a low rate of customers contacting them for financial support. This guidance remains in force.

Business interruption

The pandemic has led to widespread disruption, business closures and substantial financial losses. Many customers have made claims for these losses under their business interruption (BI) insurance policies. There has been widespread concern about the lack of clarity and certainty for some of these customers, and the basis on which some firms were deciding claims.

The issues around BI policies are complex and created ongoing uncertainty for both customers and firms. We brought a test case to get an expedited court decision on a selection of policy wordings from 8 insurers. This was to achieve clarity and certainty on key disputed issues involving non-damage BI cover in light of Covid-19 by resolving some key contractual uncertainties and 'causation' issues.

On 15 January 2021 the Supreme Court handed down its judgment, substantially allowing our appeals. This means that insurers should now pay the claims of many thousands of those with cover for coronavirus-related business interruption losses. It provides policyholders and insurers with clarity about whether customers have cover, and can make a valid claim and the amount they are due. We issued a Dear CEO letter outlining our expectations of insurers to promptly reassess all BI claims affected by the test case in the light of the Supreme Court's judgment. As part of this letter, we said we intended to gather information regularly from all affected insurers on the progress of their non-damage BI claims. Insurers have submitted 3 months' worth of data on their progress with BI claims, and we have published a list of policies which are capable of responding to Covid-19 as a result of the test case.

Small firms

We have worked closely with the Government and the British Business Bank on changes to the UK's coronavirus business interruption loan scheme (CBILS) to support small businesses and the launch of the Bounce Back Loan Scheme (BBLS) to help businesses access finance.

In January 2021 we published guidance for firms on the use of 'pay as you grow' options under the BBLS, to help firms comply with our rules on debt collection for the relevant small firms. This will help ensure that small firms covered by our rules receive those protections.

Firms and markets

We have taken a range of measures to protect markets and ensure that they continue to work well. We have also been working closely with stakeholders, including regulatory agencies and international regulators to keep these markets, on which so many jobs and users depend, open and orderly.

We introduced practical measures to reduce the burden on listed companies, including extending our reporting deadlines, providing clarity on our expectations and making it easier for companies to access capital markets to provide funding for the real economy.

We stepped up our market monitoring and engagement with firms and trade bodies to hear their concerns and deal with emerging issues. We looked closely at our own work plans and postponed activities that were not immediately critical to protecting consumers and market integrity, to give firms time and space to support their customers. We also stated our support for the CMA's guidance on its approach to business cooperation under competition law and said we would take a consistent approach in the financial services sector.

Access to essential banking services

Access to cash remains critical for many people, particularly some of the most vulnerable. Our Financial Lives 2020 survey found that 5.4 million UK adults relied on cash to a very great or great extent in their daily lives, meaning they paid for everything or most things in cash.

In recent years, we have seen a rapid reduction in the availability of branches by banks and building societies. During the pandemic, the FCA and the Payment Systems Regulator (PSR) worked with industry to address the challenges of ensuring cash access for the people who want to use it. This included analysing data, sharing best practice and agreeing actions to ensure continued access to cash. As a result, even at the height of the crisis no more than 0.1% of the UK population lost access to a source of cash within 3 miles.

The FCA and PSR also partnered with the University of Bristol last year to produce a comprehensive assessment of cash access across the UK. The report estimated that 90% of UK neighbourhoods were within 1km of a free source of cash as of March 2020. Bank branches, ATMs and Post Offices all form part of this important infrastructure. Under the Post Office national access criteria, 99% of the population must have a Post Office within 3 miles of where they live, and 90% within 1 mile. In addition, the PSR's oversight of LINK ensures that LINK continues to maintain a broad geographic footprint of free-to-use ATMs.

In September 2020 we published guidance on how firms should approach branch and ATM closures. In January 2021 we asked banks to reconsider branch closures in cases where lockdown restrictions prevented them from meeting that guidance. This includes expectations about communicating with vulnerable customers and providing them with information about how to continue to access services after the closure of a branch.

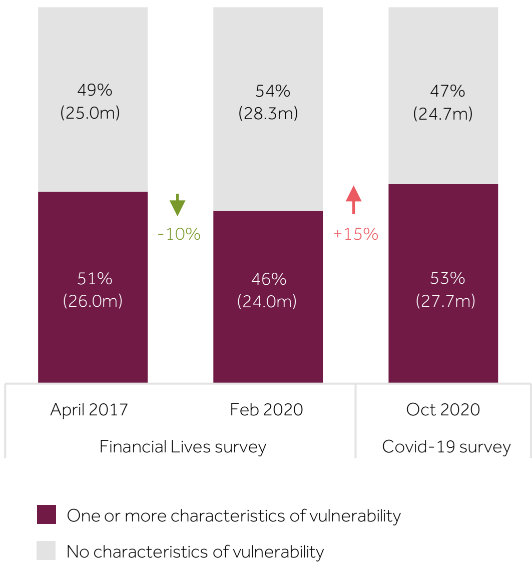
We worked closely with industry and the PSR to ensure essential services for consumers remained available. We coordinated a Banking Access Coordination Group (BACG) with the specific aim of ensuring that customers could continue to access the services they needed, including cash. This Group was made up of all major banks, building societies, the Post Office, LINK and other regulators. Our work also aimed to reduce the impact of temporary branch and cash machine closures and share best practice to tackle issues during the pandemic. During the second half of 2020, with the PSR we also jointly convened the industry to develop shared solutions to delivering appropriate and sustainable access to cash that meet consumers' needs, including responding to changing needs over time.

Protecting consumers in vulnerable circumstances

Our Covid-19 panel survey revealed that in October 2020 27.7 million adults across the UK showed one or more characteristics of vulnerability. These include poor health, recent negative life events, low financial resilience, or low capability. This situation has been made worse by the pandemic's economic impact.

Our guidance aims to bring about a practical shift in firms' actions and behaviour. It seeks to drive improvements in the way firms treat vulnerable consumers throughout the whole consumer journey, from product design to customer service, so that they have outcomes as good as those of other consumers.

Figure 2: Proportion of adults who show characteristics of vulnerability (April 2017/Feb 2020/Oct 2020)



Source: *FLS April 2017/FLS Feb 2020/Covid-19 survey, Oct 2020* ***Base:*** *All UK adults (2017:12,865/Feb 2020:16,190/ Oct 2020:22,267)*

Firm failure

We have also been monitoring the effects of the economic downturn on firms' solvency by rapidly increasing the data we collect on firms. This allows us to provide more detailed monitoring across the majority of the 49,000 firms we prudentially regulate to give us an early warning about weaknesses in their financial resilience. Getting this early visibility has enabled us to work with firms to help ensure that, if they do fail, they do so in an orderly way and minimise harm to consumers and disruption to markets where possible. We have taken action to reduce the harm in failure on over 700 firms.

We published the results of our financial resilience survey in January 2021.

We have also consulted on guidance for Insolvency Practitioners about our expectations for regulated firm failures and worked with the Treasury to help them develop a special administration regime for payments and e-money firms.

3 International and EU withdrawal

The UK and EU agreed a trade agreement and joint declaration on regulatory cooperation in financial services, setting out commitments for enhanced cooperation, information sharing and bilateral dialogue. We provided advice to the Treasury on the trade agreement as well as its subsequent memorandum of understanding with the European Commission, which was one of the commitments set out in the joint declaration.

We worked with the Government on a range of issues to help ensure continuity for consumers, for firms operating in the UK and to keep the integrity of UK markets protected as far as possible. In its financial policy summary published in March, the Bank of England's Financial Policy Committee (FPC) judged that 'the transition period between the UK and European Union (EU) ended without any material disruption to the provision of financial services.' This reflected 'extensive preparations made by authorities and the private sector over a number of years'.

We also worked closely with the Bank of England/Prudential Regulation Authority and Treasury to:

- Complete the onshoring of EU legislation that came into force during the transition period and amend our Handbook accordingly.
- Develop and implement temporary measures, including the Temporary Permissions Regime, to ensure that UK consumers and businesses could continue to access services from EU firms after 2020. Around 1,500 EEA-based firms entered the TPR. Additionally, over 600 fund managers notified us that they would continue temporarily marketing over 9,000 EEA-domiciled investment funds/ sub-funds under the Temporary Marketing Permissions Regime.
- Apply the Temporary Transitional Power widely, giving firms more time to adapt to the majority of the Brexit-related changes to regulatory requirements.
- Agree a series of memoranda of understanding (MoU) with EEA authorities to ensure that we could cooperate post-Brexit and manage any risk from cross-border business. These MoUs cover supervisory cooperation and information-sharing across regulated sectors, including securities and markets, asset management, insurance and banking.
- Provide advice to the Treasury to support its equivalence assessments of the EEA States.
- Publish our approach to the authorisation and supervision of international firms, including those EEA firms and non-EEA firms seeking to provide financial services in the UK.

To ensure the financial services industry was ready for the end of the transition period, we engaged extensively with the largest firms to monitor risks, in line with our supervisory approach. We also ran a significant programme for smaller firms, through roundtables, webinars, speeches, media and regular FCA publications and updates. We have continued to engage with both larger and smaller firms since the end of the transition period.

International engagement

During 2020/21 we have continued to engage with international counterparts, both multilaterally and bilaterally, to promote the development and implementation of effective international standards. We also assessed measures implemented by other international regulators to inform our domestic response. At the same time, we have increased our presence and leadership of global initiatives tackling climate risks and improving sustainability disclosures.

We have continued to support the Government's economic agenda, participating in high-level economic and financial dialogue and financial market dialogue programmes with several priority jurisdictions, strengthening our regulatory cooperation with these partners.

4 Transforming the way we carry out our role as a regulator

In our Business Plan 2020/21 we set out details of how we are transforming to become a more efficient, effective and future-focused regulator. Over the course of the past year we have been building a solid foundation for the next stage of this work, including formally establishing the transformation programme and appointing an Executive Director for Transformation.

We have developed the shape and scope of our plans to respond to the pandemic, the Independent Reviews, the UK's departure from the EU and our future challenges. These challenges, the arrival of our new CEO and our new Executive Director Team provide further impetus for us to change.

We have made significant structural changes already; we have merged the supervisory, policy and competition functions, which will be co-led by Executive Directors. This will give us greater focus on our statutory objectives: to protect consumers, ensure market integrity and promote competition. It will also ensure our staff can more effectivley use more of the regulatory tools at our disposal and make it easier to measure how effectively we use them. It also drives accountability, integration and collaboration, and makes it easier for us to be agile and flexible so that we can act more quickly.

Following a tight timetable and a rigorous and wide-ranging recruitment process, we've made a number of significant appointments. We now have a more diverse management team and, for the first time, a majority of our executive team are women.

We have developed a roadmap for our transformation to better equip us for the challenges of the future. One key area is how we can properly reset people's expectations for the FCA, so that they better understand the outcomes we are working towards. Our transformation will allow us to be faster, more targeted and more effective in future years. We will also continue to prioritise, make complex trade-offs and use our finite resources efficiently.

We give more information on our transformation in our Business Plan, but we pull out some areas of our transformation work in the past year below.

Making faster and more effective decisions

At the start of the pandemic we took decisive action to respond to its impact. Our work during this time shows what we can achieve when we move quickly to address risk of consumer harm. We continue to build on the lessons we learned during this time and have already made major changes. These include reforms to our processes, our technology and how we use data. We have also built on the collaboration and decision-making that allowed us to be bolder in our response.

We are reviewing our structure and the way our committees work, so that we can be more efficient. We have carried out a review of how our Regulatory Decisions Committee (RDC) functions. The RDC is a final decision maker on contested enforcement, supervisory and authorisation interventions. Our review asked whether we could make decisions on authorisation or on supervisory interventions in a more streamlined way. It also looked at whether this would better enable quick, decisive action, particularly to prevent entry or allow removal from our markets of those unable or unwilling to meet our standards.

A comprehensive review is underway on governance forums and decision making across the organisation. We will ensure it is aligned to the FCA operating model and accountabilities, and ensures decisions are made at the right level, by the right people, at the right time with pace, and with the appropriate information and insights to inform the judgement.

We have set up Data Science Units which puts data at the centre of decision making. These DSUs are helping us to better understand markets by bringing together different datasets to drive new insights, as well as helping us spot possible harms and intervene faster. They have been positioned within the business, with support from central functions, to ensure they can react quickly to new demand. This, coupled with our new data platforms and innovation hub services, helped us build a view on prudential risk during the pandemic much more quickly than was previously possible.

Prioritising outcomes for consumers, markets and firms

Responding to the pandemic required us to focus and reprioritise our work and intended outcomes. We prioritised the work that would ensure that as many consumers and businesses as possible would come through the pandemic suffering as little harm as possible.

We began developing a regulatory approach which focuses on outcomes and allows us to be clearer at a time when market dynamics, innovation, societal and legislative changes are all transforming the financial landscape.

We want all firms to take the end outcomes for consumers and markets into greater account when they design and deliver services. To support this, we have taken steps to ensure we are clearer with firms about the outcomes we expect them to achieve, as well as how we are targeting our own work to achieve them.

Our focus on outcomes also means we are changing the way we plan, prioritise, measure and report on our work. To support this, we also have begun reviewing how we organise ourselves and operate. Our ambition is to have a simpler, more flexible organisational model with a greater focus on our outcomes and easier transfers between our teams.

Ensuring a more focused and coordinated approach to information and intelligence

Our data strategy outlines how we intend to harness the power of data, digital capabilities, and advanced analytics. This will transform how we carry out financial regulation in the UK. We have made a significant investment to modernise our systems so that we have better capacity and tools to collect, store and analyse data which will transform our ability to act. While we have put in place the foundations to better coordinate, analyse and share information and intelligence across the FCA, this investment in data and technology will continue for the next several years, and it's a key part of our pivot to outcome-focused regulation.

To drive our Data Strategy forward, we have appointed a new Executive Director for Data, Information and Intelligence and established a new Information, Insight and Intelligence function, with the specific remit of ensuring better use of our information and intelligence across the organisation.

Introducing new methods and building digital capabilities to bring together information and insights is a key area of focus. We are implementing this in several areas, for example in consumer investment firm through Key Risk Indicators, which in turn will allow us to prioritise and intervene more quickly.

We have introduced new visualisation and outlier detection tools to help prioritise casework and identify firms that pose the greatest risk of harm to consumers and markets. For example, we are monitoring the effects of the economic downturn on firms' solvency and have rapidly increased our available data on the firms we regulate. We use this to provide more granular monitoring across the majority of the 49,000 firms we prudentially regulate. This will provide early warning about a firms' financial resilience. Alongside these assessments, we have also considered which types of firms could potentially cause the greatest economic harm in failure. These insights enable us to pivot and prioritise our efforts and ensure that should these firms fail they do so in an orderly way, minimizing the harm to consumers and keeping disruption to markets is kept at a minimum.

All of this has been coupled with a step-change in the way the organisation sees the opportunities from improved use of data and digital. The leadership and their teams are being encouraged to challenge the status quo, alongside a cultural shift in how we see data as an asset. There are now dozens of projects that have delivered process efficiencies or generated a better understanding of our sectors.

We recognise our work has an impact on the firms we regulate, and we work through the Financial Services Regulatory Initiatives Forum to ensure we can reduce the operational burden on firms where possible. This was particularly important during the past year when we cancelled or delayed several initiatives. We have now published an updated Regulatory Initiatives Grid (RIG).

During 2020 we focused on the process of designing our data collections, along with collaborating with the Bank of England on the transformation of Data Collections initiative. We are now aiming to adopt a more consistent and efficient end-to-end approach to design and test data collections. This work complements the transformation of the data collections plan which is being taken forward with the Bank in 2021.

Measuring progress

As set out in our Business Plan, we must be more accountable, with measurable goals where we report publicly on our progress towards these goals. We will be clearer on what outcomes matter and what metrics we will use to measure them. Where appropriate and helpful for accountability, we will also set targets for metrics. We will implement causal chains – identifying cause and effect – more widely in our work to explain how we expect our interventions to deliver ultimate results and to enable us to identify specific metrics for our interventions. We will also further develop our impact evaluation programme, so we can get better at choosing the right intervention. Examples of impact evaluations carried out this year are outlined in Chapter 1 of this report.

We said that we would monitor the extent to which firms take into account outcomes for end users when they design and deliver services. Due to our reprioritisation of work in response to the pandemic we have not been able to make the progress we planned on this and will continue this work as part of our transformation programme.

5 Our response to the independent reviews

On 17 December 2020, we accepted the 9 recommendations addressed solely to the FCA in the LCF Review by Dame Elizabeth Gloster and the 5 lessons identified in the Connaught Review by Raj Parker. We committed to using our Annual Report to provide an update on the progress of our transformation programme, including implementing the recommendations and lessons learned.

We have established a programme of work that brings together all of the actions we are taking to implement the recommendations from the Independent Reviews.

There is a significant amount of work underway and our objective is to complete the majority of actions by the end of this year. Some actions are reasonably straightforward to implement; others will take time in order to have a sustainable and enduring impact. So we have had to decide priorities for the actions required to address the recommendations and lessons identified.

We report progress regularly to the Executive Committee, the Board Audit and Risk Committees and the FCA Board, all of which are closely overseeing this work and can see the targeted actions being undertaken to meet the review recommendations.

We have also established a team to provide continuous independent and comprehensive assurance on the delivery of this programme of work. This team, consistent with the three lines of defence model, provides the FCA Board and the Board Audit and Risk Committees with an assessment of progress from the second line perspective. This includes reporting a view on whether the actions as a whole will deliver on the review recommendations, the effectiveness of the oversight and planning for the action plan and whether the actions have been implemented effectively. This allows the Committees to gain assurance on progress made against the actions, the effectiveness of controls and the forward-looking risk outlook. When establishing whether an action can be closed, the Committees require assurance that the action is complete, effective and embedded in the longer-term way of working.

Details of our further progress against key actions are on our web page.

6 Our key priorities

Our focus this year has been our response to the pandemic, which has had a significant impact on our planned priorities set out in our 2020/21 Business Plan.

Our key priorities look at 4 areas where we see enduring harm. We also have a fifth priority, our own transformation, which we cover in Chapter 4.

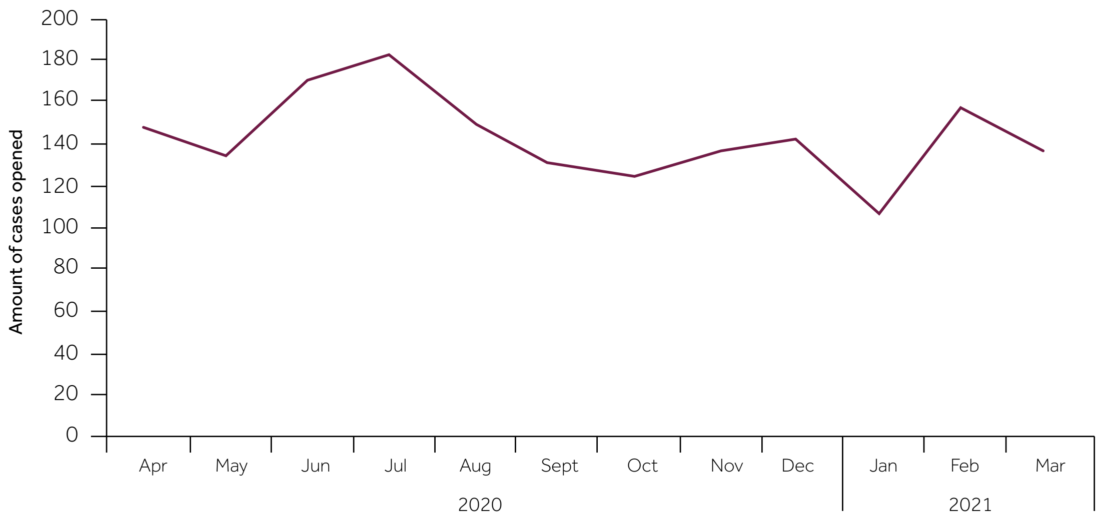
Consumer Investments

We have delivered a substantial program to tackle consumer harm in these investments and enable consumers to make effective decisions. This includes our initial programme of work to address the immediate findings of the Independent Reviews on the Connaught Income Fund and London Capital & Finance. Chapter 5 gives more detail on our responses.

Taking action against firms that don't follow our rules

We also revoked the authorisation of 131 firms across all sectors when we found they could no longer meet our standards. In January 2021 we announced our 'use it or lose it' approach to firms' permission to help reduce the risk to consumers. We are working to embed this approach and will publish an update on the number of firms who have given up or varied their permissions later in the year.

Figure 3: Cases opened involving scams or higher risk investments in 2020/21



Source: FCA supervisory cases

1,715 supervisory cases were opened involving scams or higher risk investments between 1 April 2020 and 31 March 2021. Over the period we closed 1,465 supervisory cases. 28% of these either resulted in our taking regulatory action or ongoing investigation by enforcement or other agencies, including law enforcement.

Digital Wealth Society (DWS) and Outsourcing Express Limited (OEL)

We returned £3.428m to 606 victims of an unauthorised deposit taking scheme (the DWS Scheme) and an unauthorised collective investment scheme (the OEL Scheme).

Both schemes were run by Samuel and Shantelle Golding and their companies Digital Wealth Limited trading as Digital Wealth Society (DWS) and Outsourcing Express Limited (OEL) also known as Kerchiing.

The schemes promised unrealistically high returns, in some cases up to 100% of the amount invested. Between 2015 and 2017, the DWS Scheme purported to purchase online wholesale goods from China for onward sale. The OEL Scheme was established in 2017. No significant trading was conducted and the schemes relied on a continuous flow of new investors to fund existing investors' returns. We brought proceedings in the High Court, where Samuel and Shantelle Golding admitted they were personally involved in these contraventions of the general prohibition.

At the start of the investigation, our action safeguarded and prevented the disposal of the remaining funds, recovering £953,195 attributed to DWS and £2,489,550 attributed to OEL, from various bank accounts containing the proceeds of the schemes. However, despite our prompt action, this left an investment shortfall of £3,285,413 in the DWS deposit-taking scheme and £834,402 in the OEL collective investment scheme.

The safeguarded funds have now been distributed to 356 qualifying investors in the DWS scheme and 250 qualifying investors in the OEL scheme. Funds were returned at a rate of 22.5% of net losses incurred in the DWS scheme and 74.9% of investments into the OEL scheme.

We also improved our ability to identify misconduct in the firms we regulate. This included delivering work to specify risk indicators (triggers) to identify firms within our perimeter that may be causing harm.

Our enforcement work led to approximately £21.7 million being awarded under restitution orders for unauthorised investment business and nearly £7m being frozen on behalf of investors pending court judgments.

Improving the mass market, so it supports and guides consumers to investments that meet their needs

In September 2020, we published a Call for Input to look across the whole market and consider whether there are systemic issues that need to be fixed. We developed a program of work to address existing misconduct and improve how this market functions. The aim of this is to create a mass market where consumers can make investment choices that align with their preferences, including getting the support they need to make informed investment decisions. Our approach aims to create a healthy competitive dynamic. We want to see consumers being able to make informed choices in a market where they are suitably protected. Following feedback on the Call for Input, we have also published our Discussion paper outlining our proposals to strengthen our financial promotion rules for high-risk investments to help retail investors make better-informed decisions.

To improve outcomes for consumers transferring from defined benefit (DB) pensions to defined contribution (DC) schemes, we set out new rules and guidance on pension transfer advice. We issued guidance for firms to ensure they treat vulnerable consumers fairly and we also consulted on a Consumer Duty. This sets higher expectations for the standard of care that firms provide to consumers, including in relation to 4 key elements of the firm-consumer relationship – communications, products and services, customer service and price and value.

We also reviewed the impact of the Retail Distribution Review (RDR) and the Financial Advice Market Review (FAMR), to improve consumer outcomes from financial advice and guidance. We published the findings of this review in December. The review found that, while there had been some improvement in the quality of advice over time, advice firms appear to face little competitive pressure to innovate and offer new, more affordable services. As a result, competition does not appear to be operating effectively in the interests of consumers.

As well as improving the mass market, we acted to prevent consumers from investing inappropriately in certain types of high-risk investments by banning the mass marketing of Speculative Illiquid Securities, (which includes speculative mini-bonds), to retail consumers. We also banned the sale, marketing and distribution of crypto-derivatives to retail consumers. While protecting consumers, our rules also seek to ensure that UK firms compete in the interests of consumers, as opposed to firms trying to gain a competitive advantage by lowering their standards of conduct or offering inappropriate products to retail consumers.

Cyprus Interventions: passported-in Cypriot (contract for difference) CfD providers

We took action for the first time under section 196 of FSMA to impose restrictions on 4 passported-in Cypriot CfD providers (F1 Markets Limited / Hoch Capital Limited / Rodeler Limited and Magnum FX Limited).

These firms were operating from, and solely regulated in Cyprus, without a UK physical presence. All 4 firms targeted UK retail investors via online platforms with high-risk CfD products. They used techniques such as pressure selling, fake celebrity endorsements, and not disclosing charges, to persuade consumers to make increasingly large investments in their products. Some consumers were even encouraged to take out credit to make payments. Several people lost over £100,000 to these firms.

We acted to prevent these firms from offering regulated financial services in the UK, to close any open positions held with UK consumers and to return funds to consumers. Our work resulted in all 4 firms exiting the UK market, and saw almost £8m returned to over 1,300 consumers.

We also recently confirmed that we will start a new consumer campaign to address the harm caused from consumers investing in higher risk investments that may not be suitable for their needs. To shape our approach, we ran 3 waves of digital marketing campaigns that warned consumers about the risks of higher return investments when they looked for investments online. The campaigns delivered 3.7m Google adverts (Pay Per Click impressions) and over 1.2m Twitter adverts (twitter ad impressions), driving over 150,000 people to our website.

Measuring progress

As promised in our 2020/21 Business Plan, we published updates on our work on the suitability of DB transfer advice in June 2020 and January 2021. We focused on the most active firms in the market, covering 85 firms responsible for 43% of DB transfers between April 2015 and September 2018. We asked for data from 55 firms that we assessed as most likely to provide unsuitable advice. While there was some improvement in advice over time, with us finding 60% of the advice we reviewed from 2018 suitable, the level remains well below our expectations for this market. In January 2021, covering the October 2018 to March 2020 period, the data shows some signs of improvement in the DB transfer market, particularly the fall in the number of clients advised to transfer from 69% to 57% of the total number of clients advised.

We have previously said we want to be more transparent about the work we do and the outcomes we achieve. We published our first data report in January 2021 to show the progress of our work and the outcomes it is delivering. We will publish our second, covering the period from 1 April 2020 to 31 March 2021 in September.

Making payments safe and accessible

The payments sector has evolved swiftly, with some firms rapidly increasing in size. We have seen weaknesses in some firms' systems and controls for protecting customer money, and in their financial resilience. This has been a key focus of our work during 2020/21. We have also worked to ensure the impact of Covid-19 does not create operational disruption in the sector. Finally, we have been working with the PSR, Treasury, regulators and industry to maintain choice in payment services including access to cash for those who need it, particularly in the context of the pandemic. In September 2020, the National Audit Office published a report on the production and distribution of cash. This recognised that we are active in managing access to cash in line with our responsibilities and statutory objectives.

Consumers making safe transactions

We issued a Portfolio Letter for payment services firms and e-money issuers. This highlighted weaknesses we found through our supervision work and, among other areas, set out our expectation of firms in combatting and preventing financial crime.

We worked with Treasury to inform its work on the Payments Landscape Review, which considers the opportunities, gaps, and risks for the UK's payments landscape.

Payment firms meeting their regulatory responsibilities while competing on quality and value

Open Banking was designed to increase innovation and competition in banking and payment services.

We authorised or registered 55 third party providers of open banking services this year.

The Regulatory Sandbox continues to support firms that use open banking as part of the services/products they offer to consumers. There are currently 10 such firms accepted into Cohorts 6 and 7 (launched in 2020 and 2021) which are now developing their testing plans ahead of live market testing.

We have made various regulatory changes to ensure Open Banking continues to function, for instance using Temporary Transition Powers (TTPs) to ensure this functions after Brexit.

As part of our response to the pandemic, we also intervened to support the industry and merchants by delaying the implementation of strong customer authentication (SCA). This included providing forbearance and allowing the industry an additional 6 months to implement SCA for e-commerce, minimising potential disruption to consumers and merchants.

Consumers and small firms have access to a variety of payments services

We undertook extensive co-ordination across industry at the height of the pandemic to keep access to branches open. We published a statement asking firms to reconsider their plans to help ensure that consumers, in particular the vulnerable, had continuous access to cash and financial services.

Following our statement to firms to reconsider their plans to close branches during the pandemic, we published guidance on Branch and ATM closures. We also created a central team to ensure a consistent FCA-wide approach when engaging with banks on closures. While firms have engaged well with us, we have identified some problems with their approach to vulnerable customers and notification of closures and are carrying out follow-up work with firms to reinforce our expectations.

In November 2020, the University of Bristol published a report jointly with us and PSR on access to cash in the UK. While it was based on pre-coronavirus data, the report found that there was good geographic coverage of access to cash – with 90% of neighbourhoods within 1km of a free source of cash (via an ATM, branch or Post Office, excluding cashback).

We supported the industry's decision to increase the operational limit for contactless payments from £30 to £45. During the pandemic we provided supervisory flexibility to allow firms to apply a higher cumulative limit for contactless transactions, allowing consumers to make more contactless payments before having to enter their PIN. In March 2021 we increased the regulatory limit for contactless payments from £45 to £100, enabling industry to further increase the operational limit in future.

The industry is responsible for making these changes for consumers. Initial impact may therefore be limited. However, we will continue to monitor developments as industry implements the changes to ensure they align with our vision for a sector where consumers and businesses can trust in and rely on safe and accessible payments.

Measuring progress

In our 2020/21 Business Plan we committed to monitor firms' financial strength, particularly where there may be prudential concerns. On 7 January 2021, we published the results of our Financial Resilience survey which reflected responses from 715 Payments and e-money firms. Arising from the Financial Resilience survey, 451 Payments and e-money firms (as at end April 2021) were identified as showing a high risk of financial failure. 3% of these were in capital deficit, 26% showed a high risk of liquidity shortfall, and 35% were loss making, including 18% running at a loss rate which could lead to a potential capital deficit within 12 months.

We prioritised our work to focus on payments and e-money firms whose failure could cause the greatest harm to consumers. We undertook extensive assessment work on over 70 firms holding over £1m in customer funds and assessed as being of high risk of financial failure, covering prudential, safeguarding and wind-down planning. A significant area of this work involved us making informal regulatory interventions with at least 16 of these firms to resolve specific capital or liquidity issues. This resulted in those firms raising additional capital or liquidity of c£60m and so helping to protect customer assets of over £0.7bn.

We also said we will monitor the number of operational incidents. Our data shows there was a 29% reduction in operational incidents among payment services firms from 2019 to 2020.

Ensuring consumer credit markets work well

As part of our response to the pandemic, we have paused our plans for any new work that would lead to a fundamental reshaping of the market. As a result, our key areas of focus over the past 12 months have been:

- our response to coronavirus
- unsecured credit

Coronavirus guidance and forbearance work

Credit payment deferrals helped during furlough

Anita

Anita is in her mid-30s, rents, and has 2-year-old twins. Her partner is unemployed and looking for a job.

At the start of the pandemic, Anita was furloughed from her finance job in the hospitality industry. As the sole earner, and on 80% of her relatively low salary, she was worried about being able to keep up with her household bills.

Anita arranged a payment deferral on her personal loan and on her motor finance agreement, reducing her outgoings by £200 a month.

Anita found the application process was 'quite straightforward'. She returned to full-time work after 4 months on furlough and is now repaying her loans again in full.

> **"I think things are getting back to normal very quickly. To be honest, I didn't feel so hugely affected financially. Having the payment holidays obviously helped... Had I been pressurised to a point, whereby I'm literally taking the salary and using it on the loans, and not having the payment holidays, I definitely would have felt it more."**

We published emergency guidance to help customers through a period of temporary difficulty. Since then, we have engaged with firms to set out our expectations and undertaken a review of how firms have implemented this guidance, including how they prepared to meet the operational challenges of dealing with payment deferrals and increased numbers of customers in financial difficulty. We continue to monitor firms, including assessing outcomes for customers.

In March 2021 we published the key findings from our review on coronavirus-linked forbearance, where we assessed how mortgage and consumer credit firms were implementing our Tailored Support Guidance (TSG), published in September 2020.

We worked in collaboration with firms on this review. We delivered a series of webinars for the industry with a behavioural focus to help them in their customer communications, as well as insights on how to encourage customers in difficulty to make contact. Over 100 firms and trade associations attended these webinars, giving positive feedback on their usefulness. We found that firms have progressed well in implementing the TSG, acting quickly to build their capacity to support consumers, but we also identified some areas for improvement.

Unsecured credit

Barclays Bank UK PLC: Barclays Bank PLC and Clydesdale Financial Services Limited (together Barclays)

We fined Barclays £26,056,400 for failures in their treatment of consumer credit customers who fell into arrears or experienced financial difficulties. It was, and remains, the largest financial penalty we have imposed on a firm for consumer credit failures.

Between April 2014 and December 2018, some retail and small business customers who had been offered consumer credit were treated poorly when they fell into arrears. We found that Barclays failed to:

- follow its customer contact policies for customers falling into arrears
- have appropriate conversations with customers to help understand the reasons for the arrears
- properly understand customers' circumstances

This led Barclays to offer unaffordable, or unsustainable forbearance options. We found that Barclays failed to treat customers fairly and/or to act with due skill, care and diligence.

Barclays proactively redressed these customers, paying over £273m to at least 1,530,000 customers since 2017.

The Woolard review examined the role of regulation on demand, supply and innovation in unsecured credit. This includes the growth of unregulated Buy Now Pay Later (BNPL), which we now refer to as Deferred Payment Credit, and credit-like products such as Employer Salary Advance Schemes. In February 2021, the Treasury agreed that we will take on the regulation of BNPL activities that are currently exempt. The Government intends to consult on the regulatory framework for BNPL with a view to laying legislation later in the year. We will then consult on our conduct rules for the sector.

When we assessed the suitability of firms' creditworthiness assessments, we found breaches of our rules and principles. To address this, we stopped some firms lending and asked firms to compensate customers who have been affected. Several firms in this sector are no longer trading either because they were unable or unwilling to improve standards or because they were unable to meet their liabilities for paying compensation to consumers for historic poor lending practices.

Measuring progress

In our 2020/21 Business Plan we committed to monitor the situation of over-indebted consumers. Our Covid-19 panel survey that we ran in October 2020 showed that 20 million UK adults (38%) have seen their financial situation become either a little or – for 7.7 million of these – a lot worse because of Covid-19. The proportion of adults with low financial resilience increased from 20% in February 2020 to 27% in October 2020. By December, over 8 million people had to borrow more money than usual, with those borrowing £1,000 or more increasing from 35% to 45% since June 2020 (Office for National Statistics).

Delivering fair value in a digital age

Fair value for consumers is key to healthy competition and underpins consumer trust in financial services. We expect firms to deliver this by providing products and services of suitable quality and price. We want consumers to be confident they are getting fair value and be able to make informed choices about the financial services they choose.

The pandemic meant we needed to refocus our priorities. The work we have taken forward in 2020/21 all contributes to achieving fair value in a digital age. The outcomes for this are:

- consumers can choose from products that meet their needs, at a suitable quality and price
- digital innovation and competition support greater value for consumers
- vulnerable consumers are not exploited or targeted with poor value products and services and access to key products and services is fair

General insurance pricing practices market study

In September 2020, we published the final report of our market study into pricing practices for home and motor insurance. We proposed significant reform with measures to improve competition, ensure consumers will get fair value and to increase public trust in these markets. This includes a proposal to ensure that customers are offered a renewal price no higher than they would be offered as a new business customer for motor and home insurance, and measures to ensure firms consider whether products offer fair value to customers. We expect these remedies to improve the nature and intensity of competition. This would mean firms competing in a more effective and innovative way, which should lead to lower overall costs for supplying insurance, more intense competition and ultimately lower average prices for customers. We estimate benefits of our remedy package to consumers of around £4.2 billion over 10 years. We published a policy statement confirming our final rules on 28 May 2021. Our rules on renewal pricing will come into force in January 2022 and the rules on product governance will come into force in October 2021.

Claims management companies

Under the Financial Guidance and Claims Act 2018 (FGCA), Parliament transferred regulation of claims management companies (CMCs) to the FCA. We have a duty to make rules about CMC fees for claims involving financial products and services with a view to securing an appropriate degree of protection against excessive charges. In January 2021, we consulted on proposals to address consumer harm by:

- Restricting the fees that a claims management firm can charge a consumer for a claim about a non-PPI financial product or service. We estimate that the proposed price cap would deliver consumer benefits of around £9.6 million a year.
- Strengthen requirements for all CMCs to give consumers information to help them make an informed choice about these services where there is an option to claim for free under a statutory scheme.

Our proposals aim to ensure CMCs compete with fair charges while better informing customers about the costs, the value of the service being offered and their available options.

Consumer duty

In 2018 we published a Discussion Paper on a duty of care and potential alternate approaches, to consider whether we could strengthen our regulatory framework, or the way we apply it. In the Feedback Statement to the discussion paper we concluded that there is a case for change, and committed to a future consultation, focusing on how we apply the regulatory framework and new or revised Principles to strengthen and clarify firms' duties to consumers.

Our work on that consultation was delayed due to the pandemic but, in May 2021, we published a Consultation Paper on a new Consumer Duty.

We want to see a higher level of consumer protection in retail financial markets, where firms are competing vigorously in the interests of consumers, creating an environment in which consumers are better able to make decisions in their own interests. Our proposals include a new Principle, some cross-cutting rules and 4 further specific outcomes:

- communications equip consumers to make effective, timely and properly informed decisions about financial products and services.
- products and services are specifically designed to meet the needs of consumers, and sold to those whose needs they meet
- customer service meets the needs of consumers, enabling them to realise the benefits of products and services and act in their interests without undue hindrance
- the price of products and services represents fair value for consumers

The consultation closes on 31 July 2021. After considering responses to this consultation, we plan to implement our proposals via rules and guidance and will set out the proposed text for these in a subsequent consultation. We expect to publish the second consultation by the end of 2021 and introduce any new rules before the end of July 2022.

Measuring our progress

Our approach to ensuring that markets we regulate deliver fair value and monitoring outcomes for consumers will be an integral part of how we transform over the coming years.

7 Cross-cutting work

Our cross-cutting work focuses on areas that have a broad market impact. Our EU Withdrawal and wider international work is detailed in Chapter 3.

Climate change and sustainable finance

Firms are increasingly taking climate-related financial risks and opportunities into account in their business and investment decisions.

Investor demand is, meanwhile, driving increased inflows into sustainable finance products. However, there will need to be substantial further capital investment to meet the Government's transition target of net-zero by 2050.

Building on the priorities we set out in our Feedback Statement on Climate Change and Green Finance (FS 19/6) in October 2019, our chief executive, Nikhil Rathi, presented the key themes of our sustainable finance strategy in a speech in November 2020:

- improving transparency for market participants and consumers by promoting good disclosures along the investment chain
- building trust in sustainable finance products by ensuring that the market delivers sustainable finance instruments and products that genuinely meet investors' sustainability preferences
- working with the Government, other regulators and industry to share experience, develop guidance and tools, and provide mutual support as we confront the challenges of climate change

Transparency

With better information, clients and investors will be better equipped to assess which products meet their needs, which also supports more effective competition between financial services firms.

In December 2020, we introduced new rules for premium-listed commercial UK companies, requiring disclosures in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). We also published further proposals to enhance climate-related disclosures across the investment chain on 22 June 2021.

Trust

There has been a strong and growing societal interest in sustainable investment products, but consumers must be able to trust firms' claims about their products.

We started work to help combat potential greenwashing in retail funds. Greenwashing is marketing that portrays an organisation's products, activities or policies as producing positive environmental outcomes when this is not the case. We have developed a draft set of principles based on existing rules, including those requiring that communications are 'fair, clear and not misleading'. We discussed these principles in an industry roundtable and will be setting out our next steps in due course.

Our work in this area has been informed by a series of consumer experiments that we ran in late 2020. These helped us better understand what information influences consumers' choices in sustainable products. We aim to publish key findings from these experiments in July 2021.

Tools

In 2019, we and the PRA jointly established the Climate Financial Risk Forum (CFRF), which brings together senior financial sector representatives to drive best practice in managing climate-related risks and opportunities.

In June 2020, the CFRF published a guide to climate-related financial risk management, covering disclosure, scenario analysis, risk management and innovation. In Autumn 2020, the CFRF set out its future work programme, which includes building on the work of the guide and a dedicated cross-CFRF workstream on climate data, metrics and methodologies. This close collaboration between regulators and industry can help establish good practice in the way regulated firms manage climate-related risks and opportunities and support the transition to net zero.

Innovation and technology

Technology is dramatically changing the markets that we regulate. We need to embrace innovation and technology so that we can continue to regulate effectively. We encourage firms to accept new ways of doing things in the interest of consumers. We are also helping firms with innovative business models to develop with bespoke regulatory support, through initiatives such as our Direct Support and Advice Unit, as well as providing a Regulatory Sandbox where their ideas can be tested. In the last year we also pioneered a world-first Digital Sandbox testing environment.

We have continued looking at how we can use our innovation tools to support consumers. We recently hosted a Global Women's Economic Empowerment TechSprint. Majority female teams came together from the UK and US to try out solutions aimed at meeting some of the challenges that women in particular have seen made worse by the pandemic. Some of these solutions used Digital ID and Open Finance, among other things. This event also championed the importance of diverse talent in technology and data.

Artificial intelligence (AI)

Jointly with the Bank of England, we have set up a public private forum on AI. This brings public and private stakeholders together, including other UK public bodies, to better understand the use and impact of AI in UK financial markets. Participants include the Information Commissioner's Office, Centre for Data Ethics and Innovation, FICC Markets Standards Board and the Office for AI.

Cryptoassets

We continued our national and international work to support a joined-up approach to cryptoassets. Nationally, we work closely with The Treasury, the BoE and the PSR under the Cryptoassets Taskforce (CATF) established by the Chancellor of the Exchequer in 2018. Internationally we engage through IOSCO and the FSB.

We continue to monitor risks from cryptoassets and have worked with the other CATF members to support the Treasury with its cryptoassets financial promotion consultation (published in July 2020) and its recent consultation paper on the UK regulatory approach to cryptoassets and stablecoins.

The paper was published in January 2021. It seeks views on how the UK can ensure its regulatory framework is equipped to harness the benefits of new technologies, supporting innovation and competition, while managing risks to consumers and market stability. The Government proposes a staged approach to regulation, with a proposed first phase which introduces a regulatory regime for stable tokens used as a means of payment.

Money Laundering Regulations (MLRs) have been also extended to cryptoassets and we continue to review cryptoasset firms' applications in the context of that regime.

Global Financial Innovation Network (GFIN) and international collaboration

We continue to chair the Global Financial Innovation Network (GFIN), a network of over 70 financial services regulators and related organisations supporting innovation in financial services. Through our leadership and participation in the GFIN, we also spearhead the network's RegTech, SupTech and cross-border testing workstreams to share international knowledge of approaches to innovation and new market trends.

In August 2020, we hosted a virtual GFIN RegTech Symposium bringing together regulators to share insights on the impact of the pandemic on RegTech and SupTech. In October 2020, we were among 23 regulators across 5 continents to invite firms to apply to test innovative financial products in more than 1 country as part of the cross-border testing initiative. We also participate in other work to support international collaboration and innovation in key jurisdictions, including through Financial Innovation Partnerships, FinTech Cooperation Agreements and FinTech Bridges.

The Kalifa Review of UK Fintech

At the 2020 Budget, the Chancellor asked Ron Kalifa OBE to conduct an independent review to identify priority areas to support the UK's FinTech sector. The Kalifa Review of UK Fintech highlights the opportunities to create highly skilled jobs across the UK, boost trade and extend the UK's competitive edge over other leading FinTech hubs. It makes a series of proposals for how the UK can build on its existing strengths, create the right framework for continued innovation and support UK firms to scale up. We are analysing in detail the review's recommendations and will consider how to most effectively address those that involve us. In the meantime, we will also be taking forward the Kalifa Review's recommendation for a 'Scalebox' that supports firms focusing on scaling up innovative technology. In parallel, we are also creating a Regulatory Nursery to provide enhanced oversight for newly authorised firms as they develop and grow used to their regulatory status.

Open finance

The UK has led the way internationally in the development of open banking. Today more than 3 million people and businesses in the UK are using open banking apps and services. Open finance involves extending the open banking concept to support third party access to customers' financial data across a wider range of financial sectors and products. It allows firms to develop services that benefit consumers and businesses, improving competition, financial capability and inclusion.

In March 2021, we published our Feedback Statement on open finance. This set out that we would work closely with the Government by helping it assess the feasibility, design and timing of any future legislation on open finance and other Smart Data initiatives. We will also help to convene industry-led efforts to develop common standards to support open finance and assess the regulatory framework needed

RegData

We want to use technology to reduce the burden of regulatory reporting on firms. We have begun to move firms across from the Gabriel system to our new RegData data collection platform. This platform shares a single identity log-on with our Connect system, providing improved navigation and functionality, as well as clearer help and confirmation messages. RegData is easier to use, both for us and for the firms that we regulate.

Digital Regulatory Reporting (DRR)

During the last year we have used the principles of DRR to help design 2 new data collections, which have significantly reduced the overall burden of collecting data on the firms we regulate. We have also continued to collaborate with the Bank of England, resulting in the publication of a Joint Dear CEO letter and a paper outlining a roadmap to transform data collections.

Firm support services

Our Direct Support service supports businesses launching innovative services or products by helping firms understand our regulations, navigate our processes, and helping ensure our own regulation keeps pace with innovation. It received 175 applications in the past 12 months and has helped 50 firms. The team put out a specific request for firms to apply with innovative business models designed to help consumers and firms to deal with the effects of the pandemic and has supported several firms to develop them.

Our Regulatory Sandbox services help innovative firms looking to deliver benefits to consumers when many are facing challenges due to the pandemic. We accepted 22 businesses into cohort 6 to test innovative products and services. We then launched cohort 7, making it clear our priority is to support proposals that aim to help people and the financial systems they rely on deal with the effects of the pandemic. For cohort 7 we were interested in seeing innovation from firms seeking to detect and prevent fraud and scams, support the financial resilience of vulnerable consumers, and improve access to finance for small firms. In June 2021, we announced that 13 firms have been accepted into cohort 7 of the sandbox. We are now providing these firms with the tools and support they need in order to commence live testing.

In November 2020, we also launched our Digital Sandbox Pilot to provide support to innovative firms and organisations looking to tackle challenges from the pandemic. 28 firms participated in the pilot to develop and test solutions to prevent fraud and scams, improve the financial resilience of vulnerable consumers and improve access to finance for small firms. The pilot provided support, including access to synthetic data assets, to products and services at an early 'proof of concept' stage of development. We will continue to develop and refine our Digital Sandbox in the year ahead by running a second cohort focusing on sustainable finance.

Data strategy

In January 2020, we published our data strategy outlining our objectives to use the power of data and advanced analytics to transform how we regulate and reduce the burden on firms.

Work on delivering our data strategy started over a year ago. Following the recommendations made in the LCF and Connaught independent reviews, we recognise it plays a pivotal role in enabling us to achieve our broader transformation goals. It will ensure that:

- we can use data and technology to identify, predict and prioritise risks across all sectors
- colleagues can trust and access the data and analysis they need in resilient systems
- we automate processes to increase the consistency, quality and pace of our work

In the last year, we have created a data and analytics operating model that puts our data experts alongside our business experts, enabling them to work together and solve problems using data. This has allowed us to develop and apply several tools that are helping us to identify, predict and prioritise risk across all sectors. These tools are not only integral to enhancing our insights, but also help us to automate manual processes, meaning we can spend more time on taking action.

Strategic digital platforms

We also recognise that to fully exploit the opportunities that data and advanced analytics can offer we must have the appropriate underlying technical infrastructure and core data foundations in place, with strong governance, data skills and expertise.

Since January 2020 we have implemented new strategic digital platforms, including a data lake (central repository for FCA data), enterprise-wide visualisation capability and a new rules-based alerting system. The combination of these tools allows us to draw new insights from our data by combining data sets and providing a new way of monitoring risk across numerous indicators. This makes it easier to spot trends or areas for investigation across populations of firms, sectors or products.

There is further detail on our data strategy webpage.

Operational resilience

We published our final rules on building operational resilience in the financial sector alongside the Bank of England and PRA in March 2021. The rules apply to the firms we regulate that have the highest potential impact if things go wrong. Our policy will help firms and the wider financial sector prevent, adapt, respond to, recover and learn from operational disruptions.

Firms have until 31 March 2022 to apply most aspects of the policy, including identifying vulnerabilities in the operation of their important business services. Firms then have until March 2025, at the latest, to have made the necessary changes and investment to address these vulnerabilities to ensure they are consistently operating in a way that protects customers and markets from disruptions that would cause unmanageable harm.

Financial crime

Goldman Sachs International (GSI):

We, together with the PRA, fined GSI £96.6m for risk management failures in connection with 1MDB.

1MDB is a Malaysian state-owned development company that has been at the centre of billion-dollar embezzlement allegations. We and the PRA worked alongside a number of overseas regulators and law enforcement partners. Our collective fines were part of a US $2.9 billion globally coordinated resolution reached with Goldman Sachs Group Inc. and its UK, US and Singapore subsidiaries, including GSI. The FCA and PRA penalties were imposed as a result of GSI's risk management failings in its role in underwriting, purchasing and arranging 3 1MDB bonds. Our investigation found that GSI failed to respond appropriately to financial crime risks, including allegations of bribery and the involvement of an individual that GSI had serious concerns about.

This was the first full financial year we were responsible for assessing the anti-money laundering (AML) measures of cryptoasset businesses: we received 223 registration applications from these businesses by 10 January 2021. Cryptoasset businesses pose increased risks of financial crime, so we apply a robust assessment approach at our gateway, focusing on the adequacy of systems and controls in place to detect, disrupt and delay illegal transactions. We also assess the fitness and propriety of the firm, key personnel and ultimate beneficial owners. A significantly high number of businesses are not meeting the required standards under the Money Laundering Regulations, resulting in a significant number of businesses withdrawing their applications. We have also listed 138 firms (June 2021) on a public-facing register which we have proactively identified as appearing to be trading without having applied for registration.

In the UK's 2019 Economic Crime Plan, we committed to strengthening our AML supervision and have now fine-tuned our approach to overseeing institutions' controls. As a result, we will be performing more in-depth assessments of higher-risk firms and a greater breadth of supervisory intervention across the rest. This approach will also be more data-led, drawing on a range of information sources so we can focus our resources where the risks are most acute. To support this approach, at the end of March 2021 we increased the number of firms that need to submit financial crime-related data. The £37.8m fine we levied on Commerzbank AG in June 2020 shows the consequences for financial firms of failing to put in place adequate AML systems and controls.

The Office for Professional Body AML Supervision (OPBAS) continues to drive improved standards of supervision by professional body supervisors (PBSs) in the legal and accountancy sectors. However, there is still more to do, particularly with PBSs whose effectiveness lags behind their peers. To address this, we have continued to take swift action, including using our powers to direct PBSs to take specific steps when appropriate and proportionate. We have also delivered improvements in intelligence and information-sharing between law enforcement, PBSs and other AML supervisors, for example through increased outputs from the Intelligence Sharing Expert Working Groups (ISEWGs). These include referrals by the National Economic Crime Centre (NECC) to PBSs on live investigations, sector-specific guides to help law enforcement enquiries, and tailored threat alerts to highlight risks or trends.

Culture in financial services

Drivers of culture

Healthy cultures that firms assess, understand and manage effectively reduce the potential for harm. We have continued exploring key topics affecting healthy cultures with firms and the academic community, focusing on 4 key drivers of behaviour – purpose, leadership, approach to people, and governance.

The pandemic has transformed ways of working and presented an opportunity to drive culture change. In September 2020, we broadcast a webinar with expert panellists exploring the role of leadership in driving healthy cultures in a post-coronavirus world.

We continue to assess and evaluate the extent to which firms' remuneration policies and practices promote healthy cultures and minimise harm. As part of the Investment Firms Prudential Regime (IFPR), we have consulted on a new Remuneration Code for regulated investment firms. We have also amended the remuneration rules for banks, building societies and PRA-designated investment firms to take account of the fifth Capital Requirements Directive (CRD V).

The Financial Stability Board (FSB) carried out a Peer Review to assess the effectiveness of the UK's remuneration regime. We worked with the PRA and the Treasury to provide the FSB Peer Review team with information on the UK's regulatory and supervisory approach to remuneration. The report is a positive assessment of the FCA and its role in promoting international standards, our commitment to the Senior Managers and Certification Regime and high standards of conduct and culture.

Senior Managers and Certification Regime (SM&CR)

By encouraging greater individual accountability and setting a new standard of personal conduct, the SM&CR is fundamental to embedding healthy cultures in firms.

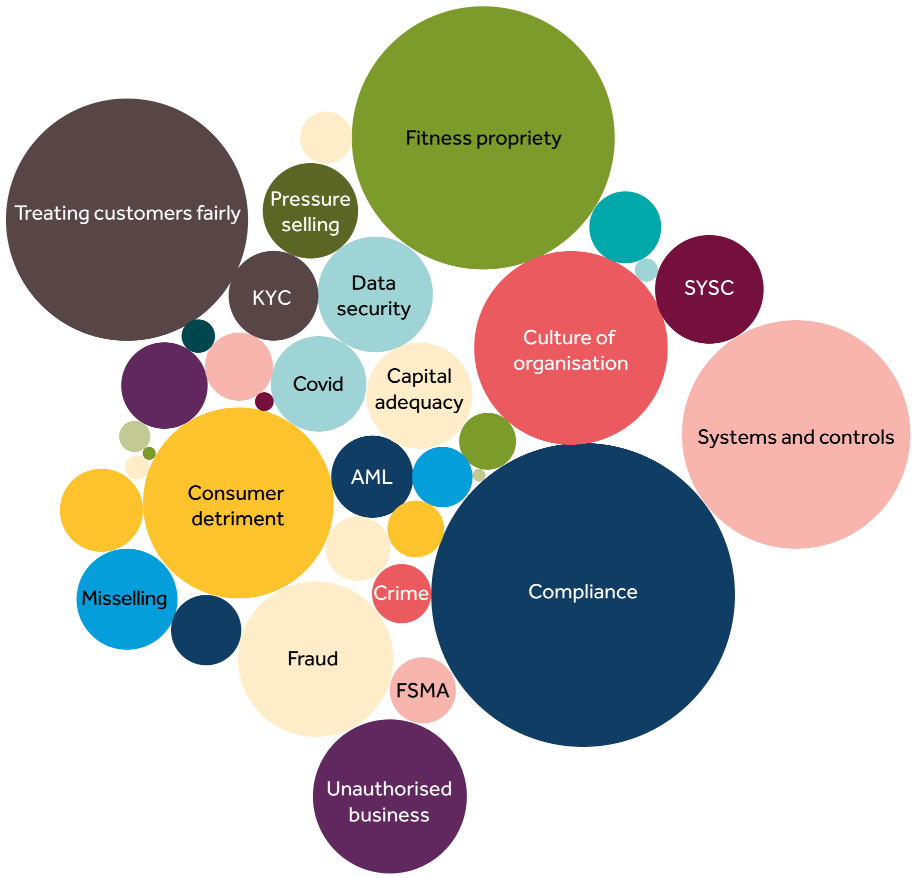
In December 2020, we extended the SM&CR to benchmark administrators. All FSMA-authorised firms are now covered by the SM&CR. Solo-regulated firms that became subject to the SM&CR on 9 December 2019 had a 1-year transitional period to certify relevant employees as fit and proper and deliver staff training on the Conduct Rules. To give firms affected by the pandemic time to fully implement the Certification Regime and to train staff effectively in the Conduct Rules, we extended the deadlines to 31 March 2021. We consulted on these changes in July 2020 and made final rules in October 2020. We have continued to support firms by publishing our expectations of how they should assess fitness and propriety and deliver Conduct Rules training.

Recognising that firms directly affected by the pandemic needed to keep their governance arrangements under review, we published our expectations to help firms apply the SM&CR. This included allocating Senior Manager responsibilities and temporary arrangements for absences.

Whistleblowing

Whistleblowing reports are a vital source of our information. They give us unique insight into the sectors and firms we regulate, helping us to do our job and protect consumers. We assess every report we receive and use them to take action, or to help inform our supervisory and enforcement strategies for both sectors and firms.

From April 2020 to March 2021 we managed and assessed 1,046 whistleblower reports. These consisted of 894 qualifying disclosures within the meaning of section 43B of the Employment Rights Act 1996; and which fall within the matters in respect of which that person is so prescribed. They also consisted of 2,754 separate allegations. The most frequently reported allegation themes were:



We also received 55 reports about Covid-specific allegations. Covid allegations included employees telling us about the mistreatment of staff, expecting them to work while furloughed, poor business continuity planning and using the pandemic as a means to make staff redundant. We also received reports about staff not treating customers fairly against measures we set out to help consumers during the pandemic, such as payment deferrals for consumer credit.

Overall, the number of reports we received for 2020/21 was 1,046 compared to 1,100 in 2019/20 – a reduction of 54.

At the end of June 2021, the 1,046 reports had resulted in the following outcomes:

- in 15 cases, we took significant action to mitigate harm – this may include enforcement action, an s166, or variation of permissions
- in 135 cases, we took action to mitigate harm – this may include writing to or visiting a firm, requesting information from a firm, or asking a firm to attest to compliance with our rules
- 145 cases helped to inform our work and were relevant to the prevention of harm, but did not lead to any specific action
- 97 cases were not considered relevant to the prevention of harm
- 654 cases are still being assessed to determine their outcome

In March 2021, we launched our first Whistleblowing external communications campaign 'in confidence, with confidence'. As part of the campaign, we published materials for firms to share with employees, as well as highlighting the campaign through our events to encourage individuals to have confidence to step forward. We want to improve the process for the whistleblowers who contact us, and clear communication plays an important part in this. We have also improved the information available on our website about our service and the approach we take to whistleblowing.

8 Sector work

Our Sector work focuses on outcomes detailed within our 2020/21 Business Plan, provides updates on how we have delivered against them and where there has been a need to refocus our efforts.

Wholesale and financial markets

Healthy wholesale financial markets are important to the UK and global economy. They fulfil a broad range of financial needs for non-financial companies, governments and financial institutions.

Our work in this area during the pandemic focused on ensuring that markets remained open and orderly. We adapted our supervisory approach to reflect the changing environment, and issued guidance, publishing information where necessary to support the markets during these difficult times.

In May 2020, we published our newsletter, Market Watch, which set out our expectations of market conduct during a period of increased capital raising and alternative working arrangements due to coronavirus. We have also taken an important step towards the end of LIBOR by announcing the dates on which the LIBOR panels will cease.

Orderly transition from LIBOR

Working alongside ICE Benchmark Administration (IBA), the administrator of LIBOR, we have now set out a clear path for the end of the LIBOR benchmarks. With other global authorities, we have supported the International Swaps and Derivatives Association's (ISDA) implementation of robust fallbacks for LIBOR-linked derivatives, which came into effect in January. These fallbacks were built through multiple consultations across sectors and jurisdictions and form the basis of fair replacement rates for many transition arrangements, including in the cash market. We estimate 97.5% of sterling interest rate derivatives are now covered by robust fallbacks through the ISDA protocol and similar mechanisms adopted by clearing houses.

Alongside the Bank of England, we have continued to work closely with the industry to support an orderly transition from LIBOR and to ensure customers are treated fairly. We and the PRA have been clear that we expect regulated firms to execute their transition plans in line with industry-recommended timelines across sterling and other LIBOR currencies.

The Financial Services Act 2021 gives us new powers to promote an orderly wind-down of LIBOR. In November 2020 we published consultations on our proposed approach for exercising some of these new powers. In March 2021, we published 2 statements of policy and 2 feedback statements. These set out our final policy on designating an unrepresentative benchmark and requiring changes to a critical benchmark, including to the methodology. In June we published a further consultation on our proposed decision to require a change in methodology for six sterling and yen LIBOR settings. We have also consulted on our proposed approach for exercising our new powers over use of critical benchmarks, such as LIBOR, that are being wound-down.

Clean markets that make it difficult to commit market abuse and financial crime

External factors such as EU withdrawal and the pandemic were significant drivers of change during the year. We monitored the changing market environment and adapted our supervisory approach to reflect this, rapidly issuing guidance and publishing information where necessary. This included Primary Market Bulletin 28 and Market Watch 63 in May 2020. Through engagement with firms on the operation of their surveillance systems, and developing our surveillance alerts, we ensured that both we and firms could more effectively detect potential market abuse throughout the year.

There is further data covering our work in our annual publication of Market Cleanliness (MC) Statistic for the UK equity markets.

Wholesale markets that deliver a range of good value, high-quality products and services to market participants

We delayed the deadline for responding to our Call for Input (CFI) on 'Accessing and using wholesale data' from October 2020 to January 2021 to give the market more time to respond during the pandemic. It looks at the use and value of data and advanced analytics in wholesale financial markets, both now and in the future. The responses will help us better understand how firms are accessing and using data and advanced analytics, assess the value offered to market participants and if it is being sold and priced competitively.

Markets remain orderly in a range of market conditions

The pandemic caused an unprecedented shock to economic activity, with some of the largest single-day falls in asset prices since the crashes in 1987. The uncertainty and large increases in volatility contributed to a significant deterioration in the liquidity of different asset classes during March 2020.

Our overall aim was to keep markets open and functioning effectively with a focus on operational resilience. Our interventions in the wholesale markets aimed to reduce burdens and uncertainties for corporates and their advisors, as well as set out our expectations for financial services firms using work from home (WFH) models at times of high volume of trading.

Primary market issuance regained healthy levels from April onwards and secondary markets liquidity was restored over the next few weeks across all markets.

Trading venues' operational resilience proved robust and all transitioned quickly and successfully to full remote working without disruption for users. During the height of the volatility in March and April, our markets remained functional, despite the sharp increase in trading activity and almost all participants, including traders and trading venue staff, working remotely. Generally, we observed that most markets maintained functional operations during this time.

While unprecedented movements in market prices led to increased variation and initial margin calls, derivatives markets were able to handle the increased volume and margins through their risk management framework and reported no major incidents.

Similarly, markets transitioned in an orderly fashion at the end of the Brexit implementation period to the new UK regulatory environment following the exit of the UK from the European Union.

Markets meet users' needs

Due to the pandemic, we de-prioritised our proactive cross-firm review work on implementing the certification regime and our work on remuneration. We continue to work with firms to strengthen appropriate governance and accountability through the SM&CR, for example, through reactive casework.

In our 2020/21 Business Plan, we said that we expected to introduce a more risk-sensitive prudential regime for investment firms during 2021. This is known as the investment firm prudential regime (IFPR) and is intended to achieve the same outcomes as the Investment Firm Regulation will across the EU. It will take effect from January 2022.

To support the IFPR's introduction, we issued a discussion paper in June 2020. We followed this with a webinar in August 2020 and engaged with affected investment firms and trade associations. In December 2020 we published the first in a series of 3 consultations on our proposals, and in April 2021 we published the second consultation. We published the Policy Statement and near-final rules from the first consultation in June 2021.

Investment management

This sector is a key contributor to the UK economy. It is important that we encourage a competitive sector that works well, is operationally resilient and provides a range of good value products to both institutional and retail investors in a clean and orderly market.

The investment management sector covers asset management, institutional intermediary and advice services, and custody and investment administration services.

Investors get high-quality, fair value, products and services

Following our 2017 Asset Management Market Study, we introduced a range of remedies to drive more competition on price in the sector and so deliver better value for investors. These remedies included a requirement on authorised fund managers (AFM) to conduct annual assessments of value (AoV) for each of their funds and to produce reports setting out their conclusions.

In 2020, we began work to review the quality of the AoV and subsequent reporting. While our work was delayed due to other pandemic priorities, in 2020 and 2021 we visited 18 firms and carried out desk-based reviews of other firms' reports.

We assessed how well they had performed in their first year of value assessments. We found these firms had made good progress in moving investors from high-charging share classes to cheaper classes in the same fund that offer substantially the same rights. However, firms often need to develop their value assessments further in areas such as assessing performance, authorised fund manager (AFM) costs and economies of scale to comply with the letter and spirit of our rules.

We completed our review of 'host' Authorised Fund Managers (AMFs) in 2021. During the review, we visited a range of firms operating this business model. We assessed a number of areas including adequacy of their financial and non-financial resources, their control of conflicts of interest and quality of their governance arrangements. We reported our findings on 30 June 2021.

In the last year we have continued to encourage firms, including asset managers, to execute LIBOR transition plans in a timely and appropriate way on behalf of their fund and institutional clients, adapting our approach to the demands of the pandemic. Our engagement with the largest asset managers indicates to us that they have appropriate plans in place and are implementing them.

We have worked with the Bank of England and international counterparts on the role funds play in non-bank finance, and in particular the challenges from open-ended funds holding illiquid assets as well as money market funds. We are consulting on rules to create a Long-term Asset fund to allow funds to hold illiquid assets more effectively.

Retail banking

The retail banking sector performs a vital role in the economy. There are around 73 million current accounts and 4 million business accounts in the UK, and retail deposits total around £1.5 trillion. In February 2021, we published our supervision strategy for the retail banking portfolio in a Dear CEO letter, in which we outlined our view of the 4 key risks of harm that retail banks' activities are likely to pose over the next 2 years.

During 2020/21, we have focused our resource on pandemic-related activities, to support consumers' continued access to cash and essential banking services. We have given more detail in our our 'Response to coronavirus' in Chapter 2, and our business plan priority 'Making payments safe and accessible' in Chapter 6.

Anti-money laundering

During 2020, in addition to our informal ongoing supervisory action, we handled 97 cases involving AML, put in place 1 Voluntary Requirement Notice (VREQ), progressed 5 s166/skilled person assessments and progressed 15 enforcement cases related to AML failings, 1 of which is a new case for the period. No Own Initiated Requirements (OIREQs) were issued for the period.

In May 2021 we issued a Dear CEO letter to all retail banking firms setting out the action we expect them to take on their anti-money laundering frameworks, in response to the common control failings we identified through our ongoing supervision of retail banks. We will be asking firms to demonstrate the steps they have taken in response.

Overdrafts

During 2020, our temporary coronavirus guidance ensured that firms put additional support in place for those customers affected by the pandemic. We expected firms to help these customers by not charging them interest on the first £500 of their overdraft. We also expected firms to ensure that they delayed any planned increases in arranged overdraft rates for a period. Although these specific measures have now ended, we have continued to remind firms of the need to provide enhanced support and, where appropriate, forbearance to customers in financial difficulty.

Single Easy Access Rate

In January 2020, we published a consultation paper (CP20/1) setting out proposals to simplify and improve competition in the cash savings market by introducing a Single Easy Access Rate (SEAR). Our consultation was originally due to close in April 2020. However, we extended the consultation period to 15 December 2020, as part of our prioritisation of urgent work with banks and building societies to help consumers during the pandemic. Given the continuing impact of coronavirus and the low-interest rate environment, we announced that we had decided to stop this work in November 2020. As interest rates for new products fall, so does the gap between rates paid to new and longstanding customers, along with the size of the harm. We therefore did not consider that introducing the SEAR would be proportionate to the current level of harm in this market. However, we will continue to monitor the market and we may revisit our priorities if we see significant harm to consumers in the future.

Small Business Unit

We have been working with a wide range of Government Agencies and small firms Stakeholders to understand the impacts of the pandemic on small firms lending needs and provide further detail on our work within our 'Response to coronavirus' in Chapter 2.

General insurance & protection (GI&P)

A well-functioning general insurance sector is vital for the health of the financial services industry with effective competition playing a central role in ensuring a variety of consumer needs are met.

The general insurance and protection sector has had to react and change its approach to deliver good outcomes to its customers due to the pandemic. Expectations of the insurance sector are at their highest, focusing on their delivery of good consumer outcomes. The pandemic has highlighted some areas with unsuitable or poor value products and services, emphasising the need for continued focus on value and pricing, while ensuring consumers have access to the products they need.

Customers take out GI&P products and services that are suitable for their needs and deliver on their promises at the time of the claim

Our Covid-19 panel survey identified that the pandemic has increased consumer interest in shopping around for financial products. For example, one in three (33%) adults with insurance products are more likely to shop around in the future because of Covid-19. We have also seen more switching in insurance and consumers paying more attention to policy details. Because of Covid-19, one in six (17%) adults with insurance or protection products have switched to a new provider to lower the cost of a policy, and one in eight (12%) adults with insurance or protection products have reviewed a policy to see what it covers.

We have set out below our interventions to ensure that products and services are suitable for consumer's needs.

Business interruption (BI)

Our test case sought an expedited court decision on a selection of policy wordings from 8 insurers to provide clarity and certainty on key issues for policyholders involved in disputes over non-damage BI cover in light of Covid-19. On 15 January 2021, the Supreme Court handed down its judgment and substantially allowed our appeal on behalf of policyholders. This is detailed on our webpage.

Travel cancellations and refunds

On 29 June 2020, we published 2 statements to help consumers understand their rights when claiming a refund for cancelled events or travel arrangements and outlining what we expected from firms.

On 31 July 2020, we consulted on further guidance, outlining what we expect from insurance providers and card providers to help consumers when they are claiming for a cancelled trip or event. We considered the feedback to this and published our Final Guidance on 1 October 2020. In February 2021, we consulted on a proposed extension of the guidance which would enable it to remain in place during the exceptional circumstances of the pandemic until we vary or revoke it. The guidance took effect from 2 April 2021.

Pricing practices

In September, we published the final report of our market study into pricing practices for home and motor insurance. In that report and accompanying consultation paper, we proposed significant reform of these markets through measures which seek to promote effective competition in the interests of consumers, ensure consumers are offered products that provide fair value to their target market, and increase trust in these markets.

We published a policy statement on 28 May 2021, which set out our package of remedies to improve competition and ensure firms offer fair value products in the future.

Customers are not unfairly excluded from GI&P products and services

The proportion of people holding any general insurance or protection product has increased from 81% in 2017 to 88% in February 2020 (Financial Lives surveys 2017 and 2020). The Covid-19 pandemic highlighted the importance of understanding exactly what is and is not covered by these products.

Travel insurance for consumers with medical conditions and signposting

Following our work on travel insurance for consumers with medical conditions, we published our final rules. We found that some consumers with pre-existing medical conditions (PEMCs) face problems navigating the travel insurance market and finding affordable cover for their conditions. Some are declined cover, offered cover with exclusions for their PEMCs or offered what they see as unaffordable premiums. To address this, we introduced new signposting rules from 26 April 2021 and guidance that is designed to help these consumers better navigate the travel insurance market and get better outcomes. This includes requiring firms that sell travel insurance having to signpost consumers to a directory of specialist firms that provide this type of insurance.

Customers in financial difficulty

Our focus has been on ensuring that consumers are not in a vulnerable position or financial difficulty due to Covid-19. We published guidance on our expectations for how insurers and intermediaries should deal with customers who may be in financial difficulty and who hold non-investment insurance contracts and premium finance products. This sets out how firms should provide tailored support to consumers who have already had a payment deferral and those newly in financial difficulty – the guidance remains in force.

Customers get high-quality, fair value, GI&P products and services which deliver on what is intended at the time of claim

We have looked at value through a number of different lenses in recent years, notably in our thematic review (2019). That review identified some issues and potential harm around the value some GI products offer to customers, as well as raising material questions about how far firms had taken on board the new requirements from the Insurance Distribution Directive (IDD).

Product value and coronavirus

Following the start of the pandemic, we were concerned that its impact and effects may have significantly reduced the utility and value of some GI products. We published further product value guidance specifically relating to coronavirus, setting out our expectation for insurers and intermediaries to consider the ongoing value of their products in light of the exceptional circumstances. The guidance came into effect on 3 December 2020. We also made a public commitment to follow up and assess its impact. We have now started this follow-up work.

Value measures

We have introduced rules which require firms to report value measures data to us on claims frequencies and acceptance rates, average claims pay-outs and claims complaints, across all general insurance products for publication. We also introduced additional value measures product governance rules to ensure firms' products offer fair value to customers. We expect that the value measures will improve market transparency and competition as well as helping to address poor value and reduce the risk of unsuitable general insurance products being bought and sold.

The GI&P sector is operationally resilient and supplies important products and services with minimal disruption to customers and markets

A key priority for the Bank of England, PRA and for us is to put in place a stronger regulatory framework to promote the operational resilience of firms and financial market infrastructures. As a result we jointly published policy proposals.

We sent our financial resilience survey to 23,000 intermediaries and brokers, and published the results on our website. We continue to work with those firms whose potential failure may cause consumer harm and to minimise the impact on the Financial Services Compensation Scheme.

We issued a letter addressed to CEOs of firms which hold client money and/or custody assets to remind them of their obligations under the Client Assets Sourcebook (CASS). Inadequate arrangements create heightened risk to consumers during the pandemic, particularly given the increased risk of firm failure. We will continue to conduct assessments of firms' client money arrangements and review the annual independent external auditors' client assets reports.

Other key items of our sector work

Funeral plans

In January 2021 the Treasury made legislation to bring the funeral plan sector into our regulation from July 2022.

In March 2021, we published a consultation setting out our proposed approach to regulating the sector, including rules to address harms to consumers in this market. This consultation is now closed, and we published our policy statement on 5 July.

In July 2021, the Treasury published a consultation on a proposal to legislate to ensure that the Financial Services Compensation Scheme (FSCS) can most effectively carry out its functions if a regulated funeral plan provider becomes insolvent. We also published a further consultation setting out our proposed rules under that legislation, along with further proposals including in relation to the resolution of failed regulated funeral plan firms and FSCS protection for funeral plans.

Rent-to-own price cap (RTO)

In December, we published an evaluation of our price cap on rent-to-own (RTO) products, which came into force in April 2019.

The evaluation showed that the price cap had been effective in reducing the prices RTO firms charge. We estimate that the cap led to an average fall in prices of 19% for the 2 largest firms in the market when we intervened, bringing RTO prices much closer to the high-street average.

The highest prices charged by RTO firms have been significantly reduced. For example, some financing prices for the longest term available (plus delivery and installation) reached 3.6 times the average retail price before the cap – this year the highest ratio we observed was 2.3.

The evaluation found no evidence of RTO firms seeking to increase other prices or charges to make up for the revenue lost to the price cap.

The RTO market has changed considerably since the cap was introduced, particularly following the start of the pandemic. We have introduced a range of measures to support people using consumer credit through the pandemic, including specific guidance on RTO products.

9 Our section 172 statement

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

Engaging with our stakeholders

The Board holds the FCA accountable for the way it works. It has a duty to ensure that the FCA achieves its statutory objectives of ensuring that:

- the financial markets which we regulate function well
- we protect consumers
- we protect the integrity of financial markets
- we promote effective competition in the interests of consumers

The Board recognises that effective stakeholder engagement is key to meeting its duties under s172 of the Companies Act 2006. For this reason, it takes account of the interests of our internal and external stakeholders. Our key stakeholders include consumers, businesses large and small, the communities we operate in, community leaders and parliamentarians, international and domestic regulators, regulated businesses and individuals, our own employees and our suppliers. The FCA is an independent public body, accountable to Parliament. By regulating the financial services sector, the FCA plays a critical role in the lives of everyone in the UK. This means that its stakeholders increasingly expect it to achieve its statutory objectives in an uncertain, fast-changing world, and to do so ever faster. This expectation has increased during the coronavirus pandemic. Therefore, the Board ensures that the FCA engages with stakeholders to gain an understanding of what matters to them.

The Board provides strategic leadership within a framework of robust corporate governance and internal control: setting the culture, values and standards that are embedded throughout the FCA and support the FCA in delivering in the public interest.

The Board is committed to attaining and maintaining high standards of business conduct. Our Corporate Governance statement in Chapter 11 provides more details of this.

The table below explains in more detail the engagement the Board has had with stakeholders during 2020/21 and how this engagement has helped the FCA to deliver better outcomes for users of financial services.

Stakeholder group	Why we engage and what our stakeholders told us	Examples of how we engaged and responded in 2020/21
Our people	Our employees are the key to our success as a regulator. We aim to promote a culture which enables people to speak openly about what has and has not gone well so that we can build capability and continuously improve. We seek to create a diverse and inclusive workplace that is free from discrimination and bias so that our employees can perform at their best and we can better deliver as a regulator. One of our values is 'work inclusively' and one way we support this is through our various employee networks. The networks have an important role in promoting our diversity and inclusion agenda and the Board engages with these groups to support this work. We also publish an annual Diversity Report. Our 2021 employee survey results reflect what matters to our colleagues in their day-to-day experience of working at the FCA: • *our purpose: pride in the work we do, particularly regarding the protection of consumers, and unrelenting commitment to delivering the FCA's Mission and objectives through the coronavirus pandemic period* • *teamwork: strength of collaboration – even greater in remote working circumstances, and an enhanced sense of 'being in it together'* • *diversity: reflecting the society we serve, ensuring fairness and equity, and including diverse perspectives and opinions in all our work* • *our effectiveness: how well we deliver our statutory objectives with an enhanced focus on measuring performance at organisational and local levels* • *wellbeing: flexibility, work-life balance and our wide-ranging wellbeing offering.* We engage with many interest groups and non-governmental organisations to help us build a more engaged and diverse workforce. This includes being in the first group to sign the Government's Women in Finance Charter, signing Business in the Community's Race at Work Charter as well as the Social Mobility Pledge. We also work closely with a number of external specialists including Stonewall, Inclusive Employers, Business Disability Forum, PurpleSpace, City Mental Health Alliance, Employers for Carers, Carers UK, New Financial and the Bridge Group. In order to boost productivity and levelling up opportunities, HM Treasury and the Department for Business, Energy and Industrial Strategy (BEIS) have commissioned the City of London Corporation (CoLC) to lead an independent taskforce; the FCA is supporting this initiative and has senior representation involved in the workstreams.	The Board and committees ensure that they fully engage with our employees using a variety of means, including: • Inviting members of the management team to present on, and contribute to, the matters being discussed by the Board. • Reviewing the results of employee surveys and monitoring progress against actions arising from these surveys. • Having a specific non-executive director, Liam Coleman, acting as the FCA's internal Whistleblowing Champion. This role involves having overall responsibility for ensuring and overseeing the integrity, independence and effectiveness of our internal whistleblowing policy, including protecting internal whistleblowers, and provides an anonymous reporting line for concerns to be raised directly with the Board. • Receiving regular updates from the Staff Consultative Committee (SCC), which the Board considers a formal workforce panel, to discuss issues of importance to the FCA's staff. The Board also invites a representative of the SCC to attend a Board meeting to discuss issues of concern to staff. The SCC is one of the FCA's most important communication lines with its employees and the Chief Executive and Chair also periodically meet with Staff Representatives to discuss staff issues. • The Chairs of the Board and of the Remuneration Committee meeting a range of other staff representatives, including our staff networks. • Directors contributing blog articles for the intranet, to both inform and engage our employees.

<table>
<tr><th>Stakeholder group</th><th>Why we engage and what our stakeholders told us</th><th>Examples of how we engaged and responded in 2020/21</th></tr>
<tr><td>Consumers and consumer organisations</td><td>As a public body, our role is to serve the public interest and to make a difference for consumers. Our decisions directly affect the wellbeing of people, businesses and the UK economy so it is important that we actively consult with consumers and consumer bodies.

The consumers we aim to protect include:
• retail consumers buying financial products or services for their own use or benefit (such as mortgages, personal loans, ISAs or investment advice)
• retail investors in financial instruments (such as shares and bonds)
• small businesses buying financial products or services

To help us understand the issues that affect consumers, we have established our Consumer Network which was formed in 2014. The network was set up to improve the FCA's relationship and engagement with consumer organisations. The Network consists of 30 different consumer organisations including debt charities (e.g. Money Advice Trust, StepChange), consumer facing organisations (MoneySavingExpert/Which?) and a number of other charities (such as Alzheimer's Society/Scope/Shelter).

In addition, and in accordance with the requirements of FSMA, we have a Consumer Panel, comprising independent members with experience of consumer affairs in financial services. The key concerns that the Consumer Panel raised with us during 2020/21 were:
• what coronavirus means for consumers' finances and the support available to them
• access, quality, affordability and choice of financial products and services
• receiving fair treatment from financial services providers, particularly for vulnerable consumers
• clear and effective communication from financial services providers
• risks posed by new and fast-growing markets

Scams and fraud, in particular online harms

Read more about the actions we have taken in response during the last year in Chapters 2-8.</td><td>There are a number of ways in which the Board takes account of the views of consumers when making decisions. It receives regular information about how well we are delivering our consumer protection objective and reducing consumer harms. It also receives information about consumer research we have undertaken. As well as this, the Board:
• Discusses feedback from the Consumer Panel provided primarily via monthly reports from the panel Chair. The Board also requires policy proposals to be discussed with the panel.
• Reviews feedback to Consultation Papers prior to confirming new or amended rules.
• Engages with consumer organisations, groups and charities such as Citizens Advice, StepChange, and others in our Consumer Network.
• Provides stakeholders with an opportunity to question the Chair, Chief Executive and Executive Directors on how the FCA has delivered against its strategic objectives at the Annual Public Meeting.
• Meets and reviews reports from the Complaints Commissioner regarding the effective operation of our Complaints Scheme.

Our Chief Executive attended a Consumer Network meeting in December 2020.

Our Chair and members of our executive team also directly meet with consumers through regular regional visits and participate in roundtable discussions and other forums with consumer organisations.</td></tr>
</table>

Stakeholder group	Why we engage and what our stakeholders told us	Examples of how we engaged and responded in 2020/21
Regulated firms and individuals	The conduct and culture of the firms we regulate, and the individuals who hold key roles in those firms, shape the outcomes for consumers and markets. Our engagement with firms aims to identify potential harm so that we can reduce or prevent it at an early stage. The joint Practitioner Panel/FCA Survey of firms for 2021 has launched. In April we sent the survey to a sample of regulated firms, so they can share their feedback on how the FCA regulates the industry. Findings will be published later this year. **Read more about the actions we have taken in response during the last year in Chapters 2-8.**	The Board receives regular updates about our engagement with regulated firms and individuals. This includes the results of consultation with regulated stakeholders for policy changes and findings from supervisory activity such as thematic reviews. Teams across the organisation use a wide range of sources to inform the Board's decision-making, including data and intelligence from firms and their trade associations, insight shared by other regulatory organisations, information from MPs and from whistleblowers. We also gather information from industry events and surveys to help us understand the issues firms face. Our Chair meets regularly with the Federation of Small Businesses. The Board also engages with the Practitioner Panel, the Smaller Business Practitioner Panel, the Markets Practitioner Panel and the Listing Authority Advisory Panel to understand their views and the views of those they represent. The Board closely considers the results of the annual Stakeholder Survey and joint Practitioner Panel/FCA Survey of firms. These surveys improve the Board's understanding of stakeholder perceptions of the FCA and how this has changed over time. It also tells the Board what the perceived priority areas for the coming year are.
Community leaders, including parliamentarians	We are an independent regulator, accountable to the Treasury, which is responsible for the UK's financial system, and to Parliament. To deliver our objectives, we actively engage with Ministers, MPs, Peers and Government departments. We also engage with members of the devolved Parliaments and assemblies and their associated executive bodies. Our work also involves discussions with other political bodies and stakeholders. The Treasury appoints our Board, which manages and challenges our executive team, helps hold us to account and helps set our direction as an organisation.	Our Chair and Chief Executive give evidence before the Treasury Select Committee as part of its ongoing scrutiny of our work in a general accountability hearing twice a year. We also regularly give evidence to other Parliamentary committees. As part of our accountability to Parliament we respond to requests for information from MPs and peers through letters, parliamentary questions and evidence to All Party Parliamentary Groups. Our Board approves an Annual Report we make to Parliament setting out the progress we have made in delivering our objectives during the last year. We also published an annual Perimeter Report explaining how we will continue to work with the Treasury and Parliament on the challenges posed by the current regulatory perimeter.

Stakeholder group	Why we engage and what our stakeholders told us	Examples of how we engaged and responded in 2020/21
Other regulators and regulatory partners	To meet our objectives – benefiting consumers and markets – we must collaborate with other regulators. We work together to share knowledge and best practice, improve ways of working and explore cross-cutting issues. Internationally, we seek to shape the global regulatory agenda and international financial policies. Read more about our engagement with regulatory bodies during the last year in Chapter 1.	The Board oversees the cooperation and coordination activities we undertake with regulatory counterparts across the UK and internationally. For example, the Oversight Committee meets regularly to provide support and advice to the Board on its relationship with the Financial Ombudsman Service and the Financial Services Compensation Scheme. We are a member of the UK Regulators Network, which brings together regulators from a range of sectors to share knowledge, and best practice, explore cross-cutting issues and build better ways of working. We play an active role in the UKRN's networks, including the CEOs Group and Chairs Group. Similarly, we are a member of the UK Competition Network, which fosters cooperation and knowledge sharing between the CMA and sector regulators such as the FCA who hold competition law powers concurrently with the CMA. Before becoming a full member on 1 April 2021, we had observer status at the Digital Regulatory Cooperation Forum. The forum supports regulatory coordination in online services and cooperation on areas of mutual importance as between the CMA, ICO, Ofcom and now the FCA.

<table>
<tr><th>Stakeholder group</th><th>Why we engage and what our stakeholders told us</th><th>Examples of how we engaged and responded in 2020/21</th></tr>
<tr><td>Our suppliers</td><td>To meet our objectives efficiently and effectively, we are dependent on approximately 1,000 suppliers, providing a wide range of goods and services. How we select our suppliers and how we foster our relationships with them is essential in enabling us to perform at our best.

We must be able to demonstrate that everything that we procure delivers Value for Money (VfM) for the FCA and its stakeholders. In addition, we are a Contracting Authority under the Public Contract Regulations 2015.

Any procurements that were taken to market before 31 December 2020 are subject to EU and UK procurement law and guidance; those after 31 December 2020 are subject to UK procurement law and guidance.</td><td>The Board delegates all matters relating to procurement and the management of suppliers to the Chief Operating Officer (COO). The COO ensures that:
• procurement practices are compliant with appropriate legislation
• we buy responsibly and adhere to our Ethical Procurement Policy
• we publish an annual Modern Slavery & Human Trafficking Statement and deliver on the commitments made within it
• procurement processes are built around assessing against VfM criteria
• feedback is sought from and given to suppliers before, during and after procurement projects
• terms and conditions are regularly reviewed to enable the delivery of VfM
• the behaviours and standards expected from suppliers to the FCA are clearly set out in our Supplier Code of Conduct
• there is a structured approach to Supplier Management, based on the relative importance and the risk profile of each relationship

This year, we have worked closely with our critical suppliers to ensure service continuity during the significant disruption arising from the Covid-19 outbreak. We have accelerated payments of valid, undisputed invoices to support suppliers' cashflows and offered to discuss relief opportunities with any suppliers in need.</td></tr>
</table>

Stakeholder group	Why we engage and what our stakeholders told us	Examples of how we engaged and responded in 2020/21
Our community and the environment	Good corporate citizenship and corporate responsibility are important parts of our identity, both as an employer and a regulator. As a responsible employer, we take account of the social, environmental and financial impacts of our decisions and actions and aim to contribute positively to the wider community and our environment. Through our Corporate Responsibility work we have Community Engagement programmes in London and Edinburgh allowing colleagues to take volunteer leave and fundraise for our Charity partners. The programmes of activity are wide ranging and include our flagship programmes of Inspiring Futures in London and Mentoring in Edinburgh. The programme also includes Career Insight Sessions, volunteering as board members and during Covid-19 volunteering with the NHS for vaccination support. We are committed to becoming a more sustainable organisation and minimising our impact on the environment. We focus our efforts on the areas in which we can make the biggest impact such as energy, waste, water and paper use. Changes to our working practices in response to Covid-19 have led to a significant reduction in our environmental impacts, particularly emissions from business travel. This is likely to change in 2021/22 as we return to more office-based working. Our building in Stratford was designed with sustainability in mind and was awarded the BREEAM rating of excellence. We also require our suppliers to meet our commitment to sound environmental practice and encourage them to develop and supply goods and services to help improve environmental performance. **Read more about our Diversity and Inclusion work in our Annual Diversity Report. Our Sustainability Report, in Appendix 4, explains more about our environmental activities.**	The Board strongly supports corporate responsibility at the core of the FCA as it embeds the values of the organisation and empowers our people as well as the wider community. The Board, together with our Executive Committee, oversees our community engagement, diversity and inclusion and sustainability strategies.

Board decisions and taking stakeholder views into account

Board decision-making processes

The Board took account of the views and interests of a wide range of stakeholders during 2020/21. In the previous section we identified these stakeholders and explained some of the ways that the Board had engaged with them. Having access to a full range of views is an important part of the way the FCA Board makes decisions. We are also required by the Financial Services and Markets Act 2000 (FSMA) to consult publicly with the industry, consumers and other interested parties on our rules and guidance before they are approved by the Board and published in our Handbook. To inform our decision-making process, any proposed change to our Handbook is accompanied by a cost benefit analysis to assess the costs and the benefits we expect from the change. This helps to ensure any burden or restriction we impose is proportionate to the benefits we expect.

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

Key Board decisions during 2020/21

Board decision	
Promoting and facilitating temporary support for consumers affected by the Covid-19 pandemic, including issuing guidance to firms and enabling payment deferrals	The Covid-19 pandemic has had a significant impact on many consumers and firms. The Board made numerous decisions throughout the period that enabled consumers experiencing difficulties with consumer credit products such as mortgages and credit cards to obtain assistance through measures such as payment deferrals. The Board issued guidance to firms and amended some of its rules to facilitate these assistance programmes.
Seeking clarity on whether certain business interruption insurance policies provided cover for the effects of the pandemic	During the year, the Board agreed to commence a test case, in the public interest and for the benefit of policyholders and insurers, to resolve as quickly as possible the uncertainty of whether certain business interruption insurance policies covered losses suffered by policyholders as a result of the pandemic. The test case was conducted with the cooperation of relevant insurance companies.
Removing potential conflicts of interests from the provision of pension transfer advice	In May 2020, the Board agreed to prohibit the charging of fees for advice relating to transfers from defined-benefit to defined-contribution pension schemes that is contingent on the transfer taking place. The Board was concerned that such fee arrangements created an unacceptable incentive for the adviser to ensure the transfer took place, even though such transfers frequently may not be in the client's best interest.
Business prioritisation	The necessary responses to the Covid pandemic required the Board to reassess its priorities and reallocate resources according to the immediate need. The Board consequently reviewed and approved a number of reprioritisation decisions during the year.
Seeking to ensure that the general insurance market works well for consumers	In September 2020, the Board approved a range of pricing remedies for consultation that were aimed at addressing failings identified in the market study conducted in 2019, including the 'loyalty penalty' experienced by many consumers.

Board decision	
End of the Brexit transition period	The Board made a number of decisions towards the end of the Brexit transition period to ensure that firms were prepared and markets continued to function well once the transition was complete.
Approving changes to the regulation of the consumer investments market	The Board approved the FCA's decision to make permanent the ban on the mass marketing of Speculative Illiquid Securities to retail customers. It also approved changes to the executive structure that will ensure intelligence about harmful investments is better joined up and acted upon, as well as investment in a consumer awareness campaign. The Board also approved the FCA's decision to ban the sale of crypto-derivatives to retail consumers and supported the establishment of a temporary registration regime for cryptoasset firms.

Nikhil Rathi

Nikhil Rathi, Chief Executive

10 Group operational overview

This review focuses on the financial performance of the Group in 2020/21. In particular, it covers:

1. results for the year
2. analysis of income and operational costs
3. overall financial position at 31 March 2021
4. principal risks and uncertainties facing the group

To deliver our objectives as effectively as possible we:

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

Section 1 – results for 2020/21

The Group generated a £55.6m deficit for 2020/21 (see Table 1). This primarily resulted from a £62.0m reduction in the funding position of the defined benefit pension scheme due to a £107.8m increase in liabilities relating to (a) actuarial losses realised and from changes in the assumptions linked to the discount rate, price inflation and life expectancies of £113.9m (b) interest cost of £17.5m and (c) net contributions of £23.6m, and a £45.8m increase in the pension plan assets from returns on assets. As planned, we overspent against fees collected for Ongoing Regulatory Activities (ORA) due to funding requirements for regulatory failure reviews and payments relating to the Mutually Agreed Resignation Scheme (MARS). This was offset by over-recoveries of fees for Transformation and the Investment Harm Campaign which are recovered evenly across 3 and 5 years respectively.

This deficit has resulted in a reduction in the Group's net surplus to £7.7m (see Table 3).

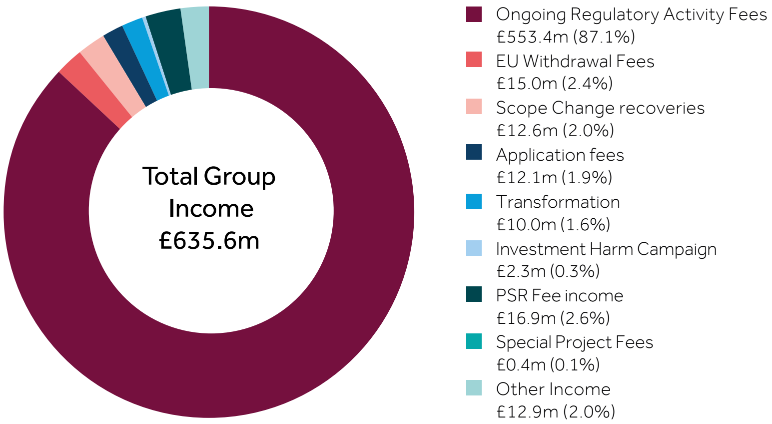
Table 1

Group Surplus/(Deficit)	2021 £m	2020 £m
Net actuarial (losses)/gains on Pension Scheme	(86.7)	85.6
Pension contribution income taken to Balance Sheet	24.0	23.8
Pension interest charge	0.7	(1.6)
Total Defined Benefit Pension Scheme	**(62.0)**	**107.8**
FCA over recovery of ORA	8.4	3.1
FCA ORA Reserves Utilised	(14.7)	(7.0)
FCA over recovery of Transformation	5.1	-
FCA over recovery of Investment Harm Campaign	1.8	-
PSR over/(under) recovery of ORA	1.3	(0.3)
PSR Reserves Utilised	(0.2)	(0.2)
Net recovery of Scope Change	4.7	18.0
Total Group (Deficit)/Surplus for the year	**(55.6)**	**121.4**

Section 2 – Analysis of Income and operational costs

Income

Chart 1 – The Income breakdown 2020/21



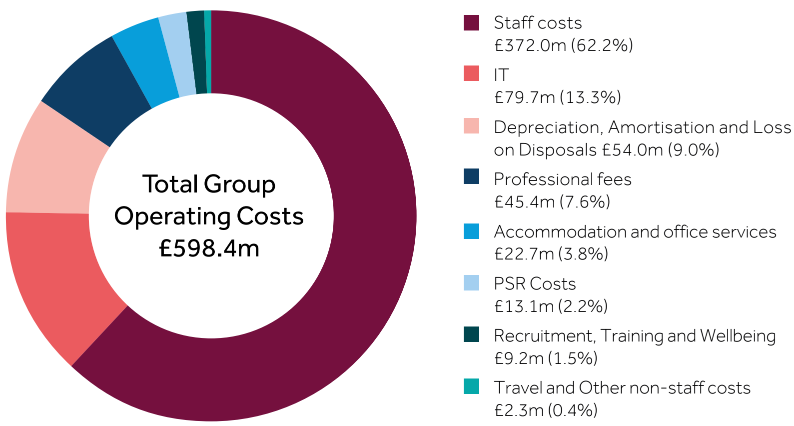
Fees: We do not receive funding from the UK Government. We are funded by raising fees from the firms we regulate. FSMA gives us the powers to raise fees to cover our budgeted Ongoing Regulatory Activity (ORA). This represents the net costs of our core operating activities after offsetting Other Income.

Our Annual Funding Requirement (AFR) also includes fee income from 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, Transformation and Investment Harm Campaign 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 levying and collecting fees for other regulatory bodies.

Operational costs

Chart 2 – How we spend our money



2.1 Transformation programme

We have begun to lay the foundations and aspirations for a transformation programme which will be a priority focus for the organisation over the next few years. This programme builds on our values and the capability framework that already exist. In January 2020 we published our data strategy. This aims to help us become smarter in the way we use data and advanced analytics, and transform the way we regulate. We provide further detail of our transformation work in the past year in Chapter 4. Our Business Plan 2021/22 also sets out more detail about how we are transforming so we are more efficient, effective and future-focused.

2.2 Investing in our people

Direct staff costs represent 62% of our operational costs. We aim to attract, develop and keep the best talent, as the quality of our people is key to our ability to meet our objectives. Our people strategy enables this and reflects our Mission, including a strategic Employee Capability Plan that tells us what capabilities we will need in the future and helps us ensure these are in place.

During the Covid-19 pandemic, we have taken several actions to ensure our employees are not put at risk. We are also working hard to ensure that our employees remain engaged, are able to deliver on our objectives and that we are focused on delivering our key priorities including through the redeployment of staff as required.

Staff numbers, shown in Table 2, remained largely flat although there has been a small shift of temporary and contract staff to full-time equivalent employees.

Table 2

Average staff numbers	2021	2020
Supervision	1,519	1,495
Enforcement and market oversight	699	729
Strategy and competition	521	578
Operations	971	779
Secondment, Maternity and Long-term Sick	228	292
FCA full-time equivalent employees	3,938	3,873
Payment Systems Regulator	103	91
Group full-time equivalent employees	4,041	3,964
Group temporary and contract staff	153	224
Total Group	4,194	4,188

Attracting and keeping talent

During 2020/21 we have continued to focus on our internal talent and we have promoted internally wherever possible. Where we have been unable to recruit from within, we have been able to source strong external talent as we have had a high volume of external applications. During 2020/21 we made 706 appointments (677 FCA, 29 PSR), a combination of 476 internal moves (465 FCA, 11 PSR) and 230 external appointments (212 FCA, 18 PSR). There were 31 appointments to the Senior Leadership Team, including 6 appointments at Executive Committee level, of which 24 of these resulted in an internal appointment.

In 2020, we recruited 52 graduates and 25 summer interns. We have maintained a strong focus on recruiting Science, Technology, Engineering and Mathematics (STEM) graduates to our newly developed Data Science, Cyber Security and Technology specialist schemes. We received over 8,500 applications for the graduate programme. We continue to recruit our graduates with no UCAS points requirements and have strengthened our partnership with a charity supporting disabled students through the recruitment process.

We also launched two new insight programmes feeding into our summer internship pipelines for 2021 and 2022, the 'Black Futures Programme', aimed at levelling the field for Black students, and 'Opening Horizons' targeted specifically at students from lower socio-economic backgrounds. We are proud that we have maintained a high level of diversity with our graduate hiring; 44% identify as female, 33% identify as BAME and 7% declared a disability.

We recruited a further 25 apprentices for our programme in 2020. We received 1,457 applications for 25 vacancies across 11 programmes.

In 2020/21 the FCA ran a Mutually Agreed Resignation Scheme (MARS), a voluntary resignation programme, giving eligible colleagues the opportunity to apply to resign from the FCA with a severance payment. The scheme was offered to all Directors, Heads of Department, Managers and Technical Specialists and severance pay was calculated according to base salary, age and length of service and capped at £100,000 in line with HM Treasury guidelines, even though the FCA is not subject to Managing Public Money principles. The key objective of MARS was to support the FCA's diversity agenda through enhancing talent mobility and career progression. MARS has resulted in the creation of significantly more opportunities for promotion (with 85 colleagues taking up the opportunity to leave), especially at Managerial level where we have historically had lower rates of turnover and a less diverse profile. These exits, which will largely take place over the course of the next financial year, have also provided the opportunity for leaders to reconsider the current capability and skills mix in their teams, and to ensure these are fit for the future.

Externally, it is great to be recognised for our work. We won the 'Most Inclusive Recruitment Campaign' and were Runner up for 'Greatest Impact Award' at the 2020 RIDI Awards (Recruitment Industry Disability Initiative Awards). We also climbed 25 places and ranked 63rd with the National Undergraduate Recruitment (NUE) Awards and were shortlisted for the Best Diversity Initiative for our 'Black Futures 2020' Programme.

Listening to our employees

Our employees are the key to our success as a regulator. We aim to promote a culture which enables people to speak openly about what has and has not gone well so that we can build capability and continuously improve. We seek to create a diverse and inclusive workplace that is free from discrimination and bias so our employees can perform at their best and we can better deliver public value as a regulator.

Under the exceptional circumstances presented by the coronavirus pandemic and resulting remote working situation, from April 2020 we expanded our normal employee listening channels to include quarterly Covid-19 'care' surveys across the remainder of the year. Around two-thirds of our people responded to each of these, and results helped inform our evolving pandemic response. Key themes included an appreciation of enhanced flexibility and wellbeing provision, heightened pride in the FCA's regulatory work and willingness to 'go the extra mile', and a greater sense of organisational leadership and unity.

These themes carried over to our annual employee survey, run in January 2021. It attracted responses from 75% of our people, and 73% said they are positively engaged in working at the FCA. The highest scoring survey categories are diversity (81%), corporate social responsibility (76%) and wellbeing (74%). Our priority areas identified for the coming year are diversity and inclusion, outcome focus and empowerment and accountability. As with last year's focus areas, these align closely to our values, and progress on them will support the aims of our transformation programme.

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

Employee development

Developing our people remains an essential part of our employment offer, while also ensuring our people have the right knowledge, skills and behaviours to achieve our Mission. The FCA Academy offers high-quality structured learning and a programme of events keeps our employees up to date with financial markets and changes in the financial services and regulatory landscapes. In 2020/21, we have:

- Rapidly adapted training delivery to accommodate hybrid and remote working. We delivered a total of 3029 training days across 2020/21 with 29% of our employees attending at least one formal training event.
- In response to the potential financial resilience issues related to the Covid-19 ongoing situation, a number of colleagues were upskilled at short notice to work on specific projects. The upskilling included a range of development solutions primarily helping to assess the risks related to firms' likelihood of failing in the financial climate.
- Launched a global, award-winning online training platform, 'LinkedIn Learning'. This digital library of over 8,000 courses covers a wide range of topics including leadership & management, data science, business analysis & strategy, project management and software skills.
- To continue to drive the FCA transformation agenda, a development framework was designed and delivered for colleagues in data and analytics. This included 97 SLT members attending a data mindset program with a further 19 participating in a reverse mentoring scheme. We have 33 employees enrolled onto one of our priority Data science and analyst pathways and a wide range of virtual courses were also delivered to the data analytics community.
- Increased our investment in professional development through apprenticeships. The number of employees undertaking an apprenticeship programme increased to 220 across 27 different fields study. During the year, 27 learners completed programmes with 37% achieving a Distinction or Merit. Overall, we have surpassed the public-sector target by 2.9% with 5.2% of our workforce undertaking an apprenticeship programme.
- Arranged 18 secondments to the FCA (18 FCA, 0 PSR) and 55 from the FCA (52 FCA, 3 PSR) to partner organisations. These include authorised firms, the National Economic Crime Centre, the Treasury, UK regulatory bodies and law firms.

Employee wellbeing

We offer a comprehensive wellbeing programme, aligned to our wellbeing strategy which comprises of 4 core areas: Mental Health, Musculoskeletal, Cancer Pathways and Preventative Care. The strategy seeks to raise awareness, educate, inspire people and develop line manager knowledge, skills and confidence. These actions aim to signpost our wellbeing offering, improving understanding across the organisation and underpin behavioural change and healthy lifestyles.

Our employees have access to a range of support services such as Private Medical Insurance, Employee Assistance Programme, a Virtual GP Service, Physiotherapy and Occupational Health. During 2020 we concentrated our focus on pandemic support, giving greater consideration towards colleagues' physical and mental wellbeing especially while working from home.

We have an established network of Mental Health First Aiders and Mental Health Champions. Our network groups are very engaged in the wellbeing agenda and help drive part of our delivery.

During 2020/21 an average of 4.4 days per year (2020: 7.3 days) was lost per person due to sickness absence. Like most employers, we have seen a sharp decline in short term sickness absence rates amongst colleagues during the Covid-19 pandemic. This is due to a combination of factors such as less transmission of seasonal bugs such as colds and flu, colleagues working through minor ailments whilst at home and improved wellbeing and engagement as a result of remote working. As colleagues return to office working and restrictions on social contact are removed it is likely we will see this figure increase.

Commitment to diversity and inclusion

Diversity and inclusion are central to the FCA's approach, as an employer and as a regulator and public body. A diversity of perspectives and thought, when part of an inclusive culture, results in better judgements and decision making in the public interest; it reduces the risk of groupthink and encourages innovation.

Our Annual Diversity Report provides a detailed overview of our diversity and inclusion activities, and highlights our progress over the last year, which for so many reasons, has been quite an unprecedented one. Last year, we launched our Ethnicity Action Plan, and progress aligned to this plan can be found within our Annual Diversity Report. By publishing our ethnicity action plan externally, we seek to be transparent about our challenges, hold ourselves accountable for progress, and set an example to the firms we regulate.

As part of our focus on gender, and leading by example, we signed the Women in Finance Charter in June 2016. The Charter seeks to increase women's representation in the financial services sector, particularly at senior levels and it requires us to set and report on gender targets. We also set targets for Black, Asian and Minority Ethnic (BAME) diversity at senior levels in the FCA, and we're taking positive action across the organisation, whether we have targets or not, to meet our overall aspirations to be a truly diverse and inclusive organisation.

Our targets for female representation were for 45% of the FCA's Senior Leadership Team (SLT) to identify as female by 2020, and 50% by 2025. Currently 43% of our Senior Leadership Team identifies as female, which is up from 40% last year. The figure without including the Payment Systems Regulator is also 43%, last year it was 40%. Our Black, Asian and Minority Ethnic (BAME) targets were for 8% of the FCA's Senior Leadership Team to identify as BAME by 2020, and 13% by 2025. Currently 13% of the Senior Leadership Team identifies as BAME. This has moved from 10% last year. The figure without including the Payments Systems Regulator is 13%; last year it was 11%.

We have published full details of our gender, ethnicity and disability pay gap figures for the year ending 31 March 2021 on our external website. We continue to provide an increased level of transparency, publishing our ethnicity pay gaps and disability pay gaps, despite there being no legal requirement to report these, as we believe that data transparency drives positive action. For the second year, we have also published more detailed data, sharing our ethnicity pay gap broken down into the UK census ethnicity categories, our pay gaps by contractual grade and the intersectional gender and ethnicity pay gap. We know that the experience of ethnic groups that make up the 'BAME' grouping is not the same, and we need more granular data to help us better understand our challenges and take more targeted positive action. Our gender pay gap reporting is based on legal sex because we don't yet collect data about gender identity. We acknowledge that this does not reflect our commitment to inclusion of the trans and non-binary community and we are working with our LGBT+ Network (InsideOut) to ensure our reporting can be more inclusive going forward.

Our median gender pay gap is 20.1%, down 0.3% from 20.4% in 2020. Our mean gender pay gap has decreased to 16.3%, a change of 2.1% from 18.4% in 2020. Our gender bonus gap is 23.5% (median) and 20.2% (mean). Our median has increased by 0.9%, and our mean has increased by 1.2% since 2020.

Our ethnicity pay gap has seen a larger decrease. Our ethnicity median pay gap is 24.5%, down by 4.4% from 28.9% and our mean ethnicity pay gap is 24.4%, down by 2.6% from 27.0% in 2020. Our ethnicity median bonus gap is 28.8%, a decrease of 3.2% from 2020. Our ethnicity mean bonus gap is 25.9%, a decrease of 5.9% from 2020.

In 2020, we reported our disability pay gap for the first time. The median disability pay gap is 9.4%. This has increased by 1.7% from 2020. The mean disability pay gap is 3.8%, a drop of 0.1% when compared to 2020. The disability median bonus gap has increased from 11.6% in 2020 to 15.1%. The mean has increased from 5.2% in 2020 to 15.3%. As the numbers declaring a disability are small (less than 5%), this can cause a significant fluctuation in yearly comparisons.

In previous years we have not seen significant annual movements in our gender and ethnicity pay gaps. This year, however, we have seen slight changes to the figures compared to last year, with the most significant improvement in reducing the ethnicity bonus gap. We acknowledge there is more work to do for us to see impactful sustainable change and we need to continue to take bolder actions to progress, particularly in addressing imbalances of representation across the organisation. Introducing gender and ethnicity targets beyond our Senior Leadership Team (SLT), for Manager, Technical Specialist and Senior Associates, enables us to address and change the talent 'pipeline', which is crucial for meeting our SLT targets, and ultimately closing our pay gaps. We remain committed to recruiting, developing, and retaining diverse talent across the organisation, and supporting the wider financial services sector.

2.3 Investing in our technology

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

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

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

2.4 Professional fees

We use professional fees for activities we cannot fulfil internally, for example for s166 Skilled Person reports and Regulatory Failure reviews. The Investment Harm campaign, on which work commenced in 2020/21, is separately funded by the industry. We continue to utilise consultants to fill skills shortages, particularly to deliver specialist change.

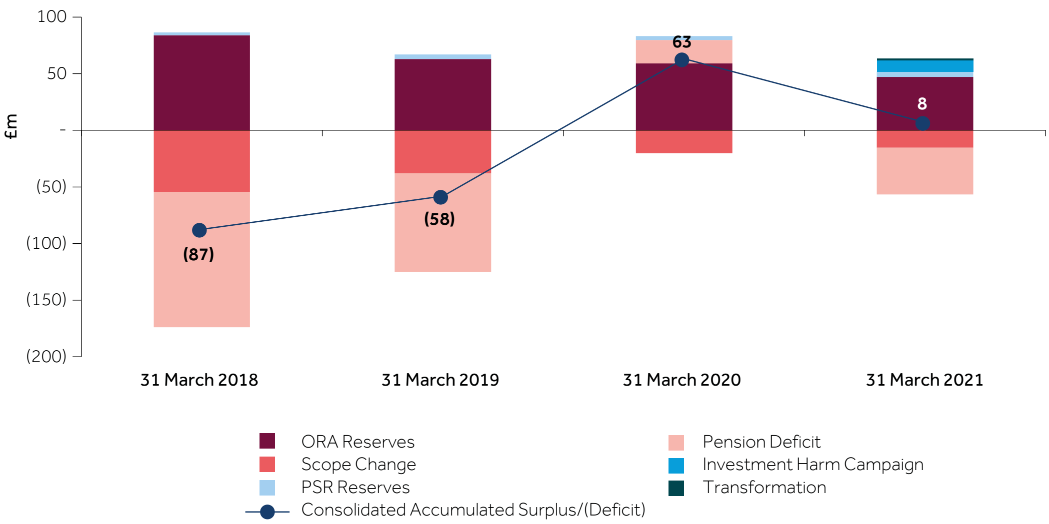
Section 3 – Overall Financial Position

The Group accumulated reserves have decreased by £55.6m, to a surplus of £7.7m at 31 March 2021. This primarily resulted from a £62.0m reduction in the funding position of the defined benefit pension scheme due to a £107.8m increase in liabilities relating to (a) actuarial losses realised and from changes in the assumptions linked to the discount rate, price inflation and life expectancies of £113.9m (b) interest cost of £17.5m and (c) net contributions of £23.6m, and a £45.8m increase in the pension plan assets from returns on assets.

Table 3

	FCA							
Reserves	**ORA Reserves £m**	**Transformation Reserves £m**	**Investment Harm Campaign Reserves £m**	**Scope Change £m**	**Pension Asset/ (Obligation) £m**	**FCA Total Accumulated Surplus/ (Deficit) £m**	**PSR £m**	**Group Accumulated Surplus/ (Deficit) £m**
At 31 March 2019 (as restated)	**63.0**	**-**	**-**	**(38.0)**	**(87.1)**	**(62.1)**	**4.0**	**(58.1)**
Over/(under) recovery against budget	3.1			-	-	3.1	(0.3)	2.8
ORA Reserves Utilised	(7.0)			-	-	(7.0)	(0.2)	(7.2)
Net Scope Change recoveries	-			18.0	-	18.0	-	18.0
Pension movement	-			-	107.8	107.8	-	107.8
At 31 March 2020	**59.1**	**-**	**-**	**(20.0)**	**20.7**	**59.8**	**3.5**	**63.3**
Over recovery against budget	8.4	5.1	1.8	-	-	15.3	1.3	16.6
ORA Reserves Utilised	(14.7)			-	-	(14.7)	(0.2)	(14.9)
Transfer of ORA Reserves	(5.0)	5.0				-		
Net Scope Change recoveries	-			4.7	-	4.7	-	4.7
Pension movement	-			-	(62.0)	(62.0)	-	(62.0)
At 31 March 2021	**47.8**	**10.1**	**1.8**	**(15.3)**	**(41.3)**	**3.1**	**4.6**	**7.7**

Reserves Balance 2018-2021



The ORA Reserves of £47.8m are driven by historical underspends. In 2020/21, we utilised reserves to fund costs associated with MARS and Regulatory Failure reviews.

The Scope Change deficit of £15.3m is due to the FCA funding scope change costs before recovering those costs from the relevant firms. The largest component relates to the setting up of the EU Withdrawal Regime (Table 4).

Table 4

Scope Change	Consumer Credit[1] £m	MIFID[2] £m	SM&CR[3] £m	EU Withdrawal £m	Claims Management £m	Crypto Asset 5AMLD £m	Other[4] £m	Total £m
At 1 April 2019	21.0	2.3	6.2	2.9	3.5	-	2.1	38.0
2020 costs	-	-	3.3	2.8	5.3	1.6	0.7	13.7
2020 recoveries	(16.6)	(2.6)	-	(0.2)	(11.8)	-	(0.5)	(31.7)
At 31 March 2020	4.4	(0.3)	9.5	5.5	(3.0)	1.6	2.3	20.0
2021 costs	-	-	1.1	0.7	4.2	2.6	1.5	10.1
2021 recoveries	(4.4)	0.3	(7.2)	-	(2.8)	(0.7)	-	(14.8)
At 31 March 2021	**-**	**-**	**3.4**	**6.2**	**(1.6)**	**3.5**	**3.8**	**15.3**

1 Consumer Credit
2 Markets in Financial Instruments Directive
3 Senior Managers & Certification Regime
4 This relates to EU benchmarks £1.9m, Securitisation Repositories £0.4m AND Funeral Plans £1.5m

Penalties collected on behalf of the Exchequer

We collected penalties of £189.9m (2020: £258.8m), of which £128.7m (2020: £206.1m) were paid to the Exchequer. No penalties were issued for the PSR.

Section 4 – Principal risks and uncertainties

For the FCA the most important risk is the failure to meet our statutory objective to ensure that the relevant markets function well. 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.

Details of the specific Risks and Uncertainties facing the PSR are contained in their Annual Report and Accounts.

The focus of this section is on risks to the FCA achieving its strategic objective and three operational objectives of: securing an appropriate degree of protection for consumers; protecting and enhancing the integrity of the UK financial system; and promoting effective competition in the interests of consumers. In considering risk, we therefore assess the impact of events that could threaten the long-term viability of the FCA and its ability to remain a credible regulator and serve the public interest.

The FCA's risk management methodology is based on three lines of defence. This provides us with a disciplined and consistent approach to evaluating and improving and the management and oversight of risk. Key risks and the actions being taken by the FCA to mitigate them are regularly reviewed and challenged by the Board and its various subcommittees.

External risks:

- **Macroeconomic risks:** There are various risks that could result from the current macroeconomic environment, including: the risk that the prolonged low interest rate environment leads consumers or firms to search for yield resulting in purchases of risky or illiquid investments without understanding or being able to manage the associated risks; the risk that it is harder for consumers to service existing debt; and the risk that increased levels of unemployment, and gaps in appropriate welfare or other provision leads consumers to take on further debts including unaffordable credit.

- **Capital and liquidity:** Firms with weak financial resilience are more likely to fail, especially during periods of economic stress. Whilst orderly entrants and exits are part of any well-functioning market, regulated firms failing in a disorderly way as a result of carrying inadequate amounts of capital or professional indemnity insurance, and liquidity to prevent their own failure or absorb the costs of failure can result in harm and loss to consumers, and impact the effectiveness of markets and overall confidence in the UK's financial system.

- **Operational resilience including cyber:** The disruption caused by the pandemic has shown why it's critically important for firms to understand the important business services they provide, and to continually invest in their resilience and cyber defences to protect themselves, consumers and markets. Firms failing to continue to invest in appropriate measures to improve their operational resilience increases the risk of service interruption resulting in disruption to consumers and markets.

- **Financial Crime (Fraud and Anti Money Laundering):** We are committed to ensuring that the UK financial services industry is a hostile environment to financial crime. There is a risk of continued growth and innovation of on-line and other scams and frauds resulting in harm to consumers and markets, including the risk that regulated firms fail to implement or maintain robust systems and controls to counter the risk of all forms of financial crime.

- **Digital/Innovation:** Financial services firms continue to innovate both in terms of their business models and the products that they sell, with a significant move towards digitisation, increasing the risk of consumers purchasing unsuitable products, being susceptible to on-line scams or being financially excluded.

- **Environmental, social and governance (ESG):** The risk that financial services and markets either cannot or do not support the transition to a low carbon economy and a more sustainable future, including failure to appropriately consider and disclose the impacts of climate change as part of their activities.

- **International relationships and engagement:** The risk to the strength of the UK financial services system of a failure to agree market access, equivalence and impact trade negotiations, as a result of failing to develop or maintain high quality international standards, remaining an active member of key global standard setting bodies or maintaining our close bilateral relationships with other regulatory partners.

Internal risks:

Balancing our priorities and resources across the breadth of a fast-moving financial services industry requires us to be close to market developments and agile and assertive in our response. Whilst we always seek to review and refine our internal processes to meet this challenge, the two Independent Reviews that were reported in the period have highlighted areas where we need to revisit existing activities and strengthen them where appropriate. Further, our transformation programme will enable us to ensure our processes are future proof and fit for the ever-changing face of the financial services industry and the firms that operate within it.

Execution risk:

This relates to the execution of our regulatory strategy and arises when we fail to deliver our business activities as intended. When execution risks materialise this usually means that the FCA has failed to achieve a reduction in or prevention of harm to consumers or markets that would otherwise have been possible with the resources available. The drivers of execution risk are wide and varied, including the operational risks outlined below.

- **Regulatory remit / scope risks:** the risk that the FCA's regulatory scope or remit (i.e. the regulatory perimeter) is unclear, ill-defined, inappropriate, misunderstood internally and/or by consumers resulting in consumers not receiving the degree of protection that they thought was available.

- **Regulatory tools/powers:** the risk that the FCA does not have the appropriate tools or processes to identify or act against the harm in the regulated financial services market in an appropriate manner.

- **The risk of inaction or delayed action:** the risk that the FCA fails to act with sufficient speed on information available to it to prevent harmful activity by applicants for authorisation, firms it has authorised or firms it identifies as undertaking regulatory activities without authorisation.

Operational risks:

Like any organisation, the FCA faces significant operational risks which may result in financial loss, disruption or both to the organisation and may, in turn, result in us failing to deliver our business plan commitments or mitigations to support the reduction of harm to consumers. As the PSR is supported by the FCA through a provision of services agreement, internal operational risks affecting the FCA may also impact the effective operation of the PSR. The main operational risks include:

- **People risks:** including risks associated with the inability to attract and retain a suitably skilled workforce; the capacity of our staff to deliver our work programme; the changing capability needs of the organisation to keep pace with the changing nature of firms and markets within which they operate; and lack of appropriate diversity and inclusion, such that we do not appropriately identify the risks and harms in the market or act with the pace or flexibility required.

- **Systems risks including cyber:** The risk that we fail to ensure the appropriate availability, stability, resilience and recoverability of our systems, including to cyber related risks, increases the risk that our systems are not fit for purpose and may cause us to fail to deliver the intended outcomes which could undermine our ability to deliver key objectives and operate effectively as a Regulator.

- **Process risks:** The risk that our processes and procedures are poorly designed or do not perform as intended may result in poor decision-making or operational failure that may in turn lead to a failure to deliver our objectives.

- **Legal risks:** The risk that we breach relevant legal requirements, other regulations and contractual provisions within the full scope of our activities, resulting in non-compliance, possible fines and damage to public confidence.

- **Data risks:** The risk that we have inaccurate or incomplete data, fail to ensure the ongoing integrity of our data or fail to use intelligence and other information that we have access to, in order to drive joined-up regulatory activities across the system of regulation focused on the whole firm, resulting in potential failure to deliver key objectives or policy enhancements aimed at mitigating harm.

- **Change delivery risk including Transformation:** The risk that the nature and quantum of change currently underway across the organisation to ensure our systems, infrastructure and target operating model are fit to meet current and future needs and stakeholder expectations or results in the organisation not operating efficiently and effectively.

Financial risks:

- **Revenue and collections risk:** The potential for firm failures resulting from the pandemic may impact the collection of fees and future fee income due to reduced revenues generated by firms.

- **Pension assets / (obligations) risk:** The risk that a fall in the Plan's pension asset values is not matched by a corresponding reduction in the value placed on the Plan's defined benefit obligations. The valuation of pension assets may be impaired due to asset volatility including the value of real estate property assets which are less liquid and, therefore, harder to value. The defined benefit obligations will fluctuate due to changes in life expectancies, market volatility of bond yields and inflation.

- **Liquidity risk:** The risk that current cash reserves and overdraft facility are insufficient to meet outgoings, as a result of significant adverse changes in fee collections, additional costs associated with delays in projects delivery and other operating costs over the next 12-18 months.

Public confidence risks:

This encompasses the risks which could constrain the FCA's ability to deliver against our objectives due to diminished levels of public confidence, a reduced ability to influence our key stakeholders and/or a reduction in our credibility and standing as effective regulators. These risks could also result from the inappropriate management of the relationships we have with our regulatory partners that create confusion or the impression that effort is being duplicated or not joined up across numerous organisations.

11 Directors' report and corporate governance statement

Directors' report

The directors present their report for the year ended 31 March 2021. Some information that fulfils the requirements of the Directors' report can be found elsewhere in this document and is referred to below. This information is incorporated into this Directors' report by reference.

Names of the directors who held office during the year can be found in Table 1 of the Corporate Governance Statement.

The directors have a duty under section 172 of the Companies Act 2006 to promote the success of the Financial Conduct Authority (FCA) and factor our stakeholders into their decision making. They use the s172 statement (see Chapter 9) and Corporate Governance Statement (see Chapter 11) to explain how they have performed this duty.

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

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

Directors' responsibilities for the Annual Report and Accounts

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have chosen to prepare the financial statements for the FCA (the Parent Company) and the Group in accordance with International Financial Reporting Standards, as adopted by the EU. The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

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

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

As far as the directors are aware:

- there is no relevant audit information of which the company's auditor is unaware, and
- they have taken all the steps they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

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

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

In preparing the FCA and PSR financial statements, the directors have performed a going concern assessment which covered the period 2021/22, taking into consideration the latest FCA's Business Plan and the key risks and uncertainties set out below:

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

   a. The FCA's current liquidity position reflects (i) cumulative scope change costs (£15.3m), (ii) the continued cash contributions to reduce the pension scheme deficit; and (iii) the funding of capital expenditure which is recovered over the useful economic lives of the assets rather than when the expenditure is incurred.
   b. The FCA's net pension obligation of £41.6m at 31 March 2021 reflects (i) the triennial valuation of the FCA Pension Plan at 31 March 2019 and (ii) the effectiveness of the Plan's low risk strategy to minimise the impact of market fluctuations on funding levels.
   c. The FCA's strong fee covenants are underpinned by the statutory powers granted to it to raise fees to fund its and the PSR's regulatory activities. Of the firms on which the FCA currently levies its fees, the top 100 are responsible for 50.2% of those fees (2020: 49.5%). For the PSR, the top 10 fees payers are responsible for 70.9% (2020: 69.9%) of the Annual Funding Requirement.
   d. The FCA is currently well placed from a liquidity perspective, with cash deposits of £187.1m at 31 March 2021 and an available overdraft facility of £100m. The PSR has cash deposits of £12m.

2. Credit risk: falls into 3 main categories:

   a. The collection of fees from the financial services industry: The FCA has a strong record in terms of collecting fees with bad debt experience averaging less than 0.30% of fees receivable over the last three years. For 2020/21 invoice collection, the average bad debt increased to 0.36%, reflecting small number of firms which were marginally impacted by the Covid-19 pandemic. However, collection of fees continues to be at greater risk due to the potential impact of the Covid-19 pandemic on firms. Whilst the expected increase in bad debt did not materialise with respect to the collection of 2020/21 invoices, the ongoing restrictions imposed by UK Government continue to put greater risk on the collection of fees for 2021/22. The impact of the Covid-19 pandemic on the financial services industry has yet fully to materialise and may put additional pressure of the collection of fees. As a result, the FCA has continued to offer an extension of payment for invoices from 30 days to 90 days to provide small and medium sized firms with greater liquidity.
   b. EU Withdrawal has had a slight impact on 2020/21 fee rates from firms moving some of their business outside the UK. The impact on 2021/22 fees will therefore depend on whether firms continue to move part of their operations outside the UK and reduce the tariff data they report for the calendar year ending 31 December 2020.
   c. The placement of those fees as deposits with various counter parties: the FCA only invests with financial institutions which, among other things, meet its minimum credit rating as assigned by credit rating agencies. The FCA also spreads its deposits across a number of counter parties to avoid the concentration of credit risk.

3. Significant Accounting Judgments and Key Sources of Estimate Uncertainty that have been considered by the directors are the estimated intangible assets' useful lives (as set out in Note 8 to the Financial Statements), the judgements related to the impairment of Right of Use assets (as set out in Note 9 of the to the Financial Statements), the assumptions underpinning the valuation of the pension assets and obligations and in particular the valuation of property assets (as set out in Note 17 to the Financial Statements) and the assumptions relating to provisions and contingent liabilities under the Complaints Scheme (as set out in Note 18 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.

Employee Engagement

The section 172(1) statement on page 59 sets out details of how the directors have engaged with employees during the year.

Business relationships

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

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

Further information on our key external stakeholder groups, how we engage with them and take into account their views is given in our section 172(1) Statement which can be found on page 60.

Directors' indemnities

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

In accordance with our Articles of Association and to the extent permitted by law, directors are granted an indemnity from the Company in respect of liability incurred as a result of their office. The indemnities were in force during the course of the financial year ended 31 March 2021 and remain in force at the date of this report.

Political Donations

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

Auditor

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

By Order of the Board on 7 July 2021

Simon Pearce

Simon Pearce – Secretary

Corporate governance statement for the year ended 31 March 2021

Introduction

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

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

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

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

We are open and accountable to the public through our Annual Report, our Annual Public Meeting and our broader engagement programme described above. We report annually to Treasury on the extent to which we have met our regulatory objectives and are also subject to regular detailed scrutiny by the Treasury Committee.

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

The role of the Board, Board Committees and Executive Committees

Consistent with the Code, the Board is our governing body with collective responsibility for the long-term success of the organisation. There is a clear division of responsibilities between the Board and executive management. The Board provides strategic leadership, 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 on which matters it should make decisions, 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 decisions that are not specifically reserved to the Board, but which the Board or executive management considers are so novel, contentious or significant that the Board should take them
h. Maintaining high-level relationships with other organisations, authorities and other relevant stakeholders. These include Government, the Financial Services Compensation Scheme, the Financial Ombudsman Service, the Bank of England, the Prudential Regulation Authority, and the various statutory and other panels
i. Establishing and maintaining the accountability for decisions made by committees of the Board and executive management

The Board is supported by committees to achieve the efficient discharge of its functions and facilitate effective decision making. These committees are shown in Chart 1 and the membership of them is provided in Table 3.

There are mechanisms in place to ensure that these committees are accountable to the Board. For example, the Chair of the Regulatory Decisions Committee reports to the Risk Committee and

the Chairs of the other Board Committees report on the work undertaken by their committees at the following Board meeting.

Our 'Corporate Governance of the Financial Conduct Authority' document provides more details on our governance arrangements and is available on our website. Further details of the Board committees' activities can be found later in this report.

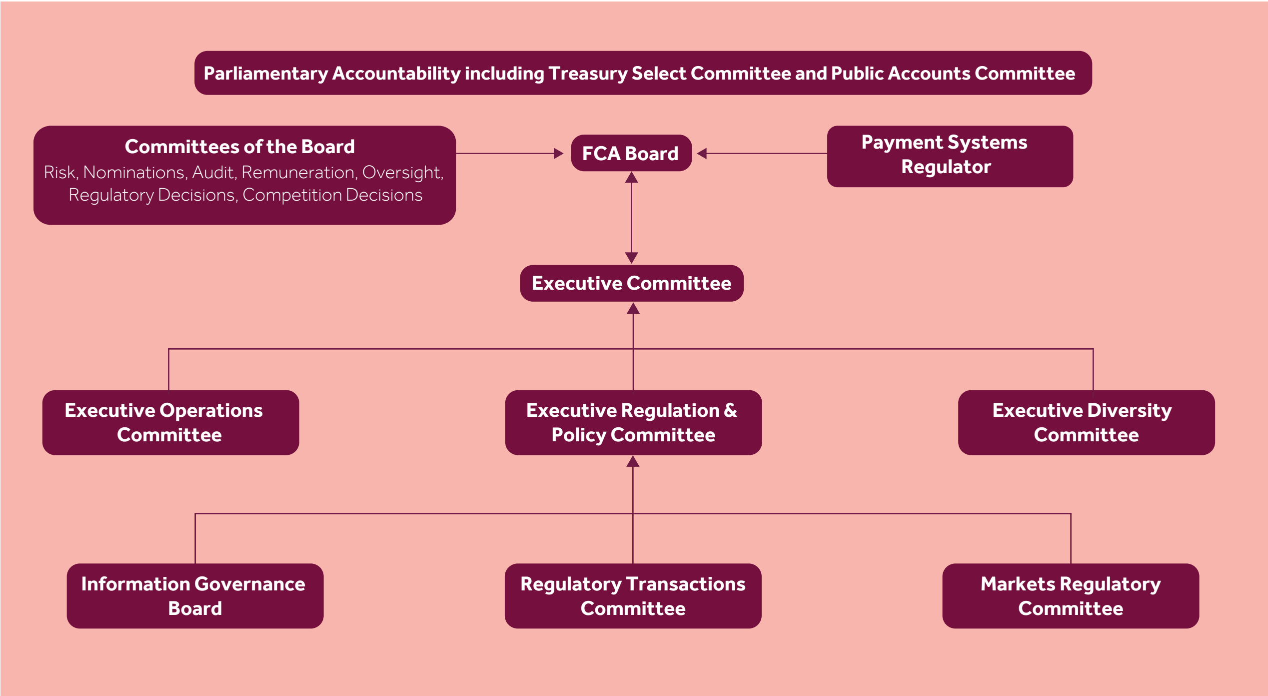
Our Executive Committees also play an important role in our governance. The principal committee is the Executive Committee (ExCo), which is chaired by the Chief Executive and takes decisions on the most significant operational issues.

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

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

Chart 1 below summarises our governance framework. Further details of our executive structure can be found on our website.

Chart 1 – The FCA's governance framework



The Payment Systems Regulator is subject to FCA Board oversight in respect of its budget and business plan, but has its own board and governance structure.

Senior Managers and Certification Regime

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

Board Composition

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

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

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

Table 1 – Directors during the year 2020/21

Name	Original appointment date	Expiry of current term/date membership ceased
Catherine Bradley Non-Executive Director	02/08/14	31/07/20
Liam Coleman Non-Executive Director	05/11/19	04/11/22
Bernadette Conroy Non-Executive Director	06/04/20	05/04/23
Baroness Hogg Non-Executive Director	01/04/16	24/09/20
Jeannette Lichner Non-Executive Director	01/04/20	31/03/23
Richard Lloyd Non-Executive Director – Senior Independent Director	01/04/19	31/03/22
Alice Maynard Non-Executive Director	05/11/19	04/11/22
Charles Randell Non-Executive Director – Chairman	01/04/18	31/03/23
Nikhil Rathi Executive Director – Chief Executive	01/10/20	30/09/25
Tommaso Valletti Non-Executive Director	05/11/19	04/11/22
Sam Woods Non-Executive Director – Bank of England Deputy Governor for Prudential Regulation	01/07/16	Not applicable
Christopher Woolard Executive Director – Interim Chief Executive	01/08/15 (Executive Director) 14/03/20 (Interim Chief Executive)	30/09/20

Christopher Woolard stepped down as Interim Chief Executive of the FCA on 30 September 2020. On 22 June 2020, HM Treasury announced the appointment of Nikhil Rathi as the new Chief Executive of the FCA with effect from 1 October 2020.

All non-executive appointments are made in accordance with the Government's Principles of Public Appointments and the Governance Code published by the Cabinet Office and are regulated by the Office of the Commissioner for Public Appointments. Following a recruitment exercise to appoint non-executive directors undertaken during the previous reporting year, Jeannette Lichner and Bernadette Conroy were appointed for a three-year term with effect from 1 April 2020 and 6 April 2020 respectively. The Assessment Panel responsible for conducting the recruitment process was assisted by the executive search consultants, Odgers Berndtson.

A majority of Board members are non-executive and bring extensive and varied experience to the Board and Board Committees. All non-executive directors are considered to be independent. Richard Lloyd is the Senior Independent Director.

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

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

Executive members of the Board have continuous employment contracts with the FCA, subject to the notice periods as set out in Table 2 below. As previously noted, Christopher Woolard's appointment as an Executive member of the Board ended on 30 September 2020, he continued as an FCA employee until 31 March 2021.

Table 2 – Notice Periods

Executive Director	Notice period
Nikhil Rathi	6 months
Christopher Woolard	6 months

The membership of the Board Committees during the reporting year is set out in Table 3 below:

Table 3 – Board Committees membership during the reporting year

Audit Committee	Risk Committee	Remuneration Committee	Nominations Committee	Oversight Committee
Catherine Bradley (Chair – until July 20)	Richard Lloyd (Chair)	Baroness Hogg (Chair – until Sept 20)	Charles Randell (Chair)	Charles Randell (Chair – until Sept 20)*
Liam Coleman (Chair – from Aug 20)	Catherine Bradley (until July 20)	Alice Maynard (Chair – from Oct 20)	Alice Maynard	Richard Lloyd (Chair – from Oct 20)
Richard Lloyd	Liam Coleman	Charles Randell	Bernadette Conroy (from May 20)	Christopher Woolard (until Oct 20)
Simon Ricketts (A director of the Payment Systems Regulator)	Alice Maynard	Bernadette Conroy (from May 20)	Catherine Bradley (until July 20)	Jeannette Lichner (from July 20)
Bernadette Conroy (from May 20)	Jeannette Lichner	Jeannette Lichner (from July 20)	Jeannette Lichner	Nikhil Rathi (from Oct 20)**
		Liam Coleman (from Sept 20)	Liam Coleman	Sheldon Mills (from Oct 20)**
			Richard Lloyd	Baroness Hogg (until June 20)
			Tommaso Valletti	

* *Although no longer chair of the Oversight Committee, Charles Randell remains a member.*

** *When Nikhil Rathi joined the FCA, he became a member of the Oversight Committee. Sheldon Mills attends the committee as Nikhil's nominee, as per the terms of reference.*

The activities of the Board

The Board has a formal schedule of matters reserved to it and it meets regularly to ensure it is discharging its duties effectively. The Board also addressed a small number of matters by written procedure. Such matters were noted at the subsequent meeting and recorded in the respective minutes.

The Board Committees also met frequently during the year. Table 4 provides details of members' attendance for all the Board and Board Committee meetings during the reporting year. For those members asterisked, the table reflects the number of meetings available for them to attend, given that their terms began or ended part way through the reporting year.

Table 4 – Board and Board Committee attendance during the year

Name	Board meetings	Audit Committee	Risk Committee	Remuneration Committee	Nominations Committee	Oversight Committee	Additional Board meetings	Joint Audit Committee/ Risk Committee meetings	Additional Risk Committee meetings	Additional Oversight Committee meetings
Charles Randell	11/11			5/5	4/4	3/3	15/15			1/1
Richard Lloyd	11/11	4/5	6/6		4/4	3/3	14/15	3/3	2/2	1/1
Christopher Woolard*	5/5					1/1	12/12			
Jeannette Lichner	11/11		5/6	4/4	4/4	3/3	14/15	3/3	2/2	1/1
Nikhil Rathi*	6/6						3/3			0/1
Sheldon Mills* – Nominated by Nikhil Rathi						2/2				1/1
Baroness Hogg*	3/4			2/2			11/12			
Alice Maynard	9/11		5/6	5/5	2/4		14/15	3/3	2/2	
Bernadette Conroy	11/11	5/5		4/4	4/4		13/14	3/3		
Liam Coleman	11/11	5/5	6/6	3/3	4/4		15/15	3/3	2/2	
Catherine Bradley*	4/4	2/2	2/2		2/2		10/11	1/1	2/2	
Sam Woods	11/11						14/15			
Simon Ricketts		5/5						3/3		
Tommaso Valletti	11/11				4/4		15/15			

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

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

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

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

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

- Carrying out a robust assessment of the emerging and principal risks
- Approving actions to address key consumer detriment issues and support market functioning during the Covid-19 pandemic;
- Supporting the development of the organisation's transformation programme;
- Reviewing, challenging, and approving the business priority strategies;
- Approving major policy initiatives;
- Overseeing the FCA's approach to manage the impact of EU withdrawal on financial services consumers and firms;
- Approving the FCA's response to the independent review reports on London Capital & Finance and Connaught;
- Overseeing the management and delivery of the organisation's digital, data and cyber strategy, and major projects portfolio;
- Approving organisational budgets and business plans of the Payment Systems Regulator, the Financial Ombudsman Service and the Financial Services Compensation Scheme; and
- Approving the annual report and accounts.

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

- Providing stakeholders with an opportunity to question the Chair, Chief Executive and directors on how the FCA has delivered against its strategic objectives at the Annual Public Meeting on 24 September 2020.
- Reviewing the results of the annual Stakeholder Survey and joint Practitioner Panel/FCA Survey of firms, which enables the Board to compare the FCA's progress against results from previous years. This also improves the Board's understanding of stakeholder views of the FCA and perceived priority areas of work for the coming year. The research findings are also published internally, to enable our employees to understand how our stakeholders perceive us and to help them in planning for the year ahead.
- Receiving updates on the Employee Survey results and engaging with representatives of the Staff Consultative Committee.
- Receiving updates on Corporate Responsibility and Sustainability initiatives.
- Considering a report from the Complaints Commissioner regarding the review of the effective operation of our Complaints Scheme.

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

Company Secretary and independent advice

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

Succession

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

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

Board induction and training

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

Board effectiveness review

Reviews of board effectiveness are conducted annually. In accordance with good corporate governance practice, such reviews are externally facilitated every three years. The most recent external review was in 2017-18 and so an externally facilitated review has been commissioned again this year. The review is taking the form of interviews with Board members and other relevant personnel, observations of Board and committee meetings and review of relevant documentation. It is being conducted by Advanced Boardroom Excellence.

The review timetable has been designed to enable account to be taken of recent changes at Board and senior executive level, including the appointment of a new Chief Executive, and the results of a review of executive governance and decision making. The key findings of the review will be published in the coming months.

Conflict of interests

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

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

Internal controls

The internal control framework is designed to provide reasonable assurance about the effectiveness of the FCA's control environment. The framework is an important part of our governance arrangements and is intended to help manage risks to the FCA achieving its statutory objectives. No such framework can, however, provide absolute assurance or eliminate all risk and the FCA aims to prudently manage the risks that are a necessary part of its functions.

Key features of the FCA's internal control framework include the following:

- Reporting that highlights the key internal and external risks faced. This supports discussion on the best course of action to mitigate the key risks and helps senior managers make decisions on priorities and resource allocation.
- The FCA's Executive Committee and Executive Operations Committee regularly reviewing these reports and related matters and the views of these committees being reported to the Risk Committee and Audit Committee as appropriate.
- Board members, directors and senior managers regularly demonstrating to all staff their commitment to maintaining an appropriate control culture across the FCA.
- Clear reporting lines and delegated authorities, which are reviewed on a regular basis.
- Appropriate policies and procedures being included in the employee handbook and other manuals.
- The Internal Audit division providing independent assurance about the effectiveness of risk management and controls to the Board and management.
- The Audit Universe, which contains all the FCA's activities, systems and projects that contribute to managing our risks, being considered in the development of the three-year strategic internal audit plan; and Internal Audit adopting a risk-based approach in its periodic review of the Audit Universe and development and review of the annual audit plan.
- A review of the strategic internal audit plan being undertaken to ensure that the organisation's risk management framework keeps pace with the changing internal and external environment.
- Clear segregation between the FCA's regulatory function and the internal treasury function to ensure separation of regulatory and investment activities.

The Board recognises that the risks facing the organisation have and will continue to evolve, especially given:

- the pace of change in the external environment;
- the internal and external impact of the coronavirus pandemic;
- the findings of the two Independent Reviews which were published in this reporting period; and
- the nature and extent of the FCA's transformation programme.

All of these have impacted the FCA's own risk profile, including public confidence risk, and the breadth and pace of risk mitigation required to ensure that the internal control framework is reflective of the prevailing risk environment.

The identification and mitigation of internal and external risk is overseen by the Risk Committee, with the effectiveness of key risk controls also overseen by the Audit Committee.

These committees received reports on the assessments performed by the three lines of defence. Based on such assessments, it is clear that the risk and control environment requires further strengthening to respond to the organisation's risk profile. The design of the organisation's controls is broadly adequate, with aspects of internal controls and risk management being improved during the year. Further improvements in implementation and embedding are, however, required in certain areas of the internal control framework, including in relation to:

- information technology, including cyber;
- the use of intelligence and other information to drive joined-up regulatory activities across authorisation, supervision and enforcement focused on the whole firm;
- the other changes required to meet the recommendations and lessons from the Independent Reviews;
- enhancing certain aspects of escalation and referral processes;
- strengthening the measurement of outcomes experienced by users of the regulated activities of FCA authorised firms; and
- the impact of changes in the organisation's Target Operating Model

noting the need to keep these under constant review.

Regular reports from management were received by the Audit Committee and Risk Committee on financial and other controls and the risk management system. As part of this, the Audit Committee received and reviewed reports from the Director of Internal Audit which included executive summaries of internal audit reviews, summaries of themes identified from internal audit reviews, work undertaken, audit findings and subsequent actions taken by management. The Risk Committee received reports on the risk environment from management, the Risk and Compliance Oversight division and the Internal Audit division. Both committees and the Board also received regular updates on the Independent Reviews.

Financial risks such as credit risk and liquidity risk are monitored on an ongoing basis and mitigations put in place to minimize any risk. In addition, the effectiveness of financial policies, procedures and activities, including segregation of duties and authorisations in accordance with a delegation of financial authority, are monitored through monthly management reviews. Where areas for improvement in the system are identified, the Board considers the recommendations made by the Executive Committee, the Risk Committee and the Audit Committee.

The Risk Committee reported to the Board at least quarterly on its oversight of the risk environment, and the Audit Committee reported at least quarterly to the Board on internal controls and operational risk management. The Risk Committee met on eight occasions in response to the heightened risks resulting from the coronavirus pandemic.

Board Committees

The terms of reference for each committee are detailed in the 'Corporate governance of the Financial Conduct Authority' document, which is published on our website.

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

Audit Committee

The Audit Committee consists of four independent non-executive directors of the FCA and PSR. It is responsible for reviewing and providing assurance to the Board on matters including: the effectiveness of our internal controls; our operational risk management framework and mitigation strategies; the integrity of the financial statements and the statements that relate to financial controls and operational risk in the annual report and accounts; and for oversight of the external audit process. Catherine Bradley stood down as Chair of the Committee in July 2020 and was succeeded by Liam Coleman.

The Board's statement above (at page 91) gives more information on internal controls. The Committee has assured itself that the financial statements give a true and fair view and have been prepared with integrity.

During the year the Committee's principal areas of activity included:

- reviewing the organisation's internal financial controls systems and monitoring financial risks as a result of the impacts of Covid-19 pandemic;
- monitoring the integrity of the financial statements;
- reviewing significant financial reporting judgements and estimates as contained on page 117 and the relevant disclosures required for each key area in the respective notes to the financial statements;
- reviewing the National Audit Office's (NAO) audit strategy and reports;
- reviewing internal audit reports;
- scrutinising significant projects for IT and major change programmes;
- scrutinising the organisation's cyber security controls;
- monitoring complaints handling processes;
- considering the outcomes from the annual risk and control self- assessments and joint organisational internal control assessments

The Committee also oversees the FCA's relationship with the external auditor. Information on fees paid to the auditor is given on page 126.

The Committee met on five occasions during the year, with meetings scheduled to coincide with the risk reporting and external audit cycles. Three additional meetings were arranged as joint Audit Committee and Risk Committee meetings where risks in relation to the FCA's technology and data strategies were discussed.

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

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

Risk Committee

The Risk Committee consists of four independent non-executive directors. It has responsibility for the review and oversight of the risks[1] to the FCA achieving its statutory objectives, the appetite for such risks and the suitability of the scope and coverage of the mitigation used to reduce the potential impact of such risks. The Committee is also responsible for the effective operation of the Regulatory Decisions Committee (RDC) and receives regular reports on the operation of the RDC from its Chair.

During the year the Committee reviewed the updated FCA risk management framework and received regular reports from the Risk and Compliance Oversight and Internal Audit divisions. The Committee's items of business included:

- detailed examinations of the existing and emerging risks in certain sectors and considering the organisational approach to risk
- reviewing the data strategy and other change programmes
- risks highlighted by independent review reports
- overseeing the implementation of the Directory and Register Enhancements project
- risks associated with the LIBOR transition programme and Brexit.
- the effectiveness of risk identification and mitigation, including the potential for unintended consequences of FCA interventions.

The Committee met on eight occasions during the year, more frequently than in previous years, in response to the heightened risks caused by the Covid-19 pandemic. The Committee also attended three joint meetings of the Risk Committee and Audit Committee, where a number of risks, including in relation to the FCA's technology and data strategies, were discussed.

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

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

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

Remuneration Committee

The Remuneration Committee is responsible for ensuring that there is a formal and transparent procedure for developing policy on remuneration and for agreeing the remuneration packages of members of the Executive Committee and certain other senior executives. The Committee recommends to the Board the annual budget for pay and performance awards and is also responsible for determining the remuneration of members of certain associated bodies (such as the Board of the Financial Ombudsman Service and the Consumer Panel).

During the year the Committee's principal areas of activity included: approving the annual budget for pay and performance awards; and approving the remuneration of the executives within its remit.

1 Further information on the principal risks and uncertainties facing the FCA can be found in the Group operational overview (Chapter 10).

To enable it to carry out its duties, the Committee received information on, and assessment of, the individual performance of the relevant executives from the Chief Executive. Performance was measured against the achievement of the collective objectives by reference to the Business Plan, the objectives relating to the individual's areas of responsibility and assessment of their leadership capabilities.

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

Nominations Committee

The Nominations Committee is responsible for making recommendations to the Board with regard to the structure, size and composition of the Board and its committees, taking account of the skills, knowledge, experience and diversity of the Board and the organisation's strategy. The Committee is also responsible for setting the performance objectives for members of the Executive Committee and certain other senior executives.

During the year the Committee's principal areas of activity included: considering the performance objectives of the Chief Executive and members of the Executive Committee and certain other senior executives, supporting non-executive director recruitment, agreeing changes to the senior executive structure and considering succession planning for senior executives.

The Committee, which consists solely of the non-executive directors (with the exception of the Bank of England's Deputy Governor for Prudential Regulation), met on four occasions during the year. The Committee also made seven decisions by written procedure.

Oversight Committee

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

During the year the Committee's principal areas of activity included:

- assuring itself of the capabilities and performance of these organisations, including providing support and oversight to each of the Ombudsman Service and FSCS on their responses to the Covid-19 pandemic;
- engaging with each organisation on proposals to revise the wider assurance framework;
- providing review and challenge of the basis of preparation, and underlying assumptions, of each organisation's annual budget and business plan;
- providing oversight of the compliance of the Ombudsman Service with the Alternative Dispute Resolution regulations;
- considering the FCA's consumer investments strategy to tackle poor practice and misconduct in the market, and how this could reduce the burden on the organisations and the compensation bill and other regulatory costs borne by authorised firms; and
- ensuring that the FCA maintained good and effective working relationships with the Ombudsman Service and FSCS to ensure other matters of mutual interest were identified, discussed and acted on.

The Committee met four times during the reporting period.

Regulatory Decisions Committee

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

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

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

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

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

The RDC's separate annual review of its activities for the year ending 31 March 2021 can be found in Appendix 3 of this report.

Competition Decisions Committee

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

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

by order of the Board

Simon Pearce, 7 July 2021

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.

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

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

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

Remuneration focus for 2020/21

Our long-term strategy remains unchanged and we continue 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

The impact of coronavirus, particularly in the first half of 2020/21, and wider economic conditions resulted in a need to make some short -term changes in our approach. These changes included no increases to staff salaries for the majority of our employees as set out in the 2020/21 Remuneration review below.

2020/2021 Remuneration review

In light of the economic conditions and impact of coronavirus, the Executive Directors and the Board decided in February 2021 not to increase staff salaries for 2021/22, with the exception of a 1.2% salary increase for those paid below £24,000 per annum on a full-time equivalent basis. Graduates and apprentices received stepped increases that are part of their respective schemes. During 2020/21, 6% of eligible employees received a salary increase.

In addition, funding for performance bonus awards was reduced and the awards based on a fixed value as calculated as a percentage of the average salary for each grade. These stared at 11% for the most junior roles and stepped down to 8% for the most senior roles, resulting in an award between £3,100 and £16,795 respectively. The actual amount spent was 9.8% of average salaries. Executive Directors were not considered as part of this review.

The distribution of awards is shown in table 5.

Table 5: FCA bonus awards distribution

2020 – 2021		2019 – 2020	
Bonus percentage received	**Percentage of workforce who received a bonus**	**Bonus percentage received**	**Percentage of workforce who received a bonus**
0%	1%	0%	11%
0.1-5%	0%	0.1-5%	0%
5.1-9.9%	50%	5.1-9.9%	24%
10-14.9%	47%	10-14.9%	35%
15%-19.9%	2%	15%-19.9%	23%
20-24.9%	0%	20-24.9%	6%
25-30%	0%	25-30%	1%

Remuneration of Executive Directors and Directors with designated responsibility under the Senior Manager regime (SMR)

Basic pensionable salary

This year, the salaries of SME Executive Directors and Directors were not changed as part of the annual review as no budget was made available for salary reviews. This was in line with the approach taken for all employees.

Performance bonus

During the period under review, from 1 April 2020 to 31 March 2021, the SMR Executive Directors were eligible to be considered for a performance-related bonus award based on a set percentage for their grade.

For the performance year 2020/21 the Executive Directors have collectively declined to be considered for a performance bonus. The remaining Directors, who are, the Company Secretary and Director of Internal Audit received a set performance bonus based on 8% of the average salary for their grade in line with the approach taken for all employees.

As a direct outcome of the London Capital Finance (LCF) review findings the deferred performance bonuses awarded to the Executive Directors for the performance year 2019/20 were not paid following a decision by the Board.

Other benefits

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

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. Nikhil Rathi is a member of the Plan. Andrew Bailey chose to opt out of the plan and receive a non-pensionable supplement instead. Christopher Woolard was a member of the Plan.

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

Changes to Executive Directors' remuneration package

From 1 April 2021 the total remuneration for Executive Directors will be amended. This includes the removal of eligibility to be considered for a performance bonus and a reduction in other flexible benefits offered. As part of this, Executive Director salaries have been standardised to £300,000. Any individuals already receiving a salary higher than this will remain on their current salary.

Non-Executive Directors

Non-Executive Directors receive a fee for their service (see table 6), they are not eligible to be considered for salary reviews, core or flexible benefits, performance bonuses or pension contributions.

Board 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 2021 and 2020. The remuneration figures shown are for the period served as Board Directors.

Table 6

	Basic Salary			Performance-related pay			Other benefits		
	2021 £'000	Restated 2020 £'000	As reported 2020 £'000	2021 £'000	Restated 2020 £'000	As reported 2020 £'000	2021 £'000	Restated 2020 £'000	As reported 2020 £'000
Chair									
Charles Randell [1]	**170**	170	170	**-**	-	-	-	-	-
Executive Directors									
Andrew Bailey [2]	**-**	435	435	**-**	-	-	-	35	35
Nikhil Rathi [3]	**228**	-	-	**-**	-	-	–	-	-
Christopher Woolard [4]	**223**	316	316	**-**	-	34	16	33	33

	Total FCA Remuneration (excluding Pension)			Pension			Total FCA Remuneration		
	2021 £'000	Restated 2020 £'000	As reported 2020 £'000	2021 £'000	Restated 2020 £'000	As reported 2020 £'000	2021 £'000	Restated 2020 £'000	As reported 2020 £'000
Chair									
Charles Randell [1]	**170**	170	170	**-**	-	-	**170**	170	170
Executive Directors									
Andrew Bailey [2]	**-**	470	470	**-**	39	39	**-**	509	509
Nikhil Rathi [3]	**228**	-	-	**29**	-	-	**257**	-	-
Christopher Woolard [4]	**239**	349	383	**15**	30	30	**254**	379	414

	Group Fee Paid		FCA Fee Paid	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Non-Executive Directors [5]				
Catherine Bradley [6]	**15**	45	**15**	45
Liam Coleman [7]	**42**	14	**42**	14
Bernadette Sarah Conroy [8]	**35**	-	**35**	-
Amelia Fletcher [9]	**-**	53	**-**	45
Baroness Hogg [10]	**22**	65	**22**	65
Jeanette Lichner [11]	**35**	-	**35**	-
Richard Lloyd [12]	**50**	35	**50**	35
Alice Maynard [13]	**40**	14	**40**	14
Nick Stace [14]	**-**	35	**-**	29
Tommaso Valletti [15]	**43**	14	**35**	14
Sam Woods [16]	**-**	-	**-**	-

Notes

Chair

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

Executive Directors of the FCA

2. Andrew Bailey resigned from the FCA on 15 March 2020. Andrew was awarded a performance bonus of £68,000 for 2018/19, of which £27,200 (40%) was paid in March 2019. The remaining £40,800 (60%) was held in deferment and due to be paid in April 2020. Andrew has declined to receive the remaining deferred performance bonus of £40,800. Andrew also received a non-pensionable supplement in lieu of pension contributions. This amount is included under 'Pension' in the table above.
3. Nikhil Rathi was appointed as Chief Executive on 1 October 2020 on an annual salary of £455,000, he is a member of the FCA Pension Plan and is entitled to receive an annual pension contribution equivalent to 12% of his salary. Nikhil also voluntarily contributes an additional 1% of his salary into the pension plan which is matched by the FCA, under the standard terms of the FCA Pension Plan, thereby resulting in an annual pension contribution equivalent to 13% of his salary.
4. Christopher Woolard was appointed as interim Chief Executive on 16 March 2020 and stepped down as interim Chief Executive and as an Executive Director on 30 September 2020. Christopher is a member of the FCA Pension Plan and is entitled to receive an annual pension contribution equivalent to 12% of his salary. He elected to have £3,000 of the employer pension contribution paid

into the Pension Plan and the remaining employer contribution was paid as a non-pensionable cash supplement at a rate of 8% of his annual salary. The total amount is included under 'Pension' in the table above. For 2019/20 Christopher Woolard was awarded a total performance bonus of £34,200 which was held in deferment pending the outcome of LCF. As a direct outcome for the findings of the LCF review it was decided that the total performance bonus of £34,200 will not be paid.

Non-Executive Directors of the FCA

5. 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.
6. Catherine Bradley served as Chair of the Audit Committee during the year. Catherine left the FCA Board on 31 July 2020.
7. Liam Coleman joined the FCA Board on 5 November 2019 and was appointed Chair of the Audit Committee on 1 August 2020.
8. Bernadette Sarah Conroy joined the FCA Board on 6 April 2020.
9. Amelia Fletcher stepped down from the FCA and PSR Boards on 31 March 2020.
10. Baroness Hogg served as Chair of the Remuneration Committee and Chair of FCA Pension Plan Trustee Limited and stepped down on 31 March 2020. She received an additional fee of £20,000 per annum as Chair of FCA Pension Plan Trustee Limited in 2019/20.
11. Jeannette Lichner joined the FCA Board on 1 April 2020.
12. Richard Lloyd joined the FCA Board on 1 April 2019 and was appointed a member of the Audit Committee on 1 February 2020. He was also appointed Chair of the Risk Committee and Senior Independent Director on 1 April 2020 and as Chair of Oversight Committee on 17 September 2020.
13. Alice Maynard joined the FCA Board on 5 November 2019 and was appointed to serve as Chair of the Remuneration Committee on 24 September 2020.
14. Nick Stace was appointed to serve as Chair of the Oversight Committee on 1 January 2020. He resigned from the FCA Board on 29 January 2020.
15. Tommaso Valletti joined the FCA Board on 5 November 2019. He was appointed to the PSR Board on 1 April 2020 and receives an additional fee of £7,500 for this role.
16. 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.

Fair pay disclosure (audited)

	Group		FCA (Parent Company)	
Remuneration ratio	**2021**	**2020**	**2021**	**2020**
Highest Paid Director's Total Remuneration	£458,270	£448,017	£458,270	£448,017
Median Remuneration of Total Workforce	£61,165	£65,258	£60,555	£64,815
Ratio (to Total Workforce)	7.5	6.9	7.6	6.9
Number of employees paid in excess of highest paid Director	Nil	Nil	Nil	Nil

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

The Accounts Direction from the Treasury, in accordance with Schedule 1ZA, paragraph 14(1) of FSMA requires the FCA to disclose the relationship between the remuneration of the highest-paid director and the median remuneration of the organisation's total workforce for 2021 and 2020.

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 2021.

Excluding the highest-paid director, remuneration ranged from £20,056 to £349,583 (2020: £21,405 to £377,807).

In 2021 no employees (2020, nil) received remuneration in excess of the highest paid director. All figures are based on full time equivalent basis.

Senior Pay Disclosure (audited)

In addition to the Executive Directors reported under Directors' Remuneration, 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 2021.

For 2019/20, the Executive Directors were awarded performance bonuses which were held in deferment pending the outcome of LCF. As a result of the publication of the LCF review, the Executive Directors have not been paid the performance bonuses awarded and therefore, the table below has been restated to disclose the actual remuneration received.

	Basic Salary			Performance-related pay			Other benefits		
	2021 £'000	Restated 2020 £'000	As reported 2020 £'000	2021 £'000	Restated 2020 £'000	As reported 2020 £'000	2021 £'000	Restated 2020 £'000	As reported 2020 £'000
Executive Directors									
Megan Butler	**316**	311	311	**-**	-	34	**32**	31	31
Jonathan Davidson [1]	**224**	311	311	**-**	-	34	**20**	27	27
Nausicaa Delfas	**269**	265	265	**-**	-	29	**29**	30	30
Sheree Howard [2]	**269**	155	155	**-**	-	20	**29**	18	18
Sheldon Mills [3]	**271**	9	9	**-**	1	1	**25**	1	1
Georgina Philippou [4]	**213**	264	264	**-**	-	19	**23**	28	28
Emily Shepperd [5]	**14**	-		**-**	-	-	**-**	-	-
Mark Steward	**316**	311	311	**-**	-	34	**32**	33	33

1 Jonathan Davidson stepped down as a member of the Executive Committee on 11 December 2020.
2 Sheree Howard was appointed as a voting member of the Executive Committee on 1 September 2019.
3 Sheldon Mills was appointed as a voting member of the Executive Committee on 11 December 2020 and as an interim voting member of the Executive Committee on 16 March 2020.
4 Georgina Philippou stepped down as a member of the Executive Committee on 18 January 2021.
5 Emily Shepperd was appointed as a voting member of the Executive Committee on 15 March 2021.

	Total FCA Remuneration (excluding Pension)			Pension			Total FCA Remuneration		
	2021 £'000	Restated 2020 £'000	As reported 2020 £'000	2021 £'000	Restated 2020 £'000	As reported 2020 £'000	2021 £'000	Restated 2020 £'000	As reported 2020 £'000
Executive Directors									
Megan Butler	**348**	342	376	**30**	37	37	**378**	379	413
Jonathan Davidson [1]	**244**	338	372	**20**	28	28	**264**	366	400
Nausicaa Delfas	**298**	295	324	**24**	35	35	**322**	330	359
Sheree Howard [2]	**298**	173	193	**42**	24	24	**340**	197	217
Sheldon Mills [3]	**296**	11	11	**24**	1	1	**320**	12	12
Georgina Philippou [4]	**236**	292	311	**25**	32	32	**261**	324	343
Emily Shepperd [5]	**14**	-	-	**2**	-	-	**16**	-	-
Mark Steward	**348**	344	378	**38**	37	37	**386**	381	415

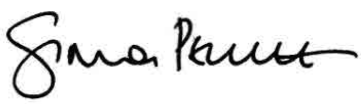
1 Jonathan Davidson stepped down as a member of the Executive Committee on 11 December 2020.
2 Sheree Howard was appointed as a voting member of the Executive Committee on 1 September 2019.
3 Sheldon Mills was appointed as a voting member of the Executive Committee on 11 December 2020 and as an interim voting member of the Executive Committee on 16 March 2020.
4 Georgina Philippou stepped down as a member of the Executive Committee on 18 January 2021.
5 Emily Shepperd was appointed as a voting member of the Executive Committee on 15 March 2021.

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	2021 Number of individuals	2020 Number of individuals
£80,000 – £99,999	0	0
£100,000 – £119,999	0	1
£120,000 – £139,999	0	0
£140,000 – £159,999	0	0
£160,000 – £179,999	1	1
£180,000 – £199,999	0	1
£200,000 – £219,999	1	0
£220,000 – £239,999	5	2
£240,000 – £259,999	5	5
£260,000 – £279,999	13	6
£280,000 – £299,999	3	7
£300,000 – £319,999	0	1
£320,000 – £339,999	0	0
£340,000 – £359,999	1	1
£360,000 – £379,999	0	0
£380,000 – £399,999	0	0

By Order of the Board



Simon Pearce – Secretary

12 Financial statements of the Financial Conduct Authority for the period ended 31 March 2021

Company Number 01920623

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

Opinion on financial statements

I certify that I have audited the financial statements of the Financial Conduct Authority (FCA) for the year ended 31 March 2021 under the Financial Services and Markets Act 2000. The financial statements comprise the Group and Parent Company Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position, 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 the International Accounting Standards, in conformity with the requirements of the Companies Act 2006.

I have also audited the information in the Remuneration Report that is described in that report 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 2021 and of the Group's deficit for the year then ended; and
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and the HM Treasury Direction 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 for opinions

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

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the FCA in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

The framework of authorities described in the table below has been considered in the context of my opinion on regularity.

Framework of Authorities	
Authorising legislation	Financial Services and Markets Act (FSMA) 2000; Financial Services Act 2012; The Financial Services (Banking Reform) Act 2013;

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the FCA's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

My evaluation of the directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting included consideration of the Group and the Parent Company's funding arrangements and assessment of whether any conditions exist which may cast significant doubt on the Group or the Parent Company's ability to continue to operate. My key observations were that funding is secured by statutory levies raised on the FCA's behalf and that no events or conditions exist which may cast significant doubts on the ability to continue operations. I reviewed management's cash flow forecasts and noted that the Company has access to overdraft facilities should they be required. Government has no intention, as far as I am aware, to abolish the FCA. I noted that the United Kingdom's withdrawal from the European Union may give rise to future changes to the regulatory landscape in which the group operates. After investigating events since the United Kingdom's withdrawal from the European Union, including reviewing new legislation, co-ordinating my understanding from other work and discussion with management, there is no reason to believe this casts significant doubt on the Group or the Parent Company's ability to continue to operate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the FCA's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the entities reporting on how they have applied the UK Corporate Governance Code, I have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

My responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon. I do not provide a separate opinion on these matters.

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

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

The areas of focus were discussed with the Audit Committee; their report on matters that they considered to be significant to the financial statements is set out on page 93.

They are the same as in 2020/21 other than that the triennial valuation of the final salary section of the FCA's Pension Plan was an area of audit focus in 2019/20 but is no longer an area of audit focus for 2020/21

Key audit matter 1 – Risk of management override of controls

Description of risk

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

How the scope of my audit responded to the risk	I reviewed key financial processes and controls around journals and account balances which involve estimates and significant judgements. I used data analytics to review the manual journals posted in year for risk factors identified through our team discussion of potential fraud and management override risks and tested any such journals. I considered accounting estimates and judgements for evidence of bias, including a retrospective review of management's judgements and assumptions. I reviewed the ledger, bank statements and committee papers to support discussions with management in seeking to identify significant transactions that appeared to be outside the normal course of business and did not find any such transactions. Accounting estimates made by FCA mainly relate to the valuation of the gross pension assets and obligation, provisions, PPE and intangible asset useful lives, asset impairments, bad debt provisions, accruals, receivables and prepayments. I reviewed these as part of my audit testing and found no evidence of management bias. **Key observations** My testing results were satisfactory.

Key audit matter 2 – Defined benefit pension – estimation of net obligation

Description of risk

The FCA recognised a net obligation of £41.6m in respect of the final salary section of the FCA Pension Plan at 31 March 2021 (31 March 2020 net asset of £20.7m). The final salary section of the Pension Plan is closed both to new entrants and to future accrual. However, the gross pension asset or obligation recognised by FCA is a significant estimate where small changes in underlying assumptions could result in material changes in the underlying Plan assets and liabilities.

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

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

How the scope of my audit responded to the risk

In response to the risk, I ensured that my understanding of the scheme arrangements are up to date, including whether there were any transfer schemes in operation during the year and assessed the design and implementation of the controls in place relating to the specification of key assumptions (financial, used to value the gross pension asset and liability. I agreed the valuation of scheme assets to third party reports and recalculated the year-end valuations using an independent source for pricing. I reviewed the methodology that managements' actuarial expert used in their key assumptions and benchmarked the key assumptions selected by management against those used by other comparable entities and against best practice

I was supported by specialist actuarial support.

All pension assets have been agreed to fund manager statements at year end. One value was found to differ to the value recorded in the financial statements by a material amount due to management using fund manager information from an earlier period. The financial statements have been amended by management to reflect the value in the year-end fund manager's report. No issues were identified with respect to the controls in place at the fund managers. I obtained bridging letters to review their controls reports to 31 March 2021.

The defined benefit obligation is valued using assumptions which all lie within the expected range.

Key observations

My testing results were satisfactory.

Application of materiality

Materiality

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

Based on my professional judgement, I determined overall materiality for the FCA's financial statements as a whole as follows:

	Group	Parent Company
Materiality	£5,910,000	£5,775,000
Basis for determining materiality	1% of gross operating costs for the year ending 31 March 2020 of £591 million	1% of gross operating costs for the year ending 31 March 2020 of £577.5 million
Rationale for the benchmark applied	I chose this benchmark because the budgeted expenditure for the financial year determines the Annual Funding Requirement for both parent and subsidiary, which form the basis for the fees invoiced to regulated firms. I considered whether other parts of the financial statements might form an appropriate benchmark such as the portfolio of entity-constructed intangible assets, the defined benefit pension liability and the matching right of use asset and lease liability, However, on balance, the key area of interest for Parliament and other stakeholders, such as the firms regulated by the FCA, is the FCA's annual expenditure, which determines the size of the regulatory cost that the FCA imposes upon the financial services sector. I have selected a materiality percentage of 1% of gross operating costs. 1% is at the lower end of the materiality range and I chose it because the FCA is a sensitive entity. For example, FCA fines are regularly reported by the press and there is an active parliamentary interest in the ongoing operations of the FCA, especially at the Treasury Select Committee. Regulated firms also take an interest in where their fees are spent. The financial services sector is of key significance to the UK economy, and so the affairs of one of the key regulators will attract significant attention.	

Performance Materiality

I set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 85% of Group materiality for the 2020-21 audit (2019-20: 85%). In determining performance materiality, I have also considered the uncorrected misstatements identified in the previous period.

Other Materiality Considerations

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

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

Error Reporting Threshold

I agreed with the Audit Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £110,000 (Group) and £100,000 (Parent Company), as well as differences below this threshold that in my view warranted reporting on qualitative grounds. I also report to the Audit Committee on disclosure matters that I identified when assessing the overall presentation of the financial statements.

There were no unadjusted audit differences identified as part of our audit.

Audit scope

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

The FCA Group constitutes the parent company and the Payment Systems Regulator (PSR), which is assessed as non-significant for the group audit as in 2020/21 PSR's expenditure was £15.8m (2.7 per cent of Group expenditure of £598.4m) and PSR's income was £16.9m in 2020/21 (2.7 per cent of Group income of £535.6m). Moreover, PSR's total assets at 31 March 2021 were £12.0m (1.9 per cent of Group total assets of £643.7m).This work covered substantially all of the Group's assets and net expenditure, and together with the procedures performed at Group level, gave me the evidence I needed for my opinion on the Group financial statements as a whole.

Other Information

The other information comprises information included in the annual report, but does not include the parts of the of the Remuneration Report described in that report as having been audited, the financial statements and my auditor's report thereon. The directors are responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my report, 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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

In my opinion the part of the directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In my opinion, based on the work undertaken in the course of the audit:

- the part of the directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Group Operational Overview and Directors' Report and Corporate Governance 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

In the light of the knowledge and understanding of the FCA and its environment obtained in the course of the audit, I have not identified material misstatements in the Group Operational Overview or the Directors' Report and Corporate Governance.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or certain disclosures of director's remuneration specified by law are not made; or
- a corporate governance statement has not been prepared by the parent company; or
- I have not received all of the information and explanations I require for my audit;

Corporate governance statement

The Listing Rules require me to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the FCA's compliance with the provisions of the UK Corporate Governance Statement specified for my review.

Based on the work undertaken as part of my audit, I have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or my knowledge obtained during the audit:

- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 80 and 81;
- Directors' explanation as to their assessment of the entity's prospects, the period this assessment covers and why that period is appropriate set out on pages 80 and 81;
- Directors' statement on fair, balanced and understandable set out on page 80;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 89;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 91 and 92; and
- The section describing the work of the audit committee set out on page 93.

Responsibilities of the Directors for the financial statements

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

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as directors determine is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error.
- assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors anticipate that the services provided by the FCA will not continue to be provided in the future.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Financial Services and Markets Act 2000.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes my opinion. 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.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, the FCA's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the FCA's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Group's controls relating to the Financial Services and Markets Act 2000
- Discussing among the engagement team and involving the internal pension specialist who was engaged on the audit regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition and posting of unusual journals.
- Obtaining an understanding of the Group and Parent Company's framework of authority as well as other legal and regulatory frameworks that the Group and Parent Company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group Parent Company. The key laws and regulations I considered in this context included Financial Services and Markets Act (FSMA) 2000; Financial Services Act 2012; The Financial Services (Banking Reform) Act 2013; Companies Act 2006; the UK Corporate Governance Code; and relevant employment law and taxation legislation;
- Reviewing Board minutes.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.
- Checking that the Group and Parent Company has complied with their legal financial reporting requirements by reviewing and reperforming management's legal checklist;
- Checking legislation for any changes which may impact the Group and Parent Company and following up to determine whether these have been appropriately reflected in the Annual Report and financial statements;
- Substantive testing of material income and expenditure, where sampled items were agreed to supporting documentation to determine whether they were regular transactions;
- Maintaining a sceptical mindset across the audit team; and
- Reviewing Board minutes.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my report.

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.

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.

Report

I have no observations to make on these financial statements.

Gareth Davies

Date 14 July 2021

Comptroller and Auditor General (Statutory Auditor)

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

Statement of comprehensive income for the year ended 31 March

		Group		Parent Company	
	Notes	Total 2021 £m	Total 2020 £m	Total 2021 £m	Total 2020 £m
Income					
Fee income	4	622.7	618.6	605.8	603.0
Other income	4	12.9	14.0	15.6	16.6
Total income		**635.6**	**632.6**	**621.4**	**619.6**
Operating costs					
Staff costs	5	(390.1)	(381.5)	(378.9)	(371.1)
Staff costs capitalised during the year	5	6.9	7.0	6.9	7.0
Administrative and general costs	6	(215.2)	(216.5)	(213.3)	(213.4)
Total operating costs		**(598.4)**	**(591.0)**	**(585.3)**	**(577.5)**
Operating surplus for the year		**37.2**	**41.6**	**36.1**	**42.1**
Interest payable and similar expenses	7	(6.1)	(5.8)	(6.1)	(5.8)
Net actuarial (losses)/gains for the year in respect of the defined benefit pension scheme	17	(86.7)	85.6	(86.7)	85.6
Total comprehensive (deficit)/surplus for the year		**(55.6)**	**121.4**	**(56.7)**	**121.9**

Statement of changes in equity for the year ended 31 March

	Accumulated Surplus	
	Group £m	Parent Company £m
At 1 April 2019	**(58.1)**	**(62.1)**
Total comprehensive surplus for the year	121.4	121.9
At 31 March 2020	**63.3**	**59.8**
Total comprehensive deficit for the year	(55.6)	(56.7)
At 31 March 2021	**7.7**	**3.1**

The notes on pages 117 to 143 form part of the accounts.

Statement of financial position as at 31 March

Company Number: 01920623

		Group		Parent Company	
	Notes	Total 2021 £m	Total 2020 £m	Total 2021 £m	Total 2020 £m
Non-current assets					
Intangible assets	8	135.8	122.2	135.8	122.2
Property, plant and equipment and ROU assets	9	285.8	301.5	285.8	301.5
Net retirement benefit assets	17	-	20.7	-	20.7
		421.6	**444.4**	**421.6**	**444.4**
Current assets					
Trade and other receivables	10	23.0	16.5	23.6	16.4
Cash and cash equivalents	10	199.1	209.3	187.1	199.7
		222.1	**225.8**	**210.7**	**216.1**
Total assets		**643.7**	**670.2**	**632.3**	**660.5**
Current liabilities					
Trade and other payables	11	(323.1)	(345.7)	(316.3)	(339.5)
Short-term provisions	11	-	(1.7)	-	(1.7)
Lease liabilities	11	(12.3)	-	(12.3)	-
		(335.4)	**(347.4)**	**(328.6)**	**(341.2)**
Total assets less current liabilities		**308.3**	**322.8**	**303.7**	**319.3**
Non-current liabilities					
Long-term provisions	12	(17.1)	(17.0)	(17.1)	(17.0)
Lease liabilities	12	(241.9)	(242.5)	(241.9)	(242.5)
		(259.0)	**(259.5)**	**(259.0)**	**(259.5)**
Net assets excluding retirement benefit obligation		**49.3**	**63.3**	**44.7**	**59.8**
Net retirement benefit obligations	17	(41.6)	-	(41.6)	-
Net assets including retirement benefit obligations		**7.7**	**63.3**	**3.1**	**59.8**
Accumulated surplus		**7.7**	**63.3**	**3.1**	**59.8**

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 24 June 2021, and signed on 7 July 2021 on its behalf by

Charles Randell
Chair

Nikhil Rathi
Chief Executive

Statement of cash flows for the year ended 31 **March**

		Group		Parent Company	
	Notes	Total 2021 £m	Total 2020 £m	Total 2021 £m	Total 2020 £m
Net cash generated by operations	3	**35.9**	**5.5**	**33.5**	**4.4**
Investing activities					
Interest received on bank deposits	4	0.3	1.8	0.3	1.7
Expenditure on intangible software development	8	(44.9)	(52.3)	(44.9)	(52.3)
Purchases of property, plant and equipment	9	(1.5)	(3.2)	(1.5)	(3.2)
Net cash used in investing activities		**(46.1)**	**(53.7)**	**(46.1)**	**(53.8)**
Financing activities					
Lease repayments		-	(0.3)	-	(0.3)
Net decrease in cash and cash equivalents		**(10.2)**	**(48.5)**	**(12.6)**	**(49.7)**
Cash and cash equivalents at the start of the year	10	209.3	257.8	199.7	249.4
Cash and cash equivalents at the end of the year	10	**199.1**	**209.3**	**187.1**	**199.7**

Notes to the financial statements

1. General information

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

These accounts have been prepared on a consolidated basis to include the Payment Systems Regulator Limited (PSR). The registered office for both the FCA and PSR is 12 Endeavour Square, London, E20 1JN. The PSR has a single share with £1 nominal value, which is owned by the FCA.

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 Directors' Report.

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

b) Significant judgements and estimates

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

- Pension asset/(obligation) (note17) – the quantification of the pension asset/(obligation) is based on assumptions made by the directors relating to the discount rate, retail price inflation (RPI), future pension increase and life expectancy;
- Intangible assets useful lives (note 8) – asset lives are reviewed on an annual basis and, where necessary, adjusted to reflect the remaining expected asset life. Changes to asset lives arise as a result of changes in technology or business need;
- Impairment of Right of Use assets (note 9) - With the majority of employees working from home as a result of the COVID-19 pandemic, both Stratford and Edinburgh office spaces are currently being used in a substantially reduced way. We continue to assess our office requirements as we develop plans around post-Covid-19 working arrangements;
- The lease liabilities (note 11) and related Right of Use (ROU) assets (note 9) are calculated using a proxy discount rate to calculate the present value of the lease payments. The proxy rate used is the rate of a loan from the Public Works Loan Board with a duration equivalent to the lease. The rates in use are 2.46% in respect of 12 Endeavour Square (12ES) and 2.18% in respect of Quayside House (QH). The lease for 12 ES states the rent payable in the first five years, and specifies minimum and maximum rent for the next five years. The discounted cash flow is based on the maximum rent stated; and

- The Plan asset held in property (note 17) comprises an investment in a pooled property fund which is in the process of unwinding its position. The real estate property assets are less liquid and, therefore, harder to value. The investment manager of that fund has reported the value to be a best estimate of fair value given the market restriction in place at the disclosure date. Any volatility in the property market and markets in general after the disclosure date could have a material impact on the property asset valuation.

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

d) Changes in accounting policy
No new or amended IFRSs or International Reporting Interpretations Committee (IFRIC) interpretations have been adopted in the year.

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

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

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

In doing so, management have broadened the definition of a contract to include legislation and regulation. In this circumstance, a "contract" is the underlying statutory framework set out in FSMA for the FCA and FSBRA for the PSR. This framework enables the FCA and PSR to raise fees to recover the costs of carrying out their statutory functions. The performance obligation under the "contract" is the granting of the ability to operate and remain authorised during the course of the year.

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

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

- Annual periodic fees are levied and measured at fair value and are recognised at the later of the fee year to which they relate (invoices on account) or invoice date.
- Special project fees (SPFs) are charged to recover exceptional supervisory costs where a firm undertakes certain restructuring transactions such as raising additional capital or a significant change to a firm's business model. SPFs are recognised at the point when a corresponding fee is invoiced to the respective firm.
- Application fees are recognised on receipt of a firm's application for authorisation.

Other income satisfies the core principles and conditions as set out in IFRS 15 to be recognised as revenue.

Other income includes:

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

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

f) Intangible assets – capitalisation and amortisation

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

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

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

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

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

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

g) Impairment of intangibles, property plant and equipment:

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

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

h) Leases:

IFRS 16 introduced a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee recognises a Right Of Use (ROU) asset in the same way as other non-financial assets (for example property, plant and equipment) and lease liabilities in the way of other financial liabilities. As a consequence, a lessee recognises depreciation on the ROU asset and interest on the lease liability, and also classes lease payments between principal and interest and presents them in the statement of cash flows in accordance with IAS 7.

The Group has taken advantage of the lease recognition exemptions permitted by the standard in respect of:

- Expenses relating to short term leases
- Expenses relating to low value asset leases

i) Taxation:

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

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

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

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

The application of the corporation tax regime for intangible assets has also led to an unrecognised deferred tax asset in relation to unused tax losses carried forward as it is not sufficiently certain that the FCA will actually have taxable income to set against these losses in future. As at 31 March 2021 this deferred tax asset equated to £55.1m (2020: £49.2m).

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

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

j) Provisions and contingent liabilities:

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted to their present values, where the time value of money is material. No liability is recognised if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

3. Notes to the cash flow statement

	Notes	Group		Parent Company	
		Total 2021 £m	Total 2020 £m	Total 2021 £m	Total 2020 £m
Surplus for the year from operations		37.2	41.6	36.1	42.1
Adjustments for:					
Interest received on bank deposits	4	(0.3)	(1.8)	(0.3)	(1.7)
Amortisation of other intangible assets	8	31.3	24.3	31.3	24.3
Depreciation of property, plant and equipment including ROU assets	9	22.7	23.2	22.7	23.2
Decrease in provisions	18	(1.6)	(0.9)	(1.6)	(0.9)
Difference between pension costs and normal contributions		(0.5)	1.6	(0.5)	1.6
Payments made against unfunded pension liability	5	0.2	-	0.2	-
Additional cash contributions to reduce pension scheme deficit		(24.0)	(23.8)	(24.0)	(23.8)
Operating cash flows before movements in working capital		**65.0**	**64.2**	**63.9**	**64.8**
(Increase)/ decrease in receivables	10	(6.5)	32.3	(7.2)	32.4
Decrease in payables	11	(22.6)	(91.0)	(23.2)	(92.8)
Net cash generated by operations		**35.9**	**5.5**	**33.5**	**4.4**

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 2021 £m	Total 2020 £m	Total 2021 £m	Total 2020 £m
Ongoing Regulatory Activity fees[1]	565.3	553.3	548.5	537.7
Additional Ongoing Regulatory Activity fees	2.7	4.0	4.9	4.0
EU Withdrawal fees	15.0	5.0	15.0	5.0
Transformation	10.0	-	10.0	-
Investment harm campaign	2.3	-	2.3	-
Scope change costs recovered – Consumer Credit	4.4	16.6	2.2	16.6
Scope Change costs recovered – Claims Management Companies[2]	2.8	11.8	2.8	11.8
Scope Change costs recovered – Senior Managers and Certification Regime	7.2	-	7.2	-
Scope change costs recovered – other	0.4	3.3	0.4	3.3
Application fees and other regulatory income	12.2	12.7	12.1	12.7
Special project fees	0.4	11.9	0.4	11.9
Total	**622.7**	**618.6**	**605.8**	**603.0**

1 Of the £548.5m (2020: £537.7m) Ongoing Regulatory Activity fees £52.2m (2020: £47.6m) related to penalties collected in the previous year for the sum of enforcement costs and returned to fee payers through reduced fees. See note 13.

2 2020 total Includes £2.1m received from Ministry of Justice (previous Regulator of this population) as surplus from the previous arrangements.

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

	Group		Parent Company	
	Total 2021 £m	Total 2020 £m	Total 2021 £m	Total 2020 £m
Skilled person reports (s.166) income[1]	1.4	1.6	1.4	1.6
Services provided to other regulatory bodies	9.0	8.5	11.8	11.2
Publications and training services	0.2	0.3	0.2	0.3
Interest received on bank deposits	0.3	1.8	0.3	1.7
Other sundry income	2.0	1.8	1.9	1.8
Total other income	**12.9**	**14.0**	**15.6**	**16.6**

1 This income is a recharge of the costs of directly appointed 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

Staff costs (including executive directors) comprise:

		Group		Parent Company	
	Notes	Total 2021 £m	Total 2020 [1] £m	Total 2021 £m	Total 2020[1] £m
Gross salaries and taxable benefits		297.2	286.9	288.1	278.9
Employer's national insurance costs		34.1	32.7	33.0	31.8
Apprenticeship levy		1.4	1.3	1.3	1.2
Employer's defined contribution pension costs		29.3	27.6	28.5	26.9
Payments made against unfunded pension liability	3	0.2	-	0.2	-
Net interest on defined benefit pension scheme	17	(0.7)	1.7	(0.7)	1.7
Exit packages (including ex-gratia)[1]		7.7	0.6	7.7	0.6
Permanent staff costs		**369.2**	**350.8**	**358.1**	**341.1**
Temporary		3.1	3.8	3.1	3.8
Secondees		0.9	0.8	0.9	0.7
Contractors		16.9	26.1	16.8	25.5
Short-term resource costs		**20.9**	**30.7**	**20.8**	**30.0**
Total staff costs		**390.1**	**381.5**	**378.9**	**371.1**

1 Exit packages have been recategorised from Administrative costs (note 6).

Of which the following was capitalised during the year:

	Group		Parent Company	
	Total 2021 £m	Total 2020 £m	Total 2021 £m	Total 2020 £m
Staff costs	6.9	7.0	6.9	7.0

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 2021	Total 2020	Total 2021	Total 2020
Supervision – Retail & Authorisation	890	885	890	885
Supervision – Investment, Wholesale and Specialist	629	610	629	610
Enforcement and Market Oversight	699	729	699	729
Strategy and Competition	521	578	521	578
Sub-total	**2,739**	**2,802**	**2,739**	**2,802**
Operations	804	779	804	779
Other central services	395	292	395	292
PSR	103	91	-	-
Total	**4,041**	**3,964**	**3,938**	**3,873**

As at 31 March 2021, there were 4,009 (2020: 4,003) full-time equivalent employees of which 3,903 (2020: 3,906) were FCA and 106 (2020: 97) were PSR.

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

	Group		Parent Company	
	Total 2021	Total 2020	Total 2021	Total 2020
Temporary	57	86	54	82
Secondees	29	19	29	18
Contractors	67	119	66	118
Total	**153**	**224**	**149**	**218**

As at 31 March 2021, there were 155 (2020: 182) short-term resources of which 152 (2020: 179) were FCA and 3 (2020: 3) 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. Ex-gratia payments are classified as Special Payments (Note 14) and excluded from the table.

Exit package cost band £'000	Number of compulsory redundancies 2021	Number of other departures agreed 2021	Number of Long-term ill health settlements 2021	Total 2021	Number of compulsory redundancies 2020	Number of other departures agreed 2020	Number of Long-term ill health settlements 2020	Total 2020
0 -10	-	-	-	**-**	-	2	1	**3**
>10 – 25	-	1	1	**2**	2	2	2	**6**
>25 – 50	1	13	2	**16**	6	2	2	**10**
>50 – 100	1	82	1	**84**	1	1	-	**2**
>100 -150	1	-	1	**2**	-	-	-	**-**
Total number	**3**	**96**	**5**	**104**	**9**	**7**	**5**	**21**
Gross costs	**£0.2m**	**£7.1m**	**£0.3m**	**£7.6m**	**£0.3m**	**£0.2m**	**£0.1m**	**£0.6m**

Included in the category 'Number of other departures agreed' is £7.0m related to settlement agreements made under the Mutually Agreed Resignation Scheme (MARS). Whilst MARS is not a redundancy scheme, the severance payment is equivalent to the amount that the employee would receive under FCA standard redundancy terms (for further information see the Group Operational overview on page 70).

6. Administrative and general costs

		Group		Parent Company	
	Notes	Total 2021 £m	Total 2020 [2] £m	Total 2021 £m	Total 2020 [2] £m
IT running costs		66.6	62.5	66.4	62.3
IT project scoping costs		13.3	14.2	13.3	14.2
Professional fees		45.0	46.8	44.0	44.5
Professional fees: s166[1]		1.4	1.6	1.4	1.6
Accommodation and office services		22.9	23.5	22.7	23.4
Amortisation of intangible assets	8	31.3	24.3	31.3	24.3
Depreciation of property, plant and equipment	9	9.8	10.4	9.8	10.4
Depreciation of the ROU assets	9	12.9	12.8	12.9	12.8
Recruitment, training and wellbeing		9.6	13.6	9.2	13.2
Travel		0.5	3.6	0.5	3.6
Other costs		1.9	3.2	1.8	3.1
Total		**215.2**	**216.5**	**213.3**	**213.4**

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

2 Exit packages of £0.6m have been recategorised from Other costs to Staff costs (note 5).

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 2021 £'000	Total 2020 £'000	Total 2021 £'000	Total 2020 £'000
Fees payable to the National Audit Office for the audit of the financial statements	126	126	105	105

The National Audit Office has not provided any non-audit related services to FCA group in 2021 (2020 : £nil)

7. Interest payable and other similar expenses

	Group		Parent Company	
	Total 2021 £m	Total 2020 £m	Total 2021 £m	Total 2020 £m
Interest on lease liability	6.1	5.8	6.1	5.8

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 2019	**191.1**	**21.7**	**43.2**	**256.0**
Additions	-	-	52.3	52.3
Transfers	30.3	0.5	(30.7)	0.1
Disposal	(4.6)	(0.1)	-	(4.7)
Reclassification	-	(2.0)	2.0	-
At 31 March 2020	**216.8**	**20.1**	**66.8**	**303.7**
Additions	-	-	44.9	44.9
Transfers	54.6	-	(54.6)	-
Disposal	(20.3)	(1.2)	-	(21.5)
Reclassification	-	-	-	-
At 31 March 2021	**251.1**	**18.9**	**57.1**	**327.1**
Amortisation				
At 1 April 2019	**143.2**	**18.7**	**-**	**161.9**
Charge for year	23.8	0.5	-	24.3
Disposal	(4.6)	(0.1)	-	(4.7)
At 31 March 2020	**162.4**	**19.1**	**-**	**181.5**
Charge for year	30.6	0.7	-	31.3
Disposal	(20.3)	(1.2)	-	(21.5)
At 31 March 2021	**172.7**	**18.6**	**-**	**191.3**
Net carrying value				
At 31 March 2020	**54.4**	**1.0**	**66.8**	**122.2**
At 31 March 2021	**78.4**	**0.3**	**57.1**	**135.8**

Internal software development costs of £44.9m (2020: £52.3m) 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 £78.4m:

i. £14.9m relates to INTACT, a case management tool for authorising firms and individuals (three years useful life remaining)
ii. £13.0m relates to the updating of internal systems to incorporate requirements arising from EU Withdrawal (three years useful life remaining)
iii. £6.3m relates to the Markets in Financial Instruments Directive (MiFID) (two years useful life remaining)
£5.5m relates to Cloud Datacentre, an online platform to store data (three years useful life remaining)

Of the net carrying amount of work in progress of £57.1m:

i. £30.5m relates to the RegData and FDC systems, (replacements for TARDIS and Gabriel) which are used for submitting regulatory data and are the master registry for authorised firms, permissions, individuals and collective investment schemes.
ii. £20.4m relates to the replacement of FCA operating systems.

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 – 15 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 2019	**250.4**	**64.7**	**27.7**	**11.8**	**4.9**	**359.5**
Additions	-	-	-	-	3.2	3.2
Transfers	-	0.9	2.9	0.4	(4.3)	(0.1)
Reclassification	-	(2.3)	4.4	-	(2.1)	-
Disposal	-	-	(3.8)	-	-	(3.8)
At 31 March 2020	**250.4**	**63.3**	**31.2**	**12.2**	**1.7**	**358.8**
Additions	5.1	-	-	-	1.9	7.0
Transfers	-	0.4	1.2	-	(1.6)	-
Reclassification	-	-	-	-	-	-
Disposal	(0.6)	-	(1.1)	-	-	(1.7)
At 31 March 2021	**254.9**	**63.7**	**31.3**	**12.2**	**2.0**	**364.1**
Depreciation						
At 1 April 2019	12.8	**3.4**	**20.0**	**1.7**	**-**	**37.9**
Charge for year	12.8	3.5	5.8	1.1	-	23.2
Disposal	-		(3.8)	-	-	(3.8)
At 31 March 2020	**25.6**	**6.9**	**22.0**	**2.8**	**-**	**57.3**
Charge for year	12.9	3.5	5.0	1.3		22.7
Disposal	(0.6)	-	(1.1)	-	-	(1.7)
At 31 March 2021	**37.9**	**10.4**	**25.9**	**4.1**		**78.3**
Net book value						
At 31 March 2020	**224.8**	**56.4**	**9.2**	**9.4**	**1.7**	**301.5**
At 31 March 2021	**217.0**	**53.3**	**5.4**	**8.1**	**2.0**	**285.8**

Of the ROU assets cost of £254.9m, £249.8m relates to the property based in Stratford and £5.1m to the property that is based in Edinburgh. Leasehold improvements relate primarily to the cost of fitting out the Stratford property.

The PSR does not hold property, plant and equipment or RoU assets.

10. Current assets

Trade receivables are recognised initially at amortised cost. The group has applied the simplified approach to impairment of financial assets by providing for expected credit losses on trade receivables as described by IFRS 9. This requires the use of lifetime expected credit loss provisions for all trade receivables. These provisions are based on an assessment of risk of default and expected timing of collection, and an allowance for loss is made for potentially impaired receivables during the year in which they are identified based on a periodic review of all outstanding amounts. Allowance losses are recorded within administrative costs in the statement of comprehensive income when there is objective evidence that an asset is impaired.

Cash and cash equivalents comprise cash and short-term fixed-rate bank deposits with a maturity date of 12 months or less and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates to their fair value. Of the £199.1m (2020: £209.3m), £23.1m (2020: £12.9m) related to fees collected on behalf of other financial regulatory organisations (disclosed in trade creditors, note 11).

The FCA currently has a £100m (2020: £100m) unsecured overdraft facility with Lloyds Banking Group. The facility is reviewed on an annual basis. The PSR does not have, or require, its own credit facilities.

		Group		Parent Company	
	Notes	Total 2021 £m	Total 2020 £m	Total 2021 £m	Total 2020 £m
Fees receivable		3.9	2.9	3.9	2.8
Net penalties receivable	13	0.1	0.1	0.1	0.1
Other debtors		0.7	1.7	0.7	1.7
Prepayments and accrued income		18.3	11.8	18.3	11.8
Intragroup receivable – PSR		-	-	0.6	
Trade and other receivables		**23.0**	**16.5**	**23.6**	**16.4**
Cash deposits		155.9	167.9	151.4	164.4
Cash at bank		43.2	41.4	35.7	35.3
Cash and cash equivalents		**199.1**	**209.3**	**187.1**	**199.7**
Total current assets		**222.1**	**225.8**	**210.7**	**216.1**

The average credit period is 70 days (2020: 40 days). As a result of Covid-19 the FCA agreed an extended credit term of 90 days for smaller fee paying firms. The increase in the average credit period reflects these extended terms.

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 2021 £m	Total 2020 £m	Total 2021 £m	Total 2020 £m
At 1 April	1.0	0.9	1.0	0.9
Increase in provision for fees receivable	0.5	0.1	0.5	0.1
Total at 31 March	**1.5**	**1.0**	**1.5**	**1.0**

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 2021 £m	Total 2020 £m	Total 2021 £m	Total 2020 £m
Not more than three months	0.5	0.4	0.5	0.4
Between three and nine months	0.3	1.3	0.3	1.3
Greater than nine months	1.0	-	1.0	-
Total unimpaired fees receivable	**1.8**	**1.7**	**1.8**	**1.7**

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

11. Current liabilities

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

		Group		Parent Company	
	Notes	Total 2021 £m	Total 2020 £m	Total 2021 £m	Total 2020 £m
Trade creditors and accruals		81.1	93.5	79.8	92.0
Other taxation and social security		12.0	12.3	12.0	12.3
Net penalties payable	13	60.1	53.8	60.1	53.8
Fees received in advance		169.9	186.1	164.4	180.7
Intragroup payable – PSR		-	-	-	0.7
Trade and other payables		**323.1**	**345.7**	**316.3**	**339.5**
Short-term provisions		-	1.7	-	1.7
Lease liabilities		12.3	-	12.3	-
Total current liabilities		**335.4**	**347.4**	**328.6**	**341.2**

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade payables is 9 days (2020: 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	
	2021 £m	2020 £m	2021 £m	2020 £m
Trade creditors and accruals	81.1	89.8	-	3.7
Fees received in advance	169.9	186.1	-	-
Other liabilities	72.1	67.8	-	-
Lease liabilities	4.7	-	7.6	-
Total current liabilities	**327.8**	**343.7**	**7.6**	**3.7**

Of the amounts due within 6 months, Trade creditors and accruals include £1.2m (2020: £1.4m), and Fees received in advance include £5.5m (2020:£5.4m) for the PSR.

12. Non-current liabilities

As at 31 March, the Group and FCA (parent company) had non-current liabilities consisting of:

	Notes	2021 £m	2020 £m
Long-term provisions for dilapidations	18	17.1	17.0
Lease liabilities		241.9	242.5
Total non-current liabilities		**259.0**	**259.5**

Lease liabilities movements:

	Total 2021 £m	Total 2020 £m
Value of discounted future cash flows on ROU assets brought forward	242.5	237.0
Lease commenced in year	5.6	-
Payments in year	-	(0.3)
Interest expense on lease liabilities	6.1	5.8
Lease liabilities at 31 March	**254.2**	**242.5**

Lease liabilities fall due as follows:

	Total 2021 £m	Total 2020 £m
Within one year	12.3	-
Within two to five years	68.9	60.9
Within six to ten years	80.0	77.8
Greater than ten years	93.0	103.8
Lease liabilities at 31 March	**254.2**	**242.5**

The non-current lease liabilities relate to the lease of offices at 12 Endeavour Square, London and Quayside House, Edinburgh. The principal terms are detailed below:

	12 Endeavour Square	Quayside House
Carrying value of discounted cash flows at 31 March 2021	£248.4m	£5.8m
Interest rate for IFRS 16 discounting purposes (quoted by Public Works Loan Board at lease commencement date)	2.46%	2.18%
Lease commencement	31 March 2018	8 May 2020
Lease term	20 years	15 years
Rent review frequency	5 years	5 years
Rent free period ends	September 21	November 21
Basis of rent review [1]	Market rate [1]	Market rate

1 The contract for 12 Endeavour Square specifies the minimum and maximum that can be charged at the first rent review in 2023.

The statutory basis for the FCA fees is described in note 4. The annual charges in respect of the depreciation of the underlying ROU assets and the finance charges related to the leases are part of the Ongoing Regulatory Activities of the FCA and form part of the underlying costs on which fees are based.

The liquidity risk of not being able to meet the lease payments as they fall due is assessed as minimal.

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 2021 £m	Total 2020 £m
Penalties receivable at 1 April		82.4	123.2
Penalties issued during the year		189.8	224.4
Write-offs during the year		(78.6)	(6.4)
Penalties collected during the year		(189.9)	(258.8)
Penalties receivable at 31 March		**3.7**	**82.4**
Allowance for bad debts		(3.6)	(82.3)
Net penalties receivable at 31 March	**10**	**0.1**	**0.1**

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 2021 £m	Total 2020 £m
At 1 April	82.3	88.8
Decrease in allowance for bad debts	(78.7)	(6.5)
Total at 31 March	**3.6**	**82.3**

1 Allowance for bad debts at 31 March 2020 included £76.0m in respect of one penalty issued in 2018/19. A contingent debt was included in the individual's 2013 sequestration (Scottish form of bankruptcy). To date, the trustee in sequestration has identified no assets for distribution to creditors and the debt has been written off in the 2020/21 financial year.

Penalties collected during the period

	Total 2021 £m	Total 2020 £m
Retained penalties to be returned to fee payers	50.5	52.2
Penalties paid to Exchequer during the year	128.7	206.1
Penalties payable to Exchequer	9.6	1.8
Receivable/(Payable) to Exchequer from previous years	1.1	(1.3)
Penalties collected during the period	**189.9**	**258.8**

Net penalties payable

	Notes	Total 2021 £m	Total 2020 £m
Retained penalties to be returned to fee payers		50.5	52.2
Penalties over released to fee payers		(0.1)	(0.3)
Penalties payable to Exchequer		9.6	1.8
Net penalties receivable		0.1	0.1
Net penalties payable	**11**	**60.1**	**53.8**

The PSR did not issue any penalties during the year ended 31 March 2021.

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 2021 only (no comparative figures required).

There are no losses and special payments to report for 2020/21.

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:

	2021 £m	2020 £m
Within one year	0.2	0.3
In the second to fifth years inclusive	–	0.1
Total	**0.2**	**0.4**

Low value lease expenses of £0.4 (2020: £0.1) were recognised in the Statement of Comprehensive Income in the year.

16. Capital commitments

The FCA had entered into contracts at 31 March 2021 for future capital expenditure totalling £2.8m relating to intangible assets (2020: £10.1m). These commitments are not provided in the financial statements.

There were no capital commitments for the PSR.

17. Retirement benefit (obligation)/asset

The FCA operates a UK registered occupational pension scheme, the FCA Pension Plan (the Plan), The FCA is the Plan's Principal Employer. The Financial Ombudsman Service (FOS) also participates in the Plan. The Plan was established on 1 April 1998. It has two sections, the Money Purchase (defined contribution) Section which is open to all employees of the FCA and FOS, and a Final Salary (defined benefit) Section, which is closed to new members and to future accruals. The disclosures have been prepared for the purposes of reporting under IAS19, revised 2011 on the understanding that there is no impact from IFRIC14 or any requirement to recognise an additional liability in respect of any minimum funding requirements.

The governance of the Plan is primarily the responsibility of the Trustee of the Plan. The Trustee has an established governance framework in place to support the operation of the Plan and to ensure legislative and regulatory requirements are complied with under the Master Trust regime. The FCA is consulted on key areas such as investment strategy and funding requirements. The Plan is exposed to several key areas of risk.

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

On balance, the Plan's funding level reached its predefined target in line with the pre-agreed de-risking strategy due to the allocation of assets being updated during 2019/20. This change has reduced the exposure to equities and diversified growth funds and increased the liability-driven investment (LDI) funds.

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

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

The total expense recognised in the statement of comprehensive income of £29.2m (2020: £27.6m) represents contributions payable to the Plan by the FCA at rates specified in the rules of the Plan.

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

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

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

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

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

Guaranteed Minimum Pension (GMP) is the minimum pension which a United Kingdom occupational pension scheme has to provide for those who were contracted out of the State Earnings Related Pensions Scheme (SERPS). SERPS was a UK Government pension arrangement, to which employees and employers contributed between 6 April 1978 and 5 April 2002, when it was replaced by the State Second Pension.

Where pension schemes have members with a GMP, the GMP accrual rate for females is generally higher than for males which has caused unequal benefits between males and females. On 26 October 2018 the High Court ruled in the Lloyds Banking Group case that UK pension schemes that have contracted out of SERPS will need to equalise benefits between men and women. On 20 November 2020, the High Court ruled that individual transfer payments between 17 May 1990 and 5 April 1997 (after which GMP stopped accruing) would need to be equalised. The FCA'S GMP equalisation adjustment is 0.15% of the defined benefit obligation for 31 March 2021 and this has been included within the Defined Benefit Obligation.

The most recent Scheme Specific Valuation (SSV) of the Plan was carried out as at 31 March 2019 by the Scheme Actuary. The results of this valuation have been taken into account for the purpose of the IAS 19 retirement benefit as at 31 March 2021, allowing for any changes in assumptions and movements in liabilities over the period.

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

- Pension asset/ (obligation) – the quantification of the pension asset/ (obligation) is based on assumptions made by the directors relating to the discount rate, retail price inflation (RPI), future pension increases and life expectancy.
- Level of annual pension increases – generally the rate for annual pension increases awarded by the Plan for pensions in payment is the annual increase in RPI, or 5.0% a year if lower, although some of the pension rights transferred in from the FCA's predecessor organisations receive different levels of pension increases.
- The Plan asset held in property (note 17) comprises an investment in a pooled property fund which is in the process of unwinding its position. The real estate property assets are less liquid and, therefore, harder to value. The investment manager of that fund has reported the value to be a best estimate of fair value given the market restriction in place at the disclosure date. Any volatility in the property market and markets in general after the disclosure date could have a material impact on the property asset valuation.

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

At 31 March	2021	2020
Discount rate	2.00%	2.20%
Retail price inflation (RPI)	3.40%	2.70%
Future pension increases	3.15%	2.60%
Plan membership census dates	31/03/2019	31/03/2019

The discount rate is used to calculate the Defined Benefit Obligation (DBO). The DBO is the present value of the cash flows of expected future payments required to settle the obligation to provide benefits resulting from employee service in the current and prior periods. The discount rate was chosen with reference to the duration of the Plan's liabilities (around 19 years). The choice of discount rate does not directly affect the funding of the Plan or the ability of the Plan to meet its obligations to pay benefits to participants. The discount rate determines the DBO disclosed in the FCA's accounts at the fiscal year end and has a follow-on impact in terms of the Net Benefit Cost for the following fiscal year.

The bond data used in determining the discount rate was changed during the year to exclude government related bonds and include corporate established Special Purpose Vehicles, resulting in greater volume and depth of bond data. At 31 March 2021, the estimated impact from the change in approach is 0.1% p.a. higher discount rate than the prior approach. The effect of the change in estimate has been recognised in the Statement of Comprehensive Income.

As part of the 31 March 2019 funding valuation, a full mortality study was carried out and the base tables were updated to Club VITA 2018 tables, which are based on actual Plan experience. The mortality assumptions for 2021 are based on CLUB VITA tables and reflect an update to the CMI 2019 mortality improvements on the mortality assumptions from 2020. The impact of Covid-19 on long term mortality rates remains uncertain. The CMI 2020 model currently under review shows a significant reduction in life expectancy when taking into account 2020 data but making any adjustment to long term mortality rates is considered premature.

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

	2021 Males	2021 Females	2020 Males	2020 Females
Retiring today aged 60 (years)	28.2	29.7	28.1	29.4
Retiring in 15 years aged 60 (years)	29.3	30.7	29.1	30.5

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.

		Increase/(decrease) in pension obligation at 31 March 2021	
Assumption	Sensitivity	£m	%
Present value of funded obligation	Assumptions as above – no change	913.2	-
Discount rate	10 bps increase to 2.10%	(16.7)	(1.8%)
Discount rate	10 bps decrease to 1.90%	17.1	1.9%
Inflation	10 bps increase to 3.50%	15.7	1.7%
Longevity	Life expectancy for a 60 year old increases by 1 year	32.5	3.6%

The table below illustrates the volatility in the assumptions used to value the fund assets at 31 March 2021. A 10 percent sensitivity in property valuations in the U.K. market has been applied to reflect the valuation uncertainties in the property fund in the Plan.

		Deficit at 31 March 2021	
Assumption	Sensitivity	£m	Funding level %
Baseline		(38.1)	95.8%
Property value	Decrease of 10% in value	(42.4)	95.4%

The amounts recognised in the statements of financial position are:

	2021 £m	2020 £m	2019 £m	2018 £m
Fair value of Plan assets	875.1	829.3	803.0	742.7
Less: Present value of funded obligations	(913.2)	(805.3)	(886.7)	(858.7)
(Deficit) /Surplus in the Plan	**(38.1)**	**24.0**	**(83.7)**	**(116.0)**
Unfunded pension liabilities	(3.5)	(3.3)	(3.4)	(3.4)
(Obligation) /asset recognised on balance sheet	**(41.6)**	**20.7**	**(87.1)**	**(119.4)**

Amounts recognised in the statement of comprehensive income in respect of the defined benefit plan are as follows:

	Notes	2021 £m	2020 £m
Net interest on the net defined benefit liability		0.8	(1.6)
Past service cost relating to GMP equalisation		(0.1)	-
Other net finance costs	**5**	**0.7**	**(1.6)**

Actuarial loss of £86.7m (2020: actuarial gain of £85.6m) 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:

	2021 £m	2020 £m
Losses at 1 April	(163.0)	(248.6)
Net actuarial (loss)/gain recognised in the year	(86.7)	85.6
At 31 March	**(249.7)**	**(163.0)**

Changes in the present value of the defined benefit obligation are as follows:

	2021 £m	2020 £m
Opening obligation	(805.3)	(886.7)
Benefits paid	23.6	24.2
Interest cost on Plan liabilities	(17.5)	(20.1)
Past service cost	(0.1)	-
Actuarial (losses)/gains	(113.9)	77.3
Closing obligation	**(913.2)**	**(805.3)**

Actuarial (losses)/gains:

	2021 £m	2020 £m
Experience gains arising on the Plan liabilities	11.7	18.3
Losses arising from change in discount rate	(28.1)	(15.9)
(Losses)/gains arising from change in assumptions linked to price inflation	(94.1)	87.0
Losses arising from change in demographic assumptions	(3.4)	(1.0)
Losses from changes to cash commutation factors	-	(11.1)
Total actuarial (losses)/gains	**(113.9)**	**77.3**

Changes in the fair value of the Plan assets are as follows:

	2021 £m	2020 £m
Opening fair value of plan assets	829.3	803.0
Expected return on plan assets	18.2	18.4
Actuarial gains	27.2	8.3
Contributions by the employer	24.0	23.8
Benefits paid	(23.6)	(24.2)
Closing fair value of Plan assets	**875.1**	**829.3**

The fair value of the Plan assets and asset allocation at 31 March were as follows:

	Asset allocation 2021 %	Fair value 2021 £m	Asset allocation 2020 %	Fair value 2020 £m
Equity securities	**11.4**	**99.8**	**8.5**	**70.2**
UK Equity	3.1	27.4	2.3	18.9
European Equity	2.8	24.0	2.0	17.0
Japanese Equity	1.5	13.1	1.3	10.4
Pacific Rim Equity	1.1	10.0	0.8	6.2
US Equity	2.9	25.3	2.1	17.7
Debt securities	**53.6**	**469.8**	**58.1**	**481.7**
Absolute Return Bond Fund[2]	-	-	16.0	132.6
LGIM Liability-Driven Investment Fund (LDI)[3]	53.6	469.8	42.1	349.1
Real estate/property	**5.0**	**43.5**	**7.2**	**59.7**
Diversified Growth Fund[2]	**11.5**	**100.2**	**10.2**	**84.3**
Buy-in asset[1]	**14.0**	**122.4**	**13.5**	**112.3**
Other	**4.5**	**39.4**	**2.5**	**21.0**
Sterling Liquidity Fund	3.7	32.3	1.7	14.3
Cash	0.8	7.1	0.8	6.8
Closing fair value of Plan assets[4]	**100.0**	**875.1**	**100.0**	**829.3**

1 In September 2016 and February 2019, the Trustee of the Plan completed the purchase of an insurance contracts to cover the pension payments for a tranche of the Plan's pensioner members. Under these policies the insurer makes pension payments to the Plan that match the payments due to the members covered and are an asset of the Plan.

2 The absolute return bond funds and Diversified Growth Funds will hold a mixture of quoted and unquoted assets. Underlying assets held within these funds are typically expected to be quoted, although the managers have discretion to hold some unquoted assets.

3 The Plan uses gilts and gilt based derivatives within the LDI portfolio to hedge some of the interest rate and inflation risk associated with the liabilities. The derivatives used to achieve this can be unquoted, and the Plan's exposure to these instruments will change over time depending of the level of leverage in the LDI portfolio (about £1.9x as at 31 March 2021 (2020:1.9x)). The value of the derivatives (and other unquoted assets) is not expected to be material in the overall context of the Plan assets.

4 The remaining underlying assets held within these funds are all quoted except for the buy-in asset and real estate/property.

The Trustees' investment strategy includes investing in liability-driven investments and bonds whose values increase with decreases in interest rates (and vice-versa). This is done within a broad liability driven investing framework that uses cash, gilts and other hedging instruments like swaps in a capital efficient way. These funds help to manage the interest rate and inflation risks in the Plan. In combination, this efficiently captures the trustee risk tolerances and return objectives relative to the Plan's liabilities.

There are no deferred tax implications of the above asset/(obligation).

The disclosures are only in respect of the FCA's portion of the liability/asset. The Plan assets do not include any of the FCA's own financial instruments, nor any property occupied by, or other assets used by the FCA. The FCA is the principal employer of the Plan and retains ultimate responsibility for payment of any debt due in event of a wind-up. FOS is an associated employer and would be liable for payment of a debt should they cease to participate, calculated in line with section 75 debt provisions. Our understanding is that surplus can, ultimately, be returned to the principal and associated employers on wind-up, but there is currently no agreement in place that sets out how this would be achieved.

As the Plan closed to future benefit accrual with effect from 31 March 2010 no accrual funding contributions were paid after that date. A Recovery Plan was put in place following the Scheme Specific Valuation as at 31 March 2016 and required an annual deficit contribution to be paid over ten years with the aim of reducing the Plan deficit by 31 March 2027. FCA's deficit contribution in the year was £24.0m (2020: £23.8m) and Financial Ombudsman Service's deficit contribution was £1.0m (2020: £1.0m).

In order to inform the decision of the appropriate combination of contributions and investment strategy to meet the statutory funding objective, the Trustees commissioned a financial review in conjunction with the valuation. This review involved a stochastic asset and liability modelling exercise.

Together with an understanding of sponsor support, this has helped to underpin the agreed contributions and investment strategy, ongoing monitoring and contingency plans. As part of the valuation the Trustee and the Sponsor have agreed to implement the next de-risking trigger, increasing inflation and interest rate hedging to broadly 77% of liabilities (previously 66%) on a gilts + 0.3% basis.

The Trustee also manages the risk by receiving regular updates on the performance of the Scheme's investments.

18. Provisions and contingent liabilities

	End of lease obligations	
	<1 year	>1 year
	£m	£m
At 1 April 2020	1.7	17.0
Additional provision in year	-	-
Utilised in year	(0.8)	-
Released in year	(0.8)	
Reclassified in year	(0.1)	0.1
Closing provision at 31 March 2021	**-**	**17.1**

Lease provisions

End of lease obligations are in respect of Right of Use properties.

The lease for 12 Endeavour Square requires that the building is returned to the Landlord at the end of the lease term with any building alterations and additions removed. This obligation is therefore expected to crystallise in 2038. As with any provision of this nature with an extended timeline there are a number of uncertainties and necessary assumptions to determine a likely provision value. The provision is included as an End of lease obligation > 1 year and is currently assessed as £17.0m (2020: £17.0m), which is based on a survey completed by professional advisors in 2019 and assumes that the final obligation will be the result of a negotiated settlement taking account of the actual final build and fit out, the obsolescence of building fabric (and related components), and the future intention for the building at that time. The provision and underlying assumptions will be reassessed on a regular basis through the lease term and adjustments made if required.

The provision included above in respect of the lease for Quayside House is £0.1m (2020: short term provision £0.1m). This value will be reassessed once the building fit out is complete.

Contingent liabilities

The FCA is subject to a variety of claims that arise from time to time in the ordinary course of business. Following the conclusion of 2 independent reviews published 17 December 2020, and with a third independent review due to be concluded in 2021, there continues to be a risk of further claims. Provisions are made when claims are justified, reliably measurable and payment is expected to be made.

As at 31 March 2021, there are a number of open complaints and claims made against the FCA. However, the FCA does not expect the ultimate resolution of any of the claims to have a significant adverse effect on its financial position, performance or cash flows. The consultation on a revised Complaints Scheme which sets out a more detailed description of our approach to ex-gratia compensatory payments closed on 12 October 2020 with a policy statement due to be published in 2021. However, as stated in the consultation, we do not expect this clarification of our approach to compensatory payments to substantially change the proportion of cases in which we make such payments, nor the amounts paid in general.

19. Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Key management personnel include the chairman, executive board members and directors that report directly to the CEO or COO. This includes senior management acting in the role of director for more than 3 months. Of this group, 23 (2020:18) personnel received remuneration of £100k or more for the year (for further information see the Remuneration report on page 97).

	Group		Parent Company	
	2021 £m	2020 (restated) £m	2021 £m	2020 (restated) £m
Short-term benefits	6.0	5.4	5.2	4.7
Post-employment benefits	0.6	0.4	0.5	0.4
Total	**6.6**	**5.8**	**5.7**	**5.1**

Prior year restated to include the Chief Executive Officer

There were no other transactions with key management personnel in the year.

Significant transactions with other financial services regulatory organisations

The FCA enters into transactions with a number of other financial services regulatory organisations. The nature of the FCA's relationship with these organisations is set out in FSMA. The FCA considers all of the below organisations to be related parties.

The FCA is required under various statutes to ensure that each of the Financial Services Compensation Scheme, the Financial Ombudsman Service, and the Money Advice Service can carry out their functions. The FCA has the right to appoint and remove the directors of these organisations, with the approval of HM Treasury. However, the appointed directors have to exercise independent judgement in accordance with the Companies Act 2006. IFRS 10 Consolidated Financial Statements defines control as 'the ability to use power to vary returns'. On the basis of this, the FCA does not control these entities and hence is not required to prepare consolidated financial statements including these organisations.

During the year, the FCA provided agency services to collect tariff data, issue levy invoices and collect levy monies. In addition to these services, the FCA also provides services relating to information systems, enforcement and intelligence services, contact centre and data migration to the Prudential Regulation Authority.

The charge for the services, and net amount of fees collected that remained to be paid over at 31 March were as follows:

	Service charge		Fees collected not remitted	
	2021 £m	2020 £m	2021 £m	2020 £m
The Financial Services Compensation Scheme	0.4	0.3	11.4	10.6
The Financial Ombudsman Service Limited (FOS)	0.2	0.1	5.3	0.5
The Prudential Regulation Authority	6.8	7.1	6.0	1.5
Her Majesty's Treasury	0.3	0.3	0.3	0.3

The service charges to Her Majesty's Treasury for include charges in respect of the collection of Money and Pensions Service Levy, the Devolved Authorities Debt Advice Levy, and the Illegal Money Lending Levy.

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, PSR, and PRA, and the Bank of England in respect of its oversight over the recognised clearing houses and payment schemes. It has been agreed that the FCA will continue to fund the OCC until 31 March 2022.

The FCA funds the activities of the OCC through the periodic fees it raises. During 2020/21, the FCA transferred £0.6m (2020: £0.4m) to the OCC to cover running costs, which have been expensed in the FCA group financial statements. At 31 March 2021, the balance owing to the FCA from the OCC was £0.0m (2020: £0.0m).

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

In June 2021, the PSR received a court claim for judicial review. The PSR are defending the claim and proceedings are ongoing. The PSR does not expect the ultimate resolution of the claim to have a significant adverse effect on its financial performance, position or cash flows. There are no other material events after the reporting period.

The financial statements were authorised for issue on the date of the Comptroller and Auditor General's signature.

Appendix 1
Exercise of sub-delegated powers by the Financial Conduct Authority under the European Union (Withdrawal) Act 2018

FINANCIAL CONDUCT AUTHORITY

Presented to Parliament pursuant to Schedule 7 paragraph 32(2)(a) of the European Union (Withdrawal) Act 2018

EXERCISE OF SUB-DELEGATED POWERS BY THE FINANCIAL CONDUCT AUTHORITY UNDER THE EUROPEAN UNION (WITHDRAWAL) ACT 2018 – REPORT FOR THE YEAR ENDING 31 MARCH 2021

Introduction

1. The European Union (Withdrawal) Act 2018 (EUWA) requires the Financial Conduct Authority (FCA) to lay a report before each House of Parliament annually if it exercises relevant sub-delegated powers. Once it is laid, the FCA must provide a copy of it to a Minister of the Crown and publish it as we consider appropriate. The relevant sub-delegated powers in relation to the FCA ('the Powers') and those which it has exercised in the period to which this report relates are:

a. regulation 3 of The Financial Regulators' Powers (Technical Standards etc) (Amendment etc.) (EU Exit) Regulations 2018 – the making of EU Exit instruments relating to FCA rules and binding technical standards (the 'deficiency fixing power');

b. regulation 198 of The Financial Services and Markets Act 2000 (Amendment) (EU Exit) Regulations 2019 – the making of directions under the temporary transitional power[1];

c. regulations 206 and 208 of the Financial Services and Markets Act 2000 (Amendment) (EU Exit) Regulations 2019 – the power to raise fees; and

d. powers to make technical standards substituted for the power of an EU entity to make EU tertiary legislation by regulations made under section 8 of EUWA (see below for more detail).

2. This report covers our use of the Powers in our annual reporting year ending 31 March 2021. Our first report, for the year ending 31 March 2020, can be found on pages 156-157 here).

3. We have published detailed information on the use of the Powers on our website here.

How we used the Powers in the reporting year ending 31 March 2021

4. The UK left the EU on 31 January 2020 and entered a transition period provided for by the UK-EU Withdrawal Agreement and given effect in domestic law by the European Union (Withdrawal

1 The power to make these directions is treated as a 'relevant sub-delegated power': see reg 205 of the Financial Services and Markets Act 2000 (Amendment) (EU Exit) Regulations 2019.

Agreement) Act 2020. Under the Withdrawal Agreement, EU law continued to apply in, and to, the UK until the end of the transition period. The transition period ended on 31 December 2020 at 11 pm, a point which is referred to legislatively as 'IP completion day'.

5. During the transition period, we continued to implement new EU legislation which came into application prior to the end of the transition period. In parallel, we continued to make instruments to fix deficiencies arising from the UK's withdrawal from the EU in any affected Handbook provisions and in any new EU binding technical standards (BTS), to take effect at IP completion day.

6. In 2019 we consulted on instruments to be made under the Powers. Given the agreement of a transition period, the making of the instruments consulted on in Chapter 7 of the Quarterly Consultation No 25 (CP19/27) and Chapter 8 of the Quarterly Consultation No 26 (CP19/33) was deferred until later in 2020.

7. The instruments included in CP19/27 and CP19/33 were consulted on the basis that they would come into effect on 'exit day'. We updated the content and commencement date of these instruments to reflect that they would come into effect on 'IP completion day' instead.

8. In addition, in September and December 2020, we made two further instruments to amend references within the body of instruments made under the Powers in 2019 to change 'exit day' to 'IP completion day'; these amended instruments came into force at the end of the transition period, as explained in our report on use of the Powers in the reporting year ending 31 March 2020.

9. In September 2020, we also consulted on further instruments to be made under the Powers in Chapter 4 of the Quarterly Consultation No 29 (CP20/18).

10. The majority of instruments made under the Powers during the reporting period were made by the FCA Board in Q4 2020, prior to the end of the transition period (see Handbook Notices 80, 81, 82, 83, and 84). As noted in the Handbook Notices, we also made a small number of instruments under the Powers without prior consultation: these made consequential changes or followed from previous consultations on the general approach the FCA intended to take. Finally, the FCA has made fee rules using the Powers; these are all available on the FCA website.

Technical standards powers

11. We have also made technical standards under the following powers during the reporting period:

- **a.** regulation 72 (Transfer of directive functions to the FCA) of the Official Listing of Securities, Prospectus and Transparency (Amendment etc.) (EU Exit) Regulations 2019; and
- **b.** the following Regulations of the Payment Services Regulations as amended by the Electronic Money, Payment Services and Payment Systems (Amendment and Transitional Provisions) (EU Exit) Regulations 2018:
  - **i.** Regulation 106A (Technical Standards); and
  - **ii.** Regulation 120 (Guidance);

12. We did so following the procedural requirements set out in the Financial Services and Markets Act 2000 as amended by the Financial Regulators' Powers (Technical Standards etc.) (Amendment etc.) (EU Exit) Regulations 2018, in particular:

a. section 138P (Technical Standards);

b. section 138Q (Standards instruments); and

c. section 138S (Application of Chapters 1 and 2).

13. In December 2018 and January 2021, we consulted in CP18/44 and CP21/3 on changes to the strong customer authentication regulatory technical standards (SCA-RTS) and to our guidance in the 'Payment Services and Electronic Money – Our Approach' document. The final instruments in relation to the first were made in November 2020 (PS19/26). In relation to the second, final rules in the specific area of contactless card payments were made in March 2021 (PS21/2). We plan to publish our final policy position in respect of the remainder of CP21/3 in H2 2021.

14. In July 2020 we consulted in CP20/12 on delaying the implementation of the European Single Electronic Format and made an instrument in October 2020 (PS20/14).

Temporary transitional power (TTP) directions

15. The TTP was created to temporarily empower the FCA to make transitional provisions to minimise the disruption for firms and other regulated entities after the UK left the EU.

16. We have applied the TTP on a broad basis from the end of the transition period until 31 March 2022. This means firms and other regulated persons generally did not need to prepare before the end of the transition period to meet the changes to their UK regulatory obligations brought about by onshoring.

17. There are some areas where it would not have been consistent with our statutory objectives to grant transitional relief, or where it would not otherwise have been appropriate to do so.

18. We published versions of our main transitional directions under the TTP, annexes A and B, and the prudential transitional direction along with an explanatory note in March and September 2019 and October 2020 and we published the finalised directions on 31 December 2020. As a result, full compliance with all onshored regulatory requirements will only be required after 31 March 2022. For those areas where the TTP does not apply, we communicated this clearly and consistently to firms.

19. We also made transitional directions for the Share Trading Obligation and the Derivatives Trading Obligation in December 2020.

Appendix 2
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 2020/21, we used the s166 power in 68 cases; in 4 of those cases we appointed the skilled person firm. A total of 23 different skilled persons firms were appointed to undertake these reviews.

The aggregate cost incurred by regulated firms for s166 work undertaken in the 2020/21 financial year, including reviews that remain in progress from previous years, was £39.4m.

The reviews examined a number of regulatory issues, including:

- financial crime
- consumer credit
- corporate governance and senior management arrangements
- adequacy of advice
- claims and complaints handling
- client money and client asset arrangements.
- adequacy of systems and controls
- risk management

FCA Sectors	Number of Skilled Person Reports Commissioned in 2020/21
Retail Banking and Payments	17
Retail Lending	13
Retail Investments	10
General Insurance & Protection	4
Pensions & Retirement Income	1
Investment Management	11
Wholesale Financial Markets	12
Total	**68**

Lots	FCA Firm Supervision Category		Total
	Dedicated Supervision	Portfolio Supervision	
Client Assets	1	2	3
Governance and individual accountability	1	6	7
Controls and risk management frameworks	4	18	22
Conduct of Business	3	14	17
Financial Crime	2	15	17
Prudential – operational risk, recovery and resolution, and wind-down within investment firms, intermediaries and Recognised Investment Exchanges	0	1	1
Technology and Information Management	1	0	1
Total	**12**	**56**	**68**

The tables above cover reviews where we exercised our powers under s166 for 2020/21. For PRA information please refer to its publications.

Notes

1. The number of 2020/21 cases includes reviews where a Requirement Notice has been issued but work has not yet started and so no costs have been incurred.

2. Costs quoted are net of VAT except where reviews are directly appointed; the costs of directly appointed s166 reviews are reported gross. 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.

4. FCA Firm Supervision Category refers to the way the FCA supervises firms. Most are supervised as members of a portfolio of firms that share a common business model; those firms with the greatest potential impact on consumers and markets are assigned a dedicated supervision team.

5. The updated costs in relation to the 15 reviews of Interest Rate Hedging Products first stated in the 2013/14 Annual Report, some of which are still on-going, now stands at £420.7m. These costs are as at 31 March 2021.

For 2019/20, two skilled person reviews commissioned before the financial year end were subsequently cancelled, with no costs being incurred. The total number of s166 reviews commissioned for the 2019/20 financial year was therefore reduced to 57.

Appendix 3
RDC Annual Review to the year to 31 March 2021

Introduction from Tim Parkes, Chair of the Regulatory Decisions Committee

This is the sixth annual review published by the Regulatory Decisions Committee (RDC) of the Financial Conduct Authority (FCA). It covers a busy period when the RDC has been obliged to work remotely rather than from the FCA's offices in London, in light of the restrictions arising from the Covid-19 pandemic.

As you will see from the overview section of this report, 224 cases were referred to the RDC and 229 cases completed in the period, compared to 383 and 382 in the previous year. The majority of the cases we have dealt with over the past year have come from the FCA's Enforcement and Market Oversight Division (EMO), ranging from the most complex cases involving allegations of serious misconduct to more straightforward cases, where firms or individuals had failed to submit returns or pay fees due to the FCA. We also dealt with a number of contested cases which came to us from the FCA's Authorisations Division and recommendations by Supervision to give First Supervisory Notices.

The RDC always aims to make fair and appropriate decisions on the FCA's behalf and to do its work efficiently. Panels – ordinarily comprising 3 members – or the Chair or a Deputy alone in straightforward cases, are responsible for assessing both the material produced by the FCA in support of its proposed action and the material (including representations) provided by the subject of the proposed regulatory action. We continue to deal with cases as expeditiously as possible and, in recent years, have significantly improved timeliness on straightforward case processing.

As in prior years, we have decided in some cases not to follow the proposal for regulatory action made by the relevant division of the FCA or to impose different sanctions in light of representations received from the subjects of proposed action.

This year we have continued to see a number of urgent supervisory matters, reflecting the FCA's focus on 'early intervention' work to prevent or reduce harm to consumers at the earliest possible stage. In addition, the RDC determined a number of contested authorisation cases in relation to claims management firms with temporary permission.

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.

Looking forward to next year, we expect the number of cases coming to the RDC from EMO to remain at the current rate, a notable feature being the higher incidence of complex, multi-party cases which tend to involve both firms and individuals. We also expect to see a higher volume of cases from Authorisations (reflecting the FCA's extended regulatory perimeter) and from Supervision (reflecting the FCA's priority to address speedily actual or threatened consumer harm). In the medium term, we should see a reduction in straightforward enforcement cases, in light of the new approach to these under section 28 and Schedule 11 of the Financial Services Act 2021.

Finally, I should mention the ongoing internal review which has looked at the RDC's part in the FCA's decision-making processes. It seems likely that this will result in some changes to the RDC's current remit, although it is not yet clear precisely what these will be. I look forward to reporting on them in my report next year.

As usual, I would like to thank the RDC's members for their hard work over the last year, and to recognise the excellent support provided by our secretariat which includes our own legal advisers, case-handlers and administrator. Everyone has worked hard to mitigate the impacts on our work of the Covid-19 restrictions and it is right that I should note the active co-operation we have received from the legal advisors of those who have been the subject of proposed regulatory action. As I have said before, without the collective dedication and commitment of the RDC's members and the Secretariat, 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 half-yearly to the FCA Board's Risk Committee on resourcing and performance, such as how long it takes to complete cases.

Case work

The RDC made 371 decisions on cases (at either the first or final stage) during the year. Most of these were about enforcement action against firms for failing to pay regulatory fees or submit regulatory returns. This figure is a decrease on the previous year, which was 550.

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 in cases brought to the RDC.

The secretariat also monitors case inputs and timeliness. It helps ensure that cases are progressed appropriately, taking into account their complexity, the requirements of the subjects as well as resourcing.

The FCA's website includes a detailed description of what the RDC's role is in contested cases and explains the different notices which the RDC may issue. The RDC takes decisions based on its understanding of the issues, and assesses the evidence and legal basis for any recommendation for regulatory action.

The process allows those who are the subject of the action or their legal representative to make both written and oral representations to the RDC. The Financial Services Lawyers Association may provide them with pro-bono legal assistance. When appropriate, the RDC will depart from the recommendations made to it, for example, to:

- change the basis of a case from deliberate to negligent misconduct, or vice versa.
- change the amount of a proposed financial penalty.
- decide that no disciplinary action is appropriate.
- decide that the FCA should grant an application for authorisation of a firm or approval of an individual.

The RDC's decision-making remit includes cases where the firm or individual only wants to contest part of the case against them, rather than all of it.

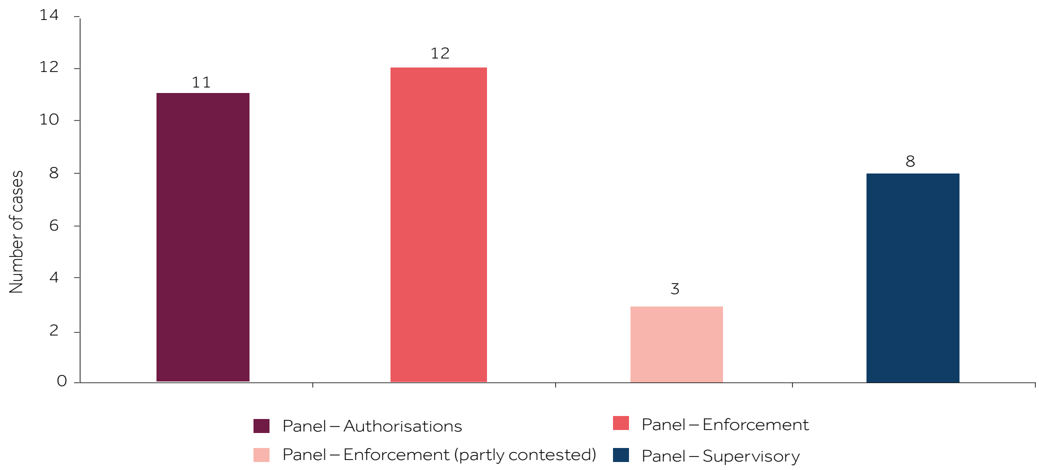
RDC decisions are decisions of the FCA. This means they can only be challenged by the subject of the action, who may refer the matter to the Upper Tribunal for a re-hearing.

Operational performance

Cases received

Cases to the RDC during the year have decreased by 42% since the previous year. The largest decrease was in straightforward enforcement actions against firms that do not submit returns or pay fees. These actions may ultimately result in the FCA cancelling a firm's permissions. However, in approximately 15% of cases the RDC considered last year, the firms either voluntarily cancelled their permissions, or took the required steps during the process, so ending the regulatory action and enabling the firms to continue trading.

Figure 1: Panel cases referred to the RDC during the year by case type[1]



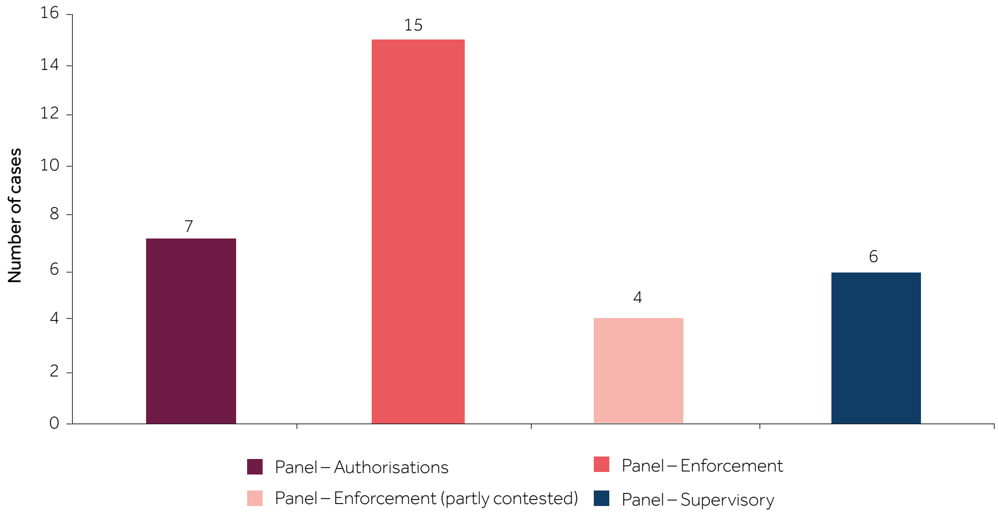
As shown in the above graph, 34 panel cases were referred to the RDC this year (down from 41 last year). In addition to the cases shown in the graph, the RDC received 190 straightforward cases last year. These were: 10 Civil, 9 Criminal, 159 Straightforward – Enforcement, 3 Straightforward – Authorisations and 9 Straightforward – Supervisory.

Outputs and outcomes

The RDC also completed fewer cases during the year, compared to the previous year. This reflects the reduction in cases brought to the RDC, most of which were referred and closed within the same reporting year.

1 Panel – Enforcement/Supervisory: enforcement or supervisory actions, other than straightforward cases, against firms/individuals for regulatory breaches.
Straightforward – Enforcement: enforcement actions decided by the RDC Chair or a Deputy Chair alone where the use of a panel is not necessary or appropriate (the majority being for failure to pay regulatory fees or submit regulatory returns). Whether a decision is straightforward is based on a number of factors including the novelty of the decision and the complexity of the relevant considerations.
Straightforward – Supervisory: supervisory matters decided by the Chair or a Deputy alone where the use of a panel is not necessary or appropriate (for example, due to urgency).
Civil/Criminal: cases where permission is sought from the RDC Chair or a Deputy Chair alone for the FCA to begin proceedings against firms or individuals in the civil or criminal courts.
Panel – Authorisations and Straightforward – 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 shown in Figure 2 above, 32 panel cases were completed by the RDC this year (up from 25 last year). As well as the cases in Figure 2, the RDC completed 197 straightforward cases last year. These were: 10 Civil, 9 Criminal, 165 Straightforward – Enforcement, 3 Straightforward – Authorisations, and 10 Straightforward – Supervisory.

Outcomes of completed Panel cases

The outcomes of the 32 completed Panel cases were:

- the RDC decided to impose 3 financial penalties alongside prohibitions preventing the individuals from performing functions related to regulated activities. One of the three cases also included withdrawal of the individual's approval.
- the RDC decided to issue 9 further prohibition orders preventing individuals from performing functions related to regulated activities. Two of the nine cases also included withdrawal of the individuals' approvals.
- the RDC decided to impose financial penalties on 2 firms.
- the RDC decided to impose a public censure on one firm.
- the RDC decided to impose a public censure and a requirement to pay restitution on one firm.
- the RDC issued 6 Second Supervisory Notices to firms varying permissions and/or imposing requirements.
- 3 applications by firms for authorisation were withdrawn by the Executive, and their applications granted, following submission of evidence that they met the requirements for authorisation.
- 1 application by a firm for authorisation was refused.
- 1 application for authorisation was granted following representations.
- 1 application for individual approval was granted following representations.
- 1 application by a firm for authorisation was withdrawn prior to substantive papers being received.
- 1 partly-contested enforcement case was withdrawn prior to case papers being received.
- 2 Enforcement cases were discontinued by the Executive.

Timing

The average time the RDC took to complete a Panel – Enforcement case was 6.6 months from receiving the case papers until either giving a Decision Notice or deciding not to give a notice. This compares with 8.1 months last year.

Partly-contested cases were completed in 4.9 months on average. (No partly-contested cases were concluded during the previous year.)

Panel – Supervisory cases were completed in, on average, 4.3 months this year. This compares with 2.3 months last year.

Panel – Authorisations cases were completed in 2.4 months on average, a slight increase on last year's average of 2.3 months.

Upper Tribunal decisions

Where there are disagreements between the FCA and firms or individuals about the FCA's regulatory decisions, the firm or individual can refer the RDC's decision to the Upper Tribunal (Tax and Chancery Chamber) for a re-hearing. The Tribunal is an independent judicial body established by the Tribunals, Courts and Enforcement Act 2007.

Tribunal proceedings involve a full re-hearing of the case, not an appeal. They also involve different evidence – most notably live witness evidence, including cross-examination before the Tribunal. The RDC does not have any role in the proceedings. The FCA's case is presented by EMO, which can choose to present the case to the Tribunal on a different basis from that presented to the RDC, such as by arguing for a higher financial penalty.

For these reasons, the RDC does not and cannot directly assess the quality of its decisions in these cases based on whether the Tribunal reaches the same conclusion as the RDC. Tribunal decisions are often informative and illuminating, and the RDC actively reviews them for any lessons either about the specific case or about RDC processes and procedures more generally.

During the year, there was 1 substantive Tribunal decision on a case decided by the RDC – Financial Solutions (Euro) Ltd ("FSE"). The RDC had decided to cancel FSE's Part 4A permission on the grounds that it did not have professional indemnity insurance ("PII") and was failing to pay FCA fees and levies. The Tribunal determined that the matter should be remitted to the FCA for reconsideration in the light of its findings. These findings included that FSE was unable to obtain PII due to a request by the FCA that FSE should cancel its permission, and that FSE did not have the resources to pay the fees and levies after it ceased to trade. The Tribunal also directed the FCA to pay FSE's costs incurred in relation to the Tribunal proceedings, on the grounds that the RDC's decision to cancel FSE's Part 4A permission had been unreasonable, and the FCA had acted unreasonably in bringing, defending or conducting the proceedings. This was due to the FCA failing to take into account the relevant surrounding circumstances, namely the background of an ongoing investigation, request for cancellation and the FCA's decision not to impose a Supervisory Notice.

11 RDC cases referred to the Tribunal were awaiting decisions at the year-end (31 March 2021).

Ongoing case loads

At the end of the period of this review (31 March 2021), the RDC had 42 ongoing cases:

- 20 open Panel – Enforcement cases
- 1 open Panel – Partly-contested Enforcement case
- 1 open Criminal case
- 3 open Panel – Supervisory cases
- 11 open Straightforward – Enforcement cases
- 4 open Authorisations cases
- 2 stayed cases
- 1 Straightforward – Supervisory case and 1 criminal case due to be opened imminently, and 1 case that had been notified to the RDC (Enforcement 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. There are currently 17 members on the committee, and its composition reflects the different sectors of the regulated industry and consumers. There are currently 7 practitioners (Kevin Brown, Julie Hepworth, Charles Laughton-Scott, Caroline Ramsay, Peter Jones, Tanya Castell and E. Noel Harwerth) and 10 non-practitioners (Tim Parkes, Elizabeth France, John Hull, Karen Johnston, Robin Mason, Philip Marsden, Sidney Myers, Malcolm Nicholson, Anne Heal and Stephen Mount). 6 members of the Committee, including the Chair, are lawyers (Tim Parkes, John Hull, Karen Johnston, Philip Marsden, Sidney Myers and Malcolm Nicholson) and 2 are accountants (Caroline Ramsay and Stephen Mount). The FCA's website gives further details.

RDC members are selected on the basis of their:

- experience of making independent, evidence-based decisions
- work in senior and expert positions in financial services, or other relevant sectors
- knowledge and understanding of consumers and other users of financial services

This range of skills and experience aims to improve the objectivity and balance of the FCA's decision-making and to help achieve fairness and consistency across cases.

The full RDC meets every few months. Over the last year this has taken place remotely. The object of these meetings is to: enhance the effectiveness of the committee by sharing insights and experience regarding decided cases, undertake training in relevant technical aspects of regulation by the FCA and keep members informed of likely workloads and areas of focus.

Review of the enforcement settlement process

Each year the RDC, as the FCA's decision maker in contested cases, reviews the FCA's process for settling enforcement cases. During 2020/21 the RDC sent surveys to 9 firms and 2 individuals, and received substantive responses from 3 firms. Considering the small number of recipients and the low response rate, the RDC has adopted a cautious approach to drawing conclusions from what is a very small data-set. The comments below should be read with that in mind.

Those who answered the questionnaire said that they had received adequate information about the settlement process, and that it progressed quickly enough. All said that they were given enough time to consider the FCA's proposals and respond, although one commented that this was less so towards the end of the settlement period; it suggested the FCA might consider varying the time limit for responding where dealing with parties that are not based in the UK, where this gives rise to a significant time difference that can hinder meetings and communications. However, the same firm found it helpful that meetings were pre-scheduled throughout the settlement period, and could be vacated if not needed.

One firm had a pre-settlement meeting which it said was helpful, as were the meetings and update calls throughout the process which helped it to make sensible decisions to bring the matter to an amicable close. Another firm said it was agreed no such meeting was required at that stage in view of two "without prejudice" meetings some months prior to the start of the settlement process, which it found very helpful, first to understand the current status of the investigation, provisional thoughts on findings and proposed next steps, and then to present to the FCA in respect of the findings. The third firm was offered such a meeting but was told that it would only focus on process rather than be used to outline the FCA's proposed findings, which it would have appreciated in order to ensure that the right stakeholders within the firm could be engaged early to smooth the settlement process.

All 3 firms believed that FCA staff conducted themselves well, and, in general, that their representations during the settlement process were listened to and that staff of the right level were involved. One firm commented that, while there was a large degree of constructive discussion, it felt at times as if the FCA team's approach to penalty was inflexible (and the position not clearly articulated and justified in the documentation provided at the outset), no matter how sensible the representations that were made. This firm commented that, at times, it felt as if it was not speaking to the ultimate decision-makers.

All the firms said they were made aware of the partly-contested procedure, whereby it is possible to agree certain elements of a case while contesting other elements, but that they did not pursue it because it was not appropriate to their case (although one firm considered doing so).

The RDC has recommended that Enforcement ensures that, where firms or individuals are based overseas, time differences are taken into account in planning for meetings and the overall duration of the settlement period.

The next 12 months

In the next 12 months we expect to see an increase in complex, multi-party cases involving both firms and individuals. We also expect continued use of the partly-contested case procedure, and of 'early intervention' powers by the FCA through the use of supervisory notices. In addition, we expect to see contested authorisation cases in relation to the Temporary Permissions Regime, and cancellation cases where firms are not using their regulatory permissions – so-called 'Use it or lose it' cases. In due course we should see a reduction in straightforward enforcement cases, in light of the new approach to these under section 28 and Schedule 11 of the Financial Services Act 2021. Otherwise, the RDC expects to see cases reflecting the priorities set out in the FCA's Business Plan for 2021/22.

Appendix 4
Sustainability report

The FCA's Environmental Impact

During the COVID-19 pandemic the environmental impacts linked to our office-based operations have diminished significantly. This is because most of our employees have been working from home since the beginning of the pandemic. The measures traditionally used for performance evaluation cannot easily be deployed to measure the environmental impacts within employees' homes. Minimal office-based operations and business travel have dramatically affected our performance and makes meaningful comparison on historic years difficult. Whilst the pandemic has required remote working we remain committed to becoming a more sustainable organisation and playing our part to achieve the United Nations Sustainable Development Goals (UN SDGs). Where possible we have made the best use of our resources and helped our community during this difficult time.

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.

We have met our commitment to continuous improvement over the past year by:

- using resources wisely to deliver both environmental and financial benefits
- promoting sustainability through 'Sustain', our employee network
- measuring, reporting and reducing our impact on the environment wherever practicable
- setting objectives and targets for each of our key impacts and reviewing them regularly to ensure that they remain achievable
- working with our suppliers to ensure that they reflect our commitments to sound environmental practice and good corporate responsibility
- completing recertification to international standard ISO14001.

The following report provides details of our sustainable buildings, operations and procurement policies.

Note: Figures for 2018/19 represent a period of dual-running whilst moving from Canary Wharf to Stratford

Sustainable Building

Our two offices are in Stratford, London and Edinburgh and before the pandemic most of our employees were based at the head office in London. The Stratford office has achieved Building Research Establishment Environmental Assessment Method (BREEAM) '**Excellent**'. It benefits from chilled beam heating and cooling which uses less power and is more efficient and environmentally friendly. Heating and cooling are provided by a district energy system operating in the Olympic Park which is more sustainable and resilient as it is primarily powered by biofuel. There is an automatic LED lighting system throughout, with presence detectors located on all office floors and nascence detectors located in all meeting rooms to ensure reduced energy usage. Energy use is actively monitored through our building management system to ensure optimal efficiency.

Blinds within the windows are integrated with the building management system and operate to aid heating and cooling based on the internal temperatures and the sun's trajectory, light intensity and heat; reducing the running costs of heating and cooling. The glazing installed around the building allows more sunlight to the office floor and this actively dims the perimeter LED lighting to the floor when needed.

Greenhouse Gas Emissions

Greenhouse gas emissions both from energy consumption and business travel have fallen for a number of reasons:

- Business travel, which accounted for the majority of our carbon footprint in 2019/20, stopped in response to the pandemic
- Energy consumption has reduced due to lower office occupancy while people work from home and because of the energy-efficiency and energy-saving measures deployed in the office
- Electricity is sourced from 100% renewable, carbon neutral sources – wind, solar and biomass
- Heating and cooling are provided by the efficient, low carbon district energy scheme in the Olympic Park, London

		2020/21	2019/20[3]	2018/19
Greenhouse Gas[1] (CO^2e tonnes)	Scope 1	0.2	11	22
	Scope 2	308	376	1,509
	Scope 3	-22[2]	1,308	1,793
	Total	**286**	**1,685**	**3,324**
Energy consumption (kWh)	Electricity (renewable)	1,555,975	2,657,318	7,110,688
	Gas	1,261	61,197	139,257
	Cooling	2,117,876	3,290,931	2,257,287
	Heating	1,034,690	1,042,571	616,866
	Total	**4,709,802**	**7,052,017**	**10,124,098**
Cost (£'000)	Energy	437	758	1,056
	CRC offsetting payments	–	30	80

[1]Scope 1 – Gas (London), Scope 2 – Electricity, Heating and Cooling (London), Scope 3 – Business travel

[2]Minus figure due to cancelled travel that was booked in advance

[3]Figures updated as Landlord had identified errors in their reporting

Business Travel

In the past year our staff have carried out their duties remotely rather than visit regulated firms and other stakeholders such as other regulators across the UK and globally. As shown below, emissions from travel are minimal with only essential UK travel being approved at an executive level. The main mode of transport used was car hire, taxi or rail. Refunds are being collected on all cancelled travel and therefore Co2 is showing as a minus figure.

	Mode of travel	2020/21	2019/20	2018/19
Air (CO^2e)	Air – Domestic	-2	403	535
	Air – Europe (>3,700 km)	0	89	105
	Air – International (3,700km+)	-24	764	1,008
Rail (CO^2e)	Rail/Eurostar	0	29	93
Road (CO^2e)	Car hire/taxi/mileage	4	23	53
Total CO^2e tonnes		-22	1308	1,794
Carbon offset	Via airline travel partner	-	12	-
Cost (£'000)	Business travel (excluding accommodation and expenses)	7	1,509	1,681

Water Usage

The water in our office comes from the mains water supply and through rainwater harvesting. Rainwater is collected in the building and filtered for use in the bathrooms. This reduces our mains water consumption and water costs.

Reduced water flow from lower office occupancy can lead to the increased risk of legionella and other water-borne bacteria surviving and proliferating within buildings water systems. For this reason, we have carried out a twice weekly flushing regime to prevent water stagnation.

To support the UN SDG 14 'Life Below Water' both our catering and cleaning teams reduce the use of chemicals in their cleaning products using a cleaning agent added to water to effectively clean without releasing harsh chemicals into the water stream.

	2020/21	2019/20	2018/19
Water consumption (m^3)	4,342	22,763	54,508
Cost (£'000)	11	15[1]	137

[1]Due to supplier error, the billing for the supply of water only commenced in December 2019. Costs and consumption are for the London office only

Waste

We follow the waste hierarchy (prevent, reuse, recycle, recover, disposal) to lower our costs and reduce environmental impacts and continue to operate a policy of zero waste to landfill in line with our commitment to UN SDG 12 Responsible Consumption and Production.

In light of the Covid-19 pandemic office waste has reduced because fewer people are in the office. However, working within the guidelines we have had to return to using single use disposable items such as food and beverage containers to limit the risk of cross contamination. We also had a large amount of food in store that was due to go out of date with the possibility of being thrown away. We adapted our menus to avoid food waste and also worked with the charitable organisation, the Felix Project https://thefelixproject.org/, and used our kitchens to provide lunch for St Thomas' Hospital staff. Food waste produced in our kitchens is converted into biogas and liquid fertiliser through aerobic digestion.

Our primary waste management service provider operates a carbon neutral fleet and our confidential shredding service provider is investing in an electric vehicle fleet to reduce their emissions from waste collection.

		2020/21	2019/20	2018/19
Waste (tonnes)	Energy from waste	10	113	109
	Recycled	7	211	357
	Hazardous	0.28	1	2
	Total waste	**17**	**325**	**468**
Cost (£'000)	Energy from waste	17[1]	39.5[1]	51
	Recycled	58	-	98
	Hazardous	27	25[2]	11
	Total disposal cost	**102**	**204**	**160**

[1]Energy from waste and Recycled waste are not charged separately by the Landlord.

[2]Hazardous waste costs include the full service, not limited to disposal.

Paper Consumption

The FCA 'Follow Me' print solution across all multi-functional device (MFD) printers has continued to be more efficient and less paper intensive. Printers are configured to black & white and double sided by default to ensure the most efficient use of paper. In 2020-2021, the FCA has seen a significant reduction of overall printing due to Covid-19 with the majority of staff working from home. All printing paper is recyclable and ordered through a sole supplier, Xerox, and print levels are continuously monitored and reported. All printer equipment and consumables are disposed of and/or recycled by Xerox in accordance with best practice print industry guidelines.

Printing		2020/21	2019/20	2018/19
Total Sheets	A4	582,526	6,087,513	8,761,299
	A3	1,142	26,865	45,403
Cost (£'000)		**3**	**22**	**37**

Sustainable Procurement

This year, we integrated our Supplier Environmental, Diversity and Inclusion and Social Policy Statement into our updated FCA/PSR Supplier Code of Conduct, which continues to support UN SDG 12 Responsible Consumption and Production.

The Supplier Code of Conduct is available on both the FCA's and PSR's websites and requires and/or encourages suppliers to:

- meet our commitment to sound environmental practice
- develop and supply goods and services that help improve both our and their environmental performance
- be aware of, and support the FCA in, complying with all relevant environmental legislation and to work with us in achieving the aims of the FCA Environmental Policy Statement
- help us to understand and reduce supply chain impacts and aim to reduce their impact on climate change, reduce waste and follow the waste hierarchy, reduce the use of finite resources, limit pollution and promote energy efficiency

As part of the FCA's Supplier Management Framework, we require and assess an annual attestation statement from our key (Tier 1 and 2) suppliers to verify that they have policies and procedures in place around:

- Compliance with applicable laws and regulations, including licences/permits where applicable
- Sustainable Procurement; and
- Promoting greater environmental sustainability (e.g. encourage the development and diffusion of environmentally friendly technologies; lifecycle assessment; carbon accounting; net zero or science-based reduction targets; water footprint; energy efficiency; responsible waste management in accordance with the waste hierarchy; the use of recycled materials; training; governance; monitoring).

Our catering provider ensures that food is sourced locally, regionally and seasonally to help support UK producers. Seafood, including caught and farmed fish and shellfish, follows the Marine Conservation Society's 'Good fish guide'. They are members of Planet First with a demonstrated commitment to sustainability. Our "Perkee" coffee is sourced from the Soppexcca co-operative in Jinotega, Nicaragua. Profits are ploughed back into the community creating an ambitious and sustainable future for the next generation. Our catering provider ensures farmers are paid the Fairtrade Premium so they can build a better quality of life and fight the challenges their families and communities may face. The following link shows how Soppexcca works towards the UN sustainable development goals (SDGs) http://www.soppexcca.org/en/millenium_goals.html

Our catering provider is also the first contract caterer to achieve Sustainable Restaurant Association (SRA) Three Star Champion Status. For three consecutive years the SRA named Bartlett Mitchell as the most sustainable contract caterer with the 'Food Made Good' Award in recognition of their continued outstanding commitment to sustainability.

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