

## **Response to the Thirteenth Report of the Treasury Committee, 2014/15**

### **Press briefing of the FCA's Business Plan for 2014/15**

**June 2015**

#### **Introduction**

- 1.1 The Financial Conduct Authority (FCA) welcomes the opportunity to respond to the Treasury Committee's report on the press briefing of our Business Plan for 2014/15, which relates to events that took place on 27 and 28 March 2014 and the circumstances leading to those events.
- 1.2 The Committee's report makes several recommendations for the FCA. We have set out in this document our response to these recommendations and, where appropriate, describe our next steps towards implementation.
- 1.3 We began work to identify and address the lessons learned on 27 and 28 March 2014 immediately following the events, including conducting three Internal Audit reports (external communications, incident management and price-sensitive information), and implementing their findings.
- 1.4 We have also begun, and in many cases completed, our work to address the recommendations made by Simon Davis in his report of 10 December 2014.<sup>1</sup> This report contained 22 recommendations, all of which we accepted, as outlined in our response, also published on 10 December.<sup>2</sup> As a result, some 63 separate actions were identified in order to ensure each recommendation is fully addressed. All of these actions are well advanced, with three quarters completed and the remaining 14 actions due to be completed by the autumn.
- 1.5 In this response, we have concentrated on the recommendations of the Committee, rather than those of Simon Davis. Accordingly, we have only mentioned our work to implement Simon Davis' recommendations where this work also addresses the recommendations of the Committee. As such, we will be clear in our response to the Committee's report where we believe we are already making progress towards the Committee's recommendations.

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<sup>1</sup> Simon Davis/Clifford Chance LLP, Report of the Inquiry into the events of 27/28 March 2014 relating to the press briefing of information in the Financial Conduct Authority's Business Plan 2014/15, 10 December 2014

<sup>2</sup> Financial Conduct Authority, The Davis Review – The FCA Response, 10 December 2014

- 1.6 We recognise the importance of transparency and accountability, not only to Parliament and the Treasury but to the wider public, particularly regarding the issues raised in the Committee's Report. We expect to continue our discussions on these matters with the Committee over the coming Parliament.

## **Communications strategy and methods**

### *Communications approach*

- 2.1 The Committee recommends that **'the FCA should take particular note of Simon Davis' recommendation that it adopt a factual, evidence-based approach to communications, avoiding sensational headlines where possible'** (Paragraph 75).
- 2.2 We agree with the Committee's recommendation regarding our approach and have taken particular note of Simon Davis' comments (made in Paragraph 19.55 of his review). We have identified eight overarching principles that guide our communications approach. These are promoting understanding of the FCA, accuracy, transparency, accessibility, predictability, consistency, responsiveness and professional excellence. These principles encourage a factual, evidence-based approach and we are confident that our news releases, including our supporting materials - as well as our interaction with journalists - reflect this.
- 2.3 These principles have been set out in a new Press Office Handbook, which combines an articulation of our approach with the outcomes of our review of methods (detailed below in response to Paragraph 100 of the Committee's Report). This Handbook has been issued to all members of staff in the Press Office, and will be a key component of the induction process for new Press Office hires. The Handbook includes clear guidance on handling price-sensitive information, which is explained below. The Handbook will be published.

### *Identifying price-sensitive information*

- 2.4 The Committee further recommends that **'the FCA...must (not only) take more care to identify price-sensitive announcements, but consider that its briefing strategy could lead to non-price-sensitive releases becoming price sensitive'** (Paragraph 100).
- 2.5 While the Davis Review found that employees from the Communications and Supervision Divisions 'had a broad understanding of what is meant by price sensitive or market

sensitive information<sup>3</sup>, we recognised a clear need to improve our capacity to identify potentially price-sensitive information.

2.6 Assessing whether information is price sensitive is a complex matter. We train staff to use their judgement, by asking a series of questions in order to assess whether a piece of information might be price sensitive. Staff are expected to consult with their line managers and the originator of the information, and/or the Market Oversight Division, as appropriate.

2.7 Our Information Classification system has been revised in order to increase our focus on price-sensitive information. This revision has included the introduction of a new category of information. The FCA Information Classification system now has four categories. 'Unrestricted' and 'FCA Restricted' categories are used for information that is not judged to be price sensitive. Information that has been judged to be price sensitive will be placed in the 'FCA Controlled Distribution' category or the new category, 'FCA Highly Sensitive Information', which are explained below. Both are subject to strict controls.

- FCA Controlled Distribution - Unauthorised disclosure of this type of information could cause significant and potentially long-term damage to the organisation or to a firm. Information in this category includes most information considered to be market sensitive or 'inside information'. Access to information in this category will be restricted to those having a 'need to know' and in some instances this may be a small group or a large group from multiple divisions.
- FCA Highly Sensitive Information (HSI) - Unauthorised disclosure of this type of information would severely affect the operation of a market, or would cause a major shift in market price for a high-profile firm or group of firms. Access to information in this category will be strictly restricted to a small group with a demonstrable 'need to know'. Heads of Department or above will approve classification as HSI and also the names of people who need to see it.

2.8 The introduction of the new system has been supported by:

- Presentations by Operations staff at Senior Leadership Team (Heads of Department and above) and Senior Management Team meetings.
- Compulsory tailored training sessions, including case study exercises, for managers in our former Communications, Supervision, Markets and Policy,

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<sup>3</sup> Simon Davis/Clifford Chance LLP, Report of the Inquiry into the events of 27/28 March 2014 relating to the press briefing of information in the Financial Conduct Authority's Business Plan 2014/15, 10 December 2014 – paragraph 4.59

Risk & Research divisions, as the divisions most likely to handle price-sensitive information. Managers then cascaded the information to their teams.

- The rolling out of the above training sessions across all divisions.
- Information on the FCA's intranet, significant revisions to the FCA's Employee Handbook<sup>4</sup> (which can be accessed online at any time) and an all-staff email from the Chief Executive.
- An update to induction information for new staff.

2.9 Underpinning the work we have done in this area, all staff and managers are expected to confirm that they understand and abide by our expectations of confidentiality and information security, using an online attestation tool, which sits alongside our Code of Conduct. Staff attestations will be monitored and reviewed annually.

*Briefing strategy for information that is clearly or potentially price sensitive*

2.10 It is established practice in the FCA not to pre-brief information that is price sensitive. As the Davis Review found, we fell short because we did not identify that the information we briefed had the potential to be price sensitive. One of the emphases of the training referred to in 2.8 is to clearly establish for all staff that a wide range of information we handle or create has the potential to be price sensitive.

2.11 Established practice for information that is clearly or potentially price sensitive is that it is published on our website and via the Regulatory News Service (RNS) simultaneously, and only emailed to our press distribution list after this point. In such situations, press briefings, if needed, will occur after publication to explain the press notice in more detail. This ensures that the market has equal access to information.

2.12 As an example of potentially price-sensitive information, our Business Plan for 2015/16 was made available publicly to all market participants at the same time through publication on our website and via RNS. We expect that future Business Plans will be treated in the same way.

2.13 There may, however, be exceptional circumstances in which pre-briefing of price-sensitive information under a very strict embargo may be necessary. In our view it is sensible to maintain the flexibility to do so, principally if we have judged that highly complex information, or underlying issues, could cause confusion in the market if inaccurately reported. Such briefing will only take place with the approval of the Chief Executive.

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<sup>4</sup> Financial Conduct Authority, Employee Handbook <https://www.fca.org.uk/static/fca/documents/staff/fca-employee-handbook.pdf>

2.14 In these situations, journalists will be invited to attend a controlled pre-briefing, normally to take place on FCA premises. All embargoed briefings will be controlled by the relevant press officer who must attend, and will be led by a member of our senior management. Journalists will be asked to hand in mobile devices and will not be able to leave the room where the briefing is taking place until the embargo has expired and the information has been released to the market.

*Briefing strategy for all other information*

2.15 We have given thorough consideration to our press briefing strategy since the events of 27 and 28 March 2014, and further in light of Simon Davis' findings. As a result we have made a number of adjustments to our approach to press briefing, as set out below.

2.16 Where material is judged not to be price sensitive and we do not believe there is a risk of it becoming so, it may be distributed under embargo to the Press Office's usual distribution list. The embargo will lift as the official announcement is made and the information becomes available to the public more generally. The aim is to give the journalist(s) sufficient time to understand a key issue before publication, and to encourage accurate reporting, while ensuring that the market has access to official information regarding any upcoming activity.

2.17 When deciding whether to brief information under embargo, consideration will be given to whether doing so will achieve the above aim. Again, the paramount consideration must be whether releasing certain information under embargo is compatible with our information-handling policy. Any briefing of this nature will need to be authorised by the Director of Communications and the relevant Executive Committee director.

2.18 An embargoed briefing may be conducted by emailing the relevant information – for example, a speech, policy document or a statement – to an agreed group of journalists. In such situations, the email and documents must be clearly marked with the time that the embargo is to end.

2.19 The Committee recommends that the FCA does **'not in future use exclusives to brief the media on forthcoming FCA announcements without publishing an official statement of its own'** (Paragraph 97).

2.20 We accept this recommendation. We will not use exclusive briefing, that is to say where a journalist is given privileged access to information about forthcoming FCA policy or supervisory activity on the basis that this will lead to enhanced coverage in a specific media outlet (broadcast, print or online) in advance of an official FCA announcement. It

has always been our practice not to brief ahead of any FCA enforcement activity, and it will remain so.

- 2.21 However, there may be circumstances in which, with proper controls and procedures, targeted pre-briefing of relevant journalists can be of benefit to our stakeholders. For example, providing background briefing in advance of an announcement about a complex issue or policy area, which would be designed to improve the journalist's understanding and so help achieve greater clarity and accuracy in the coverage when the announcement is made. Such briefings would be made under embargo until an official statement is published and would require the approval of the relevant Executive Committee director and the Chief Executive.
- 2.22 In addition, members of senior management will on occasion give interviews to an individual journalist. These interviews could be designed to provide information about current activity, specialist areas such as international regulation, or a particular piece of FCA research. They could also include reference to a forthcoming event, for example a campaign, conference or speech. Importantly, interviews will not be used to make significant announcements on new policy or specific supervisory activity, or of course, forthcoming enforcement activity.
- 2.23 The decision to give such an interview will also require the approval of the Chief Executive. All interviews will be recorded and the journalist will receive a follow-up telephone call to agree the key points from the interview and clarify any points that may be outstanding. While there may be occasions where no formal embargo will apply to the interview, it will be a condition that we are kept fully informed of plans for the timing of the publication.
- 2.24 The Committee noted that **'it is not clear to the Committee, in the light of Mr Wheatley's evidence, that the FCA has understood this important distinction (how its briefing strategy could lead to non-price-sensitive releases becoming price sensitive)'**. It further recommends that **'the FCA's Executive Committee should conduct, and publish, a review of its communications methods to reassure Parliament, the regulated community and the public that it has grasped this important point, which Clive Adamson and others have made'** (Paragraph 100).
- 2.25 Since 27 and 28 March 2014 we have taken a number of steps designed to address these concerns. Most notable are the changes to our Information Classification system, the Internal Audit report into external communications, and the production of the Press Office Handbook, as well the way we have developed our current communications strategy (see below). As outlined above, we have not pre-briefed without embargo any

information on upcoming FCA policy, supervisory or enforcement activity since March 2014. We intend to continue in this manner.

- 2.26 We are confident that this work constitutes a review of our communications methods and we do not believe a further review of our briefing strategy or communications methods is necessary. Our priority going forward is to embed the changes we have made and deliver our current communications strategy.
- 2.27 The Committee's report notes that **'the Practitioner Panel believes there are signs, even after the events of 28 March 2014, that the FCA still judges the success of its communications strategy by the quantity of media coverage, rather than the quality of its content. The FCA needs to satisfy itself that this is not the case, in its communications area or any other part of the organisation. If it is not the case, the FCA needs to consider why this damaging perception still exists in the Practitioner Panel, and take steps to address it. The expertise of both the Consumer and the Practitioner Panels needs to be used to better effect'** (Paragraph 76).
- 2.28 The independent panels have an extremely important role to play in the regulation of financial services. Their expertise and contributions are highly valued, and this is demonstrated in the significant level of engagement with the panels carried out by the Chairman, non-executive directors (NEDs), Chief Executive and other senior figures in the FCA. As such, we are disappointed that the Practitioner Panel believed that our communications strategy was led by quantity of coverage rather than quality. We do not believe that this was the case before 27 and 28 March 2014, nor is it today.
- 2.29 Engagement with the FCA Practitioner Panels takes place with the Chief Executive and Chairman on a regular basis. During 2014, the Chief Executive attended eight meetings/telecoms across the Panels, and the Chairman attended 13, including pre-Board discussions. A member of our Executive Committee now attends every meeting of the Practitioner Panel.
- 2.30 We have made a proactive effort to consult with the panels at an earlier stage than usual on our communications strategy. The independent panels were consulted during the latest development of our communications strategy in March and April 2015, and the Director of Communications, the Chief Executive and Director of Strategy and Competition have all attended various panel meetings. The strategy was also discussed with our Senior Advisers during this time.
- 2.31 A number of changes were made to our communications strategy as a result of these meetings. We also received feedback encouraging consistent messaging from all parts of

the FCA. We are using our new strategy and structure, our development of a common view of markets and key sectors<sup>5</sup>, and a stronger focus on equipping our people with the information they need to be able to communicate a consistent message externally.

- 2.32 We expect that this approach will improve the Practitioner Panels' perception of our communications and build their confidence in this area of our work, while ensuring that they are still able to constructively challenge us on communications, and indeed any other matters.

### **Working relationships and information sharing**

- 3.1 The Committee recommends that **'the FCA's Executive Committee needs to satisfy itself that the working relationship between the communications area and other areas of the FCA is appropriate and take action to address this if it is not'** (Paragraph 146); that **'the non-executive members of the Board should investigate whether the FCA has a problem of inadequate sharing of expertise; and whether standards and culture contributed to the events of 27 and 28 March'** (Paragraph 198); and that **'the non-executive members of the FCA Board should assess the extent to which the FCA may suffer from a culture of working in silos and of inadequate information sharing. It should take steps to ensure that all staff across the organisation have a good knowledge of the objectives of other divisions of the regulator, and some familiarity with the areas of expertise of those divisions'** (Paragraph 135).
- 3.2 The Board currently has eight NEDs and two executive members. Three committees of the Board, the Audit Committee, External Risk and Strategy Committee and the Remuneration Committee are comprised solely of NEDs. As the governing body of the FCA, an important part of its role is to keep a close watch on how the organisation is operating and to hold the executive accountable. It is in this context that the Board, both executive and non-executive members, have considered their response to the recommendations in paragraphs 3.1 and 4.1.
- 3.3 The FCA Executive Committee and the Board recognise that we must observe the confidentiality restrictions under which we frequently work. In some cases, as explained in paragraph 2.7, information must be strictly controlled. However, this should not prevent us promoting collaboration and understanding across and within divisions. Both the Executive Committee and the Board note that this challenge is common across complex organisations with significant staff numbers (in the case of the FCA, over 3,000 employees).

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<sup>5</sup> Financial Conduct Authority, Business Plan 2015/16 - p.36

- 3.4 With regard to the above, in November 2013 the Board established a review of the FCA's strategy as an organisation, recognising the need to continue to improve the way we work in order to deliver our objectives. The NEDs were actively engaged in steering the evolution of the new strategy over the following year, and it was approved by the Board in November 2014. The Board adopted the new strategy in part to respond to the challenges outlined in 3.3. In particular, the strategy is designed to help us to share information effectively and to promote collaborative working. This will be supported by the new structure as implemented by the Executive. The NEDs, as part of the Board, will actively monitor and closely review the new strategy.
- 3.5 We would particularly like to draw the Committee's attention to the development of FCA 'common views', as outlined in the 2015/16 Business Plan.<sup>6</sup> We recognise the value of having common views on what is happening in each of the markets and sectors that we regulate. A new team and cross-functional resource is being developed in order to progress the development of FCA common views. A new Market Intelligence, Data and Analysis function, within the Strategy and Competition Division, will lead on this work with input from across the organisation.
- 3.6 As an example of collaborative working, while Market Studies are led by the Strategy and Competition Division, the core team working on any market study will include people from other divisions with the relevant sectoral expertise. The FCA teams involved in the joint Competition and Markets Authority study on SME banking are multi-disciplinary, with competition analysis being informed by and informing the work of a range of departments, including Authorisations, Policy and Supervision. Our work on pensions is also a key area, which has required very close collaboration across the organisation to meet the demands of a rapidly changing and complex external environment. It is led by core teams within policy and sector supervision, supported by our regular firm supervision teams, thematic review teams, enforcement, authorisation and competition colleagues.
- 3.7 We would also like to draw attention to the work of our Change Community, a cross-divisional group of staff who take forward the embedding of our cultural characteristics (strength as a team, professional excellence, already on the case, curiosity and backbone) and raise awareness of expected behaviours, one of which is to work closely together within and across teams. The Community is sponsored by a member of the Executive Committee.
- 3.8 As part of the structural changes announced in December 2014, the Communications function has been integrated into a new Strategy & Competition Division, bringing it

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<sup>6</sup> Financial Conduct Authority, Business Plan 2015/16, multiple references

closer operationally to our policy and strategy teams. One of the aims of these structural changes is to improve our ability to share expertise and work collaboratively. In the context of this and some of the changes to our approach to communications set out above, the Executive Committee is satisfied that the working relationship between the Communications Division and other areas is appropriate and effective.

- 3.9 The Board consider that, taken together, this work addresses the issues raised by the Committee. The Board, including the work of the NEDs on the Audit Committee and the External Risk and Strategy Committee, will of course continue to oversee how the new strategy and structure is working in practice.

## **Crisis management**

- 4.1 Regarding events that took place on 28 March 2014 in particular, the Committee recommends that **'the FCA's over-arching strategic objective to ensure that the relevant markets function well should have focused senior staff on such a serious market-moving incident. The fact that this did not happen may or may not suggest a problem with standards and culture within the FCA, with even the Executive Committee failing to take sufficient initiative in response to a crisis or to keep the FCA's objectives fully in mind when deciding on a course of action. The non-executive members of the Board should investigate further to establish whether this is the case, and if so, what the remedy should be'** (Paragraph 160).
- 4.2 Shortly following the events of 28 March 2014, the Board commissioned an Internal Audit report into incident response and crisis management capability. Following this the FCA has taken considerable steps to improve in this area. While we have aimed to ensure that key staff are familiar with the new framework and able to respond appropriately, we continue to depend on the individual and collective judgment of our people. As such, a key focus of our revised approach is that staff should escalate matters, to the Executive Committee or its appropriate individual member(s), if they are under any doubt regarding the action they should take in a crisis situation.
- 4.3 The existing crisis management and incident response framework, which had focused on operational disruption, has been enhanced to emphasise the importance of rapid and appropriate responses under a wider range of circumstances. This includes incidents in which our activities might have an impact on the market. To embed this in the organisation a series of awareness briefings have been conducted, materials provided and additional exercises scheduled to be conducted on an annual basis.
- 4.4 In reference to communication activities specifically, the communications strategy has been designed to recognise the need to respond quickly and appropriately to incidents

and crises. Events that emerge rapidly and require quick resolution, due to their potential to have an impact on the ability of the FCA to deliver its objectives, will be subject to the revised crisis management and incident response framework outlined above. This may relate to events that arise either as a result of our activities (such as a supervisory or enforcement activity) or from external sources (for example the media, other regulators or regulated firms).

- 4.5 Although it is rare for events to originate from the Communications Division itself, the communications strategy emphasises the need for the division to play an essential role in managing the impact of events on our ability to achieve our objectives. In doing so, a key principle is the need for a clear and consistent reaction across the organisation in response to crises and incidents.
- 4.6 Significant improvements have been made to determining when emerging issues require escalation for senior decision-making. The Market Oversight Division is responsible for alerting the relevant parts of the organisation, including the Executive Committee, Directors of Supervision, Directors of Market Oversight and the Press Office, should the market experience price movements based on certain pre-determined parameters. Following the events of 27 and 28 March, particular attention has been paid to the sharing of information between relevant business areas and the Communications and Market Oversight divisions, ahead of FCA activity, including publications. A decision will then be reached regarding the appropriate incident management process.
- 4.7 For example, ahead of the publication of the FCA Business Plan 2015/16, an incident management process was developed, which would have been instigated should the market have experienced price movements based on certain pre-determined parameters. In the event of a significant impact on the market as determined by the parameters identified, the process involved immediate escalation to the Chief Executive and other relevant directors, as well as the Head of the UK Listing Authority (UKLA), to determine a response. This approach is now taken for FCA publications that are being treated as potentially price sensitive.
- 4.8 The Board considers that it should view the events of 28 March, and the findings of Simon Davis, in the context of the FCA's standards and culture since its formation. Importantly, the Davis Review clearly identified specific processes and standards that needed improvement, and these improvements are either complete or close to completion. Wider lessons too have been learnt. With regard to culture more generally, the Board believes the new strategy and structure will help embed our cultural characteristics, which have been in place since the FCA was established. The Board, including the NEDs, share with the Executive an objective to further embed these in the FCA, and will maintain a close interest in the progress being made.

4.9 The Board considers that the improvements made address the concerns of the Committee and is assured that the FCA is focused and able to respond effectively to a wide range of incidents.

### **Board effectiveness**

5.1 The Committee recommends that **'the Board must, as a matter of urgency, commission an external organisation to conduct a review of its practices and effectiveness. This review should consider in particular the Board's approach to the identification and management of risk. The results of this review should be published'** (Paragraph 193).

5.2 The Board agrees that as a matter of good corporate governance it is important that its effectiveness is regularly reviewed, and has agreed it will do so on an annual basis. Before the publication of the Committee's report, the Board had agreed to commission another externally facilitated effectiveness report and we have since commissioned Dr Tracy Long of Boardroom Review Ltd to produce a review this year. We agree to publish the results. The Board has further decided to commission an external review every other year, with an internal review taking place in alternate years.

5.3 As part of the recent FCA restructure, we have also strengthened our control framework by creating a new Risk and Compliance Oversight Division, headed by a director whose appointment was announced on 5 June 2015.<sup>7</sup> This has brought together the organisation's existing Risk and Supervisory Oversight functions. This will be the key second line of defence, working closely with the key regulatory divisions, and Internal Audit. The new Risk and Compliance Oversight Division will improve collaboration across the second line of defence, provide objectivity, promote continuous improvement, and hold the first line of defence to account. The Board considers that this will greatly improve our approach to identifying and responding to risk. It is further assured that in future this will enable more effective oversight of risk management by the Board.

5.4 Noting the recommendation of the Committee that particular attention be paid to the identification and management of risk, a parallel exercise will be undertaken by an independent third party. This work will review the risk framework document and the role of the Risk and Compliance Oversight Division to provide assurance, subject to identified enhancements, on their suitability given the role and remit of the FCA. We have appointed Oliver Wyman Ltd to begin this work imminently, and their formal assessment for the Board will be published.

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<sup>7</sup> Financial Conduct Authority, FCA appoints new Director of Enforcement and Market Oversight and Director of Risk, 5 June 2015

5.5 We consider that the work taking place as outlined in paragraphs 5.2 and 5.4, as well as the creation of the new Risk and Compliance Oversight Division, taken together with other measures, will effectively meet the recommendation of the Committee.

### **FCA accountability**

6.1 The Committee recommends that **'the FCA, and the PRA, draw up a 'Responsibilities Map' which allocates key responsibilities to individuals in their respective organisations. This document should be published. It should be compliant as far as possible with the SMR that the regulators require of banks'** (Paragraph 184).

6.2 We have been considering this matter and outline our plan below, in response to the Committee's recommendation.

6.3 We are accountable to Parliament and the public, including through Select Committee hearings, publications, speeches, our Annual Public Meeting and via the Freedom of Information Act. The FCA is not a regulated firm, and our Board is given specific responsibilities by statute, including responsibility for making rules. Statute also prescribes a range of ways in which the FCA is accountable.

6.4 Notwithstanding these distinctive features, we accept this recommendation of the Committee. We expect that our senior management should meet the same standards of professional conduct required elsewhere, and be held accountable for functions they personally direct. We therefore intend to apply the core principles of responsibilities maps to our own senior managers, primarily to the Chairman, non-executives who chair certain operational committees, the Chief Executive and directors who are members of the Executive Committee.

6.5 To this end we will:

- publish maps that show how core responsibilities are allocated to senior managers and how our responsibilities are carried out
- publish its governance structure
- publish senior managers' statements of responsibility to enhance understanding of roles and accountability

6.6 There are a number of key elements to our approach:

- First, a robust appointments process. All appointments at the FCA are subject to a thorough, open and transparent selection process. For more senior appointments,

the process for selecting successful candidates includes a panel interview attended by the CEO, Chairman or one or more NEDs. Board level appointments require Treasury approval.

- Second, ongoing suitability of senior executives for their role is assessed annually through our existing performance management framework. This is reviewed by the Remuneration Committee of the Board.
- Our current approach to recruitment, referencing and induction is comprehensive and tailored to individuals' needs. We will introduce an updated induction package to ensure that new senior managers fully understand their responsibilities.

6.7 As a feature of the senior managers' regime (SMR), the 'presumption of responsibility' is a tool that can be used in relation to regulatory breaches committed by deposit takers only. As outlined in Paragraph 6.3, there are established means by which we can be called to account. In these interactions it is frequently – and rightly – presumed that FCA senior management have responsibility for FCA affairs.

6.8 As we are responsible for promoting and setting high standards of conduct, so our conduct both as an organisation and as individual employees is likely to come under close scrutiny. Our Code of Conduct is therefore essential. It provides a framework for managing conflicts of interest and related matters, and also protects employees against any suggestion that regulatory decisions have been influenced by personal interests or that their investment decisions have been influenced by information made available in confidence to the FCA. Compliance with the code is compulsory for all staff and breaches of the code may result in disciplinary action. We expect all staff to consider the code as an essential element in our culture.

6.9 We believe that these measures will meet the Committee's recommendation and we will brief the Committee further as we make progress applying this.

## **FCA structure and strategy**

7.1 The Committee recommends that **'the FCA should now publish a full explanation for the changes it has made. In particular, it should explain in detail its reasons for removing the post of Communications Director from its Executive Committee, in the light of concerns expressed by Zitah McMillan about this change'** (Paragraph 175).

7.2 Following a strategic review approved by the Board in November 2014, a number of structural changes have been implemented in order to put the new strategy into practice. Since April 2015, all structural change has been completed. The strategic changes which have given rise to the structural change are explained below.

- 7.3 In December 2014, we announced three major strategic changes to the way we regulate to give us a greater focus on market-based regulation. The first was a sharpening of our focus on large firm, sector and small firm supervision. For smaller firms (i.e. C3 and C4) we will shift our approach away from focusing on individual firms towards a more risk-based model, and we will remove much of our standard Pillar 1 activity for those firms. For the larger firms, including the largest retail banks and insurers, we will take a whole-market as well as a firm-specific view, while largely continuing the existing three pillar supervision model. In order to embed this new approach, the divisions responsible for authorisations and supervision have been integrated, to create two new supervisions divisions: Retail and Authorisations; and Investment, Wholesale and Specialists. The new approach will allow for more focused management, and a more sustainable model of regulation, to be applied to the 73,000 firms we now regulate.
- 7.4 We will conduct fewer, more focused pieces of market-based work that look broadly across regulated sectors and markets to establish if they are working well. This will combine some of the cross-market thematic work previously done in our supervision areas with much of our market study work, both of which will come together in the newly created Strategy and Competition Division. This will be supported by a greater focus on market intelligence, data and analysis. Recognising that sometimes we lack a common 'FCA view' on what is happening in each of the markets and sectors that we regulate, a new team and cross-functional resource is being developed in order to progress the development of FCA common views, which will in turn enable us to better prioritise risks and activity. A new Market Intelligence, Data and Analysis Division, within the Strategy and Competition Division, will lead on this work with input from across the organisation.
- 7.5 While the post of Director of Communications no longer sits on the FCA Executive Committee, the communications function of the organisation is represented by the Director of Strategy and Competition, in whose division the Communications area now sits and to whom the Director of Communications reports. This ensures that when communications work is presented to the Executive Committee, it is done so in the context of wider FCA priorities. The Director of Communications will take part in meetings of the Executive Committee where communications considerations are being discussed.
- 7.6 Finally, our strategic approach to risk has been greatly enhanced with the creation of a new Risk and Compliance Oversight Division, as outlined above, which has brought together the organisation's existing Risk and Supervisory Oversight functions.

7.7 The structure of the FCA<sup>8</sup> is now: Supervision - Retail and Authorisations; Supervision - Investment, Wholesale & Specialists; Strategy and Competition; Enforcement and Market Oversight; Markets Policy and International; Risk and Compliance Oversight; General Counsel's Division; Internal Audit; and Operations. An organogram can be found in our Business Plan 2015/16 and is attached as Annex 1.

## Timing

8.1 The Committee recommends that **'the FCA should prioritise this work, which is essential for the FCA to be able to assure itself and Parliament that it is not suffering systemic weaknesses. The Committee expects the FCA to publish the results of this work within six months'** (Paragraph 198).

8.2 We are committed to delivering the work set out in this response within six months or shortly thereafter, and where we have committed to publish a document we will do so as soon as possible. We expect to update the Committee regarding our progress, in terms of both the Committee's recommendations and those of Simon Davis in his report.

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<sup>8</sup> See Annex 1 – The Structure of the FCA