Annual Report and Accounts

2021/22

(for the year ended 31 March 2022)

HC 455

Financial Conduct Authority
Annual Report and Accounts 2021/22
(for the year ended 31 March 2022)

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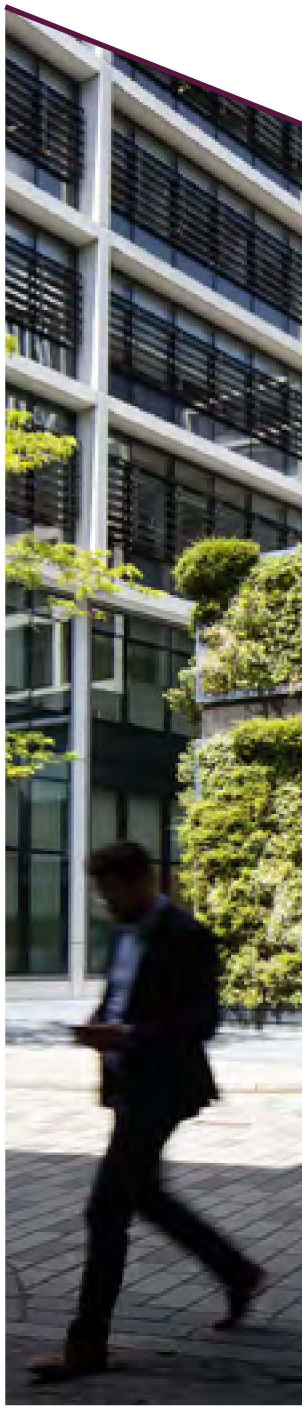


1. Chair's foreword

It is my privilege to introduce this annual report as interim Chair of the Financial Conduct Authority.

Last year, the FCA worked hard for consumers and markets in an exceptionally difficult environment.

I am proud of the way the FCA ensured that financial services firms could provide such strong support for people affected by the Covid-19 pandemic and, more recently, for their customers facing the cost-of-living crisis. Less visible, but vitally important, were our staff and the industry playing a central role in the Government's package of sanctions, maintaining well-functioning markets and access to financial services for refugees, following Russia's invasion of Ukraine.

We expect the firms we regulate to do the right thing for their customers. In response to the changes we have made to insurance pricing, millions of customers have been offered better deals at renewal. Millions of overdraft customers are getting charged more fairly. And consumers who use claims management companies will now keep more of the redress they receive as a result of our charge cap.

These were specific interventions to help customers of specific products. But this year we have consulted extensively with both firms and consumer groups on a new Consumer Duty that aims to put better customer outcomes front and centre of every product in every financial services firm. This is a major change for firms and the FCA; we will make sure that the new duty has the intended positive impact by working closely with all our stakeholders in the coming months.

> **I am proud of the way the FCA ensured that financial services firms could provide such strong support for people affected by the Covid-19 pandemic**

Richard Lloyd
Interim Chair

We also continued to encourage progress in open wholesale markets, reforming our rules to strengthen certain investor protections, to encourage founder-led companies onto public markets sooner and to enhance diversity on listed company Boards.

Sustainable growth and innovation rely on high standards of integrity, and the UK's independent system of regulation is recognised worldwide as a great strength in our economy. By enforcing our rigorous expectations for anti-money laundering controls at crypto exchanges applying to be registered we have prevented firms that could not show adequate standards from benefiting from the badge of FCA registration.

Our successful criminal prosecution of Natwest for money laundering failures, resulting in fines of over £264 million, underlines our renewed commitment to enforcing high standards and stopping criminal behaviour. We continued our targeted consumer campaigns to raise fraud awareness and worked with online platforms to help stop financial advertising by unauthorised firms and protect more people from fraudsters.

We continue to be given additional responsibilities. We have established the regulatory regime for funeral plans which comes into effect in July 2022. We are preparing to take on new powers to ensure the continued availability of cash withdrawal and deposit facilities in local communities across the UK. We are playing a full part in the Digital Regulators Cooperation Forum and in supporting the Government's ambition for a net zero economy.

Additional responsibilities mean that we have to make difficult decisions as to where we prioritise our resources. Our three-year strategy sets out the prioritisation decisions we have made and how we will know if we have achieved the key positive changes we seek. For many issues though, we will continue to need legislative change to achieve our objectives, and our annual Perimeter Report sets out where this is so. Although buy-now-pay-later is not yet within our remit, we have used our existing powers on consumer contracts to ensure that the biggest providers' terms and conditions are fairer when more and more people are turning to credit for everyday purchases.

> **Our successful criminal prosecution of Natwest for money laundering failures, resulting in fines of over £264 million**

I want to thank all my colleagues on the Board and throughout the FCA, along with our many regulatory partners, for their hard work, collaboration and dedication over the past year. It is difficult, often unrecognised, but vital work that our people do every day. To rise to meet so many new external demands at a time of great organisational change is a credit to their professionalism and commitment to putting the needs of the British public first.

Finally, Charles Randell stepped down as Chair of the FCA at the end of May 2022 and I thank Charles for his immense contribution to the FCA. Charles's legacy is to leave a regulator that is relentlessly focused on ensuring the financial system delivers good outcomes for consumers and markets, on improving its own operational delivery and on acting faster to get bad firms out of the system and stop them coming in in the first place. We are hugely grateful for his dedication to better regulation over the last four years and wish him well for the future.

> **Our three-year strategy sets out the prioritisation decisions we have made and how we will know if we have achieved the key positive changes we seek**

Richard Lloyd
Interim Chair

2. Introduction from the CEO

As Richard makes clear, in 2021 FCA colleagues worked with dedication to more effectively protect consumers, enhance market integrity and promote competition.

As a result of their work on persistent credit card debt, over half a million people paid less in interest, while millions are being offered better deals at renewal because of our changes to insurance pricing to tackle the loyalty penalty.

As a result of FCA enforcement action, firms or individuals who broke the rules were fined over half a billion pounds, including using our criminal prosecution powers for money laundering regulations.

With our limited remit, we ensured that anti-money laundering rules apply to crypto exchanges, so they are not used to funnel money to fuel crime, terrorism or war.

And we introduced wide-ranging listing reforms to maintain the UK market's leading edge, while our globally pioneered and much emulated regulatory 'sandbox' has supported the development of over 50 blockchain firms.

Last year, the UK represented nearly half of all European FinTech investment, much of it outside London.

As we become more robust in preventing and tackling harm, we are also strengthening our operational efficiency. Last year we recruited dozens of new employees in our authorisations team, working through large caseloads, with a more assertive approach at the Gateway to regulation.

And, as well as improving how we discharge our statutory mandate, we continue to transform into an organisation that is data-led, forward-looking and proactive, including beyond our jurisdiction where necessary.

Proactive at our perimeter

The adverts that Big Tech platforms carry can lead to vulnerable customers being defrauded of their life savings. We lack formal oversight powers here, but made clear we will find a way to take action, if platforms do not address this.

Our engagement ensured Google changed its policy to better protect customers. Meta and Twitter have promised to do the same, and we worked with the Government to include financial crime in upcoming legislation to tackle online harm.

Our Perimeter Report, also published today, underpins a

Nikhil Rathi
Chief Executive

formal discussion between the FCA and Government to check our regulation keeps pace.

We have previously made the case to regulate pre-paid funeral plans. That is now happening and, while awaiting formal oversight at the end of July, we are checking existing providers meet our standards. Where they don't, we are working with the industry to transfer the majority of plans to other providers, to minimise potential disruption and distress to those whose provider has failed.

Empowering colleagues, rewarding collaboration

We're changing culture as well as policy.

FCA colleagues have delivered considerable achievements domestically and internationally in recent years. At the same time we need to tackle silos, prioritise outcomes over processes and measure our own performance more effectively.

Now we are rewarding collaborative behaviour, applying a bolder risk appetite, publishing metrics we can be held to account against, and testing the limits of our powers.

Our work is often subject to legal challenge by very determined and well-resourced individuals and companies. And we don't always win.

But we do not see that as failure. Last year we empowered more colleagues to take quicker decisions and back them when they do so.

Our new employee offer rewards performance and the majority of colleagues will receive an average 12% pay increase over this year and next, with the lowest paid receiving significantly greater increases. 900 colleagues seeing rises of an average £6,500. We remain one of the best paid public authorities or enforcement agencies in the UK.

And as we invest in our technology platform, we are recruiting more staff in Leeds, Edinburgh and London, focusing on diversity and new capabilities. Almost 500 new colleagues have joined us so far this year and we expect nearly 1,000 to have done so by the end of the year.

We are changing because the world is always changing

This new approach is vital because we must run towards problems and embrace opportunities.

New freedoms allow radical reform of our regulatory framework, markets are rapidly digitalising, and we have a fundamental role in enabling a net zero economy, while supporting energy security.

Our response to the pandemic and the war in Ukraine shows we are becoming more adaptive and collaborative, working through solutions rapidly, with domestic and international partners.

We played a global leadership role in the global transition away from LIBOR and must remain proactive as UK consumers become more intensely exposed to risk and reliant on financial services, due to cost-of-living pressures.

A new approach

For the first time we have set out market-wide outcomes we expect all firms to deliver.

Our New Consumer Duty will ensure all firms take account of the actual impact of their services and the suitability of their products for consumers. Requirements will address the need to support consumers in financial difficulty, ensure products are fair value and make it easier for consumers to switch from inadequate products.

Favouring outcomes over tick-box compliance also supports competitiveness. Firms gain certainty about our expectations, including for products not yet launched and, with fewer anticipated rules changes, costs should fall.

Our Consumer Investment Strategy aims to reduce the number of consumers investing in unsuitable high-risk investments. And we recently reminded thousands of lenders of their responsibilities to borrowers, taking further action with specific firms.

We have led the way on considering Diversity and Inclusion as a regulatory issue, supporting high standards of conduct and UK firms attracting the best talent from all backgrounds.

A laser focus on high standards across the board, is permitting world-leading support for innovation.

It is crucial we maintain our agility and assertiveness, and, with the strong support of our board, I believe we have the right strategy and the right people to succeed.

Nikhil Rathi

Nikhil Rathi
Chief Executive

3. Highlights

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

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

We use our powers and influence to improve overall market outcomes in financial services. We help competition and innovation prosper in the interests of consumers and ensure market integrity.

We stop and prevent serious misconduct that leads to harm. We enforce our rules to maintain trust and integrity in markets. We aim to act quickly and assertively to stop immediate harm and impose sanctions to punish offenders and deter others.

This section of the Annual Report highlights examples of the work completed in pursuit of our operational objectives during 2021/22.

We use our powers and influence to improve overall market outcomes in financial services

Consumer protection

Scams

We continue to alert the public to the growing number of scams, issuing a record of over 1,400 warnings over the past year.

In 2021, our Supervision Hub has prevented at least £4m being lost to scams. We also secured £5m to pay back people who invested in companies that were not authorised to undertake financial activity.

Credit card debt

Our work on persistent credit card debt means nearly 600,000 people look set to pay down their debt faster (ie are repaying more each month and will clear it in four years if the repayments are maintained) and pay less overall.

4.8m

InvestSmart

Our campaign last year reached over 3.2m people on Instagram and Facebook, over 4.8m on Twitter, and 4.4m on TikTok. 48% of those seeing an InvestSmart advert said they would make sure they understand the risks presented by a high-risk investment, compared to just 26% who hadn't seen one.

£1.35bn

Business Interruption insurance

Following last year's Supreme Court Judgment, over £1.35bn has been paid out so far, mainly to SMEs.

£34.8m

Consumer redress

We secured £34.8m in consumer redress for unauthorised investment business.

More assertive in our authorisation process

Our tougher approach at the Gateway means one in five applicants weren't authorised, up from one in 14.

197

Use it or lose it

During 2021/22, proactive firm engagement secured 197 cancellations from firms which have not carried on regulatory activity in the last 12 months, helping to protect consumers from being misled.

Protect and enhance market integrity

Primary market effectiveness review

Our new rules seek to ensure that primary markets have high standards of investor protection and work effectively for both companies and investors. The changes also make our rules more accessible and easier to understand.

ESG

Our ESG Strategy, published at COP26, sets out our target outcomes and actions. Outcomes include high-quality sustainability-related disclosures, trust in ESG-related products and investor stewardship that supports a market-led transition to a sustainable future. We have also published our inaugural annual Task Force on Climate-related Financial Disclosures Report.

Economic sanctions on Russia and Belarus

Sharing intelligence with UK and international authorities and acting to prevent sanctions evasion. Working with firms and public body supervisors, issuing a joint UK regulatory statement to the crypto asset sector and commencing the assessment of firms' implementation of the sanctions.

80%

Legislative changes

We called on Government to include paid-for advertising in the Online Safety Bill and pressed for changes to the regulation of crypto-assets. We have also continued to challenge crypto asset firms seeking registration under the money laundering regulations. Approximately 80% of those firms have been refused or withdrawn their application as a result of our scrutiny.

£313m

Tougher enforcement

We imposed financial penalties of over £313m in the 2021/22 financial year. We brought our first successful criminal prosecution under the money laundering regulations offences, resulting in a financial penalty of over £264m against a firm.

Promote effective competition

Listing rules

We brought about significant changes to our listing rules to support companies seeking investment. These include an alternative approach for special purpose acquisition companies (SPACs), allowing a targeted form of dual class shares, reducing the level of publicly-held shares required for an initial listing and increasing the required minimum market capitalisation when companies list shares.

£4.2bn

General insurance pricing practices

Our new general insurance pricing practices rules will save motor and home insurance customers an estimated £4.2bn over 10 years.

Accessing and using wholesale data

We issued a Feedback Statement announcing a review of the market for trade data, and market studies on benchmarks and credit rating agency data.

60 applications

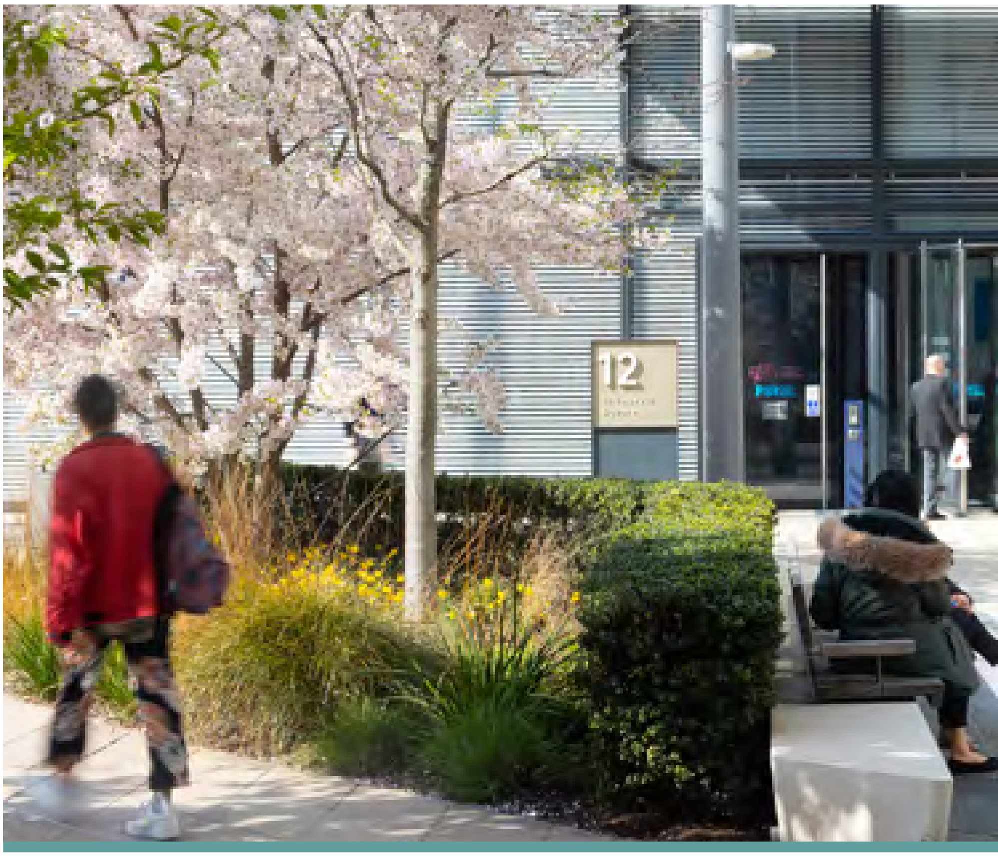
Sandbox

We've had 60 applications to our Always Open Regulatory Sandbox since its launch in August 2021, with an increase in those using Open Banking and AI technology.

Building on our existing Direct Support and Advice Unit, in April we launched Innovation Pathways to provide a better, more streamlined service to innovative firms. During the last financial year, we supported 48 of the 157 applications into our Innovation Pathways, representing firms operating in Blockchain, Open Banking and AI areas across all sectors.

4. Our role

Our Annual Report looks back over the year, demonstrating what we achieved in 2021/22. It shows how we have met our strategic and operational objectives and delivered against priorities set out in our 2021/22 Business Plan. For detail on our forward-looking priorities, please refer to our 2022/23 Business Plan.



Our regulatory principles and functions

Under the Financial Services and Markets Act (FSMA), we have several functions, such as making rules and giving general guidance, as well as authorising, supervising, and enforcing firms. When carrying out our work, we take the following principles for good regulation into account.

These principles are all equally important. We include compatibility statements in all our consultation papers – as required by FSMA - explaining why our proposals are compatible with these principles.

We are also responsible for registering mutual societies.

Our 2021/22 mutual societies registration function update can be found here.

Who we regulate?

We regulate the conduct of around 50,000 financial services firms in the UK.

We are also the prudential supervisor for around 48,000 firms. Around 18,000 of these must meet our specific prudential standards.

We regulate the conduct of around

50,000

financial services firms in the UK

Proactive at the boundaries of the perimeter

The perimeter is decided by the Government and Parliament through legislation, our remit determines what we do and do not regulate. It can be complex for firms and consumers to understand which activities we regulate. We aim to reduce harm by being proactive at the perimeter of our remit.

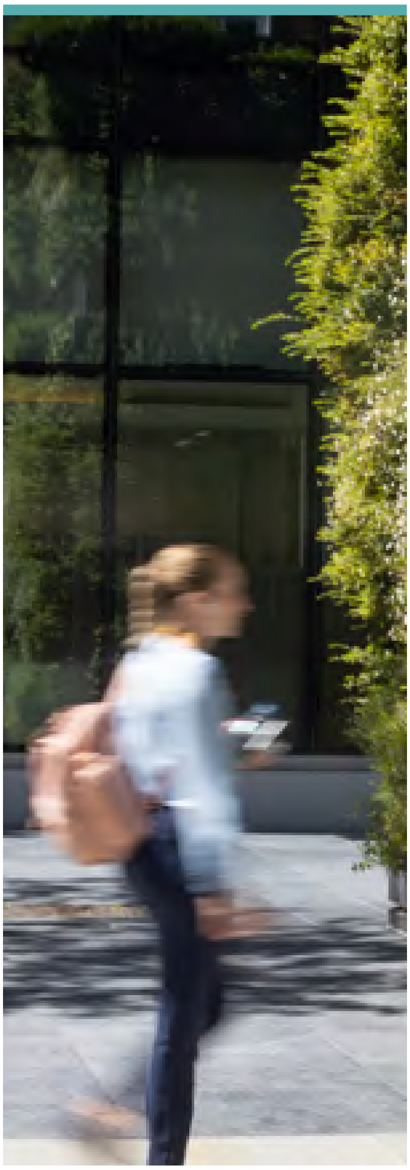
Alongside our Annual Report we have also published our Perimeter Report, which will be updated on a quarterly basis where necessary.

We publish this report to clarify some of those complexities and what we're doing in response. We also highlight gaps in legislation and potential for harm. In October 2021, we called for the following legislative changes to protect consumers in our third report:

- duties on internet companies in the Online Safety Bill should extend to paid-for advertising
- amendments to the Financial Promotions Order to reform current exemptions which aren't suitable or appropriate for consumers
- the Senior Managers and Certification Regime (SM&CR) should be extended to Recognised Investment Exchanges, Credit Rating Agencies and payments and e-money firms

Our CEO discussed these key issues with the Economic Secretary to the Treasury in December 2021.

We are being more proactive and enhancing our horizon scanning capabilities so we can better spot and respond to emerging risks. This includes scenario analysis that will enable us to consider where risks may be most likely to grow both inside and outside the perimeter.



What we do

We protect consumers, support competition in financial services and maintain market integrity. We regulate firms and individuals in financial services to:

- drive a healthy and successful financial services system
- drive innovation, productivity, and economic growth
- protect consumers from firms that engage in harmful behaviour

This year, we've made changes to how we authorise and supervise firms and individuals and enforce our rules, which we summarise below.

Authorisations

Authorisations is the first point of contact for firms and individuals wanting to carry out regulated activities. We set the bar high for new entrants to ensure that firms and individuals are able to meet our standards and rules at this gateway, and continue to do so, to achieve good outcomes for consumers and markets.

As we transform into a more assertive regulator, we have strengthened our assessment at the Gateway. As part of this we review firms' business plans, risks, budgets, resources, systems, controls and whether key staff have the necessary qualifications and experience to carry out their roles effectively.

Case Study

Protecting consumers from excessive Claim Management Company fees

When we took on the regulation of Claims Management Companies (CMCs) in April 2019, Parliament gave us a duty to make rules about the fees the CMCs charge for redress claims. We had to make rules that secured appropriate protection against excessive CMC charges on claims about financial products and services. In response, we have introduced a fee cap for CMCs managing these claims. We found that it was difficult for consumers to judge the value of the CMC services they were buying when they made these claims. Under the fee cap, CMCs can charge consumers who choose to use them to claim redress of £50,000 or more no more than 15% of the redress or £10,000, whichever is lower.

For example, before the fee cap was introduced Amit Choudery* was unhappy with advice he received about transferring his occupational pension. He contacted a CMC to enquire about making a claim and signed a contract with the CMC to pay 42% of redress including VAT in return for the CMC managing his claim. Amit's claim was upheld. Amit took an active role in the resolution of his claim but had to pay the CMC £92,000 of the money eventually recovered, leaving him just £126,000. He complained about the CMC fee to the Financial Ombudsman Service, but his complaint about the CMC was not upheld because Amit had signed a contract to pay 42% of redress to the CMC.

The fee cap we have now introduced could have saved Amit £82,000. Consumers like him are now protected from excessive CMC fees on claims about financial products and services.

**Name changed*

In 2021/22, we received more than 3,600 applications from firms and more than 58,000 applications from individuals to enter, change or leave the industry. We have introduced more intensive assessment of applicant firms' financials and business models. This greater scrutiny now results in an increasing number of firms withdrawing their applications or having them refused. This was one in five applications in the last financial year, up from one in 14 in the previous financial year.

Supervision, Policy and Competition

This year we have brought together our Supervision, Policy and Competition teams into a combined division (SPC) supporting the delivery of innovative, adaptive and assertive regulatory interventions.

In November 2021 we changed our rules to streamline decision-making processes, enabling us to be more assertive and act more quickly where firms and individuals do not meet required standards. Between July 2021 and the end of April 2022, there have been 25 decisions taken to impose own initiative requirements, an increase from 16 intervention cases between July 2020 and June 2021.

We operate a number of services that provide important support for consumers and firms. Our Supervision Hub responded to 190,742 firm contacts during the year and 131,700 contacts from consumers. We also maintain the Financial Services Register.

Competition is an integral part of our work to reduce potential harm to consumers and markets. We continue to conduct in-depth investigations into how specific markets are working for consumers. During 2021/22:

- We completed our strategic review of retail banking business models and continue to progress a range of remedies from previous competition investigations, including making it easier to share consumer data in a secure environment.
- We introduced rules to address the harm we had found in our general insurance pricing practices market study. We will evaluate the impact of these rules in 2024.
- We issued our Feedback Statement on accessing and using wholesale data, which announced a review of the market for trade data, and market studies on benchmarks and credit rating agency data. A lack of competition in wholesale data markets could reduce the use of wholesale data in investment decision-making and increase costs for investors, including end consumers.

We also enforce UK competition law across the provision of financial services in the UK and claims management services in England, Wales and Scotland. During 2021/22 we continued an investigation into suspected anti-competitive arrangements under Chapter I of the Competition Act 1998 and issued 14 'on notice' letters in 2021/22, which are designed to increase awareness of competition law and encourage compliance.

Case Study

Funeral Plans

The Government excluded most of the funeral plan sector from regulation in the early 2000s. But since then, it has grown significantly – 216,000 plans were sold in 2021, roughly double the number sold in 2010.

There have been increasing concerns about the conduct and prudential soundness of some pre-paid funeral plan providers. In response, in 2019 the Government decided to bring the sector under our regulation. We conducted our own research to help prepare and this identified several potential harms. These included firms using high-pressure sales tactics, very high commission and poor financial management of trusts.

We developed rules to help to ensure that authorised firms cannot operate in ways that cause harm. The rules set high sales standards and ensure products deliver fair value, including a ban on commission payments. They also reinforce the existing requirements for customers' money to be backed by adequate trust or insurance arrangements.

We put a tough gateway process in place for applications to ensure only firms that meet our standards are authorised. Several firms didn't apply for authorisation; others withdrew their applications or had them refused. We are working with the industry and Government to develop solutions to minimise the impact on affected customers of these firms.

We expect that over 20 funeral plan providers will be authorised when we take over the regulation of this sector on 29 July 2022. From the start of our regulation, customers should be able to confidently choose from a large range of providers. Customers will also have the benefit of FSCS protection if their provider should fail in the future.

Enforcement

Our Enforcement function makes it clear there are real and meaningful consequences for firms and individuals. Our aim is to detect serious misconduct early so that we can intervene and prevent harm from happening or continuing.

We continue to see significant increases in firms and individuals carrying out regulated business without our authorisation. In 2021 we issued over 1,400 alerts on our website about firms or individuals, a near 18% increase from the 1,196 alerts issued in 2020.

842 enquiry cases relating to reports of potential unauthorised business were opened. We also imposed financial penalties of £313m and started prosecutions alleging insider dealing, investment fraud and money laundering. In addition, we brought our first successful criminal prosecution against a regulated firm under the Money Laundering Regulations. This resulted in Southwark Crown Court imposing a financial penalty of £264.8m. We currently have 71 investigations open into suspicions of insider dealing, as part of our agenda to promote clean and fair markets.

1,400

alerts on our website about firms or individuals

We brought our first successful criminal prosecution under the money laundering regulations offences

£313m

worth of imposed financial penalties

Working with our partners

We work closely with consumer groups, trade associations and professional bodies in the UK. Chapter 10 gives further details on our engagement with international bodies.

We have a Memorandum of Understanding with the Prudential Regulation Authority (PRA) to coordinate our actions and activities and achieve joint outcomes. The PRA can veto action if it thinks it may threaten financial stability. This is in accordance with section 3I FSMA 2000. It did not use this power during 2021/22. We must hold annual meetings with external auditors of firms the PRA identify as important to the UK financial system's stability. 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. We held 35 of these meetings over the last year, which gave us a better understanding of the issues at these firms.

We consult on the impact of our work with our statutory panels. These Panels represent the interests of consumers, regulated firms and markets. We also consult the Listing Authority Advisory Panel (LAAP) on our work involving primary markets. Each Panel has responded to our ongoing work with the Treasury on the Future Regulatory Framework, underlining their important voice and role in our regulatory and policy processes.

Each year we publish how we have responded to key comments from the statutory Panels, we also meet with the panels regularly to discuss a range of retail and wholesale market issues.

The Panels publish written responses to our formal consultations, discussion papers and other policy documents on their websites.

As part of our competition work on wholesale data, following our Feedback Statement in January 2022, we will be engaging with our international counterparts, both multilaterally and bilaterally, to share views and assess relevant measures implemented by other international regulators, to inform this work.

Being accountable for our progress

Our three-year Strategy and Business Plan 2022/23 set out the outcomes we want to achieve for consumers and market participants. They connect our tools and interventions to the outcomes and the metrics we will use to measure our progress.

There are four topline outcomes we expect from financial services: fair value, suitability and treatment, confidence and access. Our Strategy also sets out 13 commitments for the next three years. For each commitment, we explain the outcomes we wish to achieve, which are linked to our topline outcomes.

We have published metrics for each of our topline outcomes for consumers and wholesale markets, combining market data and perception data from surveys.

We have also started to develop a series of metrics to monitor our progress against the 13 commitments. As with all our metrics, we plan to continuously improve and develop them over time and will continue to add metrics and their baseline values

Evaluating our impact

While the pandemic affects our ability to measure causal impact, we continue to evaluate the impact of our work. We are currently considering the impact of our 2019 intervention into the overdraft market. We are also getting ready to collect data to evaluate more recent interventions, such as our 2021 general insurance pricing practices rules.

Reporting on the metrics in our 2021/22 Business Plan

We have reported on the progress against our strategic transformation linked outcomes from the 2021/22 Business Plan. These include:

- Publishing the estimated benefits from some of our policy and enforcement work. We estimate that we delivered at least £11 of benefits for every pound spent on running the FCA, for a subset of our policy and enforcement activities undertaken over the three financial years to March 2021.

- Monitoring and publishing our market cleanliness statistics. For 2021, the market cleanliness measure was 7.7%, the abnormal trading volume measure was 7.1% and the potentially anomalous trading ratio was 6.1% All of these were a decrease from the previous year, although we caution against year-on-year comparisons and look at these measures in the round.
- Tracking refusal, withdrawal and rejection rates at our Gateway and complaints about newly authorised and registered firms. In 2021 there was an increase in refusal, withdrawal, and rejection rates, with one in five applicants not obtaining authorisation, up from one in 14. There were 50% fewer upheld complaints against newly authorised firms and an 8-percentage point reduction to 33% in the uphold rates for complaints about newly authorised firms.
- Monitoring the value and volume of Financial Services Compensation Scheme (FSCS) claims. The number of new claims and payments made fell in 2020/21, but the amount of compensation paid out increased.
- Focusing on removing permissions to tackle misconduct faster. In 2021, 760 firms had permissions removed or restricted either temporarily or permanently (this also includes 176 cancellations resulting from firms not carrying out regulated activities they have been authorised for).
- Improving our communications with consumers. Compared to 2020, in 2021 there was a reduction in both the number and proportion of calls that we needed to redirect to the Financial Ombudsman Service (Financial Ombudsman) or FSCS – helping more people get to the right place first time.
- Our Operating Service Metrics shows our performance in dealing with applications, variations of permission, contact with our Supervision Hub and complaints, and includes data on our enforcement action.

Financial Lives survey

We ran our third Financial Lives survey (FLS) between February and June 2022; our initial results will be published in early 2023.

We publish our survey questionnaires and data tables online in our resources library; 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

Our joint survey gave firms an opportunity to review our work over the last two years. We published the results from our 2021 survey in December. This was the first survey since 2019.

Key themes from the feedback included:

- Firms have a positive view our performance during the pandemic. This was particularly true of larger firms.
- Some firms told us that we have a reactive, rather than proactive, approach to risk. In particular, some firms are concerned that there may be significant or emerging market risks we are not aware of. This is a key area of focus for our transformation work.
- Smaller firms are less likely to engage with our consultation process. We now ensure that we include all open consultations in our regular Regulation Roundup newsletter.
- They're often unclear about why we're collecting data. We're using these findings in our work to reduce regulatory burden.

- There were concerns on the time it takes for us to complete authorisations, but many of these respondents also pressed for more thorough background checks on owners of failed firms seeking to re-join the industry. We have made changes to our decision-making process.
- The new process will ensure we can make faster and more effective decisions for consumers, markets and firms

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. Reports can lead to action against a firm or individual and can help inform our supervisory and enforcement strategies for both sectors and firms.

Between April 2021 and March 2022, we received and assessed 1,041 whistleblower reports with 2,114 separate allegations.

In July 2021, we introduced webforms to give whistleblowers a quicker and easier way to report concerns to us. Between then and end March 2022, whistleblowers sent us 274 webforms. This hasn't led to an increase in overall reports from the previous year (1,046 reports March 2020 to April 2021), but it has reduced the number of whistleblowers who use other channels, such as our helpline and email.

As of 20 April 2022, these 1,041 reports have led to:

- significant action to manage harm in three cases – this may include enforcement action, a s166, or restricting a firm's or individual's permissions
- action to reduce harm in 96 cases – this may include writing to or visiting a firm, asking it for information, or asking it to attest to complying with our rules
- 99 cases informing our work, including harm prevention, but no direct action
- 42 cases being considered not relevant to the prevention of harm
- 801 cases remain under assessment, which means that they are being reviewed by the relevant teams across the FCA

99

cases informing our work, including harm prevention, but no direct action

42

cases being considered not relevant to the prevention of harm

801

cases remain under assessment, which means that they are being reviewed by the relevant teams across the FCA

5. Independent reviews

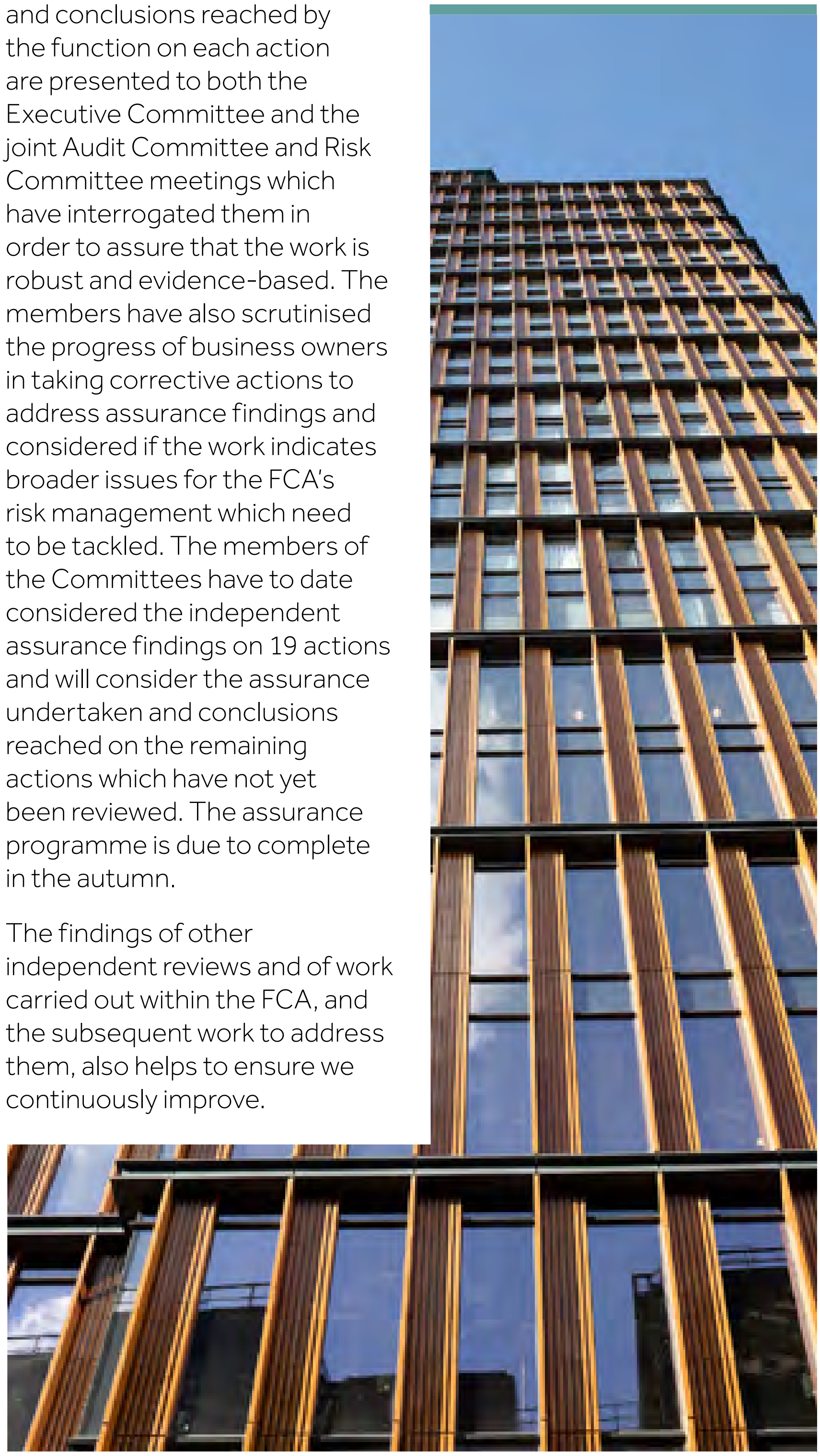
Over the past year we have continued to implement, through a dedicated programme of work, the recommendations of the independent reviews into:

- our Regulation of London Capital and Finance plc (the Gloster Report)
- the FSA's and FCA's handling of the Connaught Income Fund Series 1 and connected companies (the Parker Report)

The implementation of each recommendation requires a number of actions to be taken. The progress in completing these actions has been closely overseen by our Executive Committee and the Board Audit and Risk Committees. The committees have met on a regular basis from the beginning of this dedicated programme of work and have received regular reports on progress from the team coordinating the work. The actions for this programme of work have now been delivered.

Each action is subject to assurance by an independent function within the FCA which is using a range of techniques to assess the adequacy and effectiveness of what has been delivered. The findings and conclusions reached by the function on each action are presented to both the Executive Committee and the joint Audit Committee and Risk Committee meetings which have interrogated them in order to assure that the work is robust and evidence-based. The members have also scrutinised the progress of business owners in taking corrective actions to address assurance findings and considered if the work indicates broader issues for the FCA's risk management which need to be tackled. The members of the Committees have to date considered the independent assurance findings on 19 actions and will consider the assurance undertaken and conclusions reached on the remaining actions which have not yet been reviewed. The assurance programme is due to complete in the autumn.

The findings of other independent reviews and of work carried out within the FCA, and the subsequent work to address them, also helps to ensure we continuously improve.



6. Our progress to improve performance and meet future challenges

We continue to refine the way we operate in-line with 'Our Role' in last year's Business Plan. We have continued to invest in data and technology and consulted on career and grading as part of refreshed employee terms. We remain committed to becoming more innovative, assertive and adaptive. This section sets out what we have done over the past year to improve our performance and meet future challenges.

We're setting the bar high to support market integrity and sustainable innovation by:

- Promoting competition through our Feedback Statement on accessing and using wholesale data. We have also announced a review of the market for trade data, and market studies on benchmarks and credit rating agency data.
- Continuing to support high, internationally consistent standards through ongoing cooperation with international regulators. We aim to build and maintain the highest levels of supervisory cooperation due to the cross-border nature of our markets and the firms operating within them.

We're ensuring firms start with high standards and maintain them by:

- Introducing tougher scrutiny at the Gateway for authorisation. See page 60 for further detail on our permissions related work 'use it lose it'.
- Streamlining our decisions on a firm's authorisation. We can now take more decisive, faster action to prevent those unwilling or unable to meet our standards from entering the market.
- We have started work building our new forms platform and will be begin publicly testing beta versions of the new forms later in 2022. Setting up an Early Oversight function to support newly

regulated firms to meet our supervision requirements in the early years. Thirty firms took part in a six-month pilot to test our approach. The initial findings were positive, so we are extending the pilot to a further 300 firms in 2022.

We're using new approaches to find issues and harm faster by:

- Continuing our £120m plus investment in data capabilities over three years from 2019.
- Creating a new Single View dashboard to give greater visibility of risk across priority firms and sectors. Our frontline teams no longer use multiple systems to search for information but instead access everything in one place. We will supplement this with improved search capabilities and create a true single view of all the data that we hold on a firm.
- Started a joint programme with the Bank of England (BoE) and industry to transform Data Collection. Through improved and aligned data standards, modernised reporting instructions and integrated reporting processes the programme aims to deliver increased value from the data collected and reduce the reporting burden on firms over a 10 year period.
- Both firms and individuals provide us with information and intelligence through various channels. In response to one of the Gloster Report's recommendations, we have added a new webform specifically for industry participants to report misconduct or wrongdoing. We have also improved our internal processes so that we can identify intelligence which comes from industry sources and what subsequent action we took.

Creating a new Single View dashboard to give greater visibility of risk across priority firms and sectors

We're tackling misconduct to maintain trust and integrity by:

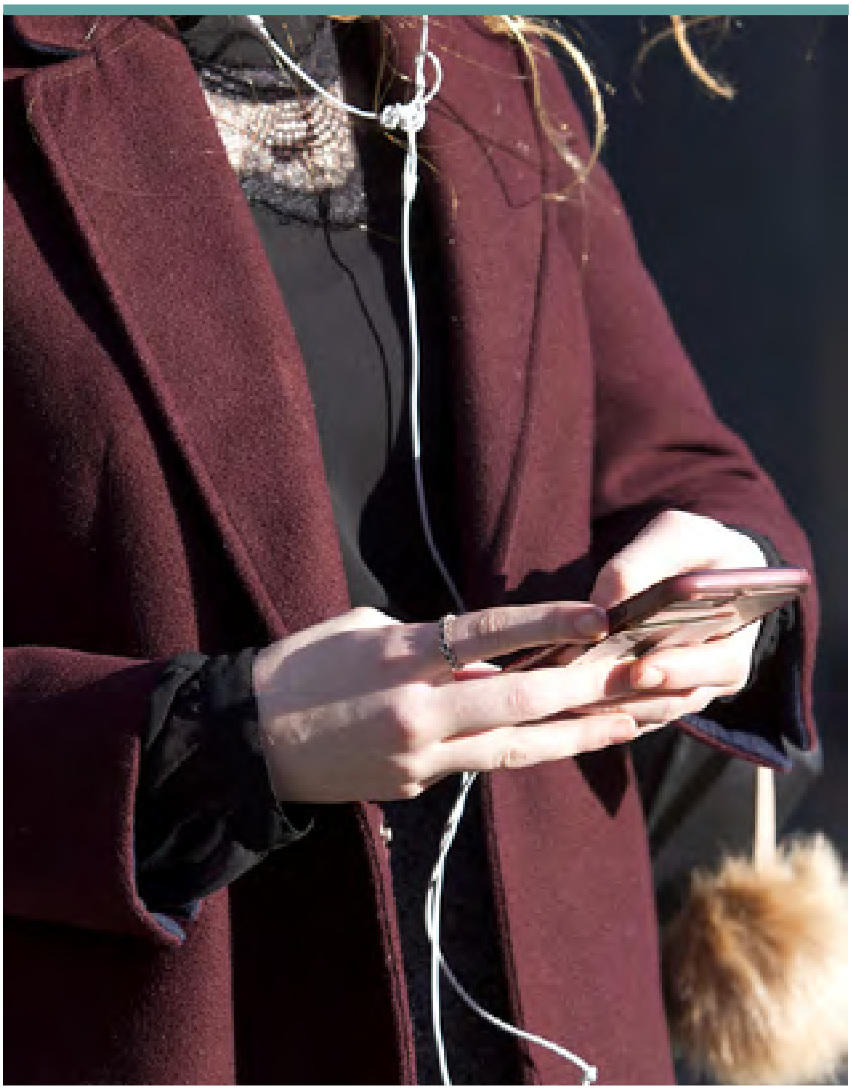
- Reviewing how we proactively identify and intervene against harm. We're piloting new, more innovative joined-up ways of working which we want to scale up across the FCA. Our initial focus is on the Financial Promotions and Enforcement Taskforce and we give an update in Chapter 7 of this report.

We're enabling consumers to make informed financial decisions by:

- Launching the InvestSmart campaign to help consumers make better-informed investment decisions see page 29.
- Working with our partners to find ways to make it easier for people to contact the right regulator for their purpose.
- Working with the Advertising Standards Authority (ASA) on crypto advertisements, who have banned inappropriate adverts following 17 cases we referred to it.

We have also made progress on a variety of workstreams to help support consumers make better-informed investment decisions, see Chapter 7.

Launching the InvestSmart campaign to help consumers make better-informed investment decisions

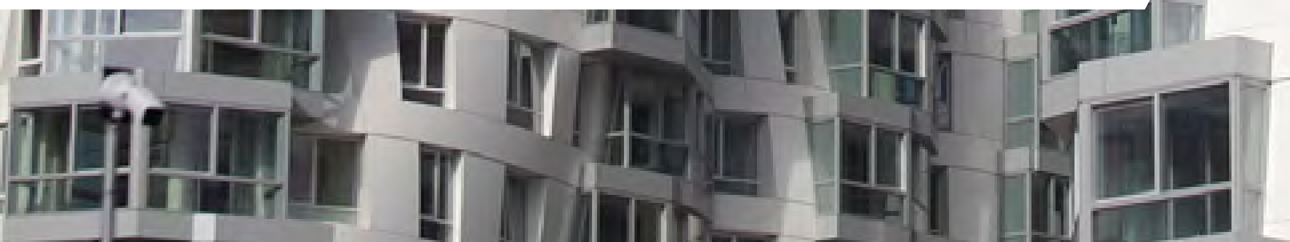


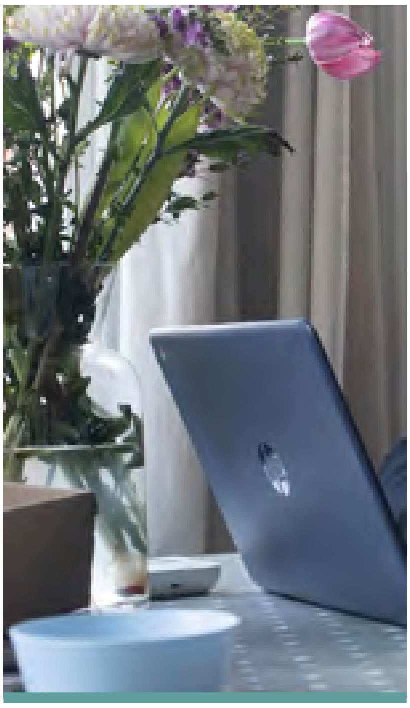
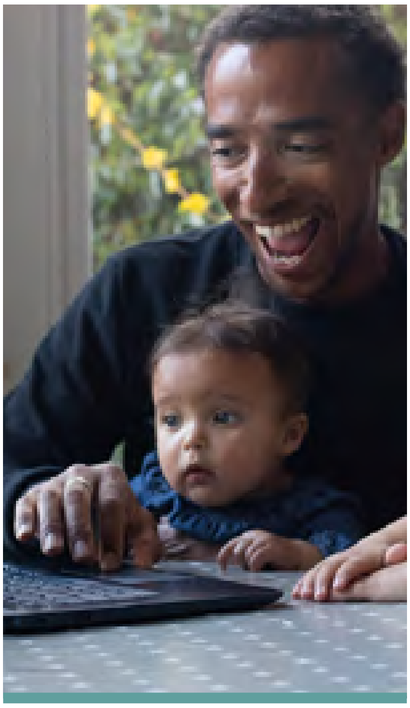
What we have done:

- **Updated how we plan** and finance our work to focus resources on initiatives that will best advance our strategy
- **Streamlined our decision-making processes** to act more quickly when firms and individuals do not meet required standards
- **Launched our Single View of Firm** and Portfolio dashboards in Supervision, policy and Competition (SPC), bringing together data and risk indicators that we hold on firms in one place
- **Migrated 52,000 firms to RegData**, our modern, scalable data collection platform, with improved accessibility, performance and user experience
- **Implemented our new employment offer** to strengthen performance, with a fairer system to attract and retain talent
- **Established the Early Oversight function**, to help raise newly authorised firms' standards

What's next:

- **Opening an office** in Leeds with 100 employees
- **Being more proactive** and enhancing our horizon-scanning capabilities so we can better spot and respond to emerging risks
- **Ongoing strategic prioritisation and planning refreshes**, adapting to meet changing needs
- **Improving the Gateway** by digitising onboarding forms




7. Our consumer priorities

Our priorities for 2021/22 are detailed in last year's Business Plan. In this and the following two chapters, we report on how we have delivered against key activities.

Enabling consumers to make effective financial decisions

In September 2021, we published our Consumer Investments Strategy which sets out our vision for the market, our outcomes and the work we are doing. We want consumers to be able to access and identify investments that suit their circumstances and attitude to risk. We want to ensure consumers can get the advice or support they need, only access higher risk investments knowingly and are protected from scams.

We published our second Consumer Investments Data Review in September 2021, followed by our third Data Review in March 2022. These reviews showed a sharp increase in enquiries to us about scams since mid-2020. Between April and September 2021, we received over 16,400 scam enquiries, up approximately one third on the same period in 2020. As well as trying to help consumers who call us, we monitor the information we receive from them as this is a valuable source of intelligence. We also use it to inform our action against fraudulent and unauthorised activities, and collaboration with other anti-fraud agencies.

16,400

scam enquiries, up one third on the same period in 2020

Progress towards our outcomes

1: More consumers who want to save long-term consider investment opportunities. We expect to see fewer consumers who have a higher appetite for risk holding over £10,000 in cash

In October 2021 we launched the InvestSmart campaign that aims to help consumers make better-informed investment decisions. It targets consumers with advertising across online video websites such as YouTube, search advertising on Google, and a range of social media channels, reaching over 3.2m people on Instagram and Facebook, over 4.8m on Twitter, and 4.4m on TikTok.

We worked with influencers for the first time, attracting almost 70,000 views across both Instagram and TikTok. Our TikTok posts were viewed over 68,000 times, generating a total of 5,865 likes. These posts had an engagement rate of 10.2%, which exceeded our Key Performance Indicator (KPI) benchmark of 8-10%, while InvestSmart article pages were viewed for an average of two minutes and 11 seconds, 9% above our site-wide benchmark.

What's more, a brand study conducted with Nano, a video advertising platform, found:

48% of those exposed to an InvestSmart ad said they would make sure they understand an investment to protect against losing money when investing in high-risk products. This is compared to just 26% who hadn't seen an InvestSmart ad.

13% who had seen an InvestSmart ad said they would disinvest from investments they felt were too risky, compared to 4% who hadn't seen an InvestSmart ad.

This demonstrates that our campaign is reducing the propensity of our audience to engage in risky investing behaviour. The latest phase of the InvestSmart campaign launched in April 2022.

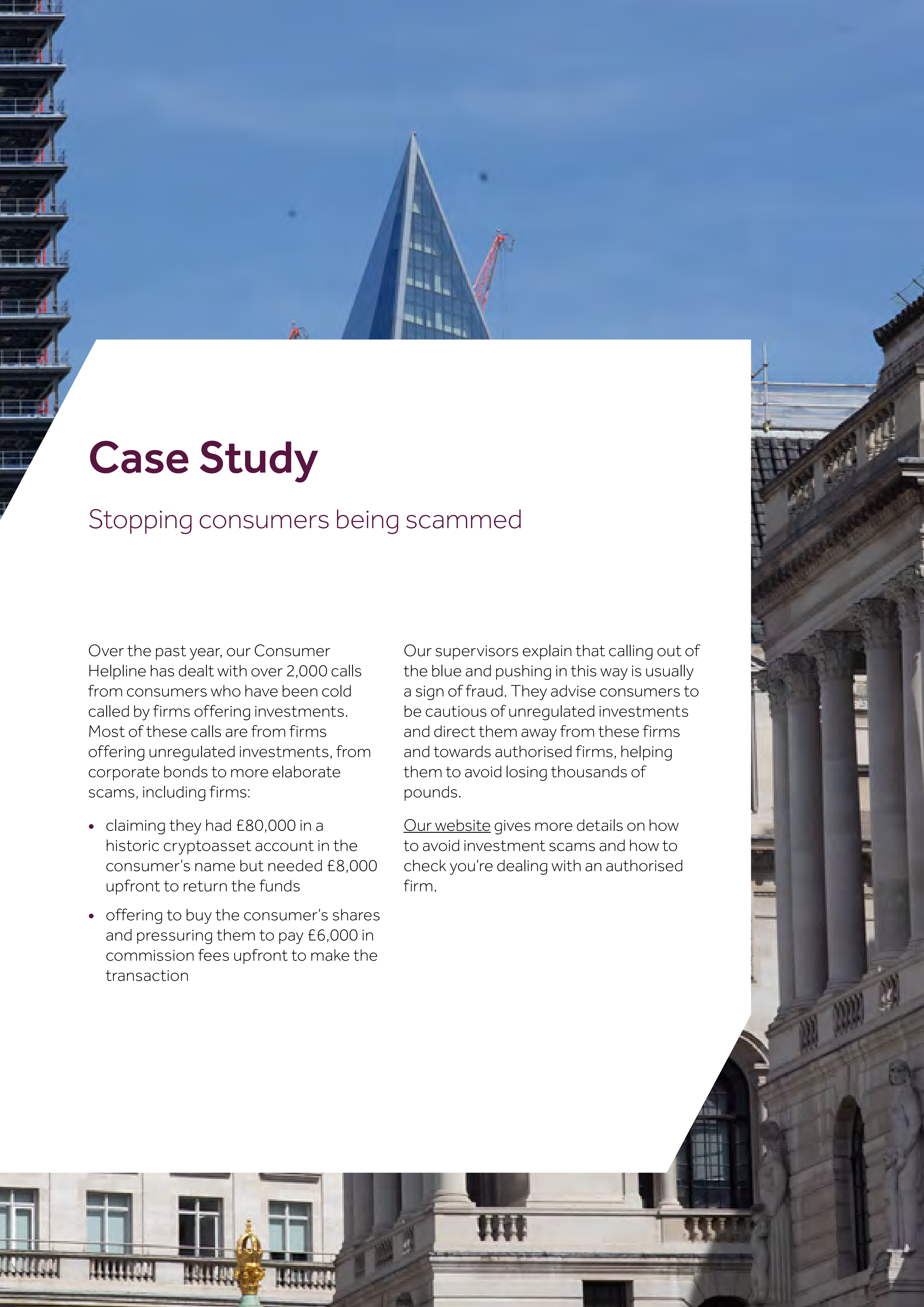
2: Fewer consumers lose money because they are straying into investments that are riskier than they would prefer. We expect to see fewer consumers with a preference for low-risk investments, or who have one or more characteristics of vulnerability, investing in high-risk investments

We consulted on strengthening our financial promotions rules for high-risk investments, including cryptoassets. Our proposals aim to make risks clearer and ensure consumers only invest after being assessed as having the relevant knowledge and experience to understand the risks. Our proposals aim to reduce unexpected losses to consumers and the likelihood of associated risks such as financial difficulty and poorer wellbeing. We intend to publish our Policy Statement and final rules in 2022.

Currently, any authorised firm can approve financial promotions for unauthorised persons. In June 2021, the Treasury confirmed the Government intends to legislate to introduce a new regulatory gateway (FSMA Section 21 gateway). An authorised firm will need to pass through this gateway before approving financial promotions for unauthorised persons. The proposed changes should help ensure that authorised firms approving financial promotions for unauthorised persons are operating to high standards and have the relevant knowledge and experience. We intend to consult on draft guidance for firms applying to the Section 21 gateway when legislation has been published.

3: Fewer consumers lose money to investment scams

In October 2021, we established our new Financial Promotions and Enforcement Taskforce, combining parts of our Supervision and Enforcement divisions. The Taskforce is delivering a new cross-FCA strategy to tackle breaches of the rules governing financial promotions, issues that straddle the perimeter and online harms. It applies new technology and advanced detective techniques to identify potential consumer harm more quickly and accurately. Our Consumer Investments Data Reviews show that we are publishing more consumer alerts about unauthorised firms and individuals than in previous years. In the year to the end of March 2022, we published over 1,800 consumer alerts about unauthorised firms and individuals.



Case Study

Stopping consumers being scammed

Over the past year, our Consumer Helpline has dealt with over 2,000 calls from consumers who have been cold called by firms offering investments. Most of these calls are from firms offering unregulated investments, from corporate bonds to more elaborate scams, including firms:

- claiming they had £80,000 in a historic cryptoasset account in the consumer's name but needed £8,000 upfront to return the funds
- offering to buy the consumer's shares and pressuring them to pay £6,000 in commission fees upfront to make the transaction

Our supervisors explain that calling out of the blue and pushing in this way is usually a sign of fraud. They advise consumers to be cautious of unregulated investments and direct them away from these firms and towards authorised firms, helping them to avoid losing thousands of pounds.

Our website gives more details on how to avoid investment scams and how to check you're dealing with an authorised firm.

We launched the ScamSmart campaign in 2014. Since then, it has received over 2m visitors to the dedicated ScamSmart website and warned over 36,000 users of an unauthorised firm that may be trying to scam them. Our tracking research indicates at-risk consumers are now more likely to consider the risk of scams when investing, more likely to be aware of the warning signs of a scam and more likely to check with us before investing.

The ScamSmart advertising campaign is one of the cornerstones of our prevention work. The nine campaigns over the last five years give consumers advice and information on how to spot and avoid scams, as well as specific information about types of scams, such as loan fee fraud. Our Warning List, to alert consumers, banks and other financial services firms, names firms that may be carrying out financial services activities without authorisation or running scams.

Our Warning List, to alert consumers, banks and other financial services firms, names firms that may be carrying out financial services activities without authorisation or running scams.

We have worked closely with online platforms (eg marketplaces, search engines) to reduce the harm from online advertising. Google has implemented a new financial services advertisement policy and we have seen a significant reduction in non-compliant paid for advertisements by unauthorised entities on Google. We are continuing engagement with other social media platforms and continuing to monitor the online market carefully and update our Warning List.

4: Less consumer harm from unsuitable advice and higher portion of redress paid by the firms that cause the harm

We will continue our work to improve pension advice, including defined benefit pension transfer advice. We have recently launched a consultation to set up a redress scheme for former members of the British Steel Pension Scheme. We also introduced emergency rules, without consultation, in April to prevent financial advice firms who advised members of the British Steel Pension Scheme from disposing of assets to avoid paying compensation. We will also take enforcement action where there is serious misconduct.

In our Consumer Investments Strategy, we recognised the potential for our prudential requirements to influence adviser firms' resilience and ability to pay redress over time. While this work is at an early stage, we have begun exploring whether and how any changes that we might make to our prudential regime could influence adviser firms' actions and activities. We also launched a review of the compensation framework to ensure that it continues to provide an appropriate level of protection

2m

visitors to the dedicated ScamSmart website

Warned over

36,000

users of an unauthorised firm that may be trying to scam them

for consumers while keeping the costs to firms sustainable and proportionate. In December 2021, we published a Discussion Paper which set out what we see as the principles for an appropriate and proportionate compensation scheme, asking stakeholders for their ideas for change. We are planning to publish a Feedback Statement later this year.

Ensuring consumer credit markets work well

We continue to respond to the pandemic and the resulting financial impacts through our Borrowers in Financial Difficulty (BiFD) workstream and our work in the high-cost credit sector. We have also re-started broader work that we paused due to the pandemic.

By November 2021, nearly 600,000 people looked set to pay down their debt faster, paying less overall, than if they had stuck to minimum contractual repayments

We need credit markets that are innovative, competitive, and focus closely on delivering the right outcomes for the consumers they serve. We set out our key areas of focus over the past 12 months below.

Progress towards our outcomes

1. Consumers can take control of their debt at an early stage when they fall into financial difficulty

Our extensive consumer research has identified barriers that prevent consumers in financial difficulty contacting their lenders. It also identified what makes this contact positive or negative. We tracked levels of financial resilience and looked at how future financial pressures, such cost-of-living increases, may affect those with lower financial resilience.

We assessed how 63 firms treat borrowers in financial difficulty. We reviewed policies, procedures and how they tested outcomes. We fed back to these firms, so they took appropriate action and offered appropriate redress. 78% of firms offered some form of support and forbearance to customers who were up to date with their credit commitments but worried they will fall behind. This has underpinned work to benefit consumers, including sustainable forbearance, fees and charges, and staff training and competence. Our final findings are due in 2022.

We've seen a significant reduction in customers in persistent debt paying more in interest, fees, and charges than they are paying off their balance. This is a result of our work on persistent card debt. By November 2021, nearly 600,000 people looked set to pay down their debt faster, paying less overall, than if they had stuck to minimum contractual repayments. This is nearly half of those in persistent debt.

Last year, we consulted on banning debt packager firms from receiving remuneration from debt solution providers. We have longstanding concerns about the conflict of interest such remuneration creates and which these firms do not appear able to manage. There are also wider benefits to society from the provision of good quality debt advice. We are considering responses and remain committed to making sure consumers receive high-quality debt advice and to tackling the harms caused by many debt packagers.

2. Consumers do not become over-indebted with credit they cannot afford

Over the past three years we have seen many firms leave the market. High-cost short-term credit (HCSTC – such as payday loans and short-term high-street loans), and guarantor lending firms' market share has reduced.

We continue to tackle poor lending practices and promote appropriate schemes, working with firms to improve standards and practices. Last year, our intervention saw two of the largest firms, Amigo Loans Ltd and Provident Personal Credit Ltd, propose a Scheme of arrangement through the courts. Provident announced it was withdrawing from the high-cost market and winding down in May 2021. Its scheme was agreed by the Court and implemented in late August 2021.

Case Study

Making Buy Now Pay Later terms clearer and fairer for consumers

Buy Now Pay Later (BNPL) covers a wide range of credit agreements, generally used by consumers to spread the cost of purchases.

The Woolard Review into change and innovation in the unsecured credit market found the use of BNPL products nearly quadrupled in 2020 to £2.7 billion.

We don't currently regulate all BNPL products under consumer credit regulation, although the Government intends us to do so in the future.

We looked at the terms and conditions in the contracts of four of the largest providers in this field. We found potential harm to consumers in the contracts of Clearpay, Klarna, Laybuy and Openpay. Problems included contract cancellation terms, the firms' ability to terminate or suspend accounts, continuous payment authority terms and late payment fees.

We contacted the four firms, who fully cooperated and changed their terms to make them fairer for consumers to understand.

Clearpay, Laybuy, and Openpay also agreed to voluntarily refund customers who had been charged late payment fees in certain circumstances.

We then published a statement with guidance for other BNPL firms in this sector. StepChange, Citizens Advice and Money Advice Trust all welcomed our action.

While this case is at the boundaries of our regulatory remit, it's an example of where our proactive intervention can deliver positive change.

In May 2021, the Court rejected Amigo's first scheme, this was following our objection that Amigo could have offered a fairer deal. We worked with the firm to try and get a better deal for customers who were due redress. In December 2021 the firm proposed a new, improved scheme which had the support of an Independent Creditors Committee, set up to protect the interests of those customers owed redress.

The Court agreed Amigo's new scheme in May 2022. We will continue to monitor the firm closely as it launches the scheme and seeks to meet the conditions for it to resume lending. In January 2022 we consulted on guidance setting out how we consider compromises (including schemes of arrangement) and the factors we consider when assessing them, and our role when a regulated firm proposes a compromise.

3. Affordable credit is available to consumers to smooth consumption

We are supporting the Government feasibility study into the viability of a no-interest loans scheme through our Sandbox process. This targets those at the margins of the financial system, for whom borrowing from social and community lenders can be unaffordable. The findings suggested that it's feasible to establish this scheme in the UK. The Treasury

is providing findings to Fair4All Finance to take a pilot forward, alongside other non-profit organisations working to end poverty (FairByDesign and Toynbee Hall).

We also want competition between credit reference agencies to work in the interests of consumers. In July 2021 we resumed the Credit Information Market Study (CIMS). We want to ensure consumers can engage with, understand, and act on their credit information and do not face unreasonable barriers to correcting their credit file. We will publish an interim report in 2022.

4. Consumers can find products to meet their needs

We have seen significant growth in the provision of unregulated Buy Now Pay Later (BNPL) products, interest-free short-term loans to spread payment for retail goods. Previous studies have identified areas of potential consumer detriment that could crystallise as this market continues to grow. This includes concerns in respect of marketing, poor consumer understanding, the lack of affordability checks, and inconsistent treatment of customers in financial difficulty.

The Government is currently consulting on what the framework for regulating BNPL should look like. We continue to monitor the market and will intervene where we see harm occurring using those powers currently available to us. We have intervened against four firms using our non-FSMA consumer protection powers (under the Consumer Rights Act 2015) to secure changes to contract terms in respect of products that are not regulated and have also secured amendments or withdrawals of misleading financial promotions relating to exempt BNPL products.

We continued to receive applications from Consumer Credit firms looking to bring innovation to the market. This included through the Direct Support and the Sandbox areas where we received 60 applications in the 2021/22 financial year. We took 17 forward, providing advice and supervisory support as appropriate. Key trends include Credit Reference Agencies (CRAs) seeking to serve clients with little previous credit history such as students and new arrivals, and platforms designed to help consumers get a better picture of their financial situation.

Making payments safe and accessible

The payments services sector continues to evolve rapidly. We hope this evolution will give both consumers and smaller businesses a wide variety of safe payment services. However, innovation in this sector, such as firms incorporating cryptoassets in their business models, carries risks. We are also concerned about the pandemic's impact on the already challenged financial strength of payment services firms.

Progress towards our outcomes

1. Consumers make payments safely and with confidence

We have made progress in both policy development and our supervisory interventions to achieve this outcome. Our supervisory tools such as Skilled Person reviews have been used to raise compliance standards. We have also used our supervisory powers to restrict or remove permissions from over 30 firms we believed posed unacceptable risks of harm.

> **We have been more assertive in our authorisations process...**

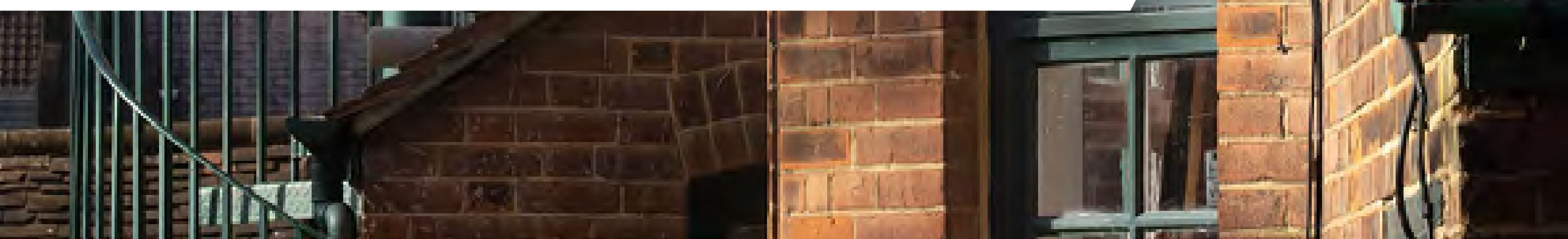
Case Study

Credit Suisse

Following an investigation, we fined Credit Suisse £147.2m after we found serious financial crime due diligence failings by it for loans it arranged for the Republic of Mozambique, which were tainted by corruption.

This outcome formed part of a global resolution of approximately US$475m, involving the US Department of Justice, the US Securities and Exchange Commission and the Swiss Financial Market Supervisory Authority.

We also secured agreement from Credit Suisse to forgive US$200m of debt owed by the Republic of Mozambique as a result of the tainted loans. We reflected this in the penalty that we decided to impose, which would have otherwise been higher.



Financial crime, including fraud and money laundering, is one of our key areas of focus. Working with card issuers, merchant acquirers, payment card schemes and merchant representatives, we have overseen the successful implementation of Strong Customer Authentication (SCA) for e-commerce card payments from 14 March 2022. Under SCA rules, banks and other payment providers must check the person requesting the payment or accessing the account has permission to do so. Loss from remote purchase fraud (card-not-present) amounts to 80.4% of total unauthorised card fraud loses, as published by UK Finance. Our work on SCA aims to reduce this, making payments safer and more secure.

2. Consumers who have made payments do not lose money because firms fail. Where firms fail, a greater proportion of firms safeguarding customer funds return them to customers in a reasonable timeframe

We have assessed the financial resilience of payment and e-money firms whose failure would cause harm to consumers. Our work included developing data tools to identify fast-growing firms and conducting supervisory reviews to ensure firms can wind down in an orderly way, should they fail. Our coronavirus financial resilience survey conducted in Q2 of 2020, found that 56% of payment and e-money firms were loss-making, the highest proportion of any group of firms we regulate.

To reduce the risk of customers losing money if these firms fail, we have worked with key stakeholders such as the Treasury to introduce a bespoke insolvency regime for payment and e-money firms. Our aim is to ensure customer funds held by firms are returned faster.

To further improve firms' understanding of our requirements, we have revised the Payment Services and Electronic Money Approach Document. This gives firms additional guidance on how they must safeguard customer funds and prudential risk management.

> **Financial crime, including fraud and money laundering is one of our key areas of focus**

> **Our aim is to ensure safeguarded funds are returned faster**

3. Consumers and small businesses have access to a variety of payments services, including cash. We want to see fewer complaints to banks about branch closures. When firms close a branch or ATM, we want them to consistently make sure that alternative services are available and to consider the needs of customers in vulnerable circumstances

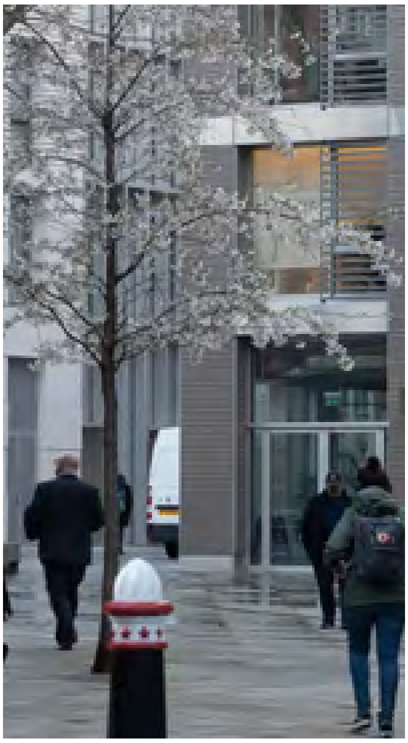
This year, we published an evidence-based assessment of the UK's cash infrastructure. We also published examples of good practices and areas for improvement based on supervising firms with planned bank branch closures or ATM conversions. We also continued our quarterly reporting with the Payment Systems Regulator (PSR), where we gather and update data on access to cash. As of Q4 2021, we estimate that for access to any bank, building society, Post Office branch, or any ATM (either free or pay-to-use):

- 95.7% of the UK population are currently within 2km of a cash access point
- 99.7% of the UK population are currently within 5km of a cash access point

In March 2020, the Government announced its intention to legislate maintaining access to cash in the long-term. This year we continued to support the Government as it developed its legislation.

95.7%

of the UK population are currently within 2km of a cash access point



99.7%

of the UK population are currently within 5km of a cash access point

4. The payments markets are competitive and innovative, offering small businesses access to a variety of services

We have collaborated with key stakeholders, such as the Treasury, to develop a regulatory framework that may bring stablecoin used for payment within our remit. We are working with the PSR as Co-Chairs of a Joint Regulatory Oversight Committee, to oversee the future of Open Banking. We continue to use initiatives such as Innovation Pathways and the Regulatory Sandbox to remain aware of emerging trends in the payments landscape and to have valuable inputs to policy formulation.

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 fair value by providing products and services of suitable quality and price. We want consumers to be confident they can make informed choices about the products and services they use and get fair value from them.

Case Study

Safeguarding of consumer funds – Wirecard Card Solutions Limited ('Wirecard')

Wirecard Card Solutions Limited (Wirecard) was an authorised Electronic Money (e-money) institution and a subsidiary of the German-headquartered Wirecard AG. Wirecard was a separate legal entity with its own UK board and was one of the largest e-money firms in the sector.

In June 2020, allegations were made that €1.9bn was missing from the balance sheet of Wirecard's ultimate parent - Wirecard AG. We assessed the impact this could have on Wirecard and acted quickly to ensure that the firm did not dispose of any assets or funds or carry on any regulated activities. Our aim was to protect the customer funds held at Wirecard which could have been at risk.

We worked very closely with the firm to prioritise the interests of Wirecard's customers.On 28 August 2020, Wirecard announced it would wind-down its business. We tracked the firm's transition plan through wind-down and its entry into a solvent liquidation process including the return of customer funds.

On 24 September 2021 Wirecard submitted an application to us to cancel its authorisation, which we did.

Progress towards our outcomes

1. Digital innovation and competition support greater value for consumers

On 1 April 2021, we became a formal member of the Digital Regulation Cooperation Forum (DRCF).

The forum supports regulatory coordination in digital services and cooperation on areas of mutual importance between us, the Competition and Markets Authority (CMA), Information Commissioner's Office (ICO), and Office of Communications (Ofcom). Given the unique challenges of digital markets, increased coordination in this area is something the FCA fully supports.

The DRCF brings us together with the other member regulators to promote competition, protect consumers, and protect people's data rights. We work together on the most complex issues to create a holistic regulatory approach that delivers innovation that consumers and markets can trust, while proactively addressing risks.

In April 2022 the DRCF published its 2021/22 Annual Report which sets out all work completed in its first full year.

2. Consumers can choose from products that meet their needs at a competitive quality and price

Our general insurance pricing practices rules came into effect on 1 January 2022. Our rules aim to put an end to harmful practices, such as price walking, where firms offer unsustainably cheap deals to new customers and then ramp up premiums for loyal consumers who don't switch. Our new rules require home and motor insurance firms to charge their renewing customers the same price as they would charge a new customer with the same risk profile.

Since the rules were published in May 2021, we have been engaging with the industry to ensure they implement and comply with the new rules.

Firms must give us pricing information for home and motor insurance on a regular basis so we can track changes in the market and identify non-compliance. Senior managers at firms will also be required to provide an annual confirmation (attestation) that their firm has complied with the requirements. The first confirmation was due by 31 March 2022; 99% of firms that responded confirmed that they were compliant.

We will review the effects of the remedies during 2022, ahead of a full evaluation in early 2024.

Investigating harmful business practices

We discussed and defined 'sludge' in our new Consumer Duty guidance consultation. We have set out how we will measure outcomes in this area in our 2022/23 Business Plan.

Our most complete case for the year was in high-cost credit. Over 70% of high-cost credit webpages we looked at contained sludge and related harmful online practices, sometimes referred to as 'dark patterns'. We have opened supervisory cases against the relevant firms and taken action to remedy these problems. Obscuring important information reduces consumer understanding significantly. We are using this evidence in our wider supervisory action within the high-cost credit market.

In addition to our casework, we have been working with firms to think about how to reduce sludge. This includes in customer arrears handling, forbearance, debt management processes and in other consumer journeys at the point of authorisation.

3. Consumers in vulnerable circumstances have fair access to key services and products, and firms do not exploit or target them with poor value products and services

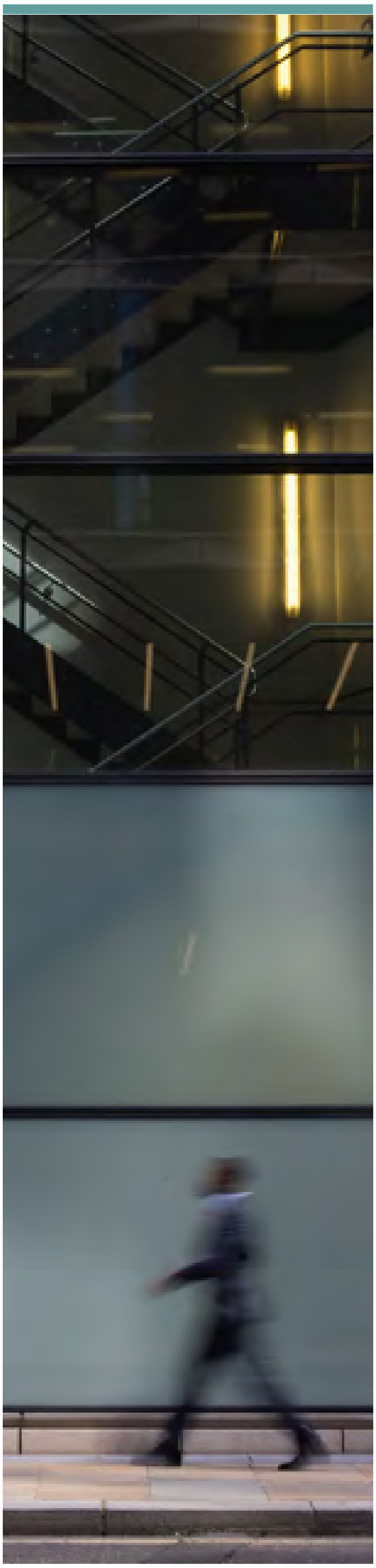
Our pricing remedies will support our other work to deliver this outcome, including the new Consumer Duty and our published Guidance for firms on the fair treatment of vulnerable customers. Our reported data will also help highlight where there may be pockets of harm, including for consumers in vulnerable circumstances.

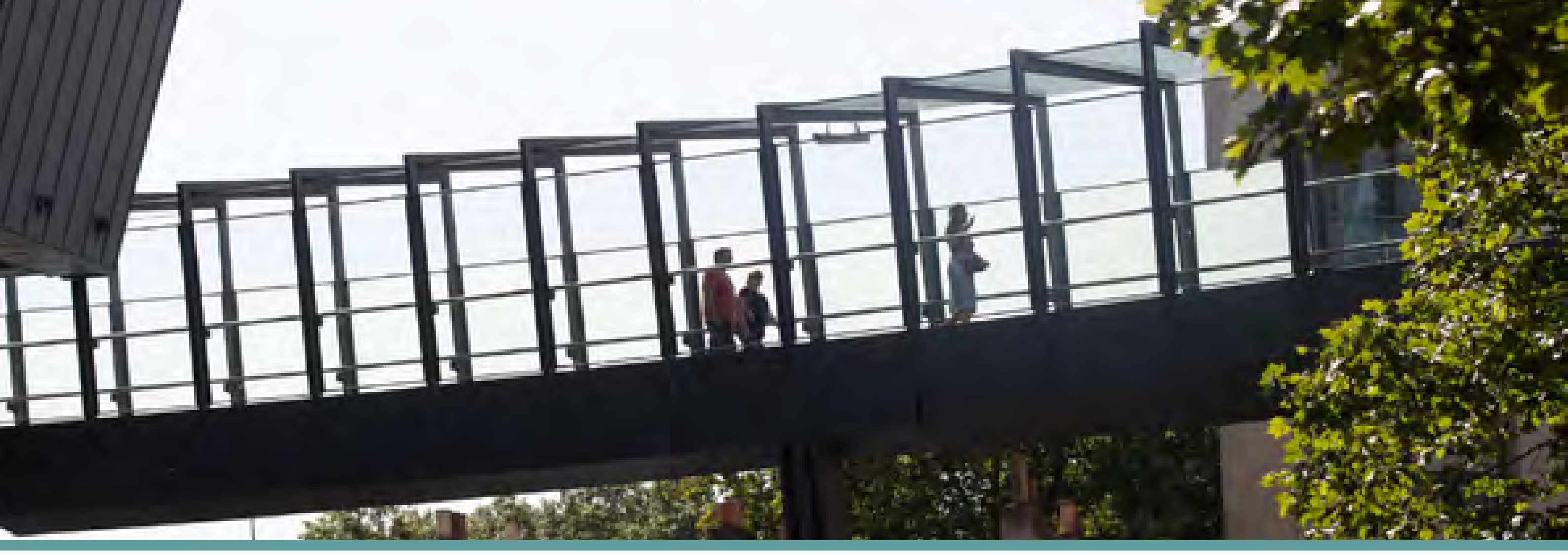
Consumer Duty

The proposed Consumer Duty aims to set a higher standard of consumer protection in retail financial markets, where firms compete vigorously in the interests of consumers. It will require firms to focus on delivering good outcomes for consumers, so that they get products and services which are fit for purpose, provide fair value, that consumers understand how to use and are supported in doing so.

We have delivered against the timeline set out in our 2021/22 Business Plan to develop our Consumer Duty proposals.

We will publish our final Policy Statement at the end of July 2022.





8. Our wholesale markets priorities

Review of our rules in primary and secondary markets

Effective wholesale markets allow companies to raise capital efficiently and provide investors with more diverse and accessible investment opportunities. For secondary markets to be efficient, the regulatory regime needs to be proportionate and effective.

Progress towards our outcomes

1. We want our rules framework to support the needs of investors and companies seeking to raise finance and manage risks through capital markets

Primary Markets Effectiveness Review

In December 2021 we set out new rules to strengthen investor protections and to ensure primary markets work more effectively for both companies and investors.

We brought about fundamental changes to our Listing Rules, including new rules and guidance on:

- an alternative approach for special purpose acquisition companies (SPACs) to encourage larger higher-quality SPAC listings with key investor protections
- permitting a targeted form of dual class share structures in the premium segment
- a reduction in the level of free float – or shares in public hands – required at initial listing
- an increase to the minimum market capitalisation required when companies list shares

Most of these rules applied from late 2021 so it is too soon to evaluate their effectiveness. We intend to assess their initial impact in 18-24 months' time.

We began consulting on proposals for SPACs only eight weeks after the UK Listing Review final report was published. We finalised these rules by late July, while also consulting on and finalising a broader package of Listing Rule changes by the end of 2021.

The London Stock Exchange (LSE) reported that £16.9 billion was raised in initial public offerings (IPOs) in 2021, more than any year since 2007. This included a total of 126 companies, more than 2020 and 2019 combined.

We saw three SPAC listings from August 2021 to end March 2022 that have used the new alternative approach allowed under our Listing Rules. The amounts raised for each of these SPACs were between £115m and £175m. This is much larger than recent average size in the UK, and each has specific investor protections built into its structure. Before our changes the majority of existing UK SPAC listings were estimated to have been below £5m (as of April 2021).

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Taskforce on Climate-related financial Disclosures (TCFD)

Over the course of this year, we have seen the publication of the first annual financial reports prepared in accordance with our TCFD-aligned 'comply or explain' disclosure rule for premium listed companies. During 2021, we consulted on and finalised rules to extend the application of those requirements to a wider scope of listed companies to further promoting transparency on climate change.

The London Stock Exchange (LSE) reported that £16.9 billion was raised in initial public offerings (IPOs) in 2021, more than any year since 2007.

This included a total of 126 companies, more than 2020 and 2019 combined.

Secondary markets

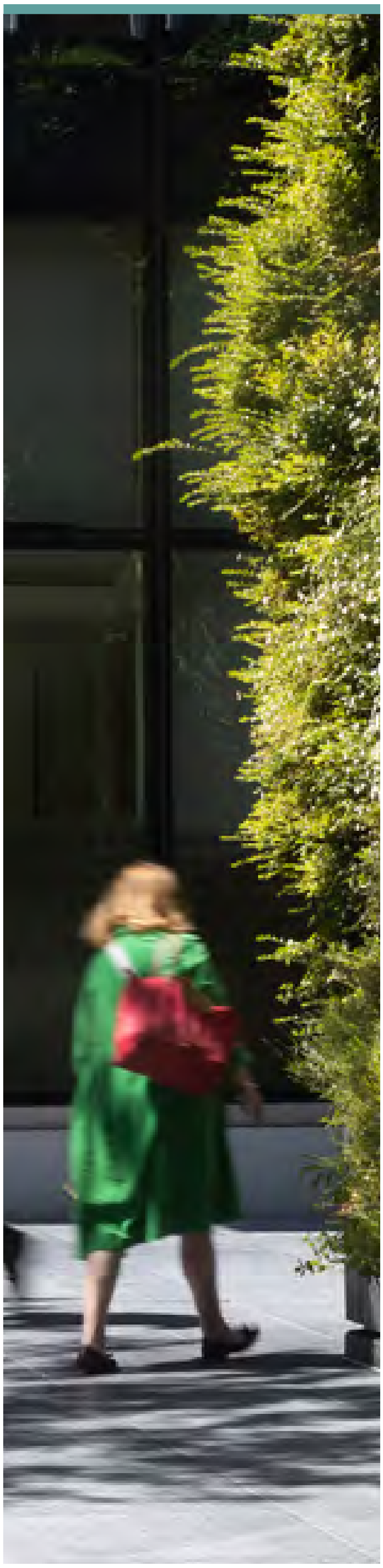
We made rule changes in 2021 to:

- remove a potential impediment to the provision of research on Small and Medium-size Enterprises (SMEs) with listed securities
- relieve trading venues and brokers from having to prepare and publish best execution reports that appeared to be very little used by investors

Our changes are part of wider work with the Treasury on proposed reforms to the UK's financial regulatory framework for capital markets – the Wholesale Markets Review.

We amended our rules for authorising and supervising firms intending to bid for emission allowances under the UK ETS, on the UK auction platform. Our rules became effective on 30 April 2021, and support the establishment of the UK ETS markets by the Government.

Jointly with the Bank of England, we consulted on amendments to the derivatives reporting regime under the UK version of the European Market Infrastructure Regulation (UK EMIR). We aim to align the UK derivatives reporting framework with international guidance from the Committee on Payments and Market Infrastructures and International Organization of Securities Commissions (CPMI-IOSCO). This is to ensure more globally-consistent data so that



authorities can better monitor for systemic and financial stability risk in this market.

We proposed measures for mandatory delegated reporting requirements, counterparty notifications and reconciliation processes, and the use of XML schemas and global identifiers. These proposals aim to give counterparties and Trade Repositories clarity, including where there are discrepancies in how certain data fields are reported.

We proposed new rules for Trade Repositories to help streamline the registration process and ensure effective reconciliation processes are in place. We will publish the final rules after we have reviewed responses.

LIBOR transition

We have been working closely with the Bank of England and other regulators globally to help firms and markets complete an orderly transition away from LIBOR.

Progress towards our outcomes

1. We want firms and markets to complete an orderly transition away from LIBOR to alternative risk-free rates, with customers treated fairly throughout this transition

On 31 December 2021, 24 of the 35 LIBOR rates were published for the last time. This included all Swiss franc and Euro LIBOR rates. We used our powers under the Benchmarks Regulation to require the most commonly used sterling and yen LIBOR settings to be published for a further period using a changed methodology.

We have been working closely with the Bank of England and other regulators globally to help firms and markets complete an orderly transition away from LIBOR. On 31 December 2021, 24 of the 35 LIBOR rates were published for the last time. This included all Swiss franc and Euro LIBOR rates.

Case Study

Redcentric PLC

Our daily market surveillance looks for signs of market abuse, such as insider dealing, market manipulation or false or misleading statements in our publicly traded markets. After identifying suspected false or misleading statements by AIM-listed IT services provider, Redcentric, we investigated and obtained two outcomes.

We censured Redcentric for committing market abuse and the firm agreed to pay compensation to shareholders who had paid more for their shares than they should have because of the false or misleading statements made by Redcentric had made.

We instigated criminal proceedings against the former CEO, CFO and finance director of Redcentric who had been in role at the time. The former CFO was found guilty of offences of making false statements and false accounting and sentenced to five and a half years' imprisonment. The former finance director pleaded guilty to offences of making false statements, false accounting and making false statements to Redcentric's auditors. She was sentenced to three years' imprisonment.

Market participants generally refer to this as 'synthetic' LIBOR. This has helped ensure an orderly wind down of LIBOR by giving those who were unable to transition before end-2021 more time to do so. Synthetic LIBOR aligns with the global consensus from both payers and receivers of LIBOR interest, on how to calculate a fair replacement for LIBOR.

We allowed all existing contracts except cleared derivatives to use these synthetic rates. Clearing houses converted cleared sterling derivatives to risk-free rates in December 2021. This moved more than £13 trillion of LIBOR-referencing derivatives to SONIA, which replaces LIBOR.

SONIA, the UK's alternative risk-free rate, is well-established across all products that previously used LIBOR. Over £120bn worth of bonds using SONIA have been issued since 2018, and new SONIA lending is greater than £100bn. This was achieved through a joint effort between market participants and the official sector. The efforts in sterling markets set a clear path for other currencies to follow.

£120bn

worth of bonds using SONIA have been issued since 2018

Five US dollar LIBOR settings continue on a panel bank basis until end-June 2023, but for use in existing contracts only. We used our powers to restrict new use of these US dollar LIBOR rates, with limited exceptions to help an orderly transition. This aligns with guidance from US authorities, which is supported by the Financial Stability Board and IOSCO.

Following our LIBOR Dear CEO letter published in March 2021, we and the PRA continued to supervise firms' transition. Dual-regulated firms have continued to report data on the transition programmes, with quarterly supervisory meetings for the largest firms. Firms successfully moved their new business from LIBOR to SONIA in line with the milestones proposed by the sterling industry Working Group.

Our aim has been for firms to transition to the most robust and appropriate rates. We and other authorities have warned market participants about the risks of credit sensitive rates (CSRs), which emerged as potential successor rates to US dollar LIBOR.

> **Our aim has been for firms to transition to the most robust and appropriate rates.**

Case Study

National Westminster Bank Plc (NatWest)

This year the FCA brought its first criminal prosecution of a regulated firm under the Money Laundering Regulations, charging NatWest with three offences in connection with its failure to properly monitor the activity of a commercial customer. This customer had indicated, at the start of its relationship with NatWest that the bank would not need to handle any cash. However, in just under four years the customer deposited £365m into its account, including £264m in cash. NatWest colleagues had reported suspicions internally, but no effective action was taken in response. NatWest's automated transaction monitoring system could not recognise certain cash deposits and was not properly calibrated to spot suspicious activity.

NatWest entered guilty pleas at Southwark Crown Court and were fined £264.8m, including a reduction for the early guilty plea. West Yorkshire Police led a separate investigation connected to the NatWest client which has resulted in 11 convictions with a further 13 individuals standing trial for matters connected to the cash deposits.

Market abuse and financial crime

Market abuse undermines the integrity of the financial system, eroding confidence and lowering participation, which harms everyone. We operate within a robust legal framework in relation to market abuse, aimed at improving firms' and issuers' resilience to market abuse. We use our data, systems and market expertise to detect market abuse and act against wrongdoers.

Progress towards our outcomes

1. We want the firms we regulate to be effective in preventing market abuse and reducing the risks of financial crime

Our data on market cleanliness for 2021 showed improvements against all three metrics relative to 2020. This was partly expected, given even higher volatility in 2020, and our data also showed improvements in two out of the three metrics with 2019. Our market cleanliness data does not provide a complete picture of market abuse and needs to be read with caution. But the evidence supports a view that the UK market was resilient to market abuse despite navigating significant market events.

We have continued to undertake surveillance of security prices and capital market newsflow in primary markets. Our aim has been to ensure that inside information is announced on a timely basis and through the proper channels. Our work also includes enquiries into potential misconduct by issuers of securities as a result of our own post-event surveillance or where we are notified by other sources such as other agencies or the public.

We continued our programme of proactive Suspicious Transactions and Order Reports (STORs) supervisory visits and reactive work. Our visits included some of the largest UK exchanges, investment firms and brokers and platforms operating in sectors that pose a higher risk for market abuse. We shared our observations from these and earlier visits in Market Watch 67 and 68.

We consulted on and issued new guidance to firms on our application of the UK transaction reporting regime. This will result in lower reporting burdens for firms, without compromising the quality of our transaction data or our ability to use it to combat market abuse.

> **We operate within a robust legal framework in relation to market abuse, aimed at improving firms' and issuers' resilience to market abuse. We use our data, systems and market expertise to detect market abuse and act against wrongdoers.**

Case Study

HSBC Bank PLC

Firms are required to monitor customer transactions to fight potential financial crime and prevent money laundering. We found HSBC's systems for carrying out transaction monitoring had serious weaknesses that had not been fixed in a timely way.

We fined HSBC £63.9m for deficient transaction monitoring controls.

These weaknesses led to the bank being unable to properly identify indicators of financial crime and alert law enforcement agencies where necessary. By taking this action, we have reduced the risk of financial crime in the UK and sent a message to other firms about how important strong transaction monitoring is in protecting the UK from financial crime.

HSBC has now completed a large-scale remediation programme into its anti-money laundering processes, which we supervised.

We launched a major refresh of our market surveillance capability to take advantage of new technology, analytical techniques and lower data storage and processing costs. In Q2 2023, we will have improved our surveillance capability for commodities and fixed income asset classes through a new core market surveillance platform. It will deliver a step-change in our network analytics capability and move our analytics platform closer to real time.

Despite the relatively positive market cleanliness data, referrals for insider dealing and market manipulation from our Enforcement teams increased. We have used non-enforcement actions, such as supervisory actions, where we felt they provided the appropriate deterrents. This included working with regulated firms to improve their own controls on client management, resulting in 221 trading account closures in 2021.

Finally, we are working with international regulators to pursue rogue firms operating in our markets, but beyond our borders. In June we assisted Dubai Financial Services Authority (DFSA) in an enforcement action, leading to an individual being banned and closing their trading accounts in the UK.

Anti-money laundering

The FCA is the anti-money laundering and counter-terrorist financing (AML/CTF) supervisor of UK cryptoasset businesses under the Money Laundering Regulations (MLRs). We are responsible for assessing the anti-money laundering control environments of crypto firms and enforcing against breaches of firms' obligations under the rules. We have no consumer protection powers and very limited regulated remit over most types of crypto activities. We received 270 registration applications from these businesses by 31 March 2022.

In June we assisted Dubai Financial Services Authority (DFSA) in an enforcement action, leading to an individual being banned and closing their trading accounts in the UK

We also assess the fitness and propriety of the firm, key personnel and ultimate beneficial owners. As of 31 March 2022 we had registered 33 cryptoasset firms. Many firms could not meet required standards under the MLRs, so they withdrew their applications, following robust assessment from our Authorisations teams. As of June 2022, we have also published a list of approximately 248 firms which appear to be trading without having applied to us for registration. Since we published the list of unregistered crypto firms, 110 are no longer operational.

In the UK's 2019 Economic Crime Plan, we committed to reviewing our proactive approach to supervising firms' financial crime controls. Due to the pandemic the rollout of our new approach was delayed. We have now piloted our new data-led AML supervisory approach. We tested our new 'modular' approach by carrying out a more in-depth assessment of a firm's AML controls and tested our new Sanctions Screening assessment tool.

We identified 643 firms for proactive AML supervisory work based on data suggesting they had a high turnover of Money Laundering Reporting Officers.

Following the expansion of the UK Government's Russian Sanctions Regime, we wrote to approximately 10,000 firms reminding them of their obligations to have effective sanction controls. We also issued a joint statement with financial services regulatory authorities on sanctions and the cryptoassets sector.

We identified
643
firms for proactive AML supervisory work

We wrote to approximately
10,000
firms reminding them of their obligations to have effective sanction controls

The Office for Professional Body AML Supervision (OPBAS) continues to improve standards and consistency of AML supervision among professional body supervisors (PBSs) in the legal and accountancy sectors.

Progress in PBSs' MLR compliance means OPBAS can focus more on how effectively PBSs are conducting AML supervision. As OPBAS outlined in its third report, published in September 2021, it found differing levels of effectiveness. There was good practice, but also some significant weaknesses, including in relation to PBSs' implementation of a risk-based approach to effectively prioritise AML supervision and enforcement, and gaps and inconsistencies in many PBSs' approaches to information and intelligence sharing. OPBAS is evolving its approach to supervision, using a wider range of methods to target deficiencies and drive more effective supervision by PBSs. OPBAS will use its September 2021 report as a benchmark to assess progress in improving effectiveness, while also taking account of other, external sources of information such as the annual money laundering reports PBSs are required to publish under the MLRs.

OPBAS continues to push for improvements in information and intelligence sharing, including through forums such as the Intelligence Sharing Expert Working Groups (ISEWGs) which it established. This year it piloted new regional ISEWGs in the devolved administrations to identify and share information and intelligence on more localised money laundering threats.

We concluded our assessment of The Temporary Registration Regime (TRR) for existing crypto asset businesses, and the TRR is now closed, an update on TTR can be found on our website.

Asset management and non-bank finance

We said we would work with UK asset managers to help them complete an orderly transition away from LIBOR to stronger, more transparent risk-free rates. We also said we would increase our supervision of the environmental, social and government (ESG) factors of their products so that they are fair, clear and not misleading, and focus more on their Appointed Representatives (ARs), see page 58 of this report for further detail.

We also proposed to establish a framework for long-term asset funds (LTAFs) to help channel productive capital.

Progress towards our outcomes

1. We want firms to offer investors products that are fair value and meet their investment needs. Marketing and disclosures for these products need to be fair, clear, and not misleading. Asset managers should manage liquidity in funds to avoid unnecessary risks to investors and market integrity. They should also enable investment in less liquid assets for those with a long-term investment view who can cope with the risk of these investments

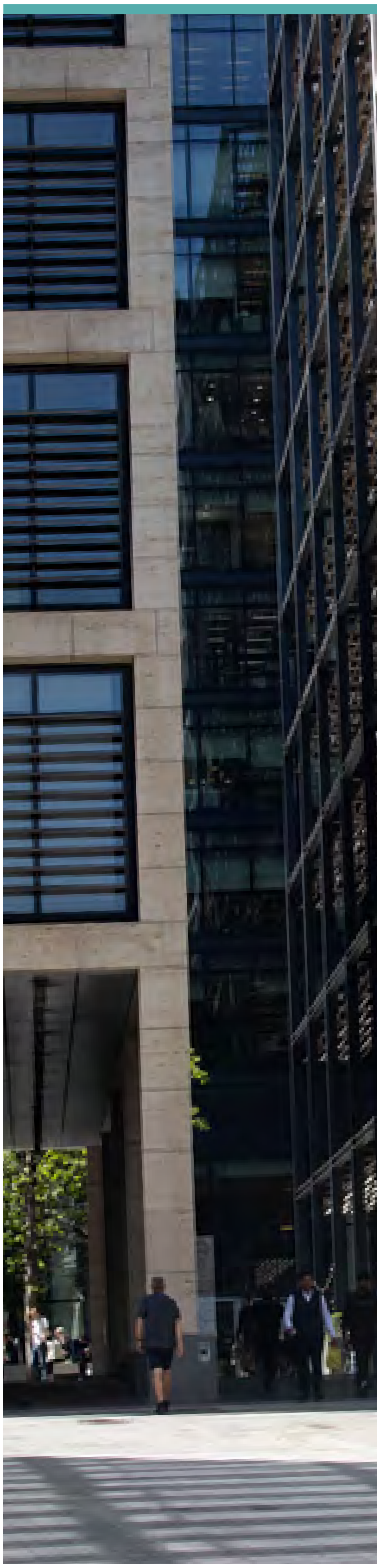
We tested the viability of the host Authorised Fund Manager (AFM) business models and assessed whether firms were managing conflicts of interests effectively.

We found weaknesses in governance procedures, conflicts of interest management and operational controls. There was insufficient focus on controlling the risk of harm to investors from poor value products. In light of this, we set out our supervisory expectations and followed up with firms where needed.

Authorised Fund managers must carry out Value Assessments and report on them at least annually. Last year we reviewed the quality of these assessments, looking at how:

- asset management firms consider MiFID II's product governance regime (PROD) when manufacturing and providing products
- how far they consider the interests of end clients throughout the product's design, sale and lifetime

Most firms we reviewed had not yet implemented the assessments of value (AoV) arrangements in the way needed to comply with our rules. We published detailed findings, so firms understand our expectations and to meet our commitment to publish metrics which show how well firms are implementing these remedies.



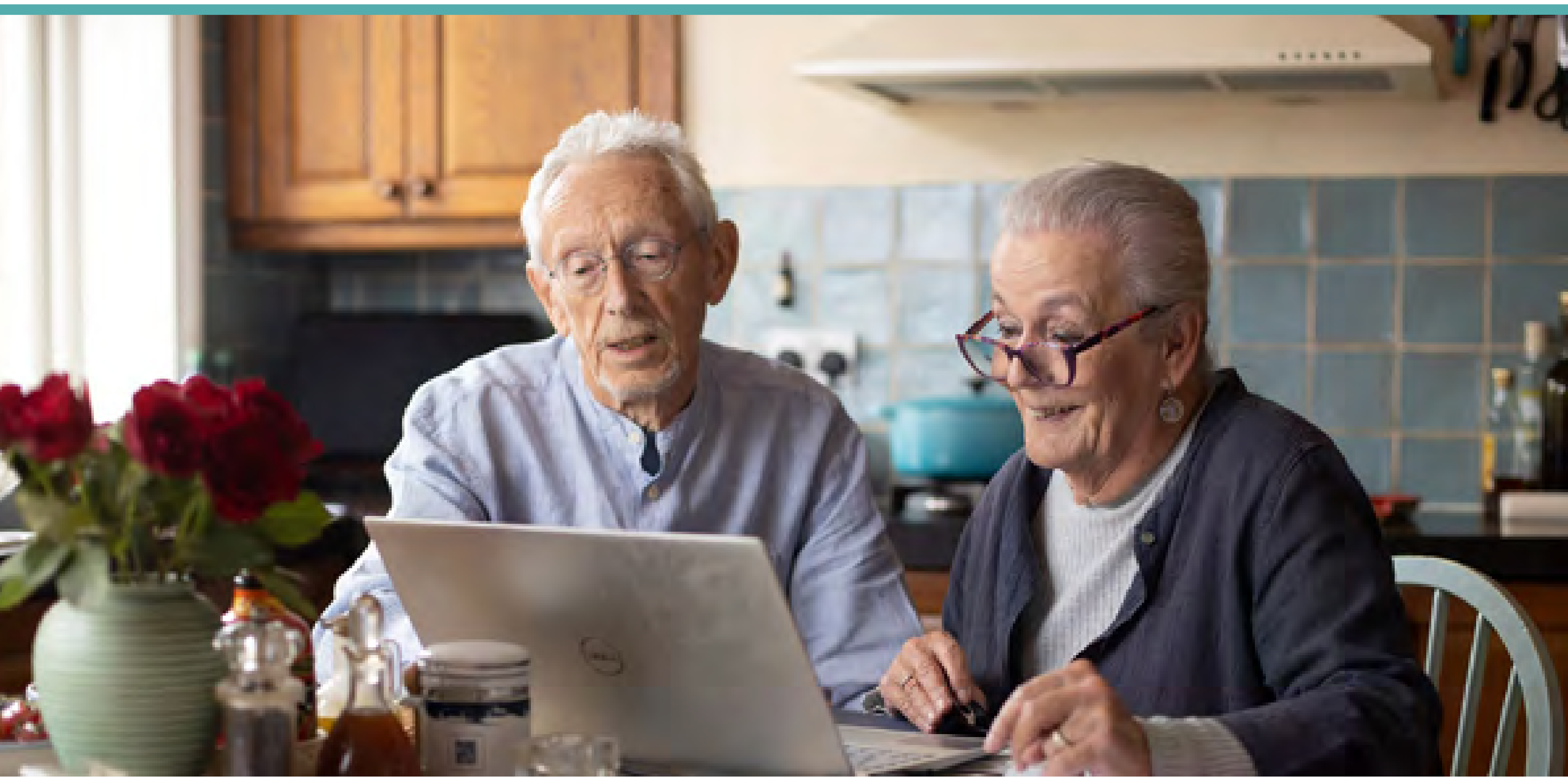
We identified activities that were not in line with MiFID II's PROD regime and so increase the risk of investor harm. Asset managers need to improve their product governance arrangements, giving greater thought to their end clients. We have incorporated our findings into our wider supervisory activities, and our policy work on the Consumer Duty.

We reviewed how firms are meeting their ESG claims and issued our key findings to chairs of authorised fund managers, see page 69. Environmental, Social and Governance (ESG).

We want to foster an environment where investment in longer-term, less liquid assets by investors who understand the risks, do not need immediate liquidity and have long term investment horizons, can flourish. Evidence suggests that some of these potential investors are not investing in long-term assets due to actual or perceived barriers to such investment. In response, we finalised the Long-Term Asset Funds (LTAF) regime in October 2021. Our new rules embed longer redemption periods, high levels of disclosure, and strong liquidity management and governance features.

Pension products

Consumers who save into a pension today are most likely auto-enrolled in a workplace pension scheme and invested in a default arrangement. It is essential that these pension products deliver value for money. Where a consumer saves into a pension outside the workplace, they may need significant support to choose how to invest the money they save. At the point of drawing a pension, and in the run up to that point, many consumers need advice and guidance to help them make the best use of their pension savings.



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Progress towards our outcomes

1. Pension providers offer good value products, and consumers use guidance and support to help them make effective choices

Greater transparency about pension outcomes over the long term can contribute to ensuring value for pension savers. We are working with The Pensions Regulator (TPR) and the Department for Work and Pensions (DWP) to develop proposals for metrics covering member outcomes. Specifically, investment performance, costs and charges, and selected other services. We published a Discussion Paper to test our proposals and plan to consult on the next iteration, followed by a feedback statement.

Building on this, we consulted on proposals to require firms to offer a default investment option for non-advised consumers buying a non-workplace pension. This is intended to provide consumers with a straightforward option to invest their pension savings.

Investment pathways at the point of accessing pension savings came into force in February 2021. These pathways were specifically designed to target the one in three non-advised consumers who our Retirement Outcomes Review identified as entering drawdown without knowing where their remaining pension pot was invested. Early evidence from the Association of British Insurers (ABI) suggests that investment pathways are working as intended, with 40% of the sampled population of consumers using pathways.

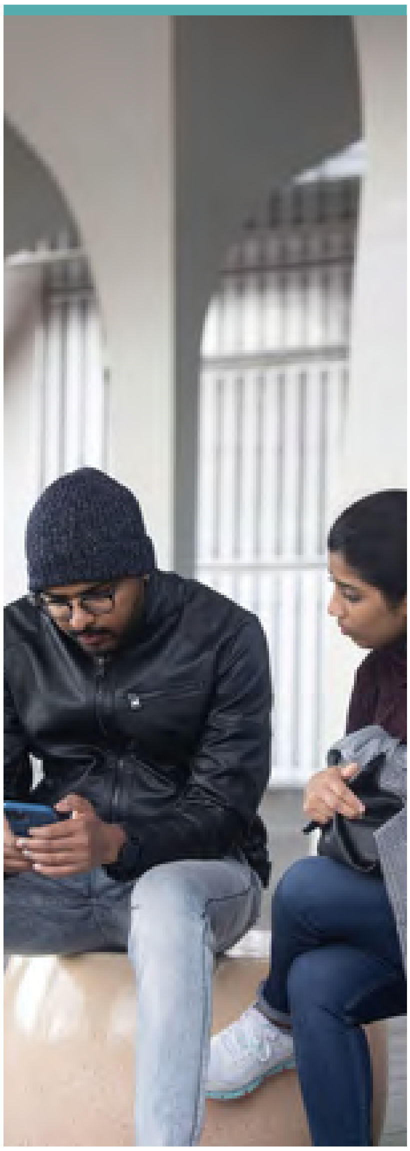
Building on the success of investment pathways for drawdown customers, we consulted on proposals to require firms to offer a default investment option for non-advised consumers buying a non-workplace pension. This is intended to provide consumers with a straightforward option to invest their pension savings.

We made rules to ensure consumers are strongly nudged to Pension Wise when they have decided in principle how to access their pension savings. We worked closely with the DWP on these rules to ensure consistency of consumer outcomes, whether they are invested in an FCA-regulated product or a TPR-regulated pension scheme. The new requirements came into force on 1 June 2022.

The Government-owned pensions dashboards initiative will allow consumers to access information about their pensions online. We are working with other partners to make dashboards a reality. We consulted on requirements for FCA regulated pension providers to connect and supply information via dashboards and we plan to consult later in 2022 on rules for commercial dashboard operators.

40%

of the sampled population of consumers using pathways



Appointed Representative regime

Principal firms are responsible for ensuring their Appointed Representatives (ARs) comply with our rules. But many principals do not adequately oversee the activities of their ARs. Consumers are at risk of being misled and mis-sold, while misconduct by ARs in the financial sector can undermine market integrity. We're making changes to improve principals' oversight of their ARs, increase the information they give us and raise standards across financial services.

1. We want principals and ARs that are competent, financially stable and ensure fair outcomes for consumers when selling products or giving advice

In our 2021/22 Business Plan and our CEO's letter to the Treasury Committee on 4 May 2021 we committed to a new and extensive programme of work on the AR regime.

We have now consulted on a range of proposed improvements to the AR regime. The changes are designed to improve the data we receive from principals about their ARs to help us identify potential risks within principals and ARs, as well as clarify and strengthen the responsibilities and expectations of principals in relation to their ARs. The consultation also included a discussion on areas where we are considering the case for further action, such as the regulatory hosting model and other potentially higher-risk aspects of the regime. We plan to make final rules later this year.

We have intensified our scrutiny of principal firms and applicants applying for authorisation who state that they will appoint ARs on approval. In a small pilot of this stronger approach, approximately 80% of firms intending to appoint ARs have either withdrawn their applications or we have refused them.

We have made changes to our systems so principal firms must submit the Approved Persons forms at the same time as the Add AR notification form. This ensures we can target our activities on those principal firms and ARs that can cause the most harm. For year 2021/22 over 300 AR notifications were withdrawn. This is alongside a 1% increase in withdrawals compared to the previous year in Approved Persons Applications.

We have also surveyed c.1,500 principals with c.20,000 ARs – nearly half the total population of principal firms. We use the results to improve how we target our supervisory engagement and inform our policy work.

We have formed a dedicated new supervisory department to lead and co-ordinate our cross-organisational work on ARs. As the department builds towards full-strength, we are prioritising work with higher-risk principals, including firms identified from the survey referred to above. We've identified over 60 principal firms across a wide range of sectors for further analysis, with action being taken where we detect harm.

Finally, while there are changes we can make to improve the regime and limit harm, the AR model is established by legislation. We have also been working with the Treasury to explore whether legislative change is needed. We have collaborated with the Treasury on its Call for Evidence, which gathered views on the overall aim, scope, benefits and risks of the current AR regime.

9. Our priorities across all markets

Fraud strategy

Fraud and scams cause significant financial and emotional harm to consumers. We are committed to ensuring that the UK financial services industry is a hostile environment for fraudsters. Not all fraud is within our jurisdiction, but we will tackle it where we can and work with other agencies to have the greatest impact on halting the growth of fraud. We are working with the Government on the Fraud Action Plan, setting out what we can contribute to the cross-sector approach.

Progress towards our outcomes

1. Our aim is to use our authority and influence to work with our partners to help drive down the incidence and impact of fraud

Developing our approach to assessing firms' antifraud systems and controls

We have been working with firms and external partners to better understand the current fraud landscape and how firms are protecting their customers from harm. This has helped inform and refine our approach to assessing firms' antifraud systems and controls so that we can better supervise them. In line with our data strategy, we have been developing how we harness and use our available fraud data. We are adopting a proactive data-led approach, so we prioritise and target our supervisory work on the areas and firms which pose a higher risk to customers.

Robust approach to applications

We take a robust approach to assessing whether a crypto exchange applying for authorisation can protect consumers from bad actors. Over 80% of crypto exchanges did not meet our required standards and were either refused authorisation or withdrew their applications.

FCA permission – 'use it or lose it'

The Financial Services Register is a searchable record of firms that are, and have been, regulated. It also sets out their permissions to carry out specific activities. It can be misleading if firms hold permissions they don't use. We introduced a 'use it or lose it' (UIoLI) initiative in May 2021 to identify firms who have not used their permissions for 12 months or more. Since then, we have carried out 1,090 firm assessments. As set out in the published metrics in April 2022, through engagement with firms on UIoLI, 161 firms applied to cancel their unused permissions during the 2021 calendar year. For the financial year 2021/22, again through UIoLI engagement 231 firms applied to cancel their permissions and 41 firms applied to vary their permissions to remove permissions they were no longer using.

We have carried out

1,090

firm assessments

Case Study

Preventing a mini-bond scam by double checking

Patrice Hunter* was frustrated with the low interest rates available for her substantial £85,000 savings. She spent much of the weekend searching the internet for better deals and visited several firms' websites in her search.

The following day, she was contacted by a firm offering 5% for a 1-year Bond. The caller answered her questions confidently, including confirming the firm was covered by the Financial Services Compensation Scheme.

Patrice was keen but cautious. She called our helpline to double check the firm. We checked the details she gave us, and it became clear she'd been called by a clone firm – an unregistered firm that uses the details of a legitimate, authorised firm to impersonate them.

We told Patrice this was a clone, gave her the details of the genuine firm and reported the clone to our Warning List team so they could publish a warning.

Patrice also took up our suggestion that she contact Money Helper for support on investing her money safely. She was very relieved that she'd erred on the side of caution, otherwise she would have lost it all.

**Name changed*

Surveillance and monitoring

To tackle the large number of online fraud, scams we are using web scraping to carry out proactive surveillance. We are scanning approximately 100,000 websites that are created every day to identify newly registered domains that show the characteristics, or red flags, that they may be used for scams or fraud. Where we identify fraudulent websites we write to the website registrars to request the website is taken down. We also publish warnings to consumers through our Warning List. Between April 2021 and March 2022, we have added 1,836 alerts to our consumer Warning List.

Identifying connected entities and individuals

We have identified a network of connected authorised firms that appeared to be offering potentially fraudulent mini bonds to consumers. These firms were connected by common directorships, places of business, and shareholders. We received several consumer reports on these firms. We have intervened against eight authorised firms, removing their permissions and publishing customer warnings.

100,000

created websites are scanned every day

Consumer engagement

We have increased our consumer engagement to ensure we are informing and empowering the public to protect themselves from scams and fraud. Our pension scams campaign resulted in 29,000 visits to our ScamSmart website, and 1,295 people checked a pension offer with the Warning List. We ran a loan fee fraud campaign from December to the end of February. The campaign was well received and shared in the media, including in the Money Saving Expert weekly email which goes to 7.5m people and BBC's Money Box. We also had our first ever Facebook live event to discuss what loan fee fraud is and how consumers can protect themselves from it. Our toolkits, which includes a suite of assets, has been used by our partners including Money Supermarket, the Department for Work and Pensions (DWP), and Citizens Advice.

1,836

alerts added to our consumer warning list

29,000

visits to our ScamSmart website

Financial resilience and resolution

Firms with weak financial resilience are more likely to fail. Our role is to minimise the harm and loss to consumers and markets when this happens.

Progress towards our outcomes

1. Firms to have appropriate capital, liquidity, and reserves to cover outstanding redress liabilities, so they do not fail in a disorderly manner

Over the past 12 months we have conducted specific reviews of firm capital and liquidity position on firms at the Gateway, and throughout their lifecycle. This has included over 90 specialist reviews where we had concerns about weak financial resilience, and over 60 reviews related to firm authorisations. These reviews have resulted in improvements in the capital and liquidity positions of a number of firms. Our casework has made important interventions resulting in these firms making an aggregate increase in capital requirements of £413m and an increase in liquidity held of £432m.

The Investment Firms Prudential regime (IFPR) came into force on 1 January 2022. The IFPR aims to streamline and simplify the prudential requirements for MiFID investment firms that we prudentially regulate in the UK (FCA investment firms). Introducing the IFPR means that there is a single prudential regime for all FCA investment firms, replacing the 11 legacy regimes.

The IFPR refocuses prudential requirements and expectations away from the risks firms face, to also consider and try to manage the potential harm firms can pose to consumers and markets.

2. Firms to hold financial resources proportionate to the potential harm caused if they do fail. Over time, this will reduce the level of FSCS pay-outs

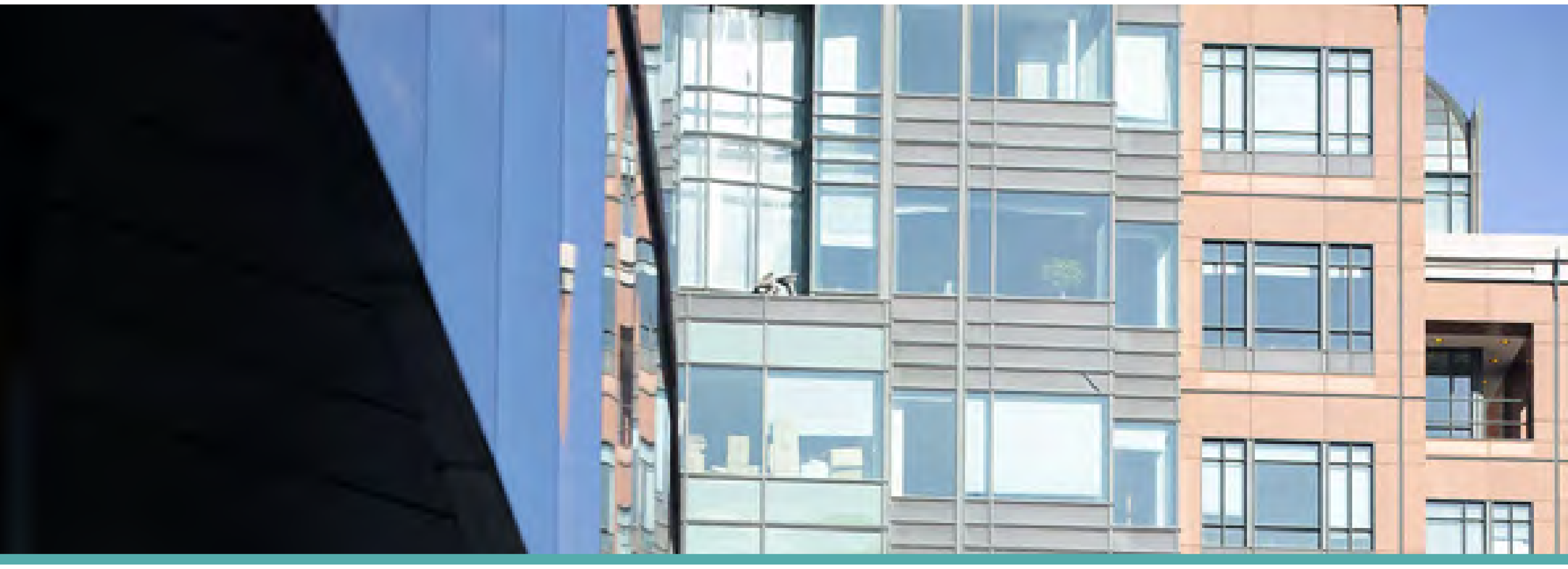
We have significantly strengthened our data-driven monitoring of the financial resilience of solo-regulated firms. Through our Proximity to Failure (PTF) framework we can triage over 44,000 FCA solo-regulated firms based on their financial resilience on an on-going basis. We can act quickly where a firm is at risk of failure to ensure that consumers have appropriate protection. We have also implemented an Automated Financial Resilience Monitoring (AFRM) programme for 91 high impact firms. The AFRM programme enables us to identify firms at risk of failure and engage with them quickly.

We have integrated this financial resilience data with other data as part of our Single View of Firm. This has resulted in a comprehensive risk dashboard, significantly improving our ability to identify firms of concern.

More broadly we have taken steps across a wide range of firms to both identify potential firm-specific concerns and to respond to emerging issues as they arise.

3. We want the scale of compensation liabilities to stabilise in the medium-term and reduce longer-term as firms hold more capital and liquidity, and fewer cause misconduct that requires them to pay redress on a large scale

We helped retain £750m of capital held in firms that had pre-existing FCA set capital requirements by ensuring capital planning buffers were also transferred in a simpler way (ie into the TP10 under MiFIDPRU (IFPR)). This type of increase in capital (or liquidity)



requirements or capital resources increases firms' ability to wind down in an orderly way and minimise potential harms, particularly when combined with other non-financial resource improvements in risk management.

Operational resilience

Operational disruptions can cause wide-reaching harm. Our focus on operational resilience helps ensure that firms can prevent, adapt, respond to, recover, and learn from these disruptions. Our work seeks to drive better outcomes for consumers, clients and markets by continuing to provide important business services.

Progress towards our outcomes

1. Firms should be operationally resilient against multiple forms of disruption to minimise the harm caused to consumers and markets. Over time, we would expect to see a reduction in the number, type and duration of incidents and the level of harm they cause

We have continued our proactive technology and cyber assessments of firms, delivering cyber resilience assessments (CBEST), and monitoring and responding to operational disruptions reported to us. We delivered this alongside our work on embedding the operational resilience policy (PS21/3), jointly published with the Bank of England and PRA in March 2021.

Firms have made good progress implementing the requirements of the operational resilience policy across the different sectors. We shared our observations of firms' progress through our January 2022 webinar, which successfully bolstered firms' understanding of the policy.

Firms have entered the transition phase of the policy implementation, which began on 31 March 2022 and ends on 31 March 2025. We will continue to assess firms' ability to remain within their impact tolerances, or if they need to take action to do so.

In the last two years, the number of incidents reported to the FCA has remained relatively consistent. In 2020/21, 780 incidents were reported to the FCA, and in 2021/22, 792, representing a 1.5% increase.

We recognise a reduction in incidents is not a clear measure of firms' operational resilience. Rather, what we expect to see is a reduction in the level of harm that operational disruptions cause as firms' ability to respond quickly and effectively improves.

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Diversity and inclusion

Diversity and inclusion (D&I) is critical to our work on culture and governance. Improving this in firms promotes diversity of thought, guards against groupthink, promotes better understanding of a diverse customer-base, and encourages greater competition and innovation to meet their needs.

Internally, our work on diversity and inclusion is wide-ranging and comprehensive, aiming to nurture an inclusive working environment with diverse teams which reflect the society we serve and who are confident to share their experience and opinions.

Our Annual Diversity Report provides a detailed overview of our broader work on diversity and inclusion and demonstrates our progress and activity over the last year.

Progress towards our outcomes

1. We have an inclusive working environment with diverse teams who are confident to share their experience and opinions

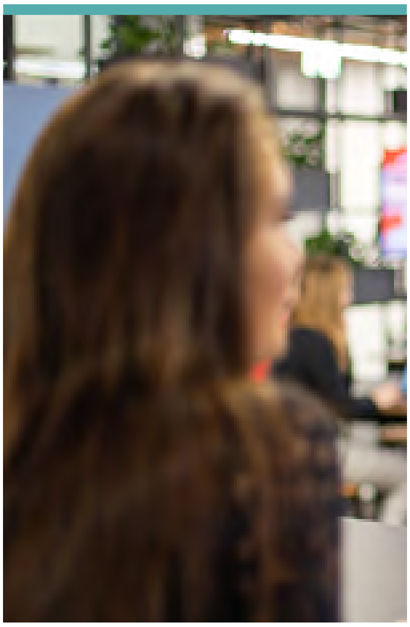
We are refreshing our internal D&I strategy, redefining our priorities and success measures to reflect the current D&I landscape and fit the FCA's evolving needs. This new strategy will be data and evidence-led, so we prioritise the areas where we need to have the greatest impact. We have developed priorities based on analysis of industry best practice, peer review and a significant evidence base. These priorities define the outcomes we will achieve, how they will be measured and joined-up actions to improve the areas highlighted by the evidence.

This new strategy will be data and evidence-led, so we prioritise the areas where we need to have the greatest impact

This programme of work is likely to be completed in the 2022/23 business year, and the strategy subsequently published externally.

2. Our people reflect the society we serve

In 2016 we set stretching targets on both gender and ethnicity for our Senior Leadership Team (SLT) to be met by 2025. After reviewing progress against our targets in 2021, we have



expanded our gender and ethnicity targets beyond our SLT, introducing targets at Manager, Technical Specialist and Senior Associate level. Improving diversity at these levels is key because these roles are the pipeline for our future senior leadership. Adding these targets will helps us drive positive change and hold ourselves accountable for our progress across the organisation.

Our targets for women remain 50% (across all grades) and we have increased our 2025 SLT ethnic minority representation target from 13% to 20% (25% across all pipeline grades). We have also committed to increasing Black representation at SLT level, targeting 4% SLT Black representation within our target for 2025.

The tables below indicate our newly agreed ethnicity and gender targets, and our position against these targets on 31 March 2022:

Full details of our gender, ethnicity and disability pay gap figures can be found on our website and in our Annual Diversity Report.

3. Our regulation supports improved outcomes for different groups in the population

We continue to advance our responsibilities under the Public Sector Equality Duty through our regulatory work. More information on this can be found in our Annual Diversity Report.

We have increased our 2025 SLT ethnic minority representation target from 13% to 20%

We have also committed to increasing Black representation at SLT level, targeting 4% SLT Black representation within our target for 2025

Representation of women			
	Progress at March 2021	**Progress at March 2022**	**Target for 2025**
Senior Leadership Team (SLT)	43.5%	46.5%	50%
Manager	42.1%	42.1%	50%
Technical Specialist	30.4%	29.4%	50%
Senior Associate	46.5%	48.1%	50%
Minority ethnic representation			
	Progress at March 2021	**Progress at March 2022**	**Target for 2025**
Senior Leadership Team (SLT)	12.9% (1.6% Black)	14.7% (2.3% Black)	20% (4% Black)
Manager	12.9%	14.2%	25%
Technical Specialist	14.7%	17.4%	25%
Senior Associate	25.1%	27.2%	25%

We set out in our 2021/22 Business Plan the outcomes we wanted to see in the financial services sector:

- regulated firms and listed companies have more diverse representation at all levels
- regulated firms and listed companies foster cultures that are inclusive so that staff can share their diverse experiences and backgrounds
- firm's design and deliver products that reflect the diverse needs of consumers, offer fair value and are delivered in a fair and accessible way

In July 2021, we published a Discussion paper together with the Bank of England and PRA on improving D&I in the financial sector. This aimed to start a discussion on how we can accelerate the pace of meaningful change. The Paper was published alongside a literature review conducted to develop our understanding of the evidence of the impact of diversity and inclusion in the workplace through analysis of a broad body of research. We have since held over 100 external stakeholder engagements on the contents of our discussion paper and have received over 180 responses. We have analysed these and are using them to inform the development of policy proposals in this area and the outcomes these can achieve.

In October 2021, we carried out a pilot data survey on D&I within a sample of firms we regulate. We gathered information on workforce diversity, the categories of diversity data they collect and their plans for data collection. We received over 650 responses which we have fed into our policy development.

In December 2021, we consulted on embedding D&I into the new Consumer Duty. We want firms to take the diverse needs of their customer base into account and make sure people are not excluded from products and services. We plan to publish any new rules and guidance by the end of July 2022.

We are making the language of our Handbook more inclusive. When creating new rules or amending existing ones, we have made sure the language in legal instruments is inclusive. Where language in older parts of our Handbook could be considered non-inclusive and may cause offence, we will replace it.

We consulted and received extensive feedback on proposals for diversity disclosures for listed companies during 2021. Certain listed companies will have to make annual disclosures against 'comply or explain' targets for the representation of women and people from a minority ethnic background. These targets are for:

- at least 40% of their boards to be composed of women
- at least one board member to be from a minority ethnic background
- at least one of the senior board positions (Chair, CEO, CFO or Senior Independent Director) to be held by a woman

Alongside this, companies must disclose a numerical table on the breakdown of their board and executive management by gender and ethnicity. We also confirmed changes to our disclosure and transparency rules. These aim to encourage existing reporting on board diversity policies to consider wider diversity characteristics and to expand the reporting to cover the diversity of key board committees.

Our new Listing Rules apply to companies' financial reporting periods commencing on or after 1 April 2022. We expect the first disclosures to appear in annual financial reports in spring 2023.

36%

of our panel members were women

43%

of the senior panel positions were held by women

7%

of our panel members were from a minority ethnic background

Diversity and Ethnicity with our Panels

We agreed to adopt diversity targets for the FCA's independent panels.

Based on the information that we hold, as of 31 March 2022:

- 36% of our panel members were women
- 43% of the senior panel positions were held by women
- 7% of our panel members were from a minority ethnic background

We have revised our recruitment policies, so we consider more systematically a diverse set of candidates in terms of personal characteristics as well as diversity of expertise.

We are also working to improve the data that we hold and to be able to provide figures for individual panels (where relevant) for next year's Annual Report.

Environmental, Social and Governance (ESG)

We are committed to supporting the financial sector to help the economy transition to a more sustainable long-term future. We are working to implement a robust regulatory framework that responds to risks of harm given rising consumer awareness and demand for ESG-themed financial products. We reflect this in our ESG Strategy, Our Strategy and the outcomes we have set out, and in the metrics we are developing.

Progress towards our outcomes

1. High-quality climate and sustainability-related disclosures to support accurate market pricing, helping consumers choose sustainable investments and drive fair value

We have significantly strengthened our climate-related disclosure rules to improve market integrity and the information flow of climate-related information. In January 2022, we extended our climate-related disclosure rules to a wider scope of listed issuers. We also implemented TCFD-aligned disclosure rules for asset managers, life insurers and FCA-regulated pension providers.

We published a Primary Markets Bulletin explaining our approach to monitoring compliance with our listing rule. With the Financial Reporting Council, we have reviewed the first disclosures against our listing Rule for premium-listed commercial companies. We will publish our findings shortly.

Internationally, we co-lead a workstream on corporate reporting under the International Organisation of Securities Commissions (IOSCO). An important part of our work is assessing the reporting standards published by the IFRS Foundation's new International Sustainability Standards Board, for potential endorsement by IOSCO. Our aim is to drive global consistency.

We have significantly strengthened our climate-related disclosure rules to improve market integrity and the information flow of climate-related information

2. Promote trust and protect consumers from misleading marketing and disclosure around ESG-related products

We wrote to the chairs of authorised fund managers setting out our expectations on the design, delivery and disclosure of ESG and sustainable investment funds. We also undertook consumer research to help shape our policy thinking on product-level ESG disclosures and labelling. We published a Discussion Paper seeking initial views on disclosure requirements and sustainable investment labels. We also established a 'Disclosures and Labels Advisory Group' to help develop our approach. We will publish a Consultation Paper shortly.

3. Regulated firms have governance arrangements to more completely and carefully consider material ESG risks and opportunities

We are developing our approach to strengthening ESG governance, remuneration, training, and certification in regulated firms. We have helped coordinate relevant domestic and international workstreams that are developing industry best practice in this area. These workstreams include the Climate Financial Risk Forum convened jointly by us and the PRA, the FSB's Compensation Monitoring Contact Group and the UK Government's net zero Transition Plan Task Force.

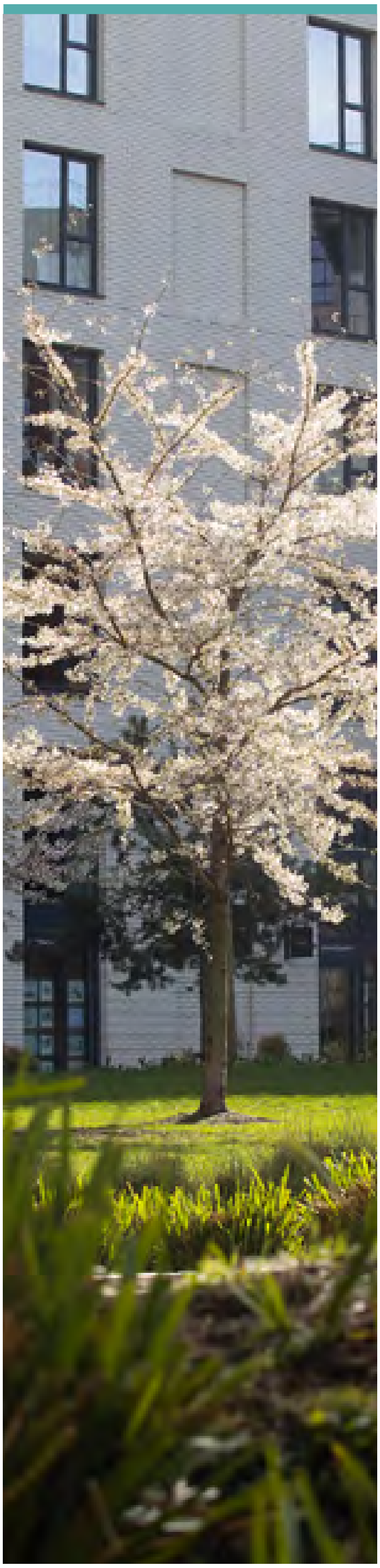
4. Active investor stewardship that positively influences companies' sustainability strategies, supporting a market-led transition to a more sustainable future

We have co-led work with the Financial Reporting Council and the Stewardship Regulators Group to strengthen investor stewardship on climate change and net zero. We engaged issuers, investors and wider stakeholders to consider how mechanisms for shareholder accountability can be more effective in this area. Findings from this will be taken forward through the Government's Transition Plan Taskforce workstream on user and preparer guidance which we co-chair. We also started work with industry looking at how the voting infrastructure, service providers and the wider stewardship ecosystem can further support asset owners' and asset managers' stewardship activities.

5. Promote integrity in the market for ESG-labelled securities, supported by the growth of effective service providers – including providers of ESG data, ratings, assurance and verification service

In June this year, we published a Feedback Statement following our Consultation Paper seeking initial views on wider ESG in capital markets. Topics included green, social and sustainability labelled bonds, the role of verifiers and second party opinion providers, and ESG data and ratings providers. As firms increasingly rely on ESG data and ratings in their activities, we think there needs to be greater regulatory oversight of these service providers. We are working with the Treasury, which is considering bringing them within our regulatory remit. In a Primary Market Bulletin published alongside the Feedback Statement, we encouraged issuers of ESG-labelled debt instruments to consider relevant industry standards. We also reminded issuers of their current obligations under our prospectus and advertising rules and noted we will consider whether we need to take further market oversight and enforcement actions in this area.

We also contributed to last year's IOSCO final report and associated recommendations on ESG ratings and data products providers.



6. Innovation in sustainable finance, using technology to bring about change and overcome industry-wide challenges

We have done more work to promote innovation in sustainable finance, particularly in ESG data and disclosure. Last year, the Climate Financial Risk Forum that we convened with the PRA published its second round of industry best practice guides. One of these focused on practical opportunities to encourage climate finance.

In October 2021 we hosted a Sustainability TechSprint to encourage ideas on how global regulators can harness technology to monitor ESG data and disclosures. We also worked with the City of London Corporation to run the next iteration of our Digital Sandbox. This identified a sustainability cohort of 12 organisations that focused on solutions to industry challenges in ESG data and disclosures. Lastly, we have accepted 10 firms into the Green Fintech Challenge 2021 to support the development of innovative products that will help the transition to a net zero economy, either through our regulatory sandbox or our innovation pathways services.

10. Our international priorities

One of our priorities has been to build and maintain the highest levels of supervisory cooperation with other international regulators, due to the cross-border nature of our markets and the firms operating within them. We have continued to be active members of global standard-setting bodies such as the Financial Stability Board (FSB), the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS) and we have continued to work closely with EU bodies and individual regulators around the world.

Progress towards our outcomes

1. Robust international standards

As one of international standard setting bodies, we promoted the development and implementation of effective international standards, which in turn help us to meet our domestic objectives. We have done this through joining or chairing key working groups at the FSB, IOSCO and the IAIS.

We will continue to prioritise work on sustainable finance where we co-chair the workstream on issuer disclosure.

The IOSCO Fintech Taskforce will focus on cryptoassets and we will lead work for it on market integrity.

> **the UK 'has weathered the Covid-19 pandemic fittingly.**

> **Brexit uncertainties are being handled appropriately**

We participated and contributed extensively to the 2021 review of the UK in the IMF's Financial Sector Assessment Programme (FSAP), alongside the Bank of England and the Treasury. The IMF found:

- the UK 'has weathered the Covid-19 pandemic fittingly'
- 'Brexit uncertainties are being handled appropriately'
- there is 'effective interagency collaboration'
- 'the globally critical market infrastructures remain in good form, and the authorities have shown leadership in the global LIBOR transition.'

Alongside the PRA, we took part in the IAIS's Targeted Jurisdiction Assessment (TJA) of the UK on implementing the IAIS' Holistic Framework, between December 2021 to February 2022. In a separate exercise in 2021, we took part with PRA in the IAIS' peer review and assessment of the implementation of Insurance Core Principles 9 and 10. We await the results..

2. Strong relationships with authorities around the globe

We continue to cooperate closely with our regulatory and supervisory partners globally to share information vital to cross-border supervision and to discuss relevant policy developments. This included with our European counterparts and EU authorities.

The G20 has stated that jurisdictions and regulatory authorities should be able to defer to one another when it is justified by the quality of their respective regulatory and enforcement regimes, and this year we confirmed a new form of substituted compliance with the US Securities and Exchange Commission. We are also supporting the Treasury in the negotiation of a mutual recognition agreement in financial services between the UK and Switzerland. We have also supported the Government across 10 intergovernmental financial dialogues, including the United States, Brazil and India.

3. Effective supervision of cross-border financial services

We have worked to ensure the smooth operation of the Temporary Permission Regime (TPR) for EEA firms that previously passported into the UK. There are currently just over 1,000 firms in the regime, down from almost 1,500 at the beginning of 2021.The firms that have exited the regime include those that have cancelled or moved to Supervised Run-Off (a mechanism for firms to run down their UK business), and those that we have started to authorise. We have taken enforcement action so far against four firms in the TPR who failed to meet our standards.

Market access, equivalence and trade negotiations

We provided ongoing technical advice to the Treasury on trade and cross-border market access in financial services. We aim to support the ambitious outcome sought by Treasury, while preserving our ability to meet our objectives and ensuring that appropriate safeguards are included in new agreements.

Progress towards our outcomes

1. Future trade relationships that support open markets in a way that respects and promotes our objectives and ensures regulatory and supervisory autonomy

We have supported the Government in negotiating Free Trade Agreements with Australia and New Zealand. We have provided technical advice in the negotiations to ensure both agreements promote open markets by committing to cross-border market access and safeguard our regulatory and supervisory autonomy.

We continue to advise the Treasury in negotiating the financial services elements of the UK-India Free Trade Agreement, the UK-Canada bespoke Free Trade Agreement, and the accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

We continue to provide technical advice to the Treasury in ongoing negotiations for a UK-Swiss Mutual Recognition Agreement (MRA). The agreement will be supported by supervisory cooperation arrangements that preserve our supervisory autonomy, while supporting our wider objectives.

2. A domestic market access regime that addresses regulatory and supervisory risks from cross-border access, operates effectively post EU-withdrawal and recognises the benefits of open markets

We have continued working with the Treasury and the Bank of England (BoE) on the review of the UK's Overseas Access Regime. The Treasury intends to consult in due course on potential reforms.

11. Our Section 172 Statement

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

Section 172(1) provides that regard should be had to the long-term consequences of decisions, the interests of the company's employees, the need to foster the company's business relationships with suppliers, customers and others, the impact of the company's operations on the community and the environment, and the desirability of the company maintaining a reputation for high standards of business conduct.

Our stakeholders

Our key stakeholders include our employees, consumers and consumer organisations, regulated firms and individuals, community leaders (including Parliamentarians), other regulators and regulatory partners, our suppliers, our community and environment.

The Board recognises that effective stakeholder engagement is key to meeting their duties under S172 of the Companies Act 2006 and achieving the FCA's statutory objectives to ensure that:

- we protect consumers
- we protect the integrity of financial markets and
- we promote effective competition in the interests of consumers

For this reason, the Board recognises the broad range of stakeholders that have an interest in or are impacted by our work. By understanding the views of each stakeholder group and the issues that matter to them, we can ensure that we deliver a high-quality service. The FCA therefore undertakes an active programme of stakeholder engagement 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. However, the Board recognises that the views of our stakeholders do not always align. In such circumstances, the Board must decide on the most appropriate course of action to ensure we are delivering in the public interest.

By regulating the financial services sector, the FCA plays a critical role in the lives of everyone in the UK. This means that our stakeholders increasingly expect us to achieve our statutory objectives in an uncertain, fast-changing world, and to do so ever faster. This expectation has increased since the onset of the Covid-19 pandemic and the continual expansion of the FCA's remit and ongoing geopolitical challenges.

Our approach to stakeholder engagement

Our Board is committed to achieving and maintaining high standards of business conduct. Our Corporate Governance statement on pages 109-125 provides more details of this.

The key stakeholder engagement activities undertaken by the Board during the year include:

- receiving updates on the employee survey results and engaging with representatives of the Staff Consultative Committee
- providing stakeholders with an opportunity to question the Chair, Chief Executive and directors at the Annual Public Meeting
- reviewing the results of the annual Stakeholder Survey and joint Practitioner Panel/ FCA Survey of firms
- receiving updates on corporate responsibility and sustainability initiatives

- engaging with the Complaints Commissioner to suport the effective operation of our Complaints Scheme

The following sections describes these and the broader range of engagement activities the Board has undertaken with our stakeholders during the year and how these have helped the FCA to deliver better outcomes for the users of financial services.

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, enable our people to act decisively and continuously improve how we operate.

In support of our value to 'work inclusively', we seek to foster a diverse and inclusive workplace environment that is free from discrimination and bias, celebrates difference and supports colleagues to be their authentic selves at work. Our Board believes this empowers our people to meet and fulfil their potential and results in better judgements and decision making in the public interest.

We publish an Annual Diversity Report to hold ourselves publicly accountable. The report provides a detailed overview of our diversity and inclusion activities over the last year. It also includes a breakdown of our workforce diversity data and progress against gender and ethnicity targets as part of our commitment to transparency around diversity and inclusion data above and beyond our statutory obligations.

We recognise the many needs of our diverse workplace and so the FCA supports the formation and development of network groups, social and sport clubs and provides support groups and an Employee Assistance Programme to support our employees through a wide range of challenges.

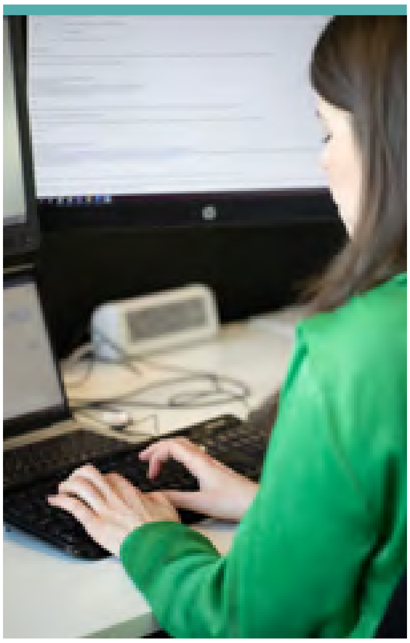
We continue to engage with many government initiatives, interest groups and non-governmental organisations to help us build a more engaged and diverse workforce. This includes the Government's Women in Finance Charter, and the City of London Corporation (CoLC) independent taskforce on socio-economic diversity, commissioned by the Treasury and the Department for Business, Energy and Industrial Strategy (BEIS).

We also work closely with several external specialists including Stonewall, City Mental Health Alliance, Inclusive Employers, Business Disability Forum, PurpleSpace, The Gender Network, The Employers Initiative on Domestic Abuse and Employers for Carers to inform our internal policies and provide our employees with wider

specialist resources. In addition, our 2022 annual employee survey launched in April 2022. This will give a valuable opportunity for colleagues to provide feedback on their day-to-day experience of working at the FCA and the results from the survey will support our ongoing corporate commitment actions.

Our Board prioritises its engagement with our employees to maintain oversight of their welfare and concerns. In the past year, the Board engaged with our employees using a variety of means, including:

- presentations and contributions to Board discussions and decisions
- having a specific non-executive director, Liam Coleman, acting as the FCA's internal Whistleblowing Champion
- regular engagement by the Chair and Chief Executive with the Staff Consultative Committee (SCC), which the Board considers a formal workforce panel, to discuss issues of importance to our staff
- our Chair meet with a wide range of employee networks and groups to discuss issues and seek input into existing work or feedback on matters within the remit of the Board, Board and executive committees
- our Board contributed to townhalls and articles for our intranet, to both inform and engage with our employees as matters arise.
- the Board and Remuneration Committee was regularly kept up to date with views from across the organisation



As part of our transformation commitment to adapt and innovate at pace as our remit expands within the increasingly complex environment we operate, we launched a consultation on a new grading, pay and benefits offer to ensure we retain and attract the skills needed to meet our vital objectives. Following consultation with our employees, a new employment offer was made on 1 March 2022.

Our Staff Consultative Committee, composing staff and executive representatives, engaged regularly in support of the consultation process. There were over 4,500 responses through an internal feedback tool, 2,200 emails to various teams, 700 comments raised in meetings and over 580 of employee questions were answered on our intranet, Pulse. Plus over 77 smaller group sessions were held between employees and executive directors.

The consultation on our new employment offer was one of the most extensive internal consultation exercises undertaken by the FCA and the Board and executive directors worked hard to actively engage with our employees to ensure their input into the process.

Consumers and consumer organisations

In pursuit of our statutory objective to protect consumers, our Board recognises the impact our decisions have on people's daily lives and the UK economy. It is therefore important that we actively consult with consumers and consumer bodies.

Through our consumer-facing work, our priorities are to:

- enable consumer to make effective financial decisions
- ensure consumer credit markets work well
- make payments safe and accessible, and
- deliver fair value in a digital age.

The consumers we aim to protect include:

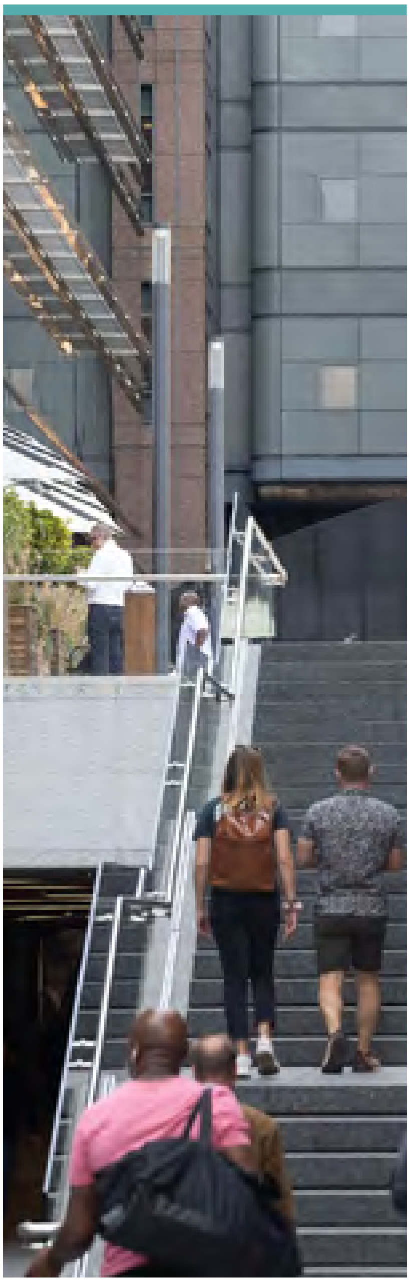
- retail consumers buying financial products or services for their own use (such as mortgages, personal loans, ISAs or investment advice)
- retail investors in financial instruments (such as shares and bonds)
- small businesses buying financial products or services

Through our Consumer Network, we can improve our relationship and engagement with consumer organisations. The Network consists of 30 different consumer organisations including debt charities (eg Money Advice Trust, StepChange), consumer- facing organisations (MoneySavingExpert/Which?) and related charities (such as Alzheimer's Society/Scope/ Shelter).

We also annually engage insight specialists, BritainThinks, to find out what key stakeholders, including consumer organisations, think about the FCA and the work we've done over the past year. The results of the Stakeholder Survey give an insight into how we're perceived externally – what stakeholders think about our activities, communications and announcements and the impact of any changes. They also provide a chance to look back at how perceptions have changed over the years and to revisit specific challenges identified in previous research years. The research findings are published internally, to enable our employees to understand how our stakeholders perceive us and to help them in planning for the year ahead.

And 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.

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. We are required to consult with the Consumer Panel, and other statutory panels, on the impact of our work.



The needs of consumers are pivotal in the Board's decision-making and are considered through a variety of mechanisms, including:

- Feedback from the Consumer Panel provided through our Board engagement at panel meetings and monthly reports from the panel Chair presented to the Board. The Board also requires that policy proposals are discussed with the Panel
- Reviews and feedback to Consultation Papers before confirming new or amended rules
- Open stakeholder engagement with the Chair, Chief Executive and Executive Directors on how on how the FCA has delivered against its strategic objectives at the Annual Public Meeting on 28 September 2021

Read more about our consumer facing work in Chapter 7.

Our consumer investment strategy, published in 2021, sets out a package of measures designed to mitigate the risk of consumer investment harms, including:

- Exploring regulatory changes to make it easier for firms to provide more help to consumers who want to invest in relatively straightforward products
- Launching a new £11m investment harm campaign, to help consumers make better-informed investment decisions and to reduce the number of people investing in inappropriate high-risk investments
- Being more assertive and agile in how the FCA detects, disrupts, and takes action against scammers, thereby reducing investment scams
- Strengthening the Appointed Representatives (AR) regime, which aims to raise the quality of financial advice
- Strengthening the financial promotions regime in three areas; the classification of high-risk investments, further segmenting the high-risk market and strengthening the requirements on firms when they approve financial promotions
- Reviewing the compensation framework to ensure that it remains proportionate and appropriate, particularly where firms fail leaving behind compensation liabilities for the FSCS to address. This will reduce the cost and impact of poor advice.

And, in furtherance of our objective to secure an appropriate degree of protection for consumers, we published a consultation paper on 31 March 2022 setting out our proposals for a consumer redress scheme. Under this, consumers who were given unsuitable advice to transfer out of the British Steel Pension Scheme (BSPS) can have the advice they received reviewed and receive redress where unsuitable advice caused loss.

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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. The aim of our engagement with firms is to identify potential harm so that we can reduce or prevent it at an early stage.

The FCA and the Practitioner Panel published a report in December 2021 from our annual joint survey of FCA regulated firms. The joint Practitioner Panel/FCA Survey seeks views from across the financial services sector of our performance as a regulator. And in light of our substantial Transformation Programme, feedback of this nature is essential in helping us address the challenges ahead. The results from the survey gave an insight into the FCA's performance over the past two years and reflections on the lessons learned during the pandemic. The Board closely considers the results of the survey to better understand the issues affecting all firms and to help improve how we operate.

In addition, 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. This includes 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.

And 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.

Our Work on D&I in the financial services sector is also an FCA Business Plan priority. We believe that improving D&I in financial services firms will help us achieve our objectives.

Through our regulatory framework we are driving D&I with our pending consultation on Diversity and Inclusion in the financial Sector and our Policy Statement on diversity and inclusion on company boards and executive management published in April 2022.

Read more about our Regulatory Diversity and Inclusion work in our Annual Diversity Report.

In November 2021, we also set out changes to our decision-making and governance framework through the changes made to our Enforcement Guide (EG) and Decisions Procedure and Penalties Manual (DEPP). Decisions under our Executive Procedures focus on areas where we need to prevent or stop harm to consumers or the market occurring or increasing, by preventing firms from offering financial services in the first place or intervening to restrict the financial services offered to consumers.

Community leaders, including Parliamentarians

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.

For example, the Board meets with the Complaints Commissioner (the Commissioner) to support the effective operation of our Complaints Scheme, responds to the annual report of the Commissioner and to any reports in respective of complaints referred.

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.

We must consider the principles of good regulation when carrying out our work, including the need for transparency. Representatives of the FCA aim to account for our decisions as transparently and clearly as possible and our senior staff regularly appear in front of parliamentary committees.

For example, 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.

The list below provides details of the evidence sessions seniors leaders have attended as witnesses in the last financial year:

- 22 March 2022 Lords European Affairs Committee, UK-EU relationship on financial services: Edwin Schooling Latter and Richard Fox
- 15 March Justice Select Committee, Fraud in the Justice System: Mark Steward
- 8 March Lords Industry and Regulators Committee, Commercial insurance and reinsurance regulation: Sheldon Mills, Matt Brewis
- 21 February 2022 Treasury Select Committee, Future of Financial Services: Edwin Schooling Latter, Sheldon Mills
- 10 January, Public Accounts Committee, Bounce Back Loan Scheme: Sheldon Mills.
- 8 December 2021 Treasury Select Committee, Work of the FCA: Nikhil Rathi, Charles Randell
- 2 November 2021 Lords Communication and Digital Committee, Digital Regulation: Kate Collyer
- 18 October, Draft Online Safety Bill Committee oral evidence: Mark Steward
- 22 September 2021 Work and Pensions Select Committee, Accessing Pensions Savings: Sarah Pritchard
- 15 June 2021, Compensation (LCF) Bill Committee: Sheree Howard, Robin Jones
- 14 June 2021, Treasury Select Committee, Economic Crime: Mark Steward
- 12 May 2021, Treasury Select Committee, Work of the FCA: Nikhil Rathi, Charles Randell
- 26 April 2021, Treasury Select Committee, Future of Financial Services: Edwin Schooling Latter

In addition to this we provide written evidence to all committees who ask for it. We also attend policy meetings with regard to legislation that are not formal Bill 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 the Annual Report we make to Parliament setting out our progress in delivering our objectives during the last year. We also published a Perimeter Report explaining how we will continue to work with the Treasury and Parliament on the challenges posed by the current regulatory perimeter.

Other Regulators and Regulatory partners

To meet our objectives 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.

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.

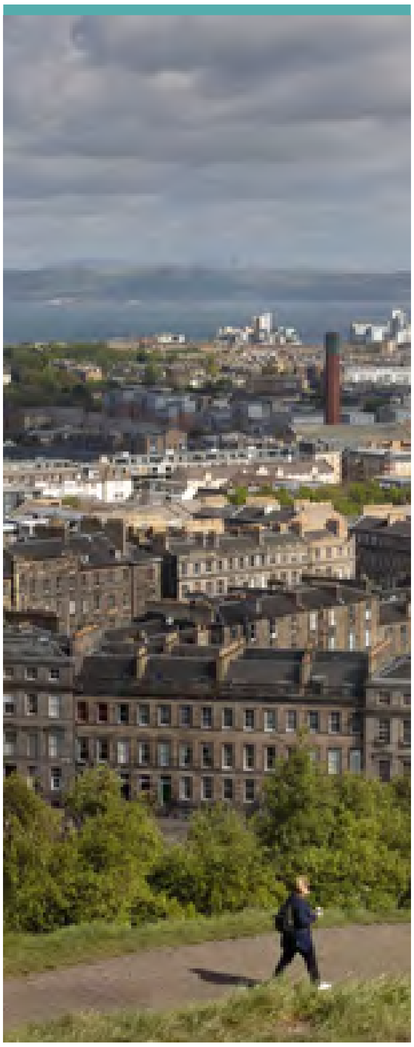
We are a member of the UK Regulators Network (UKRN), which brings together regulators from a range of sectors to share knowledge, and best practice, explore cross-cutting issues and build better ways of working. We play an active role in the UKRN's networks, including the CEOs' and Chairs' groups.

Similarly, we are a member of the UK Competition Network, which fosters cooperation and knowledge sharing between the CMA and sector regulators such as ourselves; we hold competition law powers concurrently with the CMA.

Through the Financial Services Regulatory Initiative Forum (the Forum), our Board engages with other representatives of the Bank of England, Prudential Regulation Authority (PRA), Payment Systems Regulator (PSR), the Competition and Markets Authority (CMA), the Information Commissioner's Office (ICO), the Pensions Regulator (TPR) and the Financial Reporting Council (FRC) alongside the Treasury as an observer member. Forum members collaborate to publish the Regulator Initiatives Grid which sets out the regulatory pipeline so that the financial services industry and other stakeholders can understand and plan for the timing of the initiatives that may have a significant operational impact on them.

Our Board also engages with other regulators through collaborative initiatives like the AI Public- Private Forum (AIPPF), run jointly with the Bank of England, and the Digital Regulatory Cooperation Forum which supports regulatory coordination in online services and cooperation on areas of mutual importance as between the CMA, ICO, Ofcom and now the FCA.

Read more about our engagement with regulatory bodies during the last year in Chapter 4.



Our Suppliers

We are committed to building a strong and innovative relationship with our suppliers and dedicated to making sure that all our contracts are carried out in full compliance with relevant procurement regulations.

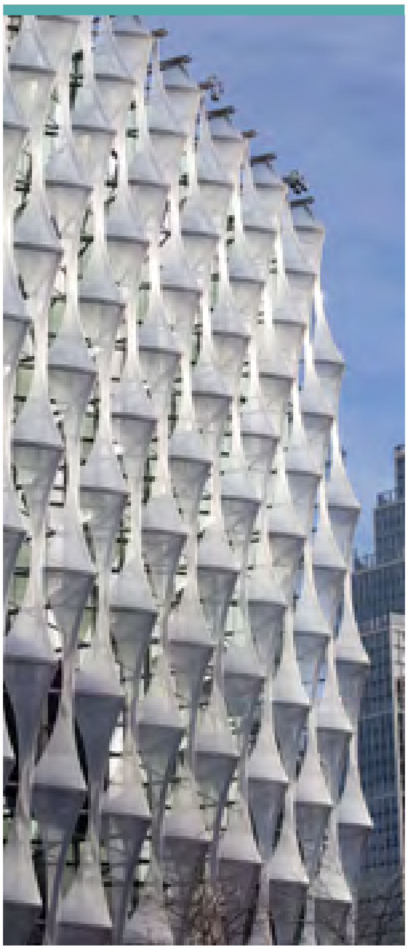
To meet our objectives efficiently and effectively, we are dependent on approximately 1,000 suppliers, providing a wide range of goods and services. How we select our suppliers and how we foster our relationships with them is essential in enabling us to perform at our best. We must be able to demonstrate that everything that we procure delivers Value for Money (VfM) for us and our stakeholders. We are also a Contracting Authority under the Public Contract Regulations 2015.

The Board delegates matters involving procurement and managing suppliers to the Chief Operating Officer (COO) in line with the Delegation of Financial Authorities. 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 its commitments
- procurement processes are built around assessing against VfM criteria
- we seek feedback from and give it to suppliers before, during and after procurement projects
- we regularly review terms and conditions to enable the delivery of VfM
- the behaviours and standards expected from our suppliers 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

In December 2021, we updated our Supplier Code of Conduct to clarify our expectations, including those on:

- climate change and the environment
- equality, diversity, and inclusion
- human rights and employment laws
- compliance with the provisions of the Modern Slavery Act 2015
- ethical behaviour and respectful treatment



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.

We aim to protect consumers and enhance the integrity of the UK financial system. But we also aim to create a positive impact in our communities and our environment. What we learn from this makes us a better regulator. The Board, together with our Executive Committee, oversees our community engagement and sustainability strategies.

The Board strongly supports community engagement at the FCA as embedding the values of our organisation, empowering our people and enriching the wider community.

Through our Corporate Responsibility programme, our people can volunteer for important causes across the UK, fundraise for our charity partners, and support local schools to develop students' skills, confidence, and resilience through our flagship Inspiring Futures programme.

We also run our 'CEO Challenge', which sees our early careers cohort work on social impact projects within our local community. Over the past 10 years, we have worked with over 40 charities and community partners.

This year saw the launch of our legal pro bono programme, which will allow lawyers working at the FCA to volunteer to provide support for community projects around the country.

In mid-2021, we welcomed our first Director of Environmental, Social and Governance (ESG) who has been mandated to embed ESG considerations, seamlessly and comprehensively, across our functions.

We are putting measures in place to ensure that we have the right arrangements and capabilities across the organisation to respond to the Chancellor's expectation that we 'have regard' to the Government's commitment to a net zero economy by 2050 in all our regulatory activities.

We are also delivering thought leadership through our role as Co-Chair of IOSCO Sustainable Finance Taskforce on issuers' sustainability disclosures and promoting global solutions to global problems.

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.

We remain committed to becoming a more sustainable organisation and minimise our impact on the environment.

At COP26, in November 2021, we published our ESG Strategy which set out our target outcomes and the actions we expect to take to deliver these across five core themes:

- Transparency – promoting transparency on climate change and wider sustainability along the value chain
- Trust – building trust and integrity in ESG-labelled instruments, products and the supporting ecosystem
- Tools – working with others to enhance industry capabilities and support firms' management of climate-related and wider sustainability risks, opportunities and impacts
- Transition – supporting the role of finance in delivering a market-led transition to a more sustainable economy
- Team – developing strategies, organisational structures, resources and tools to support the integration of ESG into FCA activities.

We are committed to 'walking the walk' on ESG issues by not imposing expectations on industry if we are not prepared to take similar steps ourselves. To that end we have published our inaugural annual Task Force on Climate-related Financial Disclosures Report alongside our 2021 / 2022 Annual Report and Accounts.

Read more about our environmental sustainability work in our annual Sustainability Report and Task Force on Climate-related Financial Disclosures Report.

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 2021/2022. In the previous section we identified these stakeholders and explained some of the ways that the Board has 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, Equality Impact Assessments (EIA), consumer surveys and other analysis tools 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 2021/2022

Board decision	
Business prioritisation	The Board approved necessary responses to the COVID-19 pandemic and implementation of financial sanctions following the Russia- Ukraine Geopolitical crisis. The Board has had to reassess its priorities and reallocate resources according to the immediate need.
FCA new employment offer	Following an extensive, wide-ranging and comprehensive consultation with all FCA colleagues and the FCA's Staff Consultative Committee, the Board agreed to a new employment offer designed to reward strong, consistent performance, aid career development and close pay gaps.
Approving changes to the regulation of the consumer investments market	The Board approved the Consumer Investments Strategy, which aims to enable consumers to invest with confidence, understand the risks they are taking and the protections they can expect.
Delivering assertive action on market abuse and increase confidence in the integrity of the UK markets.	In December 2021, the Board approved our consultation on a redress scheme under S.404 of the Financial Services and Markets Act for former members of the British Steel Pension Scheme (BSPS) who transferred their pension based on advice to transfer out of the scheme. On 31 March, a consultation paper setting out our proposals for a consumer redress scheme was published. Under this, consumers who were given unsuitable advice to transfer out of the British Steel Pension Scheme (BSPS) can have the advice they received reviewed and receive redress where unsuitable advice caused loss. We found that a high proportion of that advice was unsuitable for those consumers and caused them financial loss. We are working closely with the Financial Ombudsman Service and the FSCS to ensure outcomes for consumers are consistent and with The Pensions Regulator to continue to improve the sharing of data between organisations as set out in the Joint Protocol.
Changes to decision-making and executive procedures	In November 2021, we made changes to our Enforcement Guide (EG) and Decisions Procedure and Penalties Manual (DEPP) to streamline our decision-making and governance to enable us to be more effective and efficient in stopping harm to consumers and markets. This promotes our statutory objectives and enables us to act more decisively and swiftly where the greatest levels of harm exist.
Transition to net zero economy and a more sustainable long-term future	In mid-2021, we welcomed our first Director of ESG and leveraged the breadth of our powers and tools to embed our environmental, social and governance (ESG) work across the FCA to support the financial sector in driving positive change in these areas. In November 2021, the Board approved our ESG strategy which sets out our target outcomes and the actions we expect to take to deliver them. We are collaborating with the Government, other UK regulators, industry and other stakeholders to ensure UK financial services and the UK regulatory regime are at the forefront of ESG internationally.

Nikhil Rathi

Nikhil Rathi, Chief Executive

12. Group operational overview

This review focuses on the financial performance of the Group in 2021/22. In particular, it covers:

1. results for the year
2. analysis of income and operational costs
3. overall financial position at 31 March 2022
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 2021/22

The Group generated a £113.6m surplus for 2021/22 (see Table 1). This primarily resulted from a £56.8m increase in the pension asset recognized on the balance sheet , a net £7.4m of scope change recoveries and a £52.8m lower than planned expenditure from the fees collected for Ongoing Regulatory Activities (ORA), net of £2.4m in ORA reserves utilised.

The net increase in the pension asset is primarily due to the defined benefit pension scheme increases generated from a decrease in liabilities relating to (a) interest cost of £18.0m net of (b) actuarial gains realised and from changes in assumptions linked to the discount rate, price inflation and life expectancies of £8.4m and (c) contributions of £28.4m, and a £38.2m increase in the pension plan assets from returns on assets and actuarial gains.

Expenditure was lower than planned due primarily to (a) lower headcount, following a return to pre-pandemic levels of attrition and recruitment challenges, generating lower staff costs versus budget of £29.7m, (b) £10.3m less depreciation spend as a result of the extension of the useful life of the Intact system as part of annual accounts process and delays to the go-live dates of various projects such as End User Computing, Future Data Collection and the new Documents management system, (c) £6.2m lower IT costs (d) £10.0m of unused litigation fees, partially off-set by (e) a £3.4m overspend on professional fees, and (f) a £2.4m increase in bad debt provision.

Expenditure for Transformation and Investment Harm Campaign were variable to the associated Fees which are recovered evenly across 3 and 5 years respectively.

As a result, the Group accumulated reserves have increased by £113.6m to £121.3m (see Table 3).

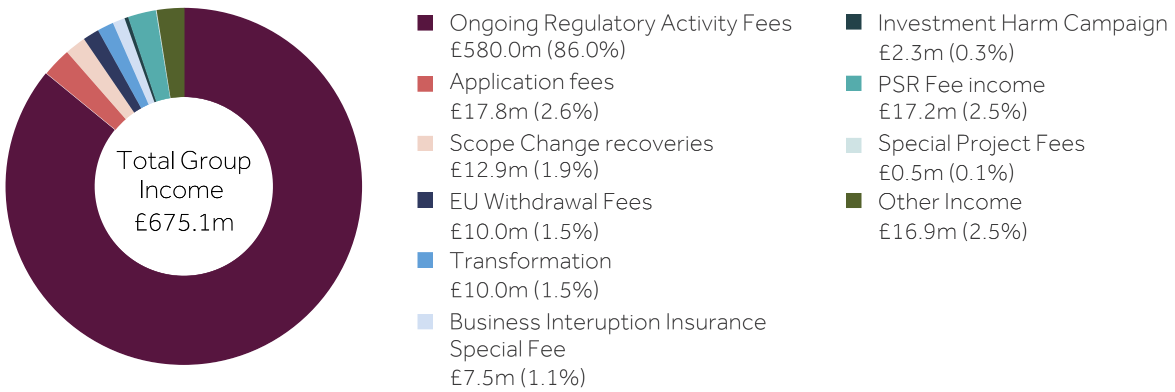
Table 1

Group Surplus/(Deficit)	2022 £m	2021 £m
Net actuarial (losses)/gains on Pension Scheme	29.0	(86.7)
Pension contribution income taken to Balance Sheet	28.2	24.0
Pension net interest on Pension Scheme liability/ (asset)	(0.4)	0.7
Total Defined Benefit Pension Scheme	**56.8**	**(62.0)**
FCA over recovery of ORA	52.8	8.4
FCA ORA Reserves Utilised	(2.4)	(14.7)
FCA over/(under) recovery of Transformation	(2.1)	5.1
FCA over recovery of Investment Harm Campaign	0.6	1.8
PSR over recovery of ORA	0.5	1.3
PSR Reserves Utilised	-	(0.2)
Net recovery of Scope Change	7.4	4.7
Total Group Surplus/(Deficit) for the year	**113.6**	**(55.6)**

Section 2 – Analysis of Income and operational costs

Income

Chart 1 – The Income breakdown 2021/22



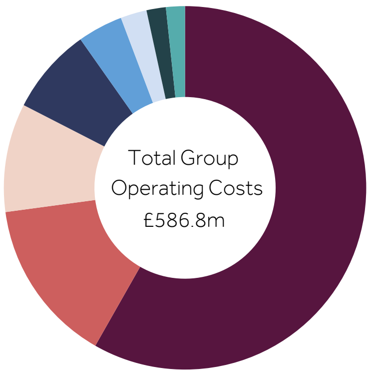
Fees: We do not receive funding from the UK government. We are funded by raising fees from the firms we regulate. FSMA gives us the powers to raise fees to cover our budgeted Ongoing Regulatory Activity (ORA). This represents the net costs of our core operating activities after offsetting Other Income.

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 providing, levying and collecting fees for other regulatory bodies.

Operational costs

Chart 2 – How we spend our money



- Staff costs £339.7 (58.0%)
- IT £85.6m (14.6%)
- Depreciation, Amortisation and Loss on Disposals £56.6m (9.7%)
- Professional fees £49.6m (8.5%)
- Accommodation and office services £24.9m (4.2%)
- PSR Costs £13.9m (2.4%)
- Recruitment, Training and Wellbeing £10.1m (1.7%)
- Travel and Other non-staff costs £5.4m (0.9%)

2.1 Transformation Programme

As we enter the final phase of our transformation journey, we continue to refine the way we operate in-line with delivering what we set out as Our Role in last year's Business Plan, which has shaped our new three-year Strategy published in April 2022. We are focused on embedding and driving delivery of the strategy by ensuring coherence, clarity and agility across the organisation to deliver against clear, measurable commitments and outcomes.

Together, we're transforming with a purpose – in a way that helps us stop and prevent serious harm, set and test higher standards and enable competition to promote positive change – in the most operationally efficient way we can.

2.2 Investing in our people

Our people and culture are at the heart of fulfilling the FCA's purpose and strategy. We carry a huge operational responsibility, and the quality of our people is the key to our success. However, the world is constantly changing and so must we. We are continually seeking to develop, optimise, enable and evolve our workforce, including our locations, to deliver to changing demands.

As we emerge from the Covid-19 pandemic, we have taken several actions to ensure our employees are able to thrive in a new hybrid world. We are also working hard to ensure that our employees remain engaged as we seek to transform into a more innovative, more assertive and more adaptive regulator.

In 2021/22 direct staff costs represented 58.2% of our operational costs and average staff numbers are shown in Table 2. Following a restructure, the staff numbers at a divisional level are not directly comparable year on year.

Table 2

Average staff numbers	2022	2021
Supervision, Policy and Competition	1,270	-
Supervision	-	1,519
Authorisations	524	-
Enforcement and Market Oversight	625	699
Strategy and Competition	-	521
Operations	665	971
Data, Technology and Innovation	481	-
Secondment, Maternity and Long-term Sick	226	228
FCA full-time equivalent employees	3,791	3,938
Payment Systems Regulator	101	103
Group full-time equivalent employees	3,892	4,041
Group temporary and contract staff	135	153
Total Group	**4,027**	**4,194**

Attracting and keeping talent

During 2021/22 we have continued to focus on attracting, identifying, and selecting the diversity of talent required to match our ambitions. We have maintained our focus on 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 in an increasingly competitive employment market.

During 2021/22 we made 1,224 appointments (1,198 FCA, 26 PSR), a combination of 850 internal moves (832 FCA, 18 PSR) and 374 external appointments (366 FCA, 8 PSR). Overall staff numbers (see Table 2) have decreased as a result of a very competitive hiring market and the return of attrition to pre-pandemic levels.

There were 58 appointments made to the Senior Leadership Team (SLT) in 2021/22. This included 5 appointments at Executive Committee level. Total SLT appointments consisted of 20 permanent appointments (11 external and 9 internal) and 38 interim appointments (27 internal and 11 external).

In 2021, we recruited 43 graduates and 24 summer interns. We have maintained a strong focus on recruiting Science, Technology, Engineering and Mathematics (STEM) graduates to our Data Science and Technology specialist schemes and continued to partner closely with a charity supporting disabled students through our recruitment process. We received over 8,500 applications for the 2021 graduate and intern programmes.

We also launched a strengths-based assessment tool tailored to the FCA for the 2021/22 recruiting cycle, which assesses potential and aims to make our selection methods more accessible to a diverse audience. We are proud that we have maintained a high level of diversity with our 2021 graduate programme hiring; 49% identify as female, 44% identify as BAME and 19% declared a disability.

We ran our targeted insight programmes the 'Black Futures Programme', aimed at levelling the field for Black students, and 'Opening Horizons' targeted specifically at students from lower socio-economic backgrounds in spring 2021. 6 candidates were extended offers for our 2022 summer internship via these insight programmes. We also recruited a further 25 apprentices for our programme in 2021. We have ranked 67th at the 2022 National Undergraduate Employability (NUE) Awards Best 100 Student Employers and are ranked 100th on The Guardian UK300 Top Graduate Employers.

With regards to turnover, this is our first year of reporting. Overall turnover was 17.3% for the FCA Group. Voluntary turnover was 15.5%, which we believe is a more meaningful metric as it relates to staff choosing to leave the business. Whilst the Mutually Agreed Resignation Scheme (MARS) agreements were in place and accrued in 2020/21, the resignation date of some employees occurred in 2021/22, which has elevated the voluntary turnover percentage this year. Without MARS, voluntary turnover was 13.6%.

Listening to our employees

Hearing the voices of employees has been key, both in the challenging post pandemic period, and as we seek to adapt to the demands placed on us as an organisation. We strive for a culture in which our people can speak openly about what has and has not gone well so that we can continuously improve as an organisation.

Our annual employee survey provides a valuable opportunity for colleagues to feedback on their day-to-day-experience of working at the FCA. In 2021 we ran our annual employee survey in January, followed up by a shorter mid-year 'pulse' survey in July. 75% of colleagues contributed to the annual survey and the pulse survey achieved a 70% response rate. This is a good indication that our people are willing to share their views.

The highest scoring survey categories in our 2021 annual were diversity (81%), corporate social responsibility (76%) and wellbeing (74%). The mid-year pulse survey in July 2021 used a subset of the employee survey questions. This was designed as an 'organisational temperature check' and colleague feedback echoed strengths in relation to diversity (with the questions related to fair treatment across disability, gender, ethnicity scoring positively) and, in addition, 73% of colleagues stating they understood how their role contributes to achieving the organisations objectives and are willing to give extra to get the job done (also 73%).

Our people also said that many were finding things tough and over half of colleagues (56%) said they needed more clarity on the rationale for change following the announcements about our Transformation agenda.

In response, our Executive Committee members held 77 ExCo Conversations sessions for colleagues across the organisation to share their thoughts, listen to views and to answer questions directly. Through the consultation about our new employment offer we had 4,500 responses via our dedicated feedback tool, 2,200 email queries, 700 comments raised in meetings and over 580 colleague questions answered on our intranet.

We recognise the value of employee feedback and believe that effective communication between colleagues and senior leaders is vital to FCA's success. 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 the capability of all colleagues across the organisation continues to be a key focus for us. Throughout 2021/22 the FCA Academy has provided a range of solutions that support short and long-term regulatory priorities, technical skills and broader soft skills development. This includes:

- Provision of virtual and online training that continues to support the remote and hybrid working environments. We delivered 2,960 virtual classroom training days over the year with 38% of colleagues attending at least one of these formal training events. A targeted approach for development was also taken throughout the year providing shorter more specific sessions for manager development and colleagues impacted by the Regulatory Reviews.
- In response to the Independent Reviews, we have delivered a range of regulatory refresher training. This additional development included topics such as financial analysis, business model analysis and using data to identify risks within firms. This was followed up with tailored case studies to help colleagues put key learning into practice. In total, 166 colleagues attending the introductory financial accounting programs; with a further 85 attending the advanced program. 149 colleagues attended the Financial Literacy training for leaders and 172 colleagues in our Authorisations Division attended a bespoke learning event to help with the holistic assessment of cases.
- Following the introduction of LinkedIn Learning we have now fully integrated the content into our HR system thereby enabling seamless access to their catalogue of online learning and videos. This has enabled colleagues to access appropriate learning more efficiently along with the ability to recommend learning to others. 45% of staff have activated their licence and across the year over 29,000 pieces of learning have been completed.
- To support the FCA transformation agenda, key projects have been introduced to identify the capabilities the organisation will need over the next 2-5 years. This will form part of a revised Capability Plan. Key work that continues to support this includes developing the data literacy of the senior leadership team; data practitioners and the consumers of data. 130 members of the Senior Leadership Team have received training since the project was initiated with a further 27 benefiting from a reverse mentoring scheme.
- The FCA continues to support the professional development of colleagues through a range of sponsored study qualifications and programs that are funded from the apprenticeship levy. The strategy to maximise the levy spend and reduce direct costs is producing some significant results. The FCA now offer 29 programs ranging from L3 (A-Levels) to L7 (Masters), which has reduced costs from £147,785 in 2020/21 to £68,800 in 2021/22. Conversely, spending via the apprenticeship levy has increased £1.2m in 2020/21 to £1.5m in 2021/22. Levy expiry has reduced from £80,575 in 2020/21 to £0 in 2021/22.
- A new People Manager Development program was launched in 2021/22 and is open to all colleagues regardless of grade. This programme provides people managers with ongoing practical guidance, thought leadership and resources to help with core management skills.

- Arranged 36 secondments to the FCA (36 FCA, 0 PSR) and 20 from the FCA (20 FCA, 0 PSR) to partner organisations. These include government and regulatory bodies including the National Economic Crime Centre and the Treasury.

Employee wellbeing

As part of our wellbeing approach, we are committed to developing a working environment that protects the physical and mental wellbeing of all. This means enabling our people to access relevant support and information to identify health risks and manage their wellbeing effectively. To do this effectively 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. Throughout 2021 we have continued to focus on post pandemic support, giving greater consideration towards colleagues' physical and mental wellbeing especially while working from home.

During 2021/22 the average days per year lost per person due to sickness absence increased to 6.7 days (2021: 4.4 days) comparable to 7.3 days in 2020, prior to the pandemic.

Rewarding our employees

In September 2021, the FCA began consulting on a new grading, pay and benefits offer to ensure that as an organisation we can retain and attract the skills we need to meet our vital objectives – protecting consumers and markets and promoting competition – for the long term and announced a new employment offer in March 2022. This new employment offer took effect from 1 April 2022 and has been designed to reward strong, consistent performance, aid career development and close pay gaps.

The discretionary performance bonuses will be removed for all employees from 2021/22, with the final bonuses paid to the highest performing FCA colleagues in April 2022. The FCA also paid colleagues meeting their performance objectives a one-off, back dated cash payment equivalent to 4% of salary in April in recognition of the changed economic environment since the consultation was launched in September last year.

In future, performance related pay will reward the strong performers who are paid less in comparison to their peers the most, helping to rebalance our overall salaries over time and narrow pay gaps. Importantly, the changes made to our pay offer advances our diversity and inclusion objectives. The result is a positive impact on the pay of younger, female and ethnic minority colleagues in particular. Changes for other protected groups, for example colleagues with disabilities, are less marked, in large part because these groups of colleagues are represented more equally at all levels across the FCA. We are determined to continue our work to ensure the FCA is the inclusive employer for all it aspires to be.

The central aim of our offer is not to cut costs. Nonetheless, our offer must be financially sustainable. That means putting our benefits on the right footing, balancing the desire to protect the benefits colleagues value the most against substantial increases in costs and considering what other employers offer.

Commitment to diversity and inclusion

Diversity and inclusion are integral to the FCA's approach, as an employer, as a regulator and as a public body. A diversity of lived experience, perspectives and thought, when empowered through an inclusive workplace culture, results in better decision making in the public interest, drives innovation and reduces the risk of groupthink.

Our Annual Diversity Report provides a detailed overview of our diversity and inclusion activities, and highlights over the last year. It also includes a breakdown of our workforce diversity data, progress against our Senior Leadership Team (SLT) and pipeline-grade gender and ethnicity targets, and information on our board and executive diversity as part of our commitment to transparency around diversity and inclusion data above and beyond our statutory obligations.

We have published full details of our gender, ethnicity and disability pay gap figures for the year ending 31 March 2022 on our external website. We continue to offer increased transparency, publishing our ethnicity pay gaps and disability pay gaps, in a firm belief that data transparency drives positive action.

2.3 Investing in our technology

We have made significant progress in our 2020 Data Strategy, which set out our vision for the use of data and analytics at the FCA centred on making better use of data to spot and stop harm faster and investing in our people, technology and innovation services to deliver this.

Deepened our understanding of markets and consumers

- We have created Data Science Units which work closely with sector experts to analyse risk, triage cases and automate processes, enabling us to detect harm more quickly to protect consumers. We have combined social media and information that is available online to increase our understanding of how firms market products and services to consumers online to help support consumers' needs first and enable them to help themselves.
- We have introduced analytical tools and are using advanced analytics and new sources of data to identify high-risk financial adverts to help spot and intervene when we see consumer harm. ,Analytics have also developed and implemented sanctions screening tools to support the monitoring of the effectiveness of a firm's controls in identifying organisations or individuals that have been sanctioned, in our support for ongoing work with domestic and international partners in response to the war in Ukraine.
- We have collected more liquidity data enabling us to monitor the risk of firm failure and act early to improve consumer protection and took action on over 100 firms since 2020 where we had concerns about the potential failure of the firm and the harm on its consumers.
- We have used web scraping to identify potential scams or newly registered domains that show the characteristics that could be used for scams or fraud. From May 2021 to April 2022, we identified 1,966 fraudulent or illegal websites, published a warning to consumers and wrote to the website's registrar to request the website be taken down.
- We have published over 40 data-led publications, to promote transparency and influence firm behaviour and help consumers make informed decisions, in areas such as complaints and mortgages,

and published the final report of the AI Public Private Forum (AIPPF), a joint initiative with the BoE and artificial intelligence (AI) practitioners to explore the practical challenges associated with the use of machine learning / AI in UK financial markets.

Becoming a digital and intelligence led regulator

- We have improved the management of our data to enable us to work quickly and efficiently with large, complex datasets and spot trends or areas for investigation through the migration our physical data centre to a cloud-based service; the development of a Data Lake to centrally store all FCA data; the implementation of the Single View analytics tool of firms used by FCA colleagues; and the creation of a new decision hub, a rules based system to store and manipulate information. increasing efficiency in case management.
- We have generated IT system cost-savings through replacing older, more inefficient systems and saved time enabling staff to work more quickly through the introduction of new analytics tools which has led to £20m of operational efficiency savings achieved.

Building an Innovation Culture

We have introduced **Innovation Pathways**. our new, unified firm service that provides tailored regulatory guidance to innovative businesses, including established firms, start-ups and tech firms; evolving our TechSprint model to support PolicySprints, to tackle complex issues that sit at the intersection of Technology, Innovation, and Finance and hosted two CryptoSprints, our first in May 2022, and virtually in June 2022.

Looking forward to 2022/23 and beyond

Continuing to improve how we use data and technology is helping us become a more innovative, assertive and adaptive regulator and will help us to achieve the aims we set out in Our Strategy 2022 to 2025 [https://www.fca.org.uk/publications/corporate-documents/data-strategy-update-2022].

We are transforming our platform, building new tools, and improving our data strategy across the entire data and technology pyramid and continuing to modernise our enterprise architecture to a cloud-based system, with strengthened security and operational resiliency. The culmination of our efforts will see the FCA as the first global financial services regulator to build a Digital Unified Intelligence Environment.

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 increased by £113.6m to £121.3m at 31 March 2022, as shown in Table 3, and primarily relates to a £56.8m increase in the pension asset/(obligation), £7.4m of net scope change recoveries and a net £50.4m increase to ORA reserves.

The FCA seeks to maintain ORA reserves between 6% and 10% of ORA expenditure, which may be flexed based on the FCA Board's assessment of risk and economic circumstances. Whilst in 2021/22, we utilised reserves to fund costs associated with Regulatory Failure reviews, at 31 March 2022, the FCA's ORA reserves of £98.2m or 17% of ORA expenditure, exceeded the upper threshold limit of 10%.

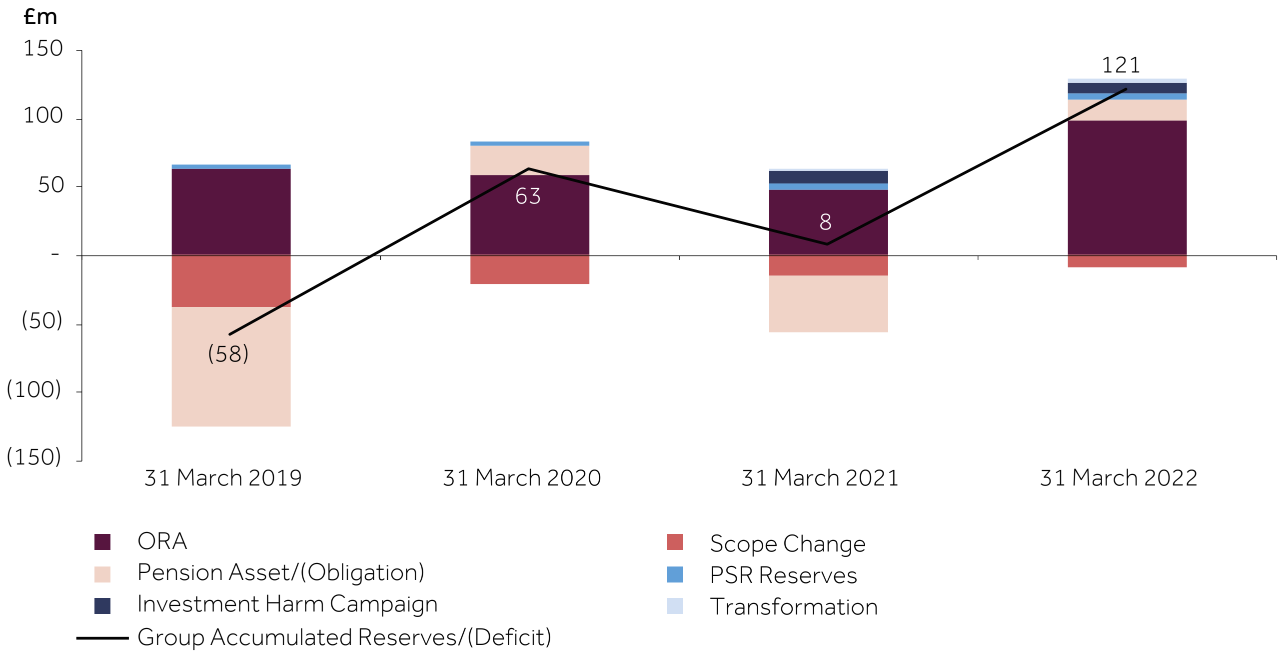
The ORA reserves reflect the Board's continued commitment to invest in the FCA's technology and operations, underpinned by the Transformation programme and our three year strategy, as published in our Business Plan. All fees raised through the AFR support our planned programme of work although timing of this spend does not always exactly match to the period in which fees are levied. 2021/22 saw a lower cost mobilisation phase and providing the planning to achieve our strategic aims whilst the remainder of the spend will be seen through 2022/23. In addition, this ensures firms do not see high volatility in fees and the utilisation of ORA reserves over the three year strategy, targeting towards the upper threshold limit of 10%. Whilst ORA reserves have always fluctuated within the threshold it is more pronounced in this period due to the spend profile of the project portfolio.

Table 3

	FCA							PSR	Group
RESERVES	Ongoing Regulatory Activities (ORA) £m	Transformation £m	Investment Harm Campaign £m	Scope Change £m	Accumulated Reserves £m	Pension Asset (Obligation) £m	Total Accumulated Reserves £m	Accumulated Reserves £m	Accumulated Reserves £m
At 31 March 2020	59.1	-	-	(20.0)	39.1	20.7	59.8	3.5	63.3
Over recovery against budget	8.4	5.1	1.8	-	15.3	-	15.3	1.3	16.6
ORA Reserves Utilised	(14.7)	-	-	-	(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	-	4.7
Pension movement	-	-	-	-	-	(62.0)	(62.0)	-	(62.0)
At 31 March 2021	47.8	10.1	1.8	(15.3)	44.4	(41.3)	3.1	4.6	7.7

	FCA							PSR	Group
RESERVES	**Ongoing Regulatory Activities (ORA) £m**	**Transformation £m**	**Investment Harm Campaign £m**	**Scope Change £m**	**Accumulated Reserves £m**	**Pension Asset (Obligation) £m**	**Total Accumulated Reserves £m**	**Accumulated Reserves £m**	**Accumulated Reserves £m**
Over/ (under) recovery against budget	52.8	(2.1)	0.6	-	51.3	-	51.3	0.5	51.8
ORA Reserves Utilised	(2.4)	-	-	-	(2.4)	-	(2.4)	-	(2.4)
Net Scope Change recoveries	-	-	-	7.4	7.4	-	7.4	-	7.4
Pension movement	-	-	-	-	-	56.8	56.8	-	56.8
At 31 March 2022	98.2	8.0	2.4	(7.9)	100.7	15.5	116.2	5.1	121.3

Reserves Balance 2019-2022



The Scope Change deficit of £7.9m 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 Crypto-Asset Regime / 5th Anti-Money Laundering Directive (5AMLD) (Table 4).

Table 4

Scope Change	Consumer Credit £m	MIFID[1] £m	SM&CR[2] £m	EU Withdrawal £m	Claims Management £m	Crypto-Assets/ 5AMLD £m	Funeral Plans £m	Financial Promotions £m	Other[3] £m	Total £m
At 31 March 2020	4.4	(0.3)	9.5	5.5	(3.0)	1.6	0.1	-	2.2	20.0
2021 costs	-	-	1.1	0.7	4.2	2.6	1.4	-	0.1	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	1.5	-	2.3	15.3
2022 costs	-	-	0.1	-	-	3.0	2.1	0.3		5.5
2022 recoveries	-	-	(4.4)	(6.2)	-	-	-	-	(2.3)	(12.9)
At 31 March 2022	-	-	(0.9)	-	(1.6)	6.5	3.6	0.3	-	7.9

1. Markets in Financial Instruments Directive.
2. Senior Managers & Certification Regime.
3. This relates to EU Benchmarks (£1.9m) and Securitisation Repositories (£0.4m)

Penalties collected on behalf of the Treasury

We collected penalties of £354.7m (2020: £189.9m) payable to the Treasury, of which £33.3m were issued by the PSR (2020: £0.0m). Of the penalties received, £247.3m (2020: £128.7m) were paid to the Treasury, with £52.1m payable at 31 March 2022.

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:

- Economic risks: The current economic outlook and the risks for the financial services sector are heavily affected by global uncertainties and the Bank's and government's monetary and fiscal responses. The UK is in the midst of a cost-of-living crisis, the depth of which remains uncertain, particularly if the war in Ukraine continues to impact on global energy and food prices. Risks are likely to arise on both the supply and demand side. Firms may face increasing pressures on their financial resilience and may respond to financial pressures through increased risk of poor conduct and/or by retrenching from more risky consumers, for example by withdrawing products or changing their terms and conditions resulting in increased levels of financial exclusion. On the demand side, the cost of living crisis could result in consumers experiencing increased levels of financial distress and finding it harder to service existing debt. There is a risk that consumers respond to this by seeking to take on unaffordable credit, accessing pensions earlier than anticipated and/or withdrawing insurance, leading to under or no insurance.
- Capital and liquidity: Firms with weak financial resilience are more likely to fail, especially during periods of increased economic stress where operating costs, including the cost of funding/borrowing, are accelerating. 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 ability to 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. This includes the potential supply chain impacts of the current environment and the additional pressure this may place on the operational resilience of firms who are unable to obtain necessary equipment or infrastructure. 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, Anti Money Laundering, Sanctions and Terrorism Financing). We are committed to ensuring that the UK financial services industry is a hostile environment for financial crime. The current situation in the Ukraine has seen a marked increase in economic sanctions, with significant additional work needed to ensure the entire financial services industry complies with these requirements. There is a risk of continued growth and new developments in online and other scams and fraud, which harm consumers and markets. The cost of living crisis also makes more consumers vulnerable to fraud, such as loan fee fraud. As financial crime evolves, there is also the risk that regulated firms fail to implement or maintain robust systems and controls to counter the risk of evolving 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. There is 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 firms and markets either cannot or do not support the transition to a net zero economy and a more sustainable future, including failure to appropriately consider and disclose the impacts of climate change as part of their activities and to promote active investor stewardship. Further, the risk that firms fail to make high-quality climate and wider sustainability-related disclosures, resulting in inaccurate market pricing and an inability by consumers and market participants to confidently choose sustainable investments and drive fair value. In addition, the risk that consumers lack trust in ESG-related products and services, cannot get relevant, targeted key information on them and are not protected from mis-leading marketing and disclosure (including 'greenwashing').
- 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.
- People: The current environment for recruitment results in Financial services firms being unable to recruit and retain appropriately qualified skilled resources in order to undertake activities to an appropriate standard increasing the risk of service interruption and poor outcomes for consumers.
- Future Regulation: The Financial Services and Markets Bill is large and includes a significant number of provisions relevant to the FCA, including HMT's Future Regulatory Framework (FRF) review. As with any Bill, Parliament may decide to make changes during its passage which could change the responsibilities and expectations on the FCA and, whilst we will seek to manage this risk through a proactive Bill engagement strategy, this risk cannot be fully mitigated. The implementation of the resultant changes will take a significant period, and throughout there is a risk that the opportunities afforded for the UK are not appropriately capitalised.

Internal Risks:

Balancing our priorities and resources across the breadth of a fast-moving financial services industry and an expanding perimeter 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, work is required in areas to revisit existing activities and strengthen them where appropriate further enabling 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 materialises this usually means that the FCA has failed to reduce or prevent 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, including where changes to the regulatory perimeter or new regimes are not implemented effectively, 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, or that existing powers are not used appropriately or assertively.
- The risk of inaction or delayed action: the risk that the FCA fails to identify and/or act with sufficient speed, agility or assertiveness on information available to it to prevent harmful activities including fraud and/or scams by applicants for authorisation or 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/or markets within which they operate; or 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 which 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 appropriately ensure the ongoing integrity of our data or fail to appropriately 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 results in the organisation not operating efficiently and effectively and/or fails to meet expectations.

Financial risks:

Revenue and collections risk: The potential for firm failures and/or reduced revenues generated by firms as a result of the current environment may impact the collection of fees and future fee income.

Pension assets / (obligations) risk: The risk that a movement in Pension Plan's asset values is not matched by a corresponding movement 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 obligation will fluctuate due to changes in life expectancies, market volatility of bond yields and inflation.

Liquidity: 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 and PSR's ability to deliver against our objectives due to diminished levels of public confidence, a reduced ability to influence 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.

13. Directors' report and corporate governance statement

Directors' report

The directors present their report for the year ended 31 March 2022.

Some information that fulfils the requirements of the Directors' report can be found elsewhere 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 Figure 2 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 11) and Corporate Governance Statement (see page 109-125) to explain how they have performed this duty. This includes details of how the directors have engaged with employees and external stakeholders, including consumers, regulated and other businesses, the communities we operate in, community leaders and parliamentarians, domestic and international regulators, and our suppliers during the year.

The FCA publishes a number of additional reports, alongside the annual report. These include: our annual Sustainability Report and inaugural Task Force on Climate-related Financial Disclosures Report, which set out our environmental sustainability work; and our annual Diversity Report, which provides an overview of our diversity and inclusion activities.

In addition, the FCA's business plan 2022/23 explains our programme of work for the next 12 months and can be found on our website.

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 United Kingdom. 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 United Kingdom, 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.

Going concern and key financial risks

In preparing the FCA and PSR financial statements, the directors have performed a going concern assessment which covered the period from April 2022 to March 2025. This included a robust assessment of the key emerging and principal risks, taking into consideration the latest FCA's Business Plan. The risks and uncertainties identified are set out below:

1. **Liquidity risk:** The FCA is currently well placed from a liquidity perspective, with cash deposits of £285.0m at 31 March 2022 and an available overdraft facility of £100m, sufficient to meet its short term payment obligations when due or otherwise fund its ongoing operations. The PSR has cash deposits of £10.8 million, which are ring-fenced within the FCA total.

2. **Cash flow risk:** can be assessed by looking at the following 3 key areas:

   a. The FCA's current liquidity position reflects (i) cumulative scope change costs (£7.9m), (ii) the continued cash contributions to reduce the pension scheme deficit, (iii) the funding of capital expenditure which is recovered over the useful economic lives of the assets rather than when the expenditure is incurred, and (iv) the potential to make ex gratia compensatory payments to remedy complaints under the Complaints Scheme.

   b. The FCA's net pension surplus of £15.5m at 31 March 2022 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 49.1% of those fees (2021: 50.2%).

3. **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 0.40% of fees receivable over the last three years. Taking into account the 2021/22 invoice collection, however, the average bad debt increased to 0.70%, mainly reflecting an increase in the number of firms which were marginally impacted by the Covid-19 pandemic and current economic conditions.

   b. Brexit has had a minimal impact on 2021/22 fee rates from firms moving some of their business outside the UK. The impact on 2022/23 fees will therefore depend on whether firms have continued to move part of their operations outside the UK and reduce the tariff data they report for the calendar year ending 31 December 2021.

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

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

The identification and mitigation of risk is overseen by the Risk Committee and the associated procedures are described in more detail in the Internal Controls section of the Corporate Governance Statement (page 109).

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.

Events after the reporting period

There were no material events after the reporting period.

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, the FCA does 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 2022 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 14 July 2022

Miles Bake – Company Secretary

Corporate governance statement

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.

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 (see Chapter 11).

We are open and accountable to the public through our Annual Report, our Annual Public Meeting and our broader engagement programme. 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 Parliament through a number of its select committees.

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, except for the Code's requirement to include a statement regarding going concern and longer-term viability. Due to the statutory framework set out in the FSMA for the FCA and the FSBRA for the PSR which enables the ability to raise fees to recover the costs of carrying out our statutory functions, the Board considers the requirement to include an explanation of how it has assessed the prospects of FCA and the PSR and any related disclosures under provision 31 of the UK Corporate Governance Code is not applicable.

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:

1. 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

2. Making strategic decisions about our future operation
3. Overseeing the executive management of our day-to-day business
4. Setting appropriate policies to manage risks to our operations and the achievement of our regulatory objectives
5. Seeking regular assurance that our system of internal control is effective in managing risks
6. Maintaining a sound system of financial control
7. 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
8. 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
9. 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 Figure 1 and the membership of them is provided in Figures 4-9.

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.

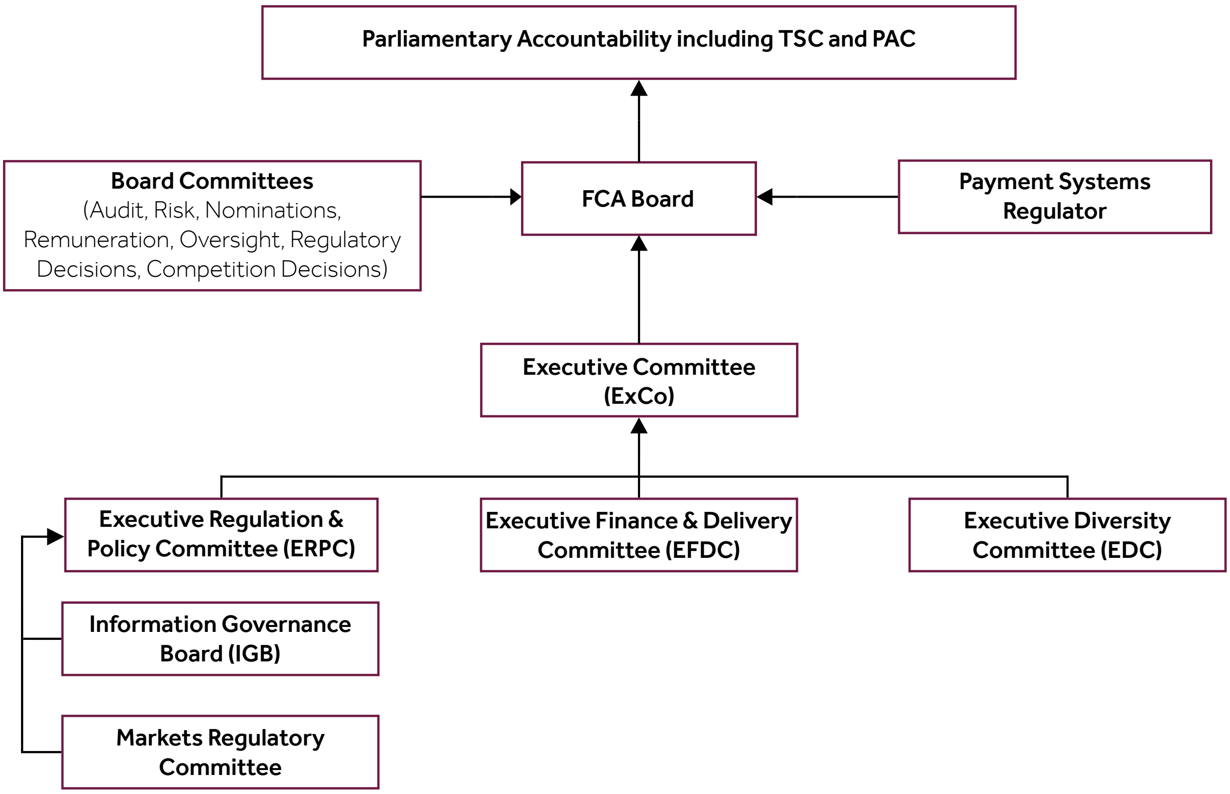
There are several other committees that report directly or indirectly to ExCo, including the:

- 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 (disbanded 31 March 2022).
- Executive Finance and Delivery Committee - which takes decisions on spending and delivery on all programmes, projects, and cross-cutting work packages, and receives regular performance reviews from each Division (established 01 April 2022)
- 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 (disbanded 1 July 2021).

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

***Figure 1 - the FCA's governance framework*[1]**



1 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 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 Figure 2.

Figure 2 - Board members during the reporting year

Name	Original appointment date	Expiry of current term/date membership ceased
Liam Coleman Non-Executive Director	05/11/19	04/11/22
Bernadette Conroy Non-Executive Director	06/04/20	05/04/23
Jeannette Lichner Non-Executive Director	01/04/20	31/03/23
Richard Lloyd Non-Executive Director - Senior Independent Director Non-Executive Director - Interim Chair (from 1 June 2022)	01/04/19	31/03/25
Alice Maynard Non-Executive Director	05/11/19	04/11/22
Charles Randell[2] Chair (until 31 May 2022)	01/04/18	31/05/22
Nikhil Rathi Executive Director – Chief Executive	01/10/20	30/09/25

2 Charles Randell also served as the Chair of the PSR Board until 31 March 2022 and a non-executive director until 31 May 2022.

Name	Original appointment date	Expiry of current term/date membership ceased
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

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.

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 was the Senior Independent Director.

The Board aims to ensure it has a diverse membership, with three out of nine Board members identifying as women and one Board member being from a minority ethnic background. 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.

The Annual Diversity 2021/22 report sets out how the FCA has progressed in relation to improving diversity and inclusion, including meeting the targets set out in our recent Policy Statement on the diversity of boards of listed companies.

Charles Randell will step down as Chair on 31 May 2022 and had no commitments in addition to his chairmanship of the FCA and PSR. The search for the next chair of the FCA is underway but, whilst this search for a permanent successor concludes, Richard Lloyd OBE will act as interim chair of the FCA from 1 June 2022. Richard Lloyd is also chair of the Independent Parliamentary Standards Authority and vice-chair of the Money and Mental Health Policy Institute.

As an executive member of the Board, Nihkil Rathi has a continuous employment contract[3] with the FCA, subject to a six-month notice period.

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.

3 Nikhil Rathi is subject to a five-year employment contract, effective from 1 October 2020, which may be extended by Treasury.

Figure 3 - meeting attendance by Board members during the reporting year

Name	Scheduled board meetings	Additional board meetings
Charles Randell (Chair)	11/11	7/7
Liam Coleman	11/11	5/7
Bernadette Conroy	10/11	7/7
Jeannette Lichner	11/11	7/7
Richard Lloyd	11/11	5/7
Alice Maynard	11/11	7/7
Nikhil Rathi	11/11	7/7
Tommaso Valletti	10/11	4/7
Sam Woods	11/11	1/7

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 considered by 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:

- Overseeing the organisation's Transformation Programme including the FCA's approach to hybrid working, the staff consultation and approving proposals relating to the new employee offer;
- Overseeing the FCA's approach to the evolving situation in Russia and Ukraine
- Overseeing the FCA's engagement with the development of the Future Regulatory Framework
- Reviewing, challenging, and approving the business priority strategies;
- Approving major policy initiatives;
- Approving the FCA's approach to strengthening its governance of environmental issues
- Overseeing the FCA's response to independent reviews, as well as those carried out within the FCA, and the work to address them;

- 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.

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 Board members, as necessary.

Simon Pearce stood down as Company Secretary on 23 March 2022 and was succeeded by Miles Bake.

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 Treasury on future appointments.

Board induction and training

On joining, Board members 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 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 Board members 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 was commissioned again this year.

The Board commissioned Advanced Boardroom Excellence to conduct an evaluation of the Board between May and July 2021. The Board discussed the Board review at a meeting in October 2021. The Board welcomed the review and continues to discuss how best to implement its recommendations in the context of the government's Future Regulatory Framework review and a change in Chair from 01 June 2022.

In an environment where the responsibilities of the regulator are increasing and its remit widening, the Board particularly notes the Evaluation's recommendation to Treasury that the size of the Board be increased by at least one director.

Conflict of interests

All Board members are required to declare relevant interests in accordance with the FCA's conflict of interest policies. 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 the Conflict of Interests Policy for Non-Executive Directors in February 2019.

Internal controls

The internal control framework is designed to provide reasonable assurance about the adequacy and 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 and operational 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:

- Clear reporting lines, delegated authorities and escalation routes, which are reviewed on a regular basis;
- Appropriate policies and procedures included in the employee handbook and other manuals;
- Systems which are used to record all internal and external risks faced by the organisation, together with relevant supporting information;
- Regular reporting to Executive and Board oversight committees at various levels that highlights the key internal and external risks faced. This supports discussion on the best course of action to mitigate and manage key risks that helps senior managers make decisions on priorities and resource allocation;
- The FCA's Executive Committee and Executive Operations Committee/Executive Finance and Delivery Committee regularly reviews reports that highlight key risks and related matters. The view from the Executive Committee, and other forums, on key risks is reported to the Risk Committee and Audit Committee as appropriate;
- Board members, directors and senior managers regularly demonstrating to all staff their commitment in maintaining an appropriate control culture across the FCA;
- The Risk & Compliance Oversight Division regularly providing second line opinions to Executive and Board level committees on key risks and controls and undertaking various assurance activities in line with their pre-agreed plan;
- The Internal Audit Division providing independent assurance about the effectiveness of risk management and controls to the Board via the Audit Committee;

- 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; and
- Clear segregation between the FCA's regulatory function and the FCA's 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, including, but not limited to, changes in firms' business models and consumer behaviour, partly due to the speed of digitisation and making sure consumers receive the information they need in the right way, so they can make the best decisions for themselves;
- the continuing internal and external impact of the coronavirus pandemic;
- the rapidly evolving geopolitical and macroeconomic environment as a result of the invasion of Ukraine by Russia and the actions taken by a range of countries in response, exacerbating the impact of the pandemic.
- any extended period of increased inflation and interest rates will place (significant) additional challenges on consumers, and most notably those experiencing financial hardship, as well as firm resilience;
- the findings from the two previously published Independent Reviews, and the three Independent Reviews which were published in this reporting period;
- the ongoing expansion of the regulatory perimeter, and differences in the perimeter between different regulators; and
- the nature and extent of the internal changes as a result of the FCA's transformation programme, and recently published three-year Strategy, including the 13 external commitments and associated outcomes and metrics.

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

The identification and mitigation of risk is overseen by the Risk Committee, with the effectiveness of the control framework 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 continues to require further strengthening to respond to the organisation's changing 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, resilience and information security;
- the use of accurate data and intelligence and other information to drive joined-up regulatory activities across authorisation, policy, supervision and enforcement, focused on the whole firm;
- workforce planning in light of the changing needs of the organisation;
- operating effective and efficient quality assurance processes;
- the other changes required to meet the recommendations and lessons from the Independent Reviews, including record keeping;
- 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 delivered by the activities of the FCA; and
- the impact of changes in the organisation's Target Operating Model
- noting the need to keep these under constant review.

Regular reports from the three lines of defence were received by the Audit Committee and Risk Committee during the period. The Audit Committee received and reviewed reports from: the Risk & Compliance Oversight function on various compliance related matters, the outcomes from complaints handling, and various other activities; and the Director of Internal Audit which included outcomes of reviews into whistleblowing disclosures, executive summaries of internal audit reviews, themes identified from internal audit reviews, work undertaken and outstanding audit findings. The Audit Committee also received regular updates on the work of the National Audit Office (NAO) as our external auditor.

The Risk Committee also received reports on the risk environment from all three lines of defence. This included the outputs of assurance reviews, oversight activities, including of the Transformation Programme, incident & event reports, and other relevant second line opinions from the Risk & Compliance Oversight Division. Both committees and the Board also received regular updates on the Independent Reviews, prior to them being published and the progress on actions taken by first line management in response, together with the outcome of assurance work on those actions to demonstrate their adequacy and effectiveness.

Financial risks such as credit risk and liquidity risk are monitored on an ongoing basis and mitigations put in place to minimise 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, including through the work of the second and third lines of defence and the NAO, 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 other activity undertaken in the period.

Board Committees

The Board committees also met frequently during the year and, where necessary, addressed matters by written procedure. Such matters were noted at the subsequent meeting and recorded in the respective minutes.

The terms of reference for each committee is reviewed periodically and detailed in the Corporate governance of the Financial Conduct Authority document, which is published on our website. The committees reflect on the effectiveness of their activities at the end of each meeting.

Membership of Board committees consists solely of non-executive directors and information on each committee's membership is published on our website and is detailed in figures 4-9 below. These figures also include details of members' attendance at committee meetings during the reporting year. For those members identified, the figures reflect the number of meetings available for them to attend, given that their term began or ended part way through the reporting year.

Audit Committee

The Audit Committee is responsible for reviewing and providing assurance to the Board on matters including: the effectiveness of our internal controls; complaints management; 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.

The Board's statement on internal controls, above (see page 116) 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 annual internal audit plan and its delivery;
- reviewing the organisation's internal financial controls systems and monitoring financial risks;
- monitoring the integrity of the financial statements;
- reviewing significant financial reporting judgements contained within the financial statements;
- reviewing the long-term strategy for the Defined Benefit section of the FCA's pension plan
- reviewing the National Audit Office's (NAO) audit plan and reports;
- reviewing the effectiveness of the NAO's audit process based on assessment criteria relating to the quality of the audit, the handling of key judgements and the responses to questions from the Committee;
- reviewing internal audit reports and reports on certain incidents and events during the year;
- 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

Figure 4 - meeting attendance by Audit Committee members during the reporting year

Name	Scheduled meetings	Additional meetings
Liam Coleman (Chair)	5/5	3/3
Bernadette Conroy	5/5	3/3
Jeannette Lichner[4] (from 01/02/22)	1/1	0/0
Richard Lloyd[5] (until 01/12/21)	4/4	3/3
Simon Ricketts[6]	4/5	3/3

The Committee also oversees the FCA's relationship with the external auditor, the National Audit Office (NAO). Information on fees paid to the auditor is given on page 161.

The Committee met on eight occasions during the year, with meetings scheduled to coincide with the risk reporting and external audit cycles. Six 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. In addition, the Joint Audit and Risk Committee received regular updates relating to the Transformation Programme and overseeing the implementation of the regulatory review action plans.

Figure 5 – meeting attendance by Joint Audit and Risk Committee members during the reporting year 7

Name	Scheduled meetings
Liam Coleman	6/6
Bernadette Conroy	6/6
Jeannette Lichner	6/6
Richard Lloyd[8] (until 01/12/21)	4/4
Alice Maynard	6/6
Simon Ricketts[9]	6/6

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

4 Reflects the number of meetings available to attend
5 Reflects the number of meetings available to attend
6 Simon Ricketts is a non-executive director of the Payment Systems Regulator
7 The Chairs of the Audit Committee and Risk Committee alternate chairing these meetings
8 Reflects the number of meetings available to attend
9 Simon Ricketts is a non-executive director of the Payment Systems Regulator

The functions of the PSR's Audit Committee are carried out by the members of the Audit Committee. The Committee therefore reviews and provides assurance to the PSR's Board on relevant matters.

Risk Committee

The Risk Committee has responsibility for the review and oversight of the risks 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 their potential impact. 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 risk management framework
- reviewing and approving the annual risk and compliance operational and assurance plan
- reviewing the effectiveness of risk identification and mitigation, including the potential for unintended consequences of FCA interventions
- overseeing the implementation of the Directory and Register Enhancements project
- reviewing the risks highlighted by independent review reports
- reviewing risks associated with the: LIBOR transition programme; the Covid-19 pandemic; the FCA's involvement with government Covid lending schemes; the FCA's business planning and prioritisation process.

Figure 6 - meeting attendance by Risk Committee members during the reporting year

Name	Scheduled meetings
Bernadette Conroy [10] (Chair from 01/12/21)	1/1
Liam Coleman	5/5
Jeannette Lichner	4/5
Richard Lloyd (Chair until 01/12/21)	4/4
Alice Maynard	5/5

The Committee met on five occasions during the year. The Committee also attended six joint meetings of the Risk Committee and Audit Committee, as detailed above.

The Chief Operating Officer, the Executive 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.

10 Reflects the number of meetings available to attend.

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 Executive 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 other senior executives who fall within the scope of the Senior Managers Regime. 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: monitoring progress of the staff consultation and reviewing proposals relating to the new employee offer; approving the annual budget for pay and performance awards; and approving the remuneration of the executives within its remit.

An overview of the remuneration framework that applied during 2021/22 is set out in the Remuneration Report.

Figure 7 - meeting attendance by Remuneration committee members during the reporting year

Name	Scheduled meetings	Additional meetings
Charles Randell	6/6	3/3
Alice Maynard (Chair)	6/6	3/3
Liam Coleman	5/6	3/3
Bernadette Conroy	6/6	3/3
Jeannette Lichner	6/6	3/3

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 met on nine occasions during the year, more frequently than in previous years, in response to the staff consultation.

The functions of the PSR's Remuneration Committee are carried out by the members of the Remuneration Committee. The Committee therefore reviews and provides assurance to the PSR's Board on relevant matters.

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 executives within its remit; supporting non-executive director recruitment, this year including the recruitment of an interim and permanent chair; agreeing changes to the senior executive structure; and considering succession planning for senior executives.

Figure 8 - meeting attendance by Nomination Committee members during the reporting year

Name[11]	Scheduled meetings
Charles Randell (Chair)	4/4
Liam Coleman	3/4
Bernadette Conroy	4/4
Jeannette Lichner	4/4
Richard Lloyd	4/4
Alice Maynard	4/4
Tommaso Valletti	3/4

The Committee met on four occasions during the year.

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;
- 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 following its periodic review;

11 The Committee consists solely of non-executive directors, with the exception of the Bank of England's Deputy Governor for Prudential Regulation.

- 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.

Figure 9 - meeting attendance by Oversight Committee members during the reporting year

Name	Scheduled meetings	Additional meetings
Richard Lloyd (Chair)	4/4	1/1
Jeannette Lichner	4/4	1/1
Sheldon Mills[1]	3/4	1/1
Charles Randell	4/4	1/1

The Committee met five times during the reporting period.

Our Statutory Panels

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

More detail about how we engage with these Panels can be found on page 19 and the s172 statement (see Chapter 11).

Regulatory Decisions Committee

The Regulatory Decisions Committee (RDC) takes certain regulatory decisions on behalf of the FCA that relate to enforcement actions.

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 enforcement powers. These include the power to stop individuals performing roles in relation to regulated financial services and levying fines on firms or individuals 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 Enforcement team 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 Enforcement team. The RDC reviews this material and, in most cases, seeks the views of the relevant firm or individual, before coming to a final decision.

1 Sheldon Mills attends the committee as Nikhil Rathi's nominee, as per the terms of reference.

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 2022 can be found in Appendix 3 of this report.

Competition Decisions Committee

The Competition Decisions Committee (CDC) 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 any such an infringement, other than in settlement cases.

by order of the Board on 14 July 2022

Miles Bake – Company Secretary

14. 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 relevant markets, taking account of both private and public sector comparators and differences between London and other markets in the UK outside London, whilst specifically ensuring that we remain towards the top (if not at the top) of all public authorities or enforcement agencies in the UK in terms of our overall remuneration package. 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 includes:

- basic pensionable salary
- core benefits and flexible benefits
- a non-contributory defined contribution pension scheme[1]

Remuneration focus for 2021/22

We continued to focus on rewarding those who:

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

The impact of coronavirus and wider economic conditions resulted in a need to make some short term changes in our approach. The Executive Directors and the FCA Board decided in February 2021 not to increase employee 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, in total 6% of eligible employees received a salary increase.

1 A small number of employees have deferred final salary savings and defined pension contributions. The final salary section of the pension scheme closed to future accruals in April 2010.

We also reduced the funding available for the discretionary performance bonus scheme and prioritised awards for the highest performers below Director level. The amounts paid were based on a fixed value as calculated as a percentage of the average salary for each grade. These started 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. As this was a set value for each grade, the actual bonus percentage awarded was between 8% – 11%. The actual amount spent was 9.8% of average salaries. The bonus scheme has now been withdrawn and the last awards were paid in April 2022 for the performance year 2021/22.

The distribution of discretionary bonus awards is shown in Table 5.

Table 5: FCA bonus awards distribution[1]

2021/22		2020/21	
Bonus percentage awarded	**Percentage of workforce awarded a bonus**	**Bonus percentage awarded**	**Percentage of workforce awarded a bonus**
0%	75.3%	0%	0.6%
0.1-5%	0.4%	0.1-5%	0.1%
5.1-9.9%	23.8%	5.1-9.9%	50.4%
10-14.9%	0.5%	10-14.9%	47.3%
15-19.9%	0.0%	15%-19.9%	1.6%
20-24.9%	0.0%	20-24.9%	0.0%
25-30%	0.0%	25-30%	0.0%

1 Bonuses are paid annually in April immediately after the performance year.

Remuneration focus for 2022/23 onwards

We began consulting in September on a new grading, pay and benefits offer to ensure we can retain and attract the skills we need to meet our vital objectives – protecting consumers and markets and promoting competition – for the long term.

The FCA announced the new employment offer in March 2022 www.fca.org.uk/publication/corporate/fca-employment-offer.pdf. The new employment offer is designed to better reward strong, consistent performance, aid career development and close pay gaps.

As part of the employment offer, around 900 of the FCA's lower paid colleagues received an average salary increase of £3,575 to bring them to the minimum of a new pay benchmarks. With other salary increases and performance related pay, these colleagues received an overall average of nearly £6,500 and higher pension contributions and flexible benefits as a result of the increase. In addition, approximately 85% of colleagues who meet their performance targets, received salary increases of at least 5% this year and a commitment has been made for 4% in 2022/23, with a 7% average in Year 1 and 12/13% average over 2 years. Those who have not met their objectives this year will be given assistance to meet their performance objectives. These numbers are based on actual changes to salary which have been updated since we published our final employment offer document.

The FCA also paid colleagues who met their performance objectives a one-off, backdated cash payment equivalent to 4% of salary in April 2022 in recognition of the changed economic environment since the consultation was launched in September 2021. Originally this amount was 2%, this doubled to 4% after taking account of feed back provided during the consultation process. The distribution of backdated pay is shown in Table 6.

Table 6

Grade	Percentage of workforce who received 4% backdated pay
Administrator	87.3%
Associate	87.8%
Technical Specialist	85.7%
Manager	89.5%
Head of Department	86.5%
Directors	0.0%
Executive Directors	0.0%
Total	**87.7%**

We have increased our funding for our in the moment At our Best (AoB) recognition programme from £0.3m to £1.0m from April 2022.

In future, performance related pay will reward the strong performers who are paid less in comparison to their peers the most, helping to rebalance our overall salaries over time and narrow pay gaps. Importantly, the changes we are making to our pay offer advances our diversity and inclusion objectives. The result is a positive impact on the pay of younger, female and ethnic minority colleagues in particular. Changes for other protected groups, for example colleagues with disabilities, are less marked, in large part because these groups of colleagues are represented more equally at all levels across the FCA. We are determined to continue our work to ensure the FCA is the inclusive employer for all it aspires to be.

The central aim of our offer was not to cut costs. Nonetheless, our offer has to be financially sustainable. The performance related pay will also ensure that colleagues who perform to our core standards and outperform them will continue to progress through our pay ranges. We are introducing new London and National pay ranges as we aim to double our presence in Edinburgh and establish an office in Leeds. Doing so reflects differences in regional labour markets and is aligned with the approach of many other public and private sector employers. That required putting our benefits on the right footing, balancing the desire to protect the benefits colleagues value the most against substantial increases in costs and considering what other employers offer. We have made changes to our health care insurance and also our dependants' pension provision.

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

Basic pensionable salary

SMR Executive Directors received no salary increase this year.

Performance bonus

During the period under review, from 1 April 2021 to 31 March 2022, the SMR Executive Directors were not eligible to be considered for performance-related bonus award as this element of reward was removed from the Executive Directors' package from 1 April 2021.

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. Christopher Woolard was a member of the Plan.

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

Non-Executive Directors

Non-Executive Directors receive a fee for their service (see Table 7), 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 2022 and 2021. The remuneration figures shown are for the period served as Board Directors.

Table 7

	Basic salary		Discretionary performance bonus		Other benefits		Total FCA Remuneration (excluding pension)		Pension		Total FCA Remuneration	
	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Chair												
Charles Randell[1]	170	170	-	-	-	-	170	170	-	-	170	170
Executive Directors												
Nikhil Rathi[2]	455	228	-	-	-	-	455	228	60	29	515	257
Christopher Woolard[3]	-	239	-	-	-	-	-	239	-	15	-	254

	Group Fee Paid		FCA Fee Paid	
	2021/22	2020/21	2021/22	2020/21
Non-Executive Directors[4]	£'000	£'000	£'000	£'000
Catherine Bradley[5]	-	15	-	15
Liam Coleman[6]	45	42	45	42
Bernadette Conroy[7]	38	35	38	35
Baroness Hogg[8]	-	22	-	22
Jeannette Lichner[9]	35	35	35	35
Richard Lloyd[10]	52	50	52	50
Alice Maynard[11]	45	40	45	40
Tommaso Valletti[12]	43	43	35	35
Sam Woods[13]	-	-	-	-

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. Charles stepped down as Chair of the FCA Board on 31 May 2022 and the Chair of the PSR Board on 31 March 2022.

Executive Directors of the FCA

2. Nikhil Rathi was appointed as Chief Executive on 1 October 2020 on an annual salary of £455,000, 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.

3. 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.

Non-Executive Directors of the FCA

4. In accordance with FSMA, HM Treasury is responsible for determining the remuneration of non-executive directors. The fee for non-executive directors remains unchanged at £35,000 per annum. An additional fee of £10,000 per annum is payable to any non-executive director who has been appointed to chair a Committee of the Board.

5. Catherine Bradley served as Chair of the Audit Committee until 31 July 2020 and left the FCA Board on the same date.

6. Liam Coleman joined the FCA Board on 5 November 2019 and was appointed Chair of the Audit Committee on 1 August 2020.

7. Bernadette Conroy joined the FCA Board on 6 April 2020. Bernadette joined the Risk Committee from 1 October 2021 and was appointed Chair of the Risk Committee after its meeting on 1 December 2021.

8. Baroness Hogg served as Non Executive Board member, Chair of the Remuneration Committee and Chair of FCA Pension Plan Trustee Limited during the year and she stepped down as the Chair of the Pension Plan Trustee Limited, for which she received an additional fee of £20,000 per annum, on 31 March 2020.

9. Jeannette Lichner joined the FCA Board on 1 April 2020.

10. Richard Lloyd joined the FCA Board on 1 April 2019 and was appointed to serve as Chair of the Risk Committee on 1 April 2020 and as Chair of Oversight Committee on 17 September 2020. Richard was appointed interim Chair of the FCA Board from 1 June 2022 and stepped down as Chair of the Risk Committee after its meeting on 1 December 2021.

11. 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.

12. 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.

13. Sam Woods, the Deputy Governor of the Bank of England for The Prudential Regulation Authority, 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)

Remuneration ratios

The Accounts Direction from the Treasury, in accordance with Schedule 1ZA, paragraph 14(1) of FSMA, requires the FCA to disclose remuneration ratios which represent the relationship between the remuneration of the highest-paid director and the remuneration of the organisation's Total Workforce for 2021/22 and 2020/21.

Remuneration ratios represent the difference between the highest-paid director and the full-time equivalent, annualised remuneration of the employee at the 25th percentile, 50th percentile (median), and the 75th percentile (collectively ''the Employee Percentiles') of the Total Workforce at the reporting period end date (excluding the highest-paid director) expressed as a multiple. Remuneration ratios are based on total remuneration of the highest-paid director and of the Employee Percentiles, as well as the salary component of the total remuneration of the identified Employee Percentiles.

Remuneration ratios have been calculated using Methodology option A on the basis that it provided the most accurate means of identifying the Employee Percentiles of the remuneration of the Total Workforce based on the March payroll data for the reporting period.

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

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.

Table 8

Remuneration Ratios	Group				FCA (Parent Company)			
	Total Remuneration		Salary Component		Total Remuneration		Salary Component	
	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21
Highest-paid director[1]	£456,985	£458,270	£455,000	£455,000	£456,985	£458,270	£455,000	£455,000
25th percentile Remuneration of Total Workforce	£44,941	£45,783	£40,233	£37,485	£44,729	£45,364	£40,086	£37,212
	10.2:1	10.0:1	11.3:1	12.1:1	10.2:1	10.1:1	11.4:1	12.2:1
50th percentile Remuneration of Total Workforce - Median	£64,078	£66,278[2]	£58,185	£54,690	£63,606	£65,928[2]	£58,140	£55,022
	7.1:1	6.9:1	7.8:1	8.3:1	7.2:1	7.0:1	7.8:1	8.3:1
75th percentile Remuneration of Total Workforce	£90,707	£92,312	£83,200	£79,207	£90,102	£91,563	£79,664	£73,325
	5.0:1	5.0:1	5.5:1	5.7:1	5.1:1	5.0:1	5.7:1	6.2:1

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 in 2021/22 is the directors' remuneration table excludes taxable benefits paid by the FCA but fully funded by the director , whist the remuneration ratio table includes taxable benefits paid; the difference in 2020/21 is the directors' remuneration table includes actual amounts paid, whilst the remuneration ratio is a calculation of full year equivalent remuneration.

2 In 2020/21, the 50th percentile (median) reported for the Group was £61,165 and for the FCA (Parent Company) was £60,555 and has been restated to include discretionary performance bonus.

The Chief Executive of the FCA was the highest-paid director for 2021/22.

Excluding the highest-paid director, remuneration ranged from £21,176 to £376,709 (2020/21: £20,056 to £349,583).

In 2021/22 no employees (2020/21, nil) received remuneration in excess of the highest paid director. All figures are based on full time equivalent basis.

The increase in the 2021/22 total remuneration ratios for both the Group and the FCA across all Employee Percentiles is primarily a result of a reduction in the discretionary performance bonus awards as shown in Table 5 above. The decrease in 2021/22 salary only remuneration ratios for both the Group and the FCA across all Employee Percentiles reflects salary increases awarded to employees based on new pay benchmarks.

The 50th percentile (median) remuneration ratio for 2021/22 is consistent with the pay and reward policies for all employees taken as a whole.

Change in remuneration

A comparison of the percentage change in salary and benefits, and discretionary performance bonus between 2021/22 and 2020/21 of the highest-paid director and of the Total Workforce average per full time equivalent (FTE) is presented in Table 9 below.

Table 9

% Change in remuneration	Salary and benefits **2021/22 vs 2020/21**	Discretionary performance bonus **2021/22 vs 2020/21**
Highest-paid director	0.0%	-
Total Workforce Average per FTE	4.2%	(79.5%)

Senior Pay Disclosure (audited)

In addition to the Executive Directors reported under Directors' Remuneration, the Table 10 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 2022.

Table 10

	Basic salary		Discretionary performance bonus		Other benefits		Total FCA Remuneration (excluding pension)		Pension		Total FCA Remuneration	
	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Executive Directors												
Stephen Braviner Roman[1]	50	-	-	-	4	-	54	-	6	-	60	-
Megan Butler[2]	316	316	-	-	24	32	340	348	28	30	368	378
Stepanie Cohen[3]	184	-	-	-	11	-	195	-	18	-	213	-
Jonathan Davidson[4]	-	224	-	-	-	20	-	244	-	20	-	264
Nausicaa Delfas[5]	38	269	-	-	3	29	41	298	3	24	44	323
Sheree Howard	300	269	-	-	22	29	322	298	38	42	360	340
Sheldon Mills	300	271	-	-	22	25	322	296	31	24	353	320
Georgina Philippou[6]	-	213	-	-	-	23	-	236	-	25	-	261
Sarah Pritchard[7]	236	-	-	-	16	-	252	-	31	-	283	-
Jesscia Rusu[8]	250	-	-	-	18	-	268	-	30	-	298	-
David Scott[9]	160	-	-	-	12	-	172	-	19	-	192	-
Emily Shepperd[10]	300	14	-	-	21	-	321	14	36	2	357	16
Mark Steward	316	316	-	-	23	32	339	348	38	38	377	386

1. Stephen Braviner Roman was appointed a voting member of the Executive Committee on 1 February 2022.
2. Megan Butler stepped down as a voting member of the Executive Committee on 31 March 2022.
3. Stephanie Cohen was appointed a voting member of the Executive Committee on 7 June 2021 and stepped down on 17 January 2022.
4. Jonathan Davidson stepped down as a voting member of the Executive Committee on 11 December 2020.
5. Nausicaa Delfas was seconded to the Financial Ombudsman Service and stepped down as a voting member of the Executive Committee on 17 May 2021.
6. Georgina Philippou stepped down as a voting member of the Executive Committee on 18 January 2021.
7. Sarah Pritchard was appointed as a voting member of the Executive Committee on 17 June 2021.
8. Jessica Rusu was appointed as a voting member of the Executive Committee on 1 June 2021.
9. David Scott was appointed as a voting member of the Executive Committee on 28 June 2021 and stepped down on 1 February 2022.

10. Emily Shepperd was appointed as a voting member of the Executive Committee on 15 March 2021.

Other Directors' salaries and benefits

The Table 11 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 periods.

Table 11

Total Remuneration Range	2021/22 Number of individuals	2020/21 Number of individuals
£80,000 – £99,999	0	0
£100,000 – £119,999	0	0
£120,000 – £139,999	0	0
£140,000 – £159,999	0	0
£160,000 – £179,999	0	1
£180,000 – £199,999	0	0
£200,000 – £219,999	6	1
£220,000 – £239,999	11	5
£240,000 – £259,999	5	5
£260,000 – £279,999	1	13
£280,000 – £299,999	0	3
£300,000 – £319,999	0	0
£320,000 – £339,999	0	0
£340,000 – £359,999	0	1
£360,000 – £379,999	0	0
£380,000 – £399,999	0	0

15. Financial statements of the Financial Conduct Authority for the period ended 31 March 2022

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) and its Group for the year ended 31 March 2022 under the Financial Service and Markets Act 2000. The financial statements comprise the Group and FCA's:

- Statement of Financial Position as at 31 March 2022;
- Statement of Comprehensive Income, Statement of Cash Flows and Statement of Changes in Equity for the year then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group and FCA financial statements is applicable law and UK adopted International Accounting Standards.

In my opinion the financial statements:

- give a true and fair view of the state of the Group's and the FCA's affairs as at 31 March 2022 and of the operating surplus for the year then ended;
- have been properly prepared in accordance with UK adopted International Accounting Standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006 where applicable in accordance with HM Treasury directions issued under the Financial Services and Markets Act 2000.

Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), 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 certificate.

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 Group and 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 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 Group and 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 FCA's funding arrangements and assessment of whether any conditions exist which may cast significant doubt on the Group or the FCA's ability to continue to operate. My key observations were that funding is secured by statutory levies raised on the Group and FCA's behalf and that no events or conditions exist which may cast significant doubts on the FCA's 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.

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 Group and 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 director's 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 certificate and 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.

This is not a complete list of all risks identified through the course of 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 119.

They are the same as in 2020/21 other than that Key audit matter 3, new Workday System, which is a new key audit matter in 2021/22.

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. This risk applies both to the FCA and the Group.	
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 the FCA mainly relate to the valuation of the gross pension assets and obligation, provisions, property, plant and equipment (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 asset	
Description of risk The FCA recognised a net asset of £15.5m in respect of the final salary section of the FCA Pension Plan at 31 March 2022 (31 March 2021 net obligation of £41.6m). 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 asset 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. This risk applies only to the FCA.	
How the scope of my audit responded to the risk	In response to the risk, I ensured that my understanding of the scheme arrangements was 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. My work was supported by specialist actuarial experts. 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 2022. The defined benefit obligation is valued using assumptions which all lie within the expected range. **Key observations** My testing results were satisfactory.

Key audit matter 3 – New Workday System	
Description of risk The new Workday Finance and Human Resources ERP system was introduced for both the FCA and the Payment Systems Regulator (PSR) effective 1 April 2021, replacing the old Oracle/Chrysalis system. The 2021-22 financial statements for the FCA and PSR were prepared using Workday. A major finance system implementation such as this impacts across the financial statements as a whole, with particular risks in relation to: • the completeness and accuracy of the data migration; • mapping of the new chart of accounts to the financial statements; • the integration of the new system with other data sources; • the design and implementation of internal controls in the new environment; • the availability of necessary financial reports; and • new year end processes and routines There is also the risk that there may be inadequate or inappropriate disclosures about the new system in the FCA and PSR Annual Reports and Governance Statements. This risk applies both to the FCA and the Group.	
How the scope of my audit responded to the risk	I reviewed high level controls and processes surrounding the implementation of the new system. I carried out testing of data from the old system to the new system and vice versa. Our audit testing has found that data has been transferred correctly from the old system to the new system and that the new chart of accounts maps appropriately to the financial statements. I have identified the key controls in the new system to mitigate the risk of fraud and carried out walkthrough testing to gain assurance that those controls are designed correctly. I have reviewed the disclosures about the new system in the FCA and PSR financial statements. **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 Group and FCA's financial statements as a whole as follows:

	Group	FCA
Materiality	£5,980,000	£5,850,000
Basis for determining materiality	1% of gross operating costs for the year ending 31 March 2022 of £599 million	1% of gross operating costs for the year ending 31 March 2022 of £585 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 2021-22 audit (2020-21: 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 £119,000 (Group) and £117,000 (FCA), 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

The impact of the unadjusted errors, as reported to the Audit Committee, is an overstatement of operating surplus and net assets by £217,000.

Audit scope

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

The Group constitutes the FCA and the PSR, which is assessed as a non-significant component for the group audit as in 2021/22 PSR's expenditure was £15.8m (2.7 per cent of Group expenditure of £585.6m) and PSR's income was £17.2m in 2021/22 (2.5 per cent of Group income of £675.1m). Moreover, PSR's total assets at 31 March 2022 were £44.3m (6.1 per cent of Group total assets of £722.2m). 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 financial statements and my auditor's certificate and 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 certificate, 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 Remuneration Report to be audited has been properly prepared in accordance with HM Treasury Direction issued under the Financial Services and Markets Act 2000.

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

- the Strategic Report and Corporate Governance Statement have been prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and Corporate Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In the light of the knowledge and understanding of the Group and FCA and its environment obtained in the course of the audit, I have not identified material misstatements in the Strategic Report and Corporate Governance Statement.

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 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; 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 Group and 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 105 to 107;
- Directors' statement on fair, balanced and understandable set out on page 105;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 105;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 116 to 118; and

- The section describing the work of the audit committee set out on page 119.

The directors have not provided an assessment of the entity's prospects, the period this assessment covers and why the period is appropriate as required by provision 31 of the UK Corporate Governance Code. The directors have set out the reasons for omitting these disclosures on page 109.

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 FCA'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 either intend to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

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 certificate 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.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud, is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, we considered the following:

- the nature of the sector, control environment and operational performance including the design of the Group and FCA's accounting policies,
- Inquiring of management, the Group and FCA's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Group and 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 and FCA's controls relating to Group and FCA's compliance with the Companies Act 2006 and the Financial Services and Markets Act 2000.
- discussing among the engagement team and involving the internal IT specialist and pensions specialists who were engaged on the audit regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the Group and FCA for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, and the posting of unusual journals, complex transactions and bias in management estimates. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override of controls.

I also obtained an understanding of the Group and FCA's framework of authority as well as other legal and regulatory frameworks in which the Group and FCA operate, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the Group and FCA. The key laws and regulations I considered in this context included the 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.

Audit response to identified risk

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading and reviewing minutes of meetings of those charged with governance and the Board and internal audit reports;
- 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 legislation for any changes which may impact the Group and FCA 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; and

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists 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 certificate.

Other auditor's responsibilities

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]

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

	Notes	Group Total 2022 £m	Group Total 2021 £m	Parent Company Total 2022 £m	Parent Company Total 2021 £m
Income					
Fee income	4	658.2	622.7	641.0	605.8
Other income	4	16.9	12.9	19.7	15.6
Total income		**675.1**	**635.6**	**660.7**	**621.4**
Operating costs					
Staff costs	5	(356.1)	(390.1)	(346.5)	(378.9)
Staff costs capitalised during the year	5	6.8	6.9	6.8	6.9
Administrative and general costs	6	(236.5)	(215.2)	(232. 2)	(213.3)
Total operating costs		**(585.8)**	**(598.4)**	**(571.9)**	**(585.3)**
Operating surplus for the year		**89.3**	**37.2**	**88.8**	**36.1**
Interest payable and similar expenses	7	(4.7)	(6.1)	(4.7)	(6.1)
Net actuarial (losses)/gains for the year in respect of the defined benefit pension scheme	17	29.0	(86.7)	29.0	(86.7)
Total comprehensive surplus/(deficit) for the year		**113.6**	**(55.6)**	**113.1**	**(56.7)**

Statement of changes in equity for the year ended 31 March

	Accumulated Surplus Group £m	Accumulated Surplus Parent Company £m
At 1 April 2020	**63.3**	**59.8**
Total comprehensive deficit for the year	(55.6)	(56.7)
At 31 March 2021	**7.7**	**3.1**
Total comprehensive surplus for the year	113.6	113.1
At 31 March 2022	**121.3**	**116.2**

The notes on pages 151 to 180 form part of the accounts.

Statement of financial position as at 31 March

Company Number: 01920623

		Group		Parent Company	
	Notes	Total 2022 £m	Total 2021 £m	Total 2022 £m	Total 2021 £m
Non-current assets					
Intangible assets	8	118.4	135.8	118.4	135.8
Property, plant and equipment and ROU assets	9	272.9	285.8	272.9	285.8
		391.3	**421.6**	**391.3**	**421.6**
Current assets					
Trade and other receivables	10	29.6	23.0	29.6	23.6
Cash and cash equivalents	10	285.0	199.1	274.2	187.1
		314.6	**222.1**	**303.8**	**210.7**
Total assets		**705.9**	**643.7**	**695.1**	**632.3**
Current liabilities					
Trade and other payables	11	(336.3)	(323.1)	(330.6)	(316.3)
Lease liabilities	11	(11.8)	(12.3)	(11.8)	(12.3)
		(348.1)	**(335.4)**	**(342.4)**	**(328.6)**
Total assets less current liabilities		**357.8**	**308.3**	**352.7**	**303.7**
Non-current liabilities					
Long-term provisions	12	(17.1)	(17.1)	(17.1)	(17.1)
Lease liabilities	12	(234.9)	(241.9)	(234.9)	(241.9)
		(252.0)	**(259.0)**	**(252.0)**	**(259.0)**
Net assets excluding retirement benefit		**105.8**	**49.3**	**100.7**	**44.7**
Net retirement benefit assets/ (obligations)	17	15.5	(41.6)	15.5	(41.6)
Net assets		**121.3**	**7.7**	**116.2**	**3.1**
Accumulated reserves		**121.3**	**7.7**	**116.2**	**3.1**

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, and signed on 14 July 2022 on its behalf by

Richard Lloyd
Interim Chair

Nikhil Rathi
Chief Executive

Statement of cash flows for the year ended 31 March

		Group		Parent Company	
	Notes	Total 2022 £m	Total 2021 £m	Total 2022 £m	Total 2021 £m
Net cash generated by operations	3	**123.9**	**35.9**	**125.1**	**33.5**
Investing activities					
Interest received on bank deposits	4	0.4	0.3	0.4	0.3
Expenditure on intangible software development	8	(18.0)	(44.9)	(18.0)	(44.9)
Purchases of property, plant and equipment	9	(8.2)	(1.5)	(8.2)	(1.5)
Net cash used in investing activities		**(25.8)**	**(46.1)**	**(25.8)**	**(46.1)**
Financing activities					
Lease repayments		(12.2)	-	(12.2)	**-**
Net increase/(decrease) in cash and cash equivalents		**85.9**	**(10.2)**	**87.1**	**(12.6)**
Cash and cash equivalents at the start of the year	10	199.1	209.3	187.1	199.7
Cash and cash equivalents at the end of the year	10	**285.0**	**199.1**	**274.2**	**187.1**

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: UK-adopted International Financial Reporting Standards (IFRS); 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;
- 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.

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.

The implication of adopting IFRS 15 directly has been assessed, 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, International Accounting Standard (IAS) 8(10) has been applied to develop an accounting policy that provides information that is relevant and reliable.

In doing so, the definition of a contract has been broadened to include legislation and regulation. In this circumstance, a "contract" is the underlying statutory framework set out in The Financial Services and Markets Act 2000 (FSMA) for the FCA and The Financial Services (Banking Reform) Act 2013 (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 2022 this deferred tax asset equated to £61.7m (2021: £55.1m).

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

		Group		Parent Company	
	Notes	Total 2022 £m	Total 2021 £m	Total 2022 £m	Total 2021 £m
Surplus for the year from operations		89.3	37.2	88.8	36.1
Adjustments for:					
Interest received on bank deposits	4	(0.4)	(0.3)	(0.4)	(0.3)
Amortisation of other intangible assets	8	35.6	31.3	35.6	31.3
Depreciation of property, plant and equipment including ROU assets	9	20.7	22.7	20.7	22.7
Loss on disposals of property, plant and equipment	9	0.3	-	0.3	-
Decrease in provisions	18	-	(1.6)	-	(1.6)
Difference between pension costs and normal contributions		0.1	(0.4)	0.1	(0.4)
Payments made against unfunded pension liability	17	0.1	0.1	0.1	0.1
Additional cash contributions to reduce pension scheme deficit	17	(28.4)	(24.0)	(28.4)	(24.0)
Operating cash flows before movements in working capital		**117.3**	**65.0**	**116.8**	**63.9**
Increase in receivables	10	(6.6)	(6.5)	(6.0)	(7.2)
Increase/(decrease) in payables	11	13.2	(22.6)	14.5	(23.2)
Net cash generated by operations		**123.9**	**35.9**	**125.1**	**33.5**

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.

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	Group		Parent Company	
	Total 2022 £m	Total 2021 £m	Total 2022 £m	Total 2021 £m
Ongoing Regulatory Activity fees[1]	592.8	565.3	575.6	548.5
Additional Ongoing Regulatory Activity fees	4.4	2.7	4.4	4.9
EU Withdrawal fees	10.0	15.0	10.0	15.0
Transformation	10.0	10.0	10.0	10.0
Business interruption insurance	7.5	-	7.5	-
Investment harm campaign	2.3	2.3	2.3	2.3
Scope change costs recovered – EU withdrawal	6.2	-	6.2	-
Scope Change costs recovered – Senior Managers and Certification Regime	4.4	7.2	4.4	7.2
Scope change costs recovered – other[2]	2.3	7.6	2.3	5.4
Application fees and other regulatory income	17.8	12.2	17.8	12.1
Special project fees	0.5	0.4	0.5	0.4
Total	**658.2**	**622.7**	**641.0**	**605.8**

1 Of the £575.6m (2021:£548.5m) Ongoing Regulatory Activity fees £50.5m (2021: £52.2m) 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 The £7.6m for the Group in 2021 includes Consumer Credit (£4.4m) and Claims Management Companies (£2.8m) and Other (£0.4m); The £5.4m for the Parent Company in 2021 includes to Consumer Credit (£2.2m) and Claims Management Companies (£2.8m) and Other (£0.4m).

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

	Group		Parent Company	
	Total 2022 £m	Total 2021 £m	Total 2022 £m	Total 2021 £m
Skilled person reports (s.166) income[1]	1.3	1.4	1.3	1.4
Services provided to other regulatory bodies	7.6	9.0	7.6	11.8
Publications and training services	0.1	0.2	0.1	0.2
Interest received on bank deposits	0.4	0.3	0.4	0.3
Other sundry income	7.5	2.0	10.3	1.9
Total other income	**16.9**	**12.9**	**19.7**	**15.6**

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 2022 £m	Total 2021 £m	Total 2022 £m	Total 2021 £m
Gross salaries and taxable benefits		271.6	297.2	264.1	288.1
Employer's national insurance costs		32.5	34.1	31.4	33.0
Apprenticeship levy		1.3	1.4	1.3	1.3
Employer's defined contribution pension costs		28.9	29.3	28.0	28.5
Other net pension finance cost/(income)	17	0.4	(0.5)	0.4	(0.5)
Exit packages (including ex-gratia)		0.8	7.7	0.8	7.7
Permanent staff costs		**335.5**	**369.2**	**326.0**	**358.1**
Temporary		2.9	3.1	2.9	3.1
Secondees		1.5	0.9	1.5	0.9
Contractors		16.2	16.9	16.1	16.8
Short-term resource costs		**20.6**	**20.9**	**20.5**	**20.8**
Total staff costs		**356.1**	**390.1**	**346.5**	**378.9**

Of which the following was capitalised during the year:

	Group		Parent Company	
	Total 2022 £m	Total 2021 £m	Total 2022 £m	Total 2021 £m
Staff costs	6.8	6.9	6.8	6.9

Staff numbers comprise:

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

	Group		Parent Company	
	Total 2022	Total 2021	Total 2022	Total 2021
Supervision, Policy and Competition	1,270	629	1,270	629
Authorisations	524	890	524	890
Enforcement and Market Oversight	625	699	625	699
Strategy and Competition	-	521	-	521
Supervision - Retail and Authorisation	-	890	-	890
Supervision - Investment, Wholesale and Specialist	-	629	-	629
Sub-total	**2,419**	**2,739**	**2,419**	**2,739**
Operations	624	804	624	804
Central services and other[1]	267	395	267	395
Data Technology and Innovation	481	-	481	-
PSR	101	103	-	-
Total	**3,892**	**4,041**	**3,791**	**3,938**

1 Other includes employees on secondment, maternity or long-term sick

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

	Group		Parent Company	
	Total 2022	Total 2021	Total 2022	Total 2021
Temporary	47	57	46	54
Secondees	24	29	23	29
Contractors	64	67	63	66
Total	**135**	**153**	**132**	**149**

As at 31 March, the number of full-time equivalent employees (including executive directors and fixed-term contractors) was:

	2022	**2021**
Permanent staff		
FCA	3,766	3,903
PSR	99	106
	3,865	4,009
Short-term resources		
FCA	172	152
PSR	5	3
	177	**155**
Group Total	**4,042**	**4,164**

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 2022	Number of other departures agreed 2022	Number of Long-term ill health settlements 2022	Total 2022	Number of compulsory redundancies 2021	Number of other departures agreed 2021	Number of Long-term ill health settlements 2021	Total 2021
0 -10	-	1	1	2	-	-	-	-
>10 – 25	-	2	1	3	-	1	1	2
>25 – 50	-	1	-	1	1	13	2	16
>50 – 100	-	2	-	2	1	82	1	84
>100 -150	-	3	-	3	1	-	1	2
>150 - 200	-	1	-	1	-	-	-	-
Total number	-	10	2	12	3	96	5	104
Gross costs	£0.0m	£0.8m	£0.0m	£0.8m	£0.2m	£7.1m	£0.3m	£7.6m

Included in the category 'Number of other departures agreed' in 2021 year 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.

6. Administrative and general costs

	Notes	Group		Parent Company	
		Total 2022 £m	Total 2021 £m	Total 2022 £m	Total 2021 £m
IT running costs		83.2	66.6	83.2	66.4
IT project scoping costs		2.4	13.3	2.4	13.3
Professional fees		51.2	45.0	48.7	44.0
Professional fees: s166[1]		0.9	1.4	0.9	1.4
Accommodation and office services		25.1	22.9	24.9	22.7
Amortisation of intangible assets	8	35.6	31.3	35.6	31.3
Depreciation of property, plant and equipment	9	7.9	9.8	7.9	9.8
Depreciation of the ROU assets	9	12.8	12.9	12.8	12.9
Recruitment, training and wellbeing		10.3	9.6	10.1	9.2
Travel		0.5	0.5	0.5	0.5
Loss on disposal of assets	9	0.3	-	0.3	-
Other costs		6.3	1.9	4.9	1.8
Total		**236.5**	**215.2**	**232.2**	**213.3**

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.

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 2022 £'000	Total 2021 £'000	Total 2022 £'000	Total 2021 £'000
Fees payable to the National Audit Office for the audit of the financial statements	148	126	120	105

The National Audit Office has not provided any non-audit related services to FCA group in 2022 (2021 : £nil)

7. Interest payable and other similar expenses

	Group		Parent Company	
	Total 2022 £m	Total 2021 £m	Total 2022 £m	Total 2021 £m
Interest on lease liability	4.7	6.1	4.7	6.1

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 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)
At 31 March 2021	**251.1**	**18.9**	**57.1**	**327.1**
Additions	-	-	18.0	**18.0**
Transfers	47.2	-	(47.2)	**-**
Disposal	(54.5)	(17.8)	-	(72.3)
At 31 March 2022	**243.8**	**1.1**	**27.9**	**272.8**
Amortisation				
At 1 April 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**
Charge for year	35.4	0.2	-	35.6
Disposal	(54.6)	(17.9)	-	(72.5)
At 31 March 2022	**153.5**	**0.9**	**-**	**154.4**
Net carrying value				
At 31 March 2021	**78.4**	**0.3**	**57.1**	**135.8**
At 31 March 2022	**90.3**	**0.2**	**27.9**	**118.4**

Internal software development costs of £18.0m (2021: £44.9m) have been capitalised as additions during the year. Internally developed software is designed to help the FCA carry out its various statutory functions, such as holding details relating to regulated firms. These functions are particular to the FCA, so this internally developed software generally has no external market value. Management judgement has been applied in quantifying the benefit expected to accrue to the FCA over the useful life of the relevant assets. Those expected benefits relate to the fact that such software allows the FCA to carry out its functions more efficiently than by using alternative approaches (for example, manual processing). If the benefits expected do not accrue to the FCA (for example, if some aspect of its approach to discharging its statutory functions changes) then the carrying amount of the asset would require adjustment.

Of the net carrying amount of internally generated software of £90. 3m: and other software of £0.2m:

i. £24.9m relates to INTACT, a case management tool for authorising firms and individuals (three years useful life remaining);
ii. £17.5m relates to FDC system (replacement of Gabriel) which is used for submitting regulatory data and the master registry for authorised firms permissions, individual and collective investment schemes (four years useful life remaining);
iii. £11.3m relates to Workday, the new operating system for HR and Finance (five years useful life remaining); and
iv. £8.5m relates to MiFiD, The Markets in Financial instruments Directive - EU legislation that regulates firms that provides financial instruments (two years useful life remaining).

Of the net carrying amount of work in progress of £27.9m, majority are made from the different projects:

i. £10.9m relates to the primary Electronic Document and Records Management System (EDRMS) to enable increased collaboration, improved ease of use, prevent data loss and improve records management;
ii. £3.9m relates to Essential Data Management Tooling to improve the tools available to data governance functions, in turn improving the accessibility and quality of data available to FCA staff;
iii. £1.9m relates to Search and Discovery technology to more easily search and discover information held in our data lake and improve the FCA's ability to make quick, fully informed, data driven decisions;
iv. £1.8m relates to Cyber Security Programme to reduce cyber security risks and both consumer and firm harm through embedding appropriate controls, technology, processes and behaviours across the FCA;
v. £1.3m relates to Funeral Plans Regime to reduce consumer harm in the pre-paid funeral plans market and ensure consumers are provided the products needed and at fair value;
vi. £1.3m relates to Investment Firm Prudential Regime which will enable more effective supervision of investment firms, introduce more proportionate and appropriate rules and reduce consumer harm when a firm ceases trading; and
vii. £1.2m relates to systems and processes developed to supervise specified Crypto-asset businesses located in the UK in line with the 5th Anti-Money Laundering Directive and reduce consumer harm.

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 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)	-
Disposal	(0.6)	-	(1.1)	-	-	(1.7)
At 31 March 2021	**254.9**	**63.7**	**31.3**	**12.2**	**2.0**	**364.1**
Additions	-	-	0.2	-	8.0	8.2
Transfers	-	1.7	-	-	(1.7)	-
Disposal	-	-	(14.0)	(0.2)	(0.1)	(14.3)
At 31 March 2022	**254.9**	**65.4**	**17.5**	**12.0**	**8.2**	**358.0**
Depreciation						
At 1 April 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**
Charge for year	12.8	3.6	3.2	1.1	-	20.7
Disposal	-	-	(13.9)	-	-	(13.9)
At 31 March 2022	**50.7**	**14.0**	**15.2**	**5.2**	**-**	**85.1**
Net book value						
At 31 March 2021	**217.0**	**53.3**	**5.4**	**8.1**	**2.0**	**285.8**
At 31 March 2022	**204.2**	**51.4**	**2.3**	**6.8**	**8.2**	**272.9**

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 both the Stratford and Edinburgh properties.

Of the net carrying amount of work in progress of £8.2m: £6.4m relates to laptop refresh project and £1.8m relates to 11 outstanding projects.

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 £285.0m (2021: £199.12m), £16.7m (2021: £23.0m) related to fees collected on behalf of other financial regulatory organisations as disclosed in related party transactions, note 19 and in trade creditors, note 11.

The FCA currently has a £100m (2021: £100m) unsecured overdraft facility with Lloyds Banking Group which is reviewed on an annual basis and was renewed subsequent to the reporting date. The PSR does not have, or require, its own credit facilities.

		Group		Parent Company	
	Notes	Total 2022 £m	Total 2021 £m	Total 2022 £m	Total 2021 £m
Fees receivable		6.6	3.9	6.6	3.9
Net penalties receivable	13	9.7	0.1	9.7	0.1
Other debtors		0.8	0.7	0.8	0.7
Prepayments and accrued income		12.5	18.3	12.5	18.3
Intragroup receivable – PSR		-	-	-	0.6
Trade and other receivables		**29.6**	**23.0**	**29.6**	**23.6**
Cash deposits		262.5	155.9	262.5	151.4
Cash at bank		22.5	43.2	11.7	35.7
Cash and cash equivalents		**285.0**	**199.1**	**274.2**	**187.1**
Total current assets		**314.6**	**222.1**	**303.8**	**210.7**

The average credit period is 73 days (2021: 70 days). The increase in the average credit period reflects extended credit terms of 90 days agreed by the FCA for smaller fee paying firms as a result of the pandemic. In 2022/23, standard credit terms return to 30 days.

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

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

	Group		Parent Company	
	Total 2022 £m	Total 2021 £m	Total 2022 £m	Total 2021 £m
At 1 April	1.5	1.0	1.5	1.0
Increase in provision for fees receivable	2.4	0.5	2.4	0.5
Total at 31 March	**3.9**	**1.5**	**3.9**	**1.5**

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 2022 £m	Total 2021 £m	Total 2022 £m	Total 2021 £m
Not more than three months	5.3	0.5	5.3	0.5
Between three and nine months	0.7	0.3	0.7	0.3
Greater than nine months	0.6	1.0	0.6	1.0
Total unimpaired fees receivable	**6.6**	**1.8**	**6.6**	**1.8**

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 2022 £m	Total 2021 £m	Total 2022 £m	Total 2021 £m
Trade creditors and accruals		65.8	81.1	65.7	79.8
Other taxation and social security		7.4	12.0	7.4	12.0
Net penalties payable	13	116.8	60.1	83.6	60.1
Fees received in advance		146.3	169.9	140.4	164.4
Intragroup payable – PSR		-	-	33.5	-
Trade and other payables		**336.3**	**323.1**	**330.6**	**316.3**
Lease liabilities	12	11.8	12.3	11.8	12.3
Total current liabilities		**348.1**	**335.4**	**342.4**	**328.6**

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Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade payables is 10 days (2021: 9 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. In addition, intragroup payable includes penalties collected by the FCA but not paid over to the PSR or the Treasury.

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	
	2022 £m	2021 £m	2022 £m	2021 £m
Trade creditors and accruals	65.8	81.1	-	-
Fees received in advance	146.3	169.9	-	-
Other liabilities	124.2	72.1	-	-
Lease liabilities	4.0	4.7	7.8	7.6
Total current liabilities	**340.3**	**327.8**	**7.8**	**7.6**

Of the amounts due within 6 months, Trade creditors and accruals include £0.4m (2021: £1.2m), and Fees received in advance include £4.9m (2021:£5.5m) for the PSR.

12. Non-current liabilities

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

	Notes	2022 £m	2021 £m
Long-term provisions for dilapidations	18	17.1	17.1
Lease liabilities		234.9	241.9
Total non-current liabilities		**252.0**	**259.0**

Lease liabilities movements:

	Total 2022 £m	Total 2021 £m
Value of discounted future cash flows on ROU assets brought forward	254.2	242.5
Lease commenced in year	-	5.6
Payments in year	(12.5)	-
Interest expense on lease liabilities	4.7	6.1
Lease liabilities at 31 March	**246.4**	**254.2**

Lease liabilities fall due as follows:

	Total 2022 £m	Total 2021 £m
Within one year	11.8	12.3
Within two to five years	75.5	68.9
Within six to ten years	79.6	80.0
Greater than ten years	79.5	93.0
Lease liabilities at 31 March	**246.4**	**254.2**

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 2022	£240.6m	£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 fee payers arises when a penalty issued from enforcement action pursuant to FSBRA is received. This liability is limited to the sum of the enforcement costs for that year agreed with the Treasury 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 Treasury arises.

Penalties issued and collected by the PSR under the Competition Act 1998 are paid in full to the Treasury.

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

		Group		Parent	
	Notes	Total 2022 £m	Total 2021 £m	Total 2022 £m	Total 2021 £m
Penalties receivable at 1 April		3.7	82.4	3.7	82.4
Penalties issued during the year		364.4	189.8	331.1	189.8
Write-offs during the year		(0.4)	(78.6)	(0.4)	(78.6)
Penalties collected during the year		(354.7)	(189.9)	(321.4)	(189.9)
Penalties receivable at 31 March		**13.0**	**3.7**	**13.0**	**3.7**
Allowance for bad debts		(3.3)	(3.6)	(3.3)	(3.6)
Net penalties receivable at 31 March	10	**9.7**	**0.1**	**9.7**	**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.

	Group and Parent	
	Total 2022 £m	Total 2021 £m
At 1 April	3.6	82.3
Decrease in allowance for bad debts	(0.3)	(78.7)
Total at 31 March	**3.3**	**3.6**

1 Allowance for bad debts at 31 March 2021 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

	Group		Parent	
	Total 2022 £m	Total 2021 £m	Total 2022 £m	Total 2021 £m
Retained penalties to be returned to fee payers	55.3	50.5	55.3	50.5
Penalties paid to the Treasury during the year	247.8	128.7	247.8	128.7
Penalties payable to the Treasury	52.1	9.6	18.8	9.6
Receivable/(Payable) to the Treasury from previous years	(0.5)	1.1	(0.5)	1.1
Penalties collected during the period	**354.7**	**189.9**	**321.4**	**189.9**

Net penalties payable

		Group		Parent	
	Notes	Total 2022 £m	Total 2021 £m	Total 2022 £m	Total 2021 £m
Retained penalties to be returned to fee payers		55.3	50.5	55.3	50.5
Penalties over released to fee payers		(0.3)	(0.1)	(0.3)	(0.1)
Penalties payable to the Treasury		52.1	9.6	18.8	9.6
Net penalties receivable		9.7	0.1	9.7	0.1
Net penalties payable	**11**	**116.8**	**60.1**	**83.5**	**60.1**

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 2022 only (no comparative figures required).

There are no losses and special payments to report for 2021/22.

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:

	2022 £m	2021 £m
Within one year	0.5	0.2
In the second to fifth years inclusive	0.4	–
Total	**0.9**	**0.2**

Low value lease expenses of £0.6m (2021: £0.4m) were recognised in the Statement of Comprehensive Income in the year.

16. Capital commitments

The FCA had entered into contracts at 31 March 2022 for future capital expenditure totalling £1.8m relating to intangible assets (2021: £2.8m). 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 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. All other defined contribution assets and liabilities are excluded from these disclosures.

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 2020/21. 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 £28.9m (2021: £29.0m) 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 assets or liabilities of the Final Salary Section of the Plan are calculated by deducting the present value of the Plan's obligations from the fair value of its assets. The FCA retains the right to receive any scheme surplus as a refund on winding-up of the Plan, consequently we have recognised a defined benefit asset 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 approximately 0.15% of the defined benefit obligation for 31 March 2022 and this has been included within the Defined Benefit Obligation.

The 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 SSV of the Plan is prepared on a triennial basis and is currently being carried out by the Scheme Actuary. The results of the valuation are expected after the reporting date and to be taken into account for the purpose of the IAS 19 retirement benefit in 2022/23.

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

At 31 March	2022	2021
Discount rate	2.65%	2.00%
Retail price inflation (RPI)	3.80%	3.40%
Future pension increases	3.25%	3.15%
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 17 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 in 2020/21 to exclude government related bonds and include corporate established Special Purpose Vehicles, resulting in greater volume and depth of bond data. The estimated impact from the change in approach was 0.1% p.a. higher discount rate than the prior approach and the effect of the change in estimate was recognised in the Statement of Comprehensive Income at 31 March 2021.

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 2022 are based on CLUB VITA tables and reflect an update to the CMI 2020 mortality improvements on the mortality assumptions from 2021. No weighting for 2020 death experience has been allowed for given the considerable amount of uncertainty about the impact on mortality improvements in the near future.

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

	2022 Males	2022 Females	2021 Males	2021 Females
Retiring today aged 60 (years)	28.3	29.7	28.2	29.7
Retiring in 15 years aged 60 (years)	29.3	30.8	29.3	30.7

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 2022	
Assumption	Sensitivity	£m	%
Baseline	Assumptions as above – no change	893.9	-
Discount rate	10 bps increase to 2.75%	(15.6)	(1.7%)
Discount rate	10 bps decrease to 2.55%	16.0	1.8%
Retail Price inflation (allowing for impact on pension increase)	10 bps increase to 3.95%	10.5	1.2%

Assumption	Sensitivity	Increase/(decrease) in pension obligation at 31 March 2022	
		£m	%
Longevity	Life expectancy for a 60 year old increases by 1 year	31.6	3.5%

The table below illustrates the volatility in the assumptions used to value the fund assets on the surplus in the Plan at 31 March 2022. 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.

Assumption	Sensitivity	Surplus at 31 March 2022	
		£m	Funding level %
Baseline		18.9	102.1%
Property value	Decrease of 10% in value	16.1	101.8%

The amounts recognised in the statements of financial position are:

	2022 £m	2021 £m	2020 £m	2019 £m
Fair value of Plan assets	912.8	875.1	829.3	803.0
Less: Present value of funded obligations	(893.9)	(913.2)	(805.3)	(886.7)
Surplus/(Deficit) in the Plan	**18.9**	**(38.1)**	**24.0**	**(83.7)**
Unfunded pension liabilities	(3.4)	(3.5)	(3.3)	(3.4)
Asset/(obligation) recognised on balance sheet	**15.5**	**(41.6)**	**20.7**	**(87.1)**

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

	Notes	2022 £m	2021 £m
Net interest on the net defined benefit asset/(liability)		(0.5)	0.8
Past service cost relating to GMP equalisation		-	(0.1)
Unfunded pension liabilities:			
Net interest		(0.1)	(0.1)
Gains (losses)		0.1	(0.2)
Benefits paid		0.1	0.1
		0.1	**(0.2)**
Other net pension finance costs/(income)	5	**(0.4)**	**0.5**

Actuarial gain £29.0m (2021: actuarial loss of £86.7m) 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:

	2022 £m	2021 £m
Losses at 1 April	(249.7)	(163.0)
Net actuarial (loss)/gain recognised in the year	29.0	(86.7)
At 31 March	**(220.7)**	**(249.7)**

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

	2022 £m	2021 £m
Opening obligation	(913.2)	(805.3)
Benefits paid	28.9	23.6
Interest cost on Plan liabilities	(18.0)	(17.5)
Past service cost	-	(0.1)
Actuarial (losses)/gains	8.4	(113.9)
Closing obligation	**(893.9)**	**(913.2)**

Actuarial (losses)/gains:

	2022 £m	2021 £m
Experience (losses)/gains arising on the Plan liabilities	(33.0)	11.7
Gains/(losses) arising from change in discount rate	101.9	(28.1)
(Losses) arising from change in assumptions linked to price inflation	(57.2)	(94.1)
Gains/(losses) arising from change in demographic assumptions	0.6	(3.4)
Losses from changes to cash commutation factors	(3.9)	-
Total actuarial (losses)/gains	**8.4**	**(113.9)**

Changes in the fair value of the Plan assets are as follows:

	2022 £m	2021 £m
Opening fair value of plan assets	875.1	829.3
Expected return on plan assets	17.5	18.2
Actuarial gains	20.7	27.2
Contributions by the employer	28.4	24.0
Benefits paid	(28.9)	(23.6)
Closing fair value of Plan assets	**912.8**	**875.1**

The fair value of the Plan assets and asset allocation at 31 March were as follows:

	Asset allocation 2022 %	Fair value 2022 £m	Asset allocation 2021 %	Fair value 2021 £m
Equity securities	**7.7**	**70.5**	**11.4**	**99.8**
UK Equity	0.3	2.8	3.1	27.4
European Equity	0.9	8.5	2.8	24.0
Japanese Equity	0.5	4.3	1.5	13.1
Asia Pacific Equity	0.2	2.3	1.1	10.0
North American Equity	4.9	44.5	-	-
US Equity	-	-	2.9	25.3
Emerging Markets	0.9	8.1	-	-
Debt securities	**75.6**	**690.4**	**53.6**	**469.8**
LGIM Liability-Driven Investment Fund (LDI)[3]	75.6	690.4	**53.6**	**469.8**
Real estate/property	**3.1**	**28.4**	**5.0**	**43.5**
Diversified Growth Fund[2]	**-**	**-**	**11.5**	**100.2**
Buy-in asset[1]	**13.1**	**119.0**	**14.0**	**122.4**
Other	**0.5**	**4.5**	**4.5**	**39.4**
Sterling Liquidity Fund	-	-	3.7	32.3
Cash	0.5	4.5	0.8	7.1
Closing fair value of Plan assets[4]	**100.0**	**912.8**	**100.0**	**875.1**

1 In September 2016 and February 2019, the Trustee of the Plan completed the purchase of an insurance contract to cover the pension payments for a tranche of the Plan's pensioner members. Under 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 Diversified Growth Funds held a mixture of quoted and unquoted assets. Underlying assets held within these funds were typically expected to be quoted, although the managers had 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 2022 (2021:1.9x). 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 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 £28.4m (2021: £24.0m) and Financial Ombudsman Service's deficit contribution was £1.6m (2021: £1.0m).

The Trustees commissioned a financial review, which involved a stochastic asset and liability modelling exercise, in conjunction with the 31 March 2019 valuation to decide on the appropriate combination of contributions and investment strategy to meet the statutory funding objective. The review helped to underpin the agreed contributions and investment strategy, ongoing monitoring and contingency plans. At 31 March 2022, the Trustee and the Sponsor have hedged 100% of liabilities 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 £m	>1 year £m
At 1 April 2021	-	17.1
Additional provision in year	-	-
Utilised in year	-	-
Closing provision at 31 March 2022	-	**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 (2021: £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 (2021: £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. Provisions are made when claims are justified, reliably measurable and payment is expected to be made.

As at 31 March 2022, 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.

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, 22 (2021:23) personnel received remuneration of £100k or more for the year (for further information see the Remuneration report on page 126).

	Group		Parent Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Short-term benefits	5.8	6.0	5.0	5.2
Post-employment benefits	0.7	0.6	0.5	0.5
Total	**6. 5**	**6.6**	**5.5**	**5.7**

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	
	2022 £m	2021 £m	2022 £m	2021 £m
The Financial Services Compensation Scheme	0.3	0.4	10.1	11.4
The Financial Ombudsman Service Limited (FOS)	0.2	0.2	4.2	5.3
The Prudential Regulation Authority	7.3	6.8	1.9	6.0
Her Majesty's Treasury	0.3	0.3	0.5	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 2021/22, the FCA transferred £0.5m (2021: £0.6m) to the OCC to cover running costs, which have been expensed in the FCA group financial statements. At 31 March 2022, the balance owing to the FCA from the OCC was £0.0m (2021: £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

There are no 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 2022

Introduction

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 that 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 (the 'TTP');

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).

This report covers our use of the Powers in our annual reporting year ending 31 March 2022. Our 2021 report, for the year ending 31 March 2021, can be found on here.

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 2022

Throughout 2021, we consulted on and made instruments under the Powers on a range of issues, as detailed below.

In March 2021, in CP21/6, we consulted on how we would authorise and supervise certain firms intending to bid for emission allowances on the UK auction platform. The final rules were made by the FCA Board in April 2021 and published in Handbook Notice 87.

In April 2021, in CP21/9, we consulted on the existing inducements rules relating to research. The final rules – made by the FCA Board in November 2021 and published in PS21/20 – make changes to the FCA Handbook to increase the research coverage of small and medium-sized enterprise issuers and create a regime that is proportionate to the risks of inducements that arise.

We also made several instruments under the Powers relating to FCA fees.

The first – which was consulted on in CP19/19, made by the FCA Board in March 2021 and published in Handbook Notice 86 – was made to ensure that Gibraltar-based firms will continue to pay the right level of FCA, Financial Ombudsman Service, Money and Pensions Service, Devolved Authorities and illegal money lending fees and levies following the UK leaving the EU.

The other two fees-related instruments – which were consulted on in CP21/8, made by the FCA Board in June 2021 and published in PS21/7 – raised fees to recover the FCA's 2021/22 funding requirement, as well as the funding requirements for the Financial Ombudsman Service, the Department for Work and Pensions and HM Treasury. They also clarified an ambiguity in our existing rules which might have resulted in an overpayment of periodic fees in 2021/22.

We did not make EU withdrawal-related amendments to our forms at IP Completion Day. Instead, we issued a guide on completing forms in light of the UK's withdrawal from the EU. The guide was published in February 2019 (see PS19/5) and updated in September 2020. Prior to publishing the guide, we outlined our proposed approach in CP18/36.

In December 2021, we consulted (see Chapter 6 of CP21/35) on amending our forms in line with our guide and withdrawing or removing any forms which were obsolete following the UK's exit from the EU. The instrument was made by the FCA Board under the Powers in January 2022 and published in Handbook Notice 95.

Technical standards powers

Throughout the reporting year, the FCA also made various technical standards, details of which are set out below. The Powers under which these technical standards were made include:

- the following articles and schedules of Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012:
  - Article 26(9) (Obligation to report transactions);
  - Article 32(1) (Providing information for the purposes of transparency and other calculations); and
  - Part 2 of Schedule 3;
- regulation 72 (Transfer of directive functions to the FCA) of the Official Listing of Securities, Prospectus and Transparency (Amendment etc.) (EU Exit) Regulations 2019;
- the following regulations of the Payment Services Regulations 2017:
  - Regulation 106A (Technical Standards); and
  - Regulation 120 (Guidance);
- the following regulations of the Financial Conglomerates and Other Financial Groups (Amendment etc.) (EU Exit) Regulations 2019:
  - Regulation 7(1);
  - Regulation 7(4); and
  - Regulation 7(6);
- the following articles of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse:
  - Article 13(7) (Accepted market practices);
  - Article 17(10) (Public disclosure of inside information);
  - Article 18(9) (Insider lists); and
  - Article 19(15) (Managers' transactions).

We used these powers 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:

- section 138P (Technical Standards);
- section 138Q (Standards instruments);
- section 138S (Application of Chapters 1 and 2); and
- section 137T (General supplementary powers).

Additional details on the instruments we made using the above Powers are set out below.

In CP21/6, we consulted on consequential changes to certain technical standards under the UK Market Abuse Regulations (MAR), which derive from the Treasury's legislative amendments to UK MAR. The related instrument was published in April 2021 (see Handbook Notice 87).

In June 2021, we published a joint policy statement (PS14/21) with the Prudential Regulation Authority providing feedback to responses to CP6/21, which had proposed changes to the implementation dates and thresholds for the phase-in of initial margin requirements. The CP had also proposed to require the exchange of variation margin for physically settled foreign exchange forwards and swaps for specified counterparties only and extend the temporary exemption from the margin requirements for single-stock equity options and index options until Thursday 4 January 2024.

In August 2021, in CP21/26, we consulted on changes to streamline and simplify the prudential requirements for Markets in Financial Instruments Directive investment firms that are prudentially regulated by the FCA in the UK. The rules were published in November 2021 in PS21/17 and came into force on 1 January 2022.

We also consulted in CP21/22 on amendments to the list of derivatives subject to the derivatives trading obligation in line with Articles 28 and 32 of UK MiFIR (onshored Regulation (EU) No 600/2014 on Markets in Financial Instruments), as further specified under the UK regulatory technical standards (RTS) 4 (onshored Commission Delegated Regulation (EU) 2016/2020). We made these rules final in December 2021, details of which can be found in PS21/13.

Following consultation in CP21/9, the FCA Board also made changes to increase the research coverage of SME issuers and to create a regime that is proportionate to the risks of inducements that arise. The final rules were published in PS21/20.

In last year's annual report, we highlighted our consultations (see 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 have now also published our final policy position in respect of the remainder of CP21/3 (see the chapter on the Technical Standards on Strong Customer Authentication and Common and Secure Methods of Communication (Amendment) (No 2) Instrument 2021 in PS21/19.

Finally, following consultation in CP21/35, the FCA Board has made changes to the technical standard on transaction reporting (Regulatory Technical Standard (RTS) 22, as onshored). As detailed in Handbook Notice 96, these rule changes amend the exclusion from transaction reporting for securities financing transactions (SFTs) which is set out in Article 2(5)(a) of Markets in Financial Instruments Directive RTS 22, as onshored.

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 2021/22, we used the s166 power in 38 cases; in 6 of those cases we appointed the skilled person firm. A total of 13 different skilled persons firms were appointed to undertake these reviews.

The aggregate cost incurred by regulated firms for s166 work undertaken in the 2021/22 financial year, including reviews that remain in progress from previous years, was £37.7m.

The reviews examined a number of regulatory issues, including:

- financial crime
- corporate governance and senior management arrangements (inc. culture)
- adequacy of advice
- adequacy of systems and controls
- client money and client asset arrangements.
- risk management

FCA Sectors	Number of Skilled Person Reports Commissioned in 2021/22
Retail Banking and Payments	8
Retail Lending	4
Retail Investments	8
General Insurance & Protection	1
Pensions & Retirement Income	1
Investment Management	11
Wholesale Financial Markets	5
Total	**38**

Lots	FCA Firm Supervision Category		Total
	Dedicated Supervision	Portfolio Supervision	
Client Assets	0	2	2
Governance and individual accountability	1	5	6
Controls and risk management frameworks	2	9	11
Conduct of Business	1	7	8
Financial Crime	0	11	11
Total	4	34	38

The tables above cover reviews where we exercised our powers under s166 for 2021/22. For PRA information please refer to its publications.

Notes

1. The number of 2021/22 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 final cost in relation to the 15 reviews of Interest Rate Hedging Products, all of which are now complete, was £420.7m.

For 2020/21, 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 2020/21 financial year was therefore reduced to 66.

Appendix 3
RDC Annual Review of the year to 31 March 2022

Introduction from Tim Parkes, Chair of the Regulatory Decisions Committee

This is the seventh annual review published by the Regulatory Decisions Committee (RDC) of the Financial Conduct Authority (FCA). It covers a busy period when the RDC was largely obliged to work remotely rather than from the FCA's offices in London, in light of the restrictions arising from the Covid-19 pandemic. More recently, in light of the easing of restrictions, we have returned in most cases to in-person meetings.

As you will see from the operational performance section of this report, 81 cases were referred to the RDC and 86 cases completed in the period, compared to 224 and 229 in the previous year. The reduction in case numbers is largely a result of the RDC's recent change in remit, as explained below. 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.

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.

In my report last year I noted the internal review which looked at the part played by the RDC in the FCA's decision-making processes. As expected, this resulted in some changes to the RDC's remit, on which the FCA consulted externally. As a result, from 26 November 2021 the RDC has received no new authorisation and approval cases, proposed supervisory actions to impose requirements or to vary or limit a firm's permissions, and proposed civil and criminal proceedings, in respect of which the decisions are now made by the FCA's Executive. The majority of straightforward enforcement cases - cancelling firms' permissions - have also ceased to be matters for the RDC. This change in remit, which is largely responsible for the reduction in case numbers, will allow the RDC to focus in future on the largest and most complex enforcement matters, of which we have seen a notable increase in recent years.

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.

Looking forward to next year, we expect the overall number of cases coming to the RDC from EMO to decrease, reflecting the changes to the RDC's remit, but we expect an increase in the number of large, complex cases which tend to involve both firms and individuals.

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. 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

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 132 decisions on cases (at either the first or final stage) during the year. A number of these were about cancellation actions against firms for failing to pay regulatory fees or submit regulatory returns. As noted in my introduction, these are no longer matters for the RDC. The figure is a decrease on the previous year, which was 371. This is largely a reflection of the RDC's change in remit this year.

The Committee also makes decisions on enforcement actions alleging serious breaches and, until 25 November 2021, made decisions on:

- supervisory actions, which the relevant firm 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 regulatory action is appropriate.

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.

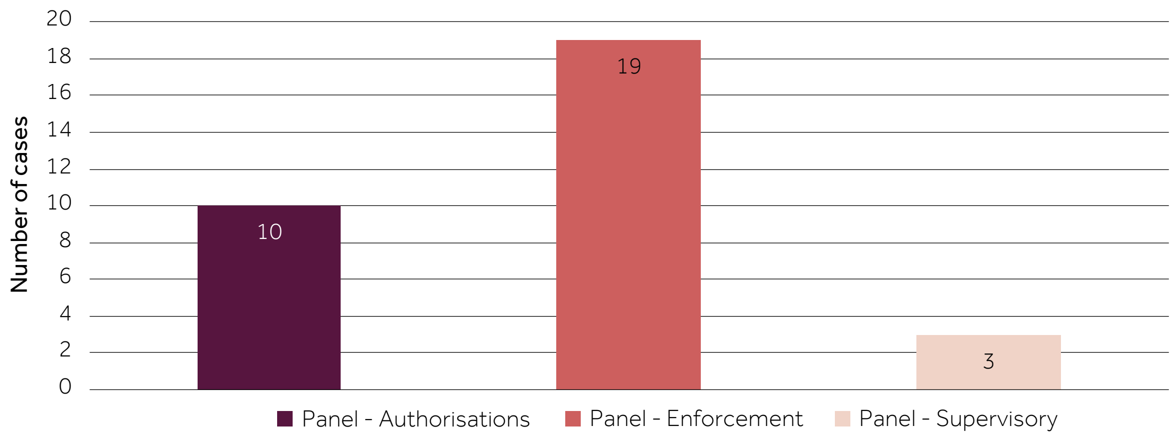
RDC decisions are decisions of the FCA. This means they can only be challenged by the subject of the action, who may refer the matter to the Upper Tribunal for a re-hearing.

Operational performance

Cases received

Cases to the RDC during the year have decreased by 64% 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 16% 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]



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.

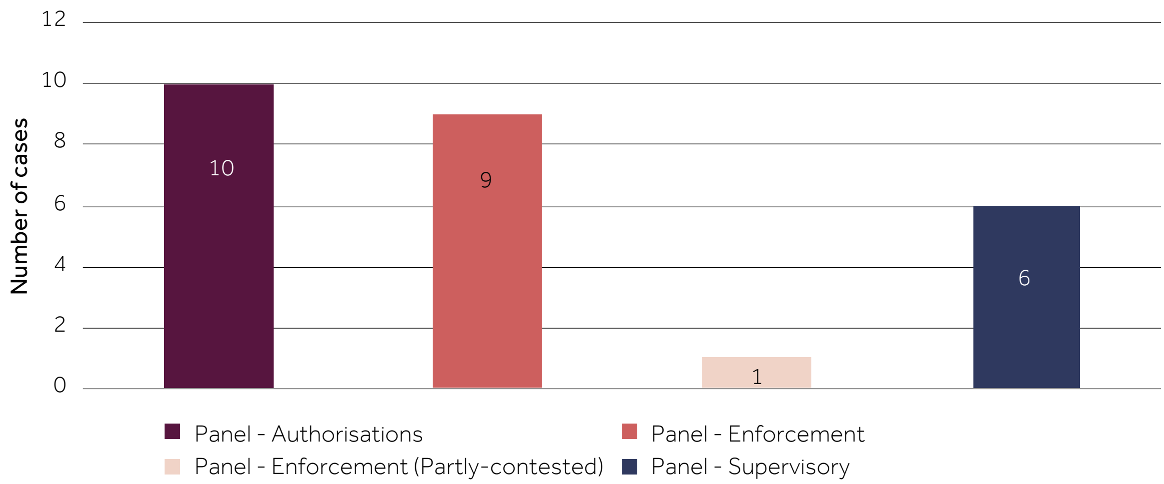
Panel – Authorisations and Straightforward – Authorisations: cases where it is proposed to refuse an application by a firm for authorisation or for an individual to be approved.

As shown in the above graph, 32 panel cases were referred to the RDC this year (compared to 34 last year). In addition to the cases shown in the graph, the RDC received 49 straightforward cases last year. These were: 1 Civil, 3 Criminal, 39 Straightforward – Enforcement, 1 Straightforward - Authorisations and 5 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.

Figure 2: Panel cases completed during the year by case type



As shown in Figure 2 above, 26 panel cases were completed by the RDC this year (down from 32 last year). As well as the cases in Figure 2, the RDC completed 60 straightforward cases last year. These were: 1 Civil, 5 Criminal, 47 Straightforward – Enforcement, 2 Straightforward – Authorisations, and 5 Straightforward – Supervisory.

Outcomes of completed Panel cases

The outcomes of the 26 completed Panel cases were:

- the RDC decided to issue 6 prohibition orders preventing individuals from performing functions related to regulated activities. One of the six cases also included withdrawal of the individual's approval.
- the RDC decided to impose financial penalties on 2 firms, one of which was a partly-contested matter.
- 1 Enforcement case was discontinued by the Executive.
- 1 Enforcement case was settled by the Executive following the issue of a Warning Notice.

- The RDC issued 5 First Supervisory Notices to firms varying permissions and/or imposing requirements. Of the 5 firms:
  - 1 received a Second Supervisory Notice confirming the variation of permission and/or imposition of requirements;
  - 3 did not contest the First Supervisory Notices and the variation of permission and/or imposition of requirements took effect; and
  - 1 firm made representations which lead to the rescission of the variation of permission and/or imposition of requirements.
- The RDC decided not to issue a First Supervisory Notice to 1 firm.
- 1 case regarding an application by a firm for authorisation was withdrawn by the Executive, and the application granted, following submission of evidence that they met the requirements for authorisation.
- 8 applications by firms for authorisation were refused.
- 1 application for authorisation was granted following representations.

Timing

The average time the RDC took to complete a Panel - Enforcement case was 10.6 months from receiving the case papers until either giving a Decision Notice or deciding not to give a notice. This compares with 6.6 months last year. This increase in duration reflects the increase in size and complexity of the cases the RDC has dealt with.

The partly-contested case was completed in 14.2 months. This compares with 4.9 months last year. This case was unusual in that it was dealt with in parallel with several connected fully-contested matters, and therefore could not proceed as quickly as most partly-contested cases do.

Panel – Supervisory cases were completed in, on average, 4.3 months this year, which is the same as last year.

Panel - Authorisations cases were completed in 3.3 months on average, an increase on last year's average of 2.4 months.

Upper Tribunal decisions

Where there are disagreements between the FCA and firms or individuals about the FCA's regulatory decisions, the firm or individual can refer the RDC's decision to the Upper Tribunal (Tax and Chancery Chamber) for a re-hearing. The Tribunal is an independent judicial body established by the Tribunals, Courts and Enforcement Act 2007.

Tribunal proceedings involve a full re-hearing of the case, not an appeal. They also involve different evidence – most notably live witness evidence, including cross-examination before the Tribunal. The RDC does not have any role in the proceedings. The FCA's case is presented by EMO, which can choose to present the case to the Tribunal on a different basis from that presented to the RDC, such as by arguing for a higher financial penalty.

For these reasons, the RDC does not and cannot directly assess the quality of its decisions in these cases based on whether the Tribunal reaches the same conclusion as the RDC. Tribunal decisions are often informative and illuminating, and the RDC actively reviews them for any lessons either about the specific case or about RDC processes and procedures more generally.

During the year, there were 2 substantive Tribunal decisions on cases decided by the RDC (Stuart Forsyth and Jon Frensham). The case against Mr Forsyth, the former CEO of a small mutual insurance firm in Scotland, was the first contested case in which statutory notices were given by both the FCA and the PRA. Both the RDC and the PRA's EDMC concluded that, between 2010 and 2015, Mr Forsyth arranged for a significant proportion of his remuneration to be paid to his wife, who was a part-time employee of the same firm, in order to reduce his tax liability, and that in doing so he acted with a lack of honesty and integrity. The Tribunal disagreed. It found that, in all the circumstances, the payments made to Mrs Forsyth were not excessive, were justified by reference to the work that she undertook and were within the permissible range of remuneration which the firm was entitled to award her. It also disagreed with findings by the RDC and the EDMC that Mr Forsyth had taken steps to cover up the remuneration arrangements for his wife. It therefore concluded that Mr Forsyth did not fail to act with integrity and, as a result, no financial penalty or prohibition was imposed.

Mr Frensham was an independent financial adviser who in March 2017 was convicted of attempting to meet a child following sexual grooming. The Tribunal agreed with the RDC's decision to prohibit him. Although the Tribunal considered that it would not have been appropriate to make a prohibition order against Mr Frensham based solely on the fact of his conviction, it was satisfied that this was a reasonable decision when Mr Frensham's offence was considered in light of the circumstances in which it came to be committed. These included a breach of bail conditions, and Mr Frensham's failure to be open and transparent in his dealings with the FCA, which the Tribunal considered demonstrated that he put his own interests and those of his firm before the need to comply with his regulatory obligations.

12 RDC cases referred to the Tribunal were awaiting substantive hearings or decisions at the year-end (31 March 2022).

Ongoing case loads

At the end of the period of this review, the RDC had 44 ongoing cases:

- 33 open Panel - Enforcement cases
- 3 open Straightforward - Enforcement cases
- 2 open Authorisations cases
- 6 potential cases have been notified to the RDC (Enforcement cases)

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, though we intend to reintroduce in-person meetings this year. 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 future workloads and areas of focus.

The next 12 months

In the next 12 months we expect to see an increase in large, complex enforcement cases which tend to involve both firms and individuals. We also expect to receive cases relating to pension transfer advice, market abuse, and anti-money laundering controls. Otherwise, the RDC expects to see cases reflecting the priorities set out in the FCA's Business Plan for 2022/23.

Appendix 4 Environmental sustainability report

In our Business Plan 2021/22, we emphasised that in delivering our strategic objectives, we have a role to contribute to broader societal goals. The environmental, social and governance (ESG) division and operations division have worked together and with our contractors to embed environmental sustainability considerations in how we currently operate and in our forward-looking programmes.

Our Environmental Policy[1] sets out the commitment from our senior management to be a more sustainable organisation and influences our culture. It guides operations and encourages a collaborative approach to sustainability among teams. Alongside our formal levels of control, Sustain internal employee network acts as an advocacy group where FCA and PSR colleagues share common interests on environment and sustainability. Through the year, the network has provided recommendations and facilitated engagement, organised online events and helped advancing our sustainability plans.

The impact of our activities on the environment that we report this year is unusual, with significant improvements compared to pre-pandemic levels. Our presence in offices and our business travel were limited, while towards the end of the financial year, we have adopted a hybrid working model. Returning more often to office was also observed in our environmental monitoring process. We track our performance and pursue continual improvement through an environmental management system. The process operates in line with ISO 14001[2] standard and is certified for conformity by an independent third-party audit organisation.

1 FCA Environmental Policy Statement, December 2021.
2 ISO 14001:2015 specifies the requirements for an environmental management system that an organization can use to enhance its environmental performance.

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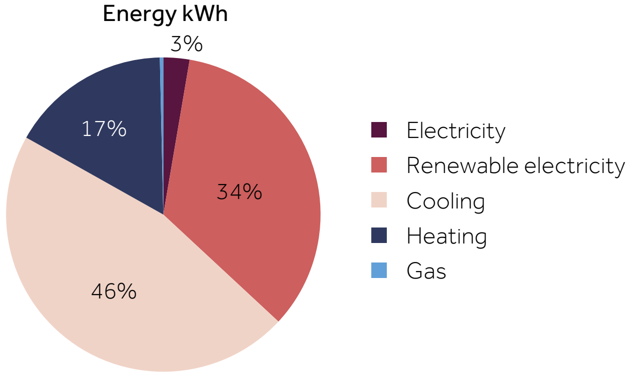
Energy

'SDG[3] 7. Ensure access to affordable, reliable, sustainable and modern energy for all' – 'Indicator 7.2.1: Renewable energy share in the total final energy consumption'

Sustainability was a strategic consideration in the decision-making process of moving our headquarters to Stratford, London in 2018. Ever since, our use of utilities has been more efficient, generated fewer greenhouse gas (GHG) emissions and reduced our dependency on fossil fuels.

Energy kWh



Total energy: >34% renewable

Electricity: 92.7% renewable

Gas: <1% of total energy – low dependency

Heating and cooling: low-carbon Olympic Park district energy

London office: awarded BREEAM[4] 'Excellent'

		London/Edinburgh	London			
		2021/22	**2020/21**	**2019/20**	**2018/19**	**2017/18**
Energy consumption (kWh)	Gas	22,451	1,261	61,197	139,257	268,885
	Electricity	2,340,927	1,555,975	2,657,318	7,110,688	11,638,810
	Cooling	2,930,768	2,117,876	3,290,931	2,257,287	n/a
	Heating	1,045,840	1,034,690	1,042,571	616,866	n/a
	Total	**6,339,986**	**4,709,802**	**7,052,017**	**10,124,098**	**11,907,695**
Cost (£ '000)		693.09	437	758	1,056	1,310

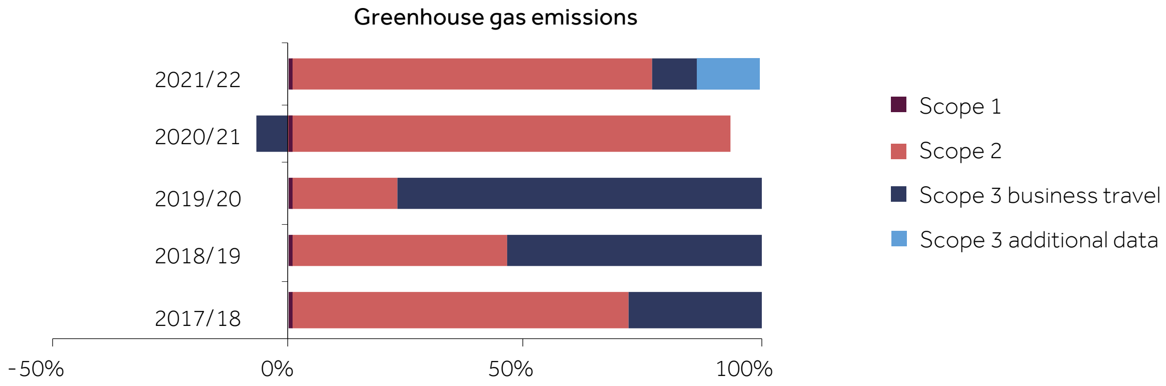
3 Sustainable Development Goals (SDGs) are a collection of 17 goals set up by the United Nations as a call for action to promote prosperity while protecting the planet.

4 Building Research Establishment Environmental Assessment Method (BREEAM) .is a certification which drives the built environment's performance across an entire sustainability spectrum.

Greenhouse gas emissions

'SDG 13. Take urgent action to combat climate change and its impact' – 'Indicator 13.2.2: Total greenhouse gas emissions per year'

Through the year, the office facilities were maintained at minimal levels to ensure operational functionality, while most of us were primarily working from home. In our Edinburgh office, we have monitored utilities and the associated GHG emissions impact. During this time, we saw a 96% reduction in our business travel emissions compared to the levels in 2019/20. However, we wanted to broaden our view of our environmental impact, so we have been working to develop approaches to calculating the GHG emissions from home-working and commuting to work. We also ran a survey through which colleagues contributed information on their home-working arrangements and commutes. As a result, we were able to arrive to initial estimates that are set out in the TCFD[5] Report we have published alongside this report.



GHG emissions: 453 tCO2e – includes Scope 1[6], Scope 2 and Scope 3 business travel.

Carbon intensity: 116 KgCO2e/FTE – calculated by dividing 453 tCO2e by 3,892 FCA and PSR full-time equivalent employees (FTE).

Scope 1 and 2 emissions reductions: 91% down from 2017/18, as a result of moving to new headquarters and the pandemic restrictions, but adding Edinburgh office data.

GHGs emissions accounting for additional Scope 3 data: 69.26 tCO2e – includes Scope 1, 2 and Scope 3 business travel and additional data as outlined further in the report.

5 Task Force on Climate-Related Financial Disclosures (TCFD) are designed to provide decision-useful, forward-looking information that can be included in mainstream financial filings.

6 As defined by the GHG Protocol, Scope 1 covers direct greenhouse emissions from owned or controlled sources, such as gas used onsite. Scope 2 covers indirect emissions from purchased electricity, heating, and cooling by the reporting company. Scope 3 includes all other indirect emissions that occur in a company's value chain, including from suppliers.

		London/Edinburgh	London			
		2021/22	2020/21	2019/20	2018/19	2017/18
Greenhouse Gas[7] (CO2e tonnes)	**Scope 1**	**4.11**	**0.2**	**11**	**22**	**50**
	Scope 2	**398.78**	**308**	**376**	**1,509**	**4,439**
	Scope 3 Business travel:	**49.92**	**-22**	**1,308**	**1,793**	**1,771**
	Air – Domestic	19.46	-2	403	535	445
	Air – Europe (>3,700 km)	8.26	0	89	105	107
	Air – International (3,700km+)	13.24	-24[8]	764	1008	1,091
	Rail/Eurostar/Ferry	3.01	0	29	93	99
	Car hire/taxi	3.58	4	23	53	29
	Personal car mileage	2.37	-	-	-	-
	Total	**452.81**	**286**	**1,695**	**3,324**	**6,260**
	Carbon offset (via airline travel partner)	-	-	12	-	-
	Total after offsets	**452.81**	**286**	**1,683**	**3,324**	**6,260**
Cost (£ '000)	Business Travel[9]	80.79	7	1,509	1,681	1,604
	Carbon offset[10]	-	-	30	80	87

7 Scope 1 – Gas (London, Edinburgh), Scope 2 – Electricity (London, Edinburgh), District heating and cooling (London).
8 Minus figure due to cancelled travel that was booked in advance.
9 Business travel excluding accommodation and expenses.
10 Carbon Reduction Commitment scheme (CRC) ended in 2019.

We have improved and extended the coverage of the Scope 3 indirect GHG emissions from upstream activities in our value chain in London and partially in Edinburgh. Those covered so far in our assessment are included in the table below, while emissions from purchased goods and services, as well as the estimates of emissions associated with working from home and commuting to workplace are presented in our TCFD Report.

		London/Edinburgh 2021/22
Greenhouse Gas (CO_2e tonnes)	**Scope 3 additional data:**	
	Transmission and distribution (T&D) of electricity	44.53
	Post and courier	15.57
	Water usage	1.12
	Wastewater treatment	0.21
	E-Waste	0.02
		London
	T&D of heating and cooling by district network	3.26
	Use of printing paper	3.09
	Waste	1.23
	Recycled confidential paper waste	0.24
	Total	**69.26**
	Carbon offset (via courier partner)	15.57
	Total after offsets	**53.69**

Water usage

'SDG 6. Ensure availability and sustainable management of water and sanitation for all' – 'Indicator 6.4.1: Change in water-use efficiency over time' – 'Indicator 6.4.2: Level of water stress: freshwater withdrawal as a proportion of available freshwater resources'

Fresh water is supplied by water mains. In our London office, a rainwater harvesting system supplies the water used in the toilet flush system after being filtered. Washrooms operate automatic sensor taps to reduce water consumption. Our offices are not situated in locations with water scarcity, however effects from climate change include more frequent and intensive storms that can create flash floods. Overfloated sewer systems pose risk of water pollution, which further can affect health, access to clean water and costs.

	London/Edinburgh	London			
	2021/22	2020/21	2019/20	2018/19	2017/18
Water consumption (m^3)	6,643	4,342	22,763	54,508	52,698
Cost (£ '000)	18.64	11	15[11]	137	109

11 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 minimisation and management

'SDG 12. Ensure sustainable consumption and production patterns' – 'Indicator 12.5.1: National recycling rate, tons of material recycled'

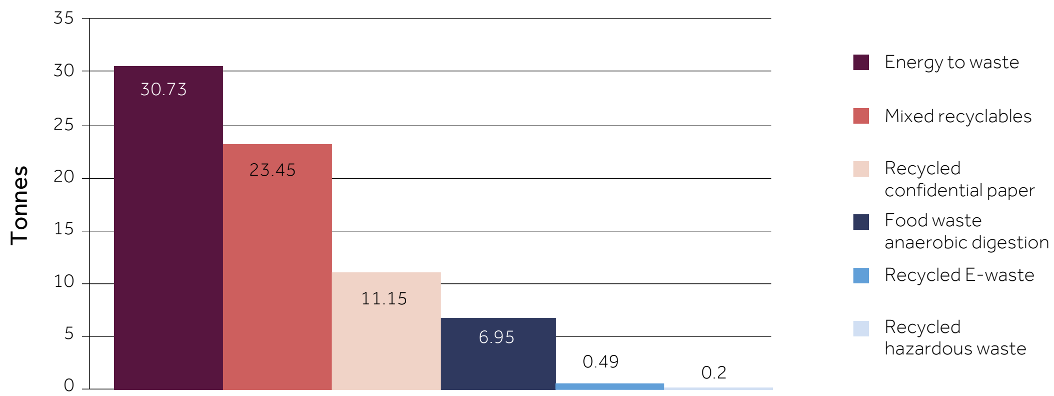
We have followed the waste hierarchy (prevent, reuse, recycle, recover, disposal) to minimise waste and reduce costs. Waste is prevented by eliminating consumer single-use plastics as much as possible and practicing waste segregation. In London office, we maintained a symbolic charge on disposable cups and food packaging purchased on site, while offering reusable alternatives. To bring awareness to our colleagues, we have reintroduced the monthly recycling and waste performance indicators featured on office floors. Regarding systems, our E-waste[12] partner has remarketed some of our IT equipment, meaning it is reused instead of being recycled.

58%[13] waste recycled vs. 70% target

Confidential paper waste is part of a closed loop recycling, which is a process of recycling material back into the same product, therefore, contributing to a circular economy.

Otherwise, most of our waste is recycled in an open loop recycling, which is a process of recycling material into other products.

Waste that is not recycled is incinerated with energy recovery, while biogas is recovered from food waste in a process of anaerobic digestion.



12 E-Waste (electronic waste) includes discarded electrical and electronic products, for example laptops, mobile phones, monitors, printers, data centre systems.

13 58% waste recycled includes: mixed recyclables, recycled confidential paper waste, food waste, recycled hazardous waste, recycled E-waste.

		London				
		2021/22	2020/21	2019/20	2018/19	2017/18
Waste (tonnes)	Mixed recyclables	23.45	7	211	357	482
	Food waste – biogas recovery	6.95				
	Confidential paper waste	11.15				
	Waste from energy	30.73	10	113	109	79
	Hazardous waste:	0.30	0.28	1	2	2
	Recycled	0.2				
	Energy from waste	0.1				
		London/Edinburgh				
	ICT equipment and E-waste:	0.84				
	Remarketed	0.02				
	Recycled	0.49				
	Energy from waste	0.33				
	Total	73.42	17	325	468	563
Cost[14] (£ '000)	Mixed recyclables	36.39	58	179[15]	98	89
	Food waste	10.74				
	Confidential paper waste	52.98				
	Energy from waste	78.64	17	-	51	41
	Hazardous waste	0.76	27	25[16]	11	12
	ICT equipment and E-waste	-	-	-	-	-
	Total	179.50	102	204	160	142

14 Some costs are calculated as a proportion of waste managed (mixed recyclables, food waste, energy from waste) of the total charge by the property owner.
15 Energy from waste and recycled waste are not charged separately by the property owner.
16 Hazardous waste costs include the full service, not limited to disposal.

Paper consumption

'SDG 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss' – 'Indicator 15.2.1: Progress towards sustainable forest management'

We use recycled paper, otherwise, certified paper sourced from sustainably managed forests, while our digital transformation has helped to reduce paper consumption. For instance, on-floor printers are configured to black-and-white and double-sided default printing to ensure efficiency. Our paper reduction target is 75% on 2017/18 baseline and while mostly working from home, we have:

- **reduced by 98% employee printing** on multi-functional devices (MFD) on baseline.
- **reduced by 74% business printing** reprographics on baseline.

		London				
		2021/22	2020/21	2019/20	2018/19	2017/18
Total sheets	A4 Sheets	665,550	582,526	6,087,513	8,761,299	17,537,181
	A3 Sheets	3,022	1,142	26,865	45,403	66,832
A4 reams equivalent	**Employee printing** (multi-functional devices)	**441**	-	-	-	-
	Business printing (reprographics)	**902**	-	-	-	-

Sustainable Procurement

'SDG 12. Ensure sustainable consumption and production patterns' – 'Indicator 12.7.1: Degree of sustainable public procurement policies and action plan implementation'

Policy and guidelines: we are paying greater attention to sustainable procurement within our organisation. We have updated our environmental policy and our Supplier Code of Conduct, outlining our expectations of working with suppliers and colleagues to improve sustainability.

Tendering: we finalised the tender on facilities management in which environmental sustainability, corporate responsibility and health, safety and security were among the evaluation criteria.

Industry engagements: we participated in external working groups on ESG in supply chains to maintain our awareness of industry best practices and standards.

Supplier Management Framework: we completed an annual attestation process with tier 1 and tier 2 suppliers on commitments to regulatory compliance and furthering environmental sustainability.

Living Wage: we continued our accreditation that applies to FCA employees and contractors.

Our restaurant and catering services: the restaurant in our London office is operated by a food services and hospitality group awarded the Sustainable Restaurant Association (SRA) Three Star Champion Status. It is accredited with Planet Mark and certified with ISO 14001 for operating an environmental management system in catering contract management. Additional sustainability credentials:

- The restaurant ensured food diversity and offered plant-based menu options daily.
- 100% of fish was sourced from sustainable lists endorsed by the Sustainable Restaurant Association, the Marine Conservation Society, and the Marine Stewardship Council.
- Fairtrade coffee was sourced from a single-origin Nicaraguan community cooperative.
- Eco-cleaning products were used to reduce the impact on water from cleaning chemicals.
- Reusable cups and food containers were sold as an alternative to single-use packaging.

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