

Minutes

Meeting:	FCA Board	
Date of Meeting:	01 May 2014	
Venue:	25 The North Colonnade, Canary Wharf, London E14 5HS	
Present:	Clive Adamson	Mick McAteer
	Andrew Bailey	Tracey McDermott
	Amanda Davidson	Jane Platt
	Amelia Fletcher	Sir Brian Pomeroy
	David Harker	Lesley Titcomb
	John Griffith-Jones (Chair)	Martin Wheatley
In attendance:	Set out in Annex A	

Quorum and Conflicts

The Meeting noted there was a quorum present and proceeded to business.

Members were asked to declare conflicts of interest at the start of any relevant items.

1 Minutes

1.1 Minutes of the FCA Board meeting

The Board noted the minutes of the FCA Board meetings held on 27 March 2014, 28 March 2014, 31 March 2014, and 4 April 2014 and suggested some minor alterations. The Board agreed that the Chair should approve the final versions following the changes.

1.2 Matters arising

The Board noted the progress in respect of the matters arising.

The Board noted that when the Oversight Committee took on the additional assignment of reviewing the FOS budget it should also review the plans for dealing with its reserves.

1.3 Updates from:

The Risk Committee meeting held on 1 April 2014

The Board received an oral update from Mick McAteer, noting that the Committee had considered the following issues:

- a case study of how a large retail bank was addressing cultural change and how the FCA was interacting with the bank as part of the supervisory process. The Board expressed interest in seeing other case study examples in order to increase its awareness of how the supervision model was working in practice;

Andrew Bailey joined the meeting at 10.25am.

- the positive response to the cyber resilience questionnaire, which the Committee believed was an important piece of work to assess and address an emerging risk;
- a presentation from the markets division which included how it was looking at the competition objective in its work and which also highlighted the increasing resource required to monitor markets and methods piloted to reduce them; and
- a report from the RDC, which included a summary of the Committee's readiness for any work arising from Consumer Credit regulation and the development of service standards.

The Payment Systems Regulator Ltd (PSR) Board meeting held on 2 April 2014

The Board received an oral update from John Griffith-Jones and noted that the PSR Board had met on 2 April following incorporation mainly to cover procedural matters and agree an initial stakeholder engagement plan. The PSR Board would be holding a strategy day to discuss key policy items and their development.

The Board noted the process that was followed to identify candidates for the position of Managing Director of the PSR. It agreed the appointment of Hannah Nixon as Managing Director of the PSR for a term of 3 years with effect from 12 July 2014. The appointment was subject to approval from the Treasury.

The Board noted that there were a number of firms that provided payments systems and some of these were already supervised by the FCA. The Executive Committee would consider how the two regulatory regimes should interact.

The Remuneration Committee meetings held on 26 March and 30 April 2014

The Board received an oral update from Amanda Davidson and noted the Committee had discussed the following issues:

- the objectives of the Directors for whom they were responsible;
- short term succession planning, with a further discussion to take place in October; and
- the fees payable to non-executive Directors and members of bodies associated with the FCA.

1.4 Monthly reports from the Independent Panels

The Board received the reports from the Consumer Panel, Practitioner Panel, Markets Practitioner Panel and Smaller Business Practitioner Panel and discussed a number of issues, in particular noting the following items:

- the Chair of the Practitioner Panel had met with Martin Wheatley and John Griffith-Jones to discuss the Practitioner Panel's views on a number of issues, including the way the Panel and the FCA interacted and the involvement of the Panel in developing key FCA policy and communications;

- the results of the Practitioner Panel survey would be reported to the Board at its next meeting; and
- the comments of the Markets Panel in relation to the Wholesale Competition Market Study and the next steps towards implementation and regulation for MiFID 2, including the issues arising when conducting a cost benefit analysis.

2 Specific items of business

2.1 Quarterly Performance Report

The Board received the quarterly performance report and noted and discussed the following key points:

- a number of areas were reporting increased workload, due in part to the pensions reforms announced by the Government and the inquiry into the events of 27 and 28 March;
- Internal Audit reports: the number of outstanding action points was noted and Ms Henry was undertaking some work to ensure that in cases where actions were closed these had achieved the appropriate outcome. The Audit Committee undertook reviews of outstanding items and was satisfied that they were being dealt with appropriately;
- Authorisations: there had been an increase in the numbers of calls into the contact centre which, together with some unexpected staff attrition, had led to some service standards not being met in the last quarter. In addition, there was a difference in the ways that the FCA and the PRA assessed authorisations cases, in particular approved persons' applications, which had also led to some breaches of service standards. The Board noted the escalation process for cases where the FCA was minded to refuse applications and that some further communication between supervision and authorisations would assist authorisations in understanding the context of the different roles. It noted there was some process improvement work underway with the aim of increasing case work productivity;
- Supervision: the Board noted the size and type of firms affected by thematic projects, the majority of which were C1 firms. In addition it noted the split of supervision time on projects, thematic and other work, particularly that thematic work had doubled in the last two years. It asked for some additional reporting on the time taken for thematic reviews and whether the reviews were completed to deadline;
- Enforcement and financial crime: The Board noted the results of the deep dives into Anti Money-laundering areas and the consequential actions;
- Markets: The Board noted that activity in the UKLA had increased significantly due to the increase in the number of Initial Public Offerings;
- PRR: The Board noted that all significant policy statements were on track to be produced as planned. It also noted the new information provided in relation to the Information Governance Board;
- People: The Board noted the specific information in relation to people in Supervision and Markets. The Board noted the growth in external turnover and that in response the speed of recruitment for supervision had been increased. The 'rookie ratio', i.e. those staff with less than two years' service with the FCA - appeared high, but new joiners included a significant proportion of individuals with industry experience; and

- Finance: The Board noted that the indicative year end position was broadly in line with the latest forecast.

2.2 Sector Report: Mortgages

The Board received the report and the following issues in particular were covered in the discussion:

- the work that was not addressed by the Mortgage Market Review which could be looked at in the future;
- the Board acknowledged that there were a number of areas where its competition remit was relevant to the mortgage market, including net margins and number of providers;
- the FOS definition of a consumer in relation to buy-to-let mortgages might have an impact on the FCA's view on the fair treatment of consumers;
- the effect of the MMR on the market as a whole would be assessed during the post-implementation review, which would include assessing lending criteria and the fair treatment of consumers;

Mr Harker joined the meeting at 12.05pm

- there was a risk of regulatory arbitrage in new lending practices, and that the greater number of mortgages with terms that were more than 25 years could have an effect on consumers in later life.

2.3 FCA Annual Report 2013/14 - Discussion of initial draft

The Board received the report, and discussed the following issues:

- the outline structure of the Annual Report, which followed the same structure as the Business Plan;
- the timeframe for production of the report in order to lay it before Parliament prior to the Annual Public Meeting, including the Board's involvement in reviewing early drafts; and
- in line with applicable reporting standards, the accounts would include additional disclosures setting out median pay comparators and aggregate information on exit packages within bands;
- a full response to the Panels' annual reports should be published in an appendix to the report on the FCA's website as in previous years.

The Board agreed the draft outline and the approach to the Annual Report.

2.4 Additional item on the Listing Rules enhancement instrument

The Board received the report and noted the additional information provided due to an ongoing transaction. The Board noted the proposed benefits of the suite of rules and that advice had been taken from Counsel. The Board acknowledged the representations made by a party involved in the ongoing transaction and considered the Executive's view having considered the representations. The Board noted that the purpose of the proposed rules was to increase investor protection and that as it had carefully considered the rules, it should agree to make the instrument as set out in Appendix B.

2.5 Status of the Davis Inquiry

The Board noted the update from the Chairman on the development of a protocol and changes to the terms of reference which had been agreed with the Non-executive Directors and would be published the following day. These had been developed in line with the expectations of the Treasury and Mr Tyrie, MP, as chair of the Treasury Select Committee. The Non-Executives believed that it was important that the arrangements ensured the integrity of the review and the Board noted that it would not receive any updates on the progress of the report, aside from logistical progress.

Mr Wheatley gave a brief overview of his understanding of the events that occurred on 27 and 28 March and the actions that the Executive had taken since that date.

The Board agreed that it had a responsibility to ensure the organisation was able to run smoothly whilst the inquiry was being carried out and the Non-Executives were concerned to ensure that this incident did not overshadow the progress that had been made in the first year of the FCA. The Board recognised some staff would feel scrutinised by the inquiry and the attention the review had caused and both formal and informal support would be provided where needed. Nevertheless the Board asked the Executive to ensure that the organisation understood that business should continue as normal.

The Board agreed that the inquiry was not being carried out under s73 of the Financial Services Act as it did not meet the criteria for "regulatory failure", but instead was being carried out under the same guidance power in what is now s139A of the Financial Services and Markets Act used for the RBS and HBOS reviews.

2.6 Farewell update from the Independent Complaints Commissioner and welcome to the new Commissioner

The Board received the published report, noting it was Sir Anthony Holland's final report and the detail of some of the issues that Sir Anthony had encountered during his time as Complaints Commissioner.

The Chairman thanked Sir Anthony for his work and welcomed Mr Townsend into his new role.

2.7 Recommendations of the NAO Report on the FCA and PRA

The Board received the paper which set out the way the FCA was taking forward the NAO's recommendations, which would be used to inform future business plan objectives, measures and targets. The Board discussed and noted the following issues:

- the NAO had not formed a formal assessment of value for money given the early stage of the two regulators;
- a number of the recommendations related to achieving and demonstrating value for money and there was a balance between keeping costs under control and retaining the best staff to ensure the FCA had the ability to regulate effectively; and
- the review was carried out at an early stage in the development of the two regulators (PRA and FCA) so at the time working practices were similar, but it was expected that these would diverge over time and it would be important to ensure that the co-ordination at high level translated to working level.

The Board agreed that the Audit Committee should monitor progress against the NAO recommendations.

The Board thanked the team for the positive way they had interacted with the NAO.

2.8 RDR Follow-up

The Board received a report on the developments in the retail investment market and noted the following points.

- since the last Board update a considerable amount of RDR-related FCA activity had been focused on the retail investment sector. The market had also continued to evolve, in particular:
 - adviser and firm numbers had remained stable since the implementation of the RDR, with advisory firms reporting a small year-on-year increase in income and profits;
 - all legitimately active advisers had achieved the qualifications standards and were carrying out required continuous professional development. A growing proportion of advisers had achieved or were training towards chartered status (QCF Level 6); and
 - firms had transitioned to the new, transparent platform charging rules without significant issues outstanding ahead of the deadline.
- there were some potential risks and issues remaining in some of the monitoring work that had been done since the introduction of the RDR, in particular:
 - a significant number of firms were failing to provide clients with the required information on the nature of their service and charging structure;
 - the industry had continued to raise concerns with the practicalities of complying with the requirements for providing 'independent' advice and remained negatively disposed towards 'restricted' status;
 - sales of investments on a non-advised basis had continued to grow but simplified, streamlined advice has not yet caught on. Work was already in train looking at both of these areas.

The Board noted that in the context of non-advised sales in particular, it would be important to link the work on the RDR with provision of new guidance on annuities. The Board also noted that a fuller and broader analysis of the impact of the RDR was currently being undertaken as part of the Post Implementation Review, the output of which would be shared with the Board by the end of 2014;

3 Reports from Executive Directors

3.1 CEO Report

The Board received the CEO's report and discussed the following items:

- Staff had been informed of the potential move to Stratford, which had been communicated at the FCA's first Annual Strategy Meeting;
- the impact and implications of the decision by HHJ Leonard QC in the Operation Cotton case;
- the changes in Government which had resulted in the minister responsible for the FCA remit now being Andrea Leadsom, Economic Secretary to the Treasury;
- the positive progress and early outcomes of consumer credit regulation after one month;

- the progress on the Interest Rate Hedging Product redress programme, for which the deadline for calculating and paying redress was approaching and it was expected that the majority of the repayments would be completed in the deadline;
- the work being carried out in relation to benchmarks, including those other than LIBOR that were under threat due to some market participants withdrawing; and

Ms Titcomb left the meeting at 3.55pm

- the risk of certain remuneration structures and deferred remuneration arrangements affecting competition if individuals were to retain large deferred interests in their previous employer when moving to a competitor.

4 Report from PRA

The Board received an oral update from Andrew Bailey.

5 Decisions reserved to the Board

5.1 Rules & Guidance to be determined:

The Board received a briefing from the teams in respect of the Instrument related to the Use of Dealing Commission. Following that discussion, the Board made five instruments set out in Annex B.

5.2 Matters requiring a decision of the Board:

The Board approved:

- the re-appointment of Laurie Edmans, Stephen Locke and Joanne Shaw as non-executive Directors of the Money Advice Service for a further three years from 3 July 2014 until 2 July 2017; and
- updates to the FCA Corporate Governance document.

6 Papers for noting

6.1 Minutes of ExCo meeting held on 10 and 25 March 2014.

6.2 Draft Minutes of Audit Committee meeting held on 6 March 2014.

6.3 Forward Agenda.

The Board noted the forward agenda.

7 Any other business

There was none

8 Update on the HBOS Joint Steering Committee

Mr Griffith-Jones left the meeting having previously declared a conflict in this matter through his former employment as Chairman of KPMG LLP, auditors of HBOS.

The Board noted the conflicts declared previously by Mr Adamson, Ms McDermott and Ms Titcomb and, after due consideration authorised them pursuant to Article 10.2 to attend the discussion as no decisions were requested.

The Board received an update from Sir Brian Pomeroy on the last HBOS Joint Steering Committee meeting.

The meeting closed at 4.50pm.

Claire Strong

Deputy Company Secretary

Annex A: Attendees

Sean Martin	General Counsel
Claire Strong	Deputy Company Secretary
Simon Pearce	Company Secretary
David Bailey	Head of Department, Market Infrastructure & Policy (for item 2.4)
Natalie Baylis	Head of Department, Markets, Funds & Authorisations (for item
David Godfrey	Director, Finance & Operations (for item 2.1 and 2.7)
Sir Anthony Holland	Complaints Commissioner (for item 2.5)
Gavin Stewart	Head of Department, Risk (for item 2.7)
Richard Sutcliffe	Head of Department, Supervisory Oversight (for item 5.1)
Antony Townsend	Complaints Commissioner (for item 2.5)
Toby Wallis	Manager, Primary Markets (for item 2.4)
Linda Woodall	Director, Mortgage & Consumer Lending (for item 2.2)
Chris Woolard	Director, Policy Risk & Research (for items 2.1, 2.3 and 2.8)
Nick Poyntz-Wright	Director, Long Term Savings & Pensions (for item 2.8)
Greg Choyce	Head of Department, General Counsel Division

Relevant associates and technical specialists also attended the meeting.

ANNEX B: Resolution

The Board of the Financial Conduct Authority hereby resolves to make the following instruments:

Conduct of Business Sourcebook (Use of Dealing Commission) (Amendment No 2) Instrument 2014 [FCA 2014/29]

Mortgages (FPC Interest Rate Stress Tests Recommendations) Instrument 2014 [FCA 2014/30]

Recognised Investment Exchanges Sourcebook (Competition) Instrument 2014 [FCA 2014/31]

Prospectus Rules (Regulatory Technical Standards) Instrument 2014 [FCA 2014/32]

Listing Rules (Listing Regime Enhancements) Instrument 2014 [FCA 2014/33]