



Newgate News

Up to date compliance news for firms in the financial services sector.



Special Edition: FCA Business Plan 2016/17 (detailed)

The FCA has released its annual Business Plan setting out its priorities for the financial year. Like last year, FCA have identified seven themes which will form the primary focus for its discretionary work over the next 12 months. Five of these themes are continuations from the previous year's business plan (pensions, financial crime and AML, innovation and technology, culture and governance, treatment of existing customers) plus two new themes (wholesale financial markets and advice).

The seven priority themes, what the FCA wants to achieve and brief details as to the work to be undertaken is given below;

Financial crime and Anti-Money Laundering: “Better, proportionate and more efficient AML controls and consumers who are better able to avoid scams”

FCA will roll out its Financial Crime Annual Data Return for firms to complete. This is planned to come into effect at the end of this year. The data collected will be assessed and used by FCA to focus on firms that present the most risk. Where warranted, FCA will use its enforcement powers to impose restrictions on firms to limit the level of risk.

FCA will be working with the Treasury on the implementation of the EU 4th Money Laundering Directive (4MLD) which requires implementation by mid-2017.

FCA will continue its focus on action against firms and individual operating scams under the guise of regulated activity. FCA will run a new phase to the ScamSmart campaign launched last year, aimed at retired consumers and those approaching retirement, to increase awareness so consumers are on their guard against dealing with unauthorised persons.

Wholesale financial markets: “Strong controls which protect market integrity and ensure clean, efficient and effective markets”

The new EU Market Abuse Regulation (MAR) comes into force as from 3rd July 2016, designed to increase market integrity and investor protection, while ensuring a single rulebook and level playing field across the EU, and to increase the attractiveness of securities markets for capital raising.

FCA will be working on preparation for the Markets in Financial Instruments Regulation (MiFIR) which will require firms to report across a wider range of asset classes than they do now, therefore tightening market abuse monitoring controls. MiFIR comes into force January 2018.

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FCA will be working on implementing the recommendations made in the Fair and Effective Markets Review (FEMR) conducted jointly by the Bank of England, FCA and the Treasury. The review is a comprehensive and forward-looking assessment of the way wholesale Fixed Income, Currencies and Commodities (FICC) financial markets operate and was commissioned to help restore trust in wholesale markets in the wake of a number of high profile abuses, and to influence the international debate on trading practices.

The final report set out 21 recommendations to, amongst others, raise standards, professionalism and accountability of individuals, improve the quality, clarity and market-wide understanding of FICC trading practices, strengthen regulation of FICC markets in the UK, cooperate with international counterparts to improve standards in global FICC markets and promote forward-looking conduct risk identification and mitigation. <http://www.bankofengland.co.uk/markets/Documents/femrjun15.pdf>

We can expect further Consultation Papers on the topic of MiFID II as things start to become clearer. The implementation date of MiFID has of course been put back by a year to January 2018.

FCA will continue its asset management market study to understand whether competition is working effectively and investors get value for money when purchasing asset management services. An interim report is expected in the summer and a final report in early 2017

Finally, FCA will be looking at the effectiveness of the UK Primary Markets. Work will include contributing to the negotiation of the proposed new Prospectus Regulation ("PD3") and options for improving the availability of information in the UK IPO process.

Innovation and technology: "Resilient systems and new sources of competition"

Technology can drive down the cost of accessing products and services, and can push up the quality of service. But it can present challenges to markets and regulators alike, including resilience, cyber-crime and financial exclusion.

FCA will increase awareness and capacity of Project Innovate which aims to offer support to innovator businesses looking to introduce new or significantly different financial products or services which increases competition. Part of the Project Innovate initiative is the introduction of the 'Regulatory Sandbox'; a safe space in which firms can test innovative products, services, business models without immediately incurring all the normal regulatory consequences of engaging in the activity in question.

FCA will communicate to firms their expectations on the operational resilience of IT systems, continue its work with Treasury, the Bank of England and others to provide a joined-up and risk-based approach to combating Cybercrime and continue its monitoring of developments in automated advisory services.

Firms' culture and governance: *"Strong culture and governance which helps competition and consumers alike".*

FCA will continue to work with firms and other bodies on driving culture change throughout the sector. FCA will continue to review the regulatory framework governing remuneration to encourage sound risk management, discourage payment of rewards where excessive risk and generally review how firms are implementing their remuneration policies to meet regulatory requirements.

March 2016 saw the implementation of the Senior Managers and Certification Regime ("SMCR") designed to enhance personal accountability of senior individuals at firms in the banking sector, providing clarity about the responsibilities senior managers hold. Over the year FCA will be working on the development of FCA's policy of extending the SMCR to all firms. Ultimately, FCA will be looking for all firm over the medium to long term to be able to demonstrate a culture of accountability at all levels.

Treatment of existing customers: *"Effective competition, a fair deal and greater transparency for long-standing customers"*

FCA's work in this area will focus on completion in Retail Banking to address concerns that the sector does not compete effectively or meet the needs of individuals or small and medium sized enterprises (e.g. Improving the account switching process, making it easy to open Business Current Accounts).

FCA will develop a package of remedies to deliver improved customer awareness about interest rates on their accounts.

Pensions: *"Fair treatment for consumers, stronger competition and a market that meets consumer needs"*

In light of market developments brought about by the reforms to pensions legislation announced in the 2014 Budget, FCA intends to undertake a thematic review on Retirement Outcomes this year.

The review will consider the impact of the pension reforms on completion and switching in the market. FCA will consult on imposing a cap on early exit charges imposed by pension providers to ensure consumers are able to use the new pension freedoms and transfer their pensions more freely. The new pension freedoms allow consumers to release their pensions pots as a cash lump sum or to choose drawdown products. FCA will undertake work to ensure that consumers are able to make choices that are in their best interests given their circumstances.

The timing of the review will allow FCA to integrate it with the wider Financial Advice Market Review ("FAMR") to address concerns that the market for financial advice in the UK was not working well for all consumers. (See below).

Advice: “Affordable, professional advice to meet consumers’ changing and complex needs”

As referred to above the FAMR, published in March 2016, made a number of recommendations aimed at providing consumers with access to affordable financial advice and guidance.

FCA will work on implementing the recommendations and developing policies to support the development of the advice market.

Of course, these priorities do not represent the totality of the FCA’s work. They will be used to drive FCA decisions about its thematic projects and market studies, and also inform the areas FCA pays particular attention to in conducting its core activities of developing policy, reviewing competition, authorising and supervising firms and setting and enforcing its rules.