

FCA Business Plan 2020/2021

The FCA has recently published its Business Plan for 2020/2021. This newsletter summarises the key messages for firms and focusses on the FCA's plans over the next three years.

Areas of focus:

- The FCA's response to COVID-19
- The FCA's strategic priorities over the next 1-3 years
- Sector work; includes the investment management industry and wholesale financial markets
- Cross-sector work; which includes financial crime and operational resilience



COVID-19 Response

In relation to the coronavirus, the FCA notes that firms must continue to act in a way that is fair to their consumers and must ensure that they are giving consumers the support they need. The FCA recognises that there may be people who are looking to take advantage of the current crisis and use it as an opportunity for poor behaviour – including market abuse, capitalising on investors' concerns or renegeing commitments to consumers. The FCA notes that it will remain vigilant to potential misconduct and will clamp down with appropriate force where poor practice is identified. One of the key takeaways for firms is that they must continue to comply with relevant regulatory requirements. For instance, firms should continue to take all steps to prevent market abuse risks through monitoring and surveillance, and should also continue to record calls (or have a strong mitigation plan in place if they are unable to do call recording). In addition to the business plan, the FCA has also been issuing guidance on what is expected from firms in the [*FCA information for firms on coronavirus \(Covid-19\) response.*](#)

Newgate comment: Please contact Newgate if you would like assistance with remote monitoring and surveillance during this time.

Strategic priorities over the next 1-3 years

In addition to the work around COVID-19, the FCA has also set out five medium-term outcomes which it hopes to achieve over the next 1-3 years.

For the purpose of focussing on areas which affect our clients, the following points should be noted:

1. Enabling effective consumer investment decisions

- The FCA identifies a significant risk of harm to consumers in the retail investments and pensions markets. The FCA states in its business plan that consumers in these markets are often exposed to high levels of volatility which can lead to huge losses for them.
- The FCA recognises that some consumers are exposed to more investment risk than they expected or can absorb, and that some high-risk investment products are disguised in investment wrappers. The FCA want to ensure that products are designed to meet consumer needs, and that distributors market them in a fair and not misleading way.
- The FCA also wants to ensure that firms have governance of individuals in their distribution chains so the regulatory system can better tackle the misconduct which takes place in this market.

Newgate comment: The above evidences the FCA's continued focus on how firms are meeting their Product Governance obligations particularly in respect of assessing the target market for products, choosing appropriate distribution channels and ongoing monitoring. Please contact Newgate for a review of your Product Governance framework.

2. Ensuring consumer credit markets work well

The FCA makes reference to the economic impact of COVID-19 and recognises that the current crisis may lead to an increased dependence on the credit market. The FCA aims to make consumer markets work well by ensuring consumers are able to find products that meet their needs and are given clear information which allows them to understand what products are available to them. The FCA recognises that during this crisis, vulnerable consumers, which may include those who are struggling financially, may be more inclined to choose products that come at a high cost. Firms should not seek to capitalise on heavily indebted consumers by imposing high fees.

Newgate comment: The FCA has been consulting on Guidance for firms on the fair treatment of vulnerable customers in order to provide regulatory clarity for firms involved in the supply of products or services to retail customers who are actually, or are potentially, vulnerable. Please contact Newgate if your policies and procedures require update around this topic.

3. Delivering fair value in a digital age

The FCA has found that firms have failed to deliver fair value to consumers, some of whom pay a loyalty penalty. The FCA wants to use digital innovation to be able to scrutinise firms' pricing strategies and algorithms to ensure that all consumers are treated fairly.

4. Transforming how the FCA works and regulates

The FCA has indicated that it wants to be able to make faster and more effective decisions. As the regulatory landscape becomes more complex and the number of regulated firms increases, the FCA wants to invest in itself and develop its capabilities. It aims to update its current process on how it deals with information received from firms and intends to invest in its systems and processes. The FCA acknowledges that more effective use of information and intelligence will allow harmful activity to be more quickly identified and removed.

Newgate comment: We have seen a greater degree of intrusion from the FCA where they have used intelligence from their supervisory activities as a means to contact firms with 'Section 165' information requests. Please get in touch with Newgate if you receive one of these.

Sector work

Wholesale Financial Markets – The FCA will:

- Focus on an orderly transition from Libor by the end of 2021.
- Ensure that financial markets are clean so that it is more difficult to commit market abuse and financial crime.
- Ensure that markets deliver a good range of value, high-quality products and services to market participants. The FCA published a Call for Input 9 March, to better understand how market participants are using market data and advanced analytics.
- Seek to improve market effectiveness and ensuring that markets meet users' needs. This will be done through enhancing governance and accountability through SM&CR. The FCA has also carried out a review of remuneration practices in in the wholesale broker sector, and expects to introduce a more risk-sensitive prudential regime for investment firms in 2021.

Investment Management – The FCA will:

- Ensure that investors get high-quality, fair value, products and services.
- Continue to assess the impact of remedies from the FCA's Asset Management Market Study 2017.
- Continue to prioritise effective governance and expect firms to implement the SM&CR to help deliver this.
- Continue to assess asset managers' exposure to LIBOR risk and want to ensure and will monitor how firms implement these plans.

Newgate Comment: We have seen a recent rise in the use of 'Dear CEO Letters' from the FCA where they are proactively contacting firms depending on their sector to inform them of their supervisory focus. Please contact Newgate to discuss these letters and if you have not already done so consider setting a Senior Management attestation on GATEway for these communications.

Cross-sector work

Operational Resilience

- The FCA will be publishing final rules after the consultation period ends on 1 October 2020.

Newgate comment: The recent COVID-19 pandemic has given firms the opportunity to demonstrate contingency plans are in place to deal with major events. Newgate is monitoring the current FCA consultation on Operation Resilience to assess the key points for clients. If you require any assistance around reviewing your firm's business continuity plan or financial resilience then please contact your Newgate Consultant.

In relation to reducing Financial Crime, the FCA will:

- Continue to take enforcement action where serious breaches are found, particularly where there is a high risk of money laundering;
- Ensure that firms have effective systems and controls in place to detect, disrupt and reduce the risk of financial crime.

Newgate comment: Financial Crime mitigation has been a key area of focus for the FCA for some time. Please get in touch with Newgate to discuss your governance framework and controls for mitigating financial crime risk. We can assist by: helping to produce or review financial crime policies and risk assessments, conduct market abuse risk assessments; review the need for automated surveillance mechanisms; and delivering of face-to-face or online training via the Gateway on financial crime topics.

Culture in financial services

The FCA expects all firms to comply with the SM&CR rules and will continue to focus on the 4 key drivers in firms – purpose, leadership, approach to rewarding and managing people, and governance.

In relation to EU withdrawal and wider international work, the FCA will:

Continue a schedule of work to ensure that the UK financial services industry is prepared for the end of the Brexit transition period. This includes preparing transitional measures, such as the temporary permissions regime for EEA-based firms and funds passporting into the UK.

Climate change

The FCA will continue to work in this area and will assess the feedback to its recent consultation on new climate-related disclosure rules for some issuers.

Newgate comment: We have noticed investors take an interest in firms' approach to Environmental, Social and Governance investing and that ESMA are looking at implementing enhanced governance and disclosure requirements for firms in 2021 relating to sustainable finance. Please contact Newgate to begin to make preparations for these changes.

With regard to Innovation and technology, the FCA will:

- Invest in new technologies and skills so that it can make better use of data to regulate efficiently and effectively.
- Replace the Gabriel system with a new platform for collecting firms' data which will provide an improved user experience to reduce the burden of regulatory reporting.
- Strengthen the rules surrounding money laundering.
- Deepen its engagement with industry and society on artificial intelligence and focus on how to enable safe and ethical use of new technologies.

Newgate comment: If you have not already done so, please log into GABRIEL to complete a mandatory one-time registration in advance of the new system roll out.