

HOUSE OF COMMONS
ORAL EVIDENCE
TAKEN BEFORE THE
TREASURY COMMITTEE

FINANCIAL CONDUCT AUTHORITY

TUESDAY 10 SEPTEMBER 2013

MARTIN WHEATLEY

Evidence heard in Public

Questions 1 - 173

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Oral Evidence

Taken before the Treasury Committee

on Tuesday 10 September 2013

Members present:

Mr Andrew Tyrie (Chair)
 Mark Garnier
 Stewart Hosie
 Andrea Leadsom
 Mr Andrew Love
 Mr Pat McFadden
 Mr George Mudie
 Jesse Norman
 Teresa Pearce
 Mr David Ruffley
 John Thurso

Examination of Witness

Witness: **Martin Wheatley**, Chief Executive, Financial Conduct Authority, gave evidence.

Q1 Chair: Thank you very much for coming in this morning, Mr Wheatley, for one of our more regular meetings with the FCA.

The PRA, which came out of the FSA, is seen as a fundamentally different type of institution. Do you think the FCA is a fundamentally different type of institution?

Martin Wheatley: Yes, I think it is.

Q2 Chair: In what way?

Martin Wheatley: In the first six months, we have shown a willingness to engage in issues that perhaps the FSA would not have done in the past. We have made a number of interventions from all ends of spectrum, so from the traditional enforcement end of the spectrum, which people are used to seeing from us, but also some more creative interventions, where we have either sought voluntary agreement from banks or entered into industry-wide arrangements to bring good consumer outcomes. The very high profile one was the work we did on interest-only mortgages, where we were concerned that people had not adequately understood the risks of interest-only mortgages, both from the consumer's perspective and from the lender's perspective. We did a very detailed piece of work to try to understand that and then came out with guidance as to what needed to happen. This was a different type of intervention. It was not an enforcement intervention.

We reached a voluntary scheme with the banks to enter into something that I think has a very significant impact on the more socially deprived parts of society, which was the retry scheme that we came up with. It is essentially a scheme whereby payments go out of a bank and if you are living literally on the edge and you cannot make a payment unless a payment has come in, we found that very often detriment was happening because of simply a mismatch

of timing between the two payments. We got all the banks to introduce a scheme where they would retry the payment at no cost and with no impact on the credit standing of individuals.

We published, as you know, a piece on behavioural economics where we have sought to bring a different philosophy to regulation.

In lots of areas, you will see that there is a very different approach, and if you ask anybody as part of the regulated sector, I am sure they would say it is very different as well.

Q3 Chair: The Banking Commission proposed that, following the PRA's lead, there should be a cap on the cost of the provision of the FCA's services from the predecessor body that you have inherited, excluding of course those extra responsibilities that you have been given. It seems the PRA are prepared to try at least for the time being to make a virtue of this recognition of a need for cost discipline. Does the FCA accept the Banking Commission's recommendations?

Martin Wheatley: Yes. We, like the PRA, are very conscious that we are a cost to an industry.

Chair: And to customers therefore.

Martin Wheatley: Yes, and ultimately to customers, who bear the cost of the industry. We need to exert budget discipline in the way that we know our firms need to, so yes, we have adopted an approach whereby we are budgeting that we will be flat this year for inherited responsibilities, if I can put it that way, so clearly not things like consumer credit, which is a big new responsibility, but certainly for those things that we carried forward from the FSA.

Q4 Chair: That is very helpful. Could you set down for the Committee in as much detail as you can what those inherited responsibilities are so we can distinguish between the inherited responsibilities and those extra responsibilities that you have also been given, because it would be unreasonable for this to end up as a corset on the costs of delivery of the new services?

Martin Wheatley: Yes, I can. I am very happy to provide something in writing to follow up, but essentially the big new responsibilities we will have at the moment—

Chair: Don't let us do it now.

Martin Wheatley: Okay, that is fine. We will come back to that.

Q5 Chair: We have others who want to come in on many other subjects, but if we could have as much detail as possible on that, we might come back to that either in correspondence or orally.

Another recommendation of the Banking Commission was the proposal that the RDC—the Regulatory Decisions Committee—of the FCA, should be given statutory autonomy in the way it takes decisions. It already operationally has a good deal of autonomy, as I understand it. Indeed, I think you and I had a conversation about it some months ago in which you stressed that. The only people so far I can find who oppose this are the Government. Everybody else is supporting it, some of them privately and some publicly, but everybody is supporting this. What is the FCA's position?

Martin Wheatley: I think it would be a mistake. The current structure, where we have clearly our own enforcement processes, then we have an RDC process and then we have a tribunal process, allows the full range of appeals to go through the system. Many of our most complex cases frankly take too long to get to final resolution, for all sorts of reasons, partly because of the frustrations of lawyers putting lots of cases forward, but partly because the RDC very often is not sufficient and it will go to a tribunal. If we created an RDC as a

statutory process when there is already a statutory process in place, which is the tribunal, it would simply delay justice and I don't think that would be in anybody's interests.

Q6 Chair: If that delay issue could be resolved, would you then support it?

Martin Wheatley: I still think it would be overlap. You would have effectively two statutory decision-making bodies and I do not think that serves a good purpose.

Q7 Chair: So you have two objections, one of principle, that we would create two statutory bodies, and one—

Martin Wheatley: Yes, and one of practical effect.

Chair: —that this would lead to a delay of justice and justice delayed is justice denied. That is basically your view?

Martin Wheatley: Yes.

Q8 Mark Garnier: Can I turn to interest rate hedging products? A huge number of businesses have been complaining about this—I think 30,000 is the number of outstanding claims against this, yet just 10 have been settled, with a total of £500,000 paid out in redress out of provisions by the banks of over £2 billion. How do you think it is coming along?

Martin Wheatley: It is coming along more slowly than we wanted. We had hoped, when we set this out, that it could be substantially complete within six months from 1 April, which is when the current regime was put in place, and clearly you will have seen from the figures that we published—and we published some very detailed figures—that it is not moving as fast as that. We said we hoped the majority would be complete within six months, and clearly that will not be the case, but in any case, a year should be the outside time limit to complete.

Q9 Mark Garnier: From July?

Martin Wheatley: From April, when we put the current scheme in place. It is quite a challenge to get there. Having said that, the banks have all adopted the specialist methodology that we set out, but they have different cohorts, different customer types. They have completed different parts of the process, so the sophistication test, which is the first threshold level, is largely complete. They have written to a very large number of customers and of course you have to remember that the way the process is designed means that the customers have to decide to opt in for certain categories of product. Clearly, when customers are opting in, they want to put a case forward; they want to make the best case. Sometimes they will seek advice about how to do that. Even when customers have been asked to opt in, the customers are working out how best to put their case, so they are taking their time as well. I think it is going more slowly, but it is complex. We are comfortable that the methodology is working and that the banks are taking it seriously. I do not think anybody is dragging their feet; it has just turned out to be complex.

Q10 Mark Garnier: But there is a financial incentive for the banks to drag their feet. Obviously these are swaps, so they are the other side of a product and therefore there is a net present value of the exposure for the banks. With each day that goes past, that net present value drops, so the banks have a financial incentive to drag their feet as much as possible. How would you address that challenge?

Martin Wheatley: It has been argued to me that there is an incentive the other way, which is that with simple interest of 8% accruing on any payment, by delaying payment, that interest of 8% accrues for a longer period.

Q11 Mark Garnier: But businesses are going bust on the back of this.

Martin Wheatley: Yes, and what we have asked the banks to do and what they have done is where businesses genuinely are facing financial difficulty, they should forbear on forcing further payments. The CEOs have all agreed that they will not, by their actions, force businesses into bankruptcy and there are about 1,000 businesses out of the total that they have already forborne on, that they are not charging additional payments to.

Q12 Mark Garnier: Out of 30,000? I have a business in my constituency that has gone bust on the back of this. The provisioning has been interesting, to say the very least. I think there is a little over £2 billion provided for by the banks. If you look at Barclays, for example, they have very sensibly made a provision of £1.5 billion on 3,500 cases against them, yet RBS have 10,500 cases against them, and they have made a provision of just £750 million, so half that of Barclays, yet with three times the number of cases against them. Do you think the provisioning is sensible or do you think some of these banks are way out on it?

Martin Wheatley: What we have found, to be honest, quite a lot over the last two years is that the banks, certainly in relation to PPI, under-provisioned, so they have had to revisit that provisioning. I am sure as they get more detail and more understanding of the cases they are processing, they will revisit their figures and if they need to increase the figures, they will do so. I think at the time they made the provisions, it was their best estimate at that time, but as you know, the nature of—

Q13 Mark Garnier: In your opinion though, does it look like a very good estimate? It may have been a best estimate, but does it look good, given what we know now?

Martin Wheatley: It is too early to say. What you have seen is that the uphold rate of those complaints that were deemed to be mis-sold has been very high and consistent with our original figures, so there is no surprise in the sense of where the uphold rate is, but it is too early to tell in total provisioning terms.

Q14 Mark Garnier: Obviously, there are two sides of these claims. There is a technical redress, which is obviously something that has been laid down in a formulaic way by the FCA, and the other is of course consequential losses, which is much more subjective in terms of trying to assess how much a business has lost. It is sort of secondary as a result of this mis-selling scandal, and yet a payout on an agreed technical redress can be held up by agreeing the consequential loss. This is causing a bit of a problem for the businesses, which are now not being paid the technical redress because they are still arguing the finer details of the consequential loss. Is it such a brilliant idea to tie the two together? Would it not be better for these businesses to pay them technical redress separately and then allow them to continue with the consequential loss claims as a separate issue?

Martin Wheatley: To be honest, there are arguments both ways. It is not straightforward, but the one thing I know from our experience with PPI is that nobody wants this to drag on for years and years, and the risk of separating the two payments out is that you might have a payment that deals with, as you call it, the technical side, but then the consequential loss discussion just drags on for years, it is a drag on a business, there are lawyers' fees involved and we are keen to avoid that in trying to come to as clean a solution as possible. However, as I said earlier, if organisations, particularly businesses, are put in serious distress because of that, the banks have agreed that they would not push those businesses further into distress. There are arguments either way, but I think everybody wants to move along from this as quickly as possible, get the proper redress to consumers and then allow the banks to move on and develop their business.

Q15 Mark Garnier: I think the businesses want their money back where they have been ripped off. The consequential losses thing definitely is a separate issue and of course could drag on, but that is an outcome of the fact that it is very complex to define these consequential losses.

You have lost a couple of the authors of the process. Christina Sinclair and Julia Dunn were quite instrumental in setting up the process and they have now gone to the private sector. Has this caused problems for you in administering this or is it irrelevant that senior people have left?

Martin Wheatley: I would not say it is irrelevant, because they are both very, very good people who have done a huge amount of work to get to the stage that we have reached so far and I am very grateful for the work that both of them have done, but we have had to reorganise and restructure to cover that. So it is not irrelevant. Clearly we have to manage that, but it is not the case that we lose momentum or we lose the capability to drive it forward because of the loss of a couple of key people.

Q16 Mr Mudie: Just on the question of the estimate of the mis-selling, does the £2.5 billion relate only to the size of the firms or the firms that are being covered by your review model? Are there other firms, size of firms or areas of work that are outside this £2.5 billion?

Martin Wheatley: Yes. That £2.5 billion relates to the four largest listed banks, which had something like 85% or 90% of the total sales, but there are another nine banks beyond that that we are running the same review with. The statistics we published related to the ones that account for 90%, but another nine banks are also part of the same review process.

Q17 Mr Mudie: So you are content that the likes of RBS, Barclays, Lloyds and so on, that £2.5 billion relates to those?

Martin Wheatley: Yes.

Q18 Mr Mudie: DTZ a few days ago suggested that the compensation would go as high as £5 billion to £10 billion on property loans, property hedging. Do you recognise that figure?

Martin Wheatley: No, I don't. Obviously I saw the article, I have read the analysis. It has not been something that we have thought was the scale of the loss. You are absolutely right, the numbers refer to the four biggest, and the four biggest account for about 90% of the total loans. There are a number beyond that. No, that was a larger figure than I have seen. I expect all the banks to study that, to look carefully at that and to form a view as to whether they have their redress or their provisioning right.

Q19 Mr Mudie: With the Co-op, one of the things that has worried me personally is how surprised the regulator seemed to be about what emerged. Can we be content that the regulators are totally on top of this in terms of the provisioning that is being made and the estimated figure of payments? To take £2.5 billion, a fair number of these property loans, if this figure is anywhere near being correct, must be held by those four big banks—a fair proportion of them—so you are content that the £2.5 billion covers everything for these four banks, every type of business, every size of business? I would worry about how on the ball the regulators are if they have to adjust this figure in the near future.

Martin Wheatley: The reality is that the banks probably will adjust it, because they do adjust it as they get more information. PPI is a classic case: the provisions that were made initially for PPI were way below the amounts that have already been paid out, but it is not our job to work out the provision. That is something for the bank to do with its accountants. They

will work out a provision based on what they know at that particular time. The PRA quite separately through its capital planning exercises—

Q20 Mr Mudie: Mr Wheatley, I accept that, except that given the light touch regulation that featured in the crisis and the amount of money we have now spent as a country beefing up the regulators, of the four big banks, I would expect nobody to sneeze without the regulators being aware. But the Co-op seem to demonstrate—we will find out as we go forward—that here was a bank trying to do business with Lloyds where we have a great share, and the regulators seemed to be unaware of the true state of the Co-op. DTZ said £2.5 billion, and on the property side, it will be £5 billion to £10 billion. That is a considerable sum. You seem to be saying, “It is a matter for the banks and they will tell us eventually”. You don’t think regulators in this day and age, after all the experiences we have had, should know exactly what on earth is happening in these, especially the big four banks?

Martin Wheatley: There were 32,000 sales, okay? That was the total sales. We have not gone and looked at 32,000 sales. What we have done is looked at enough to say, “Look, guys, you have this wrong. You have screwed it up. You have sold the wrong product to the wrong people. Here are the rules that we now want you to apply. We want you to look at all 32,000 sales”. That is not our job. Our job is to say, “Here are the rules that we expect you to apply”.

Q21 Mr Mudie: So the £2.5 billion figure is their figure, not your figure?

Martin Wheatley: That is right. That is their estimate, based on their assessment of the business that they know better than us, but my expectation is it will change.

Q22 Mr Mudie: Yes. Just a question on RBS. RBS are still at the sophistication assessment stage of the exercise, while the other three banks have finished and are moving on to making payments. Are you happy that RBS are putting enough resources in to move quickly, and are you certain that RBS, as Mark raised, have put enough in provisioning in view of the fact that they had more of these hedging products than the other three banks combined?

Martin Wheatley: RBS would contend that they may have had more in terms of total sales, but the products were typically the more simple products. We categorise the products between A, B and C on complexity, and I think their view is that they have a different profile of products that they sold. So I think that is how they would articulate it. I am comfortable that each of the banks, including RBS, is doing the job. They have employed nearly 3,000 people. They are working very, very hard to get through the caseload and I am very comfortable that nobody is trying to pull a fast one or delay or not do the process properly.

Chair: Mark Garnier has a rejoinder.

Q23 Mark Garnier: Have you come under any pressure from the Government, the PRA or the Bank of England to go easy on the banks, given the financial stability issues?

Martin Wheatley: No. The only process that we have gone through as part of the capital planning exercise that the FPC and the PRA did was to provide input into that as to how much capital the banks might need to get to the end of this process. But that is not pressure in the sense of minimising it, it is simply information so that they can form a judgment from a prudential perspective on the banks.

Q24 Mark Garnier: Nobody has asked you to come up with a process that is any easier than perhaps you would otherwise have done?

Martin Wheatley: No.

Q25 Chair: Just to clarify that, you are saying the pressure that some have reported, which has come through on prudential grounds, to be careful about the size of the payments that may result, not only from interest rate hedging products, but PPI, has not in any way affected the decisions that you have taken? That seems to be what you are saying.

Martin Wheatley: No, that is right. That is the nature of two regulators with different objectives.

Q26 Chair: Has the Treasury been in touch with you to discuss these issues?

Martin Wheatley: In the lead-up to the agreement, yes, we had numerous conversations with the Treasury, who clearly wanted to understand what the impact might be.

Q27 Chair: So they were seeking information?

Martin Wheatley: Yes.

Q28 Chair: Did they offer a view?

Martin Wheatley: Not a view as such, not a pressured view, but they offered a view that they have a large stake in a number of these banks, but not a view beyond that.

Q29 Chair: Okay. Just elaborate on what means.

Martin Wheatley: As we all know, the Government have a stake in two of the banks that are involved in this process. They would like to know insofar as it is appropriate what the potential impact would be of our actions.

Q30 Chair: They were seeking information about what the effect might be on the value of the organisations they own as a result of the decisions that you take?

Martin Wheatley: It is not for me to impute their motivation, but you can assume that that would be, not in very specific terms, but in general terms, information about what we are doing with particular banks, yes.

Q31 Chair: They at no stage offered a view about or discussed with you the effect on the bottom line of particular decisions that you might take?

Martin Wheatley: No.

Q32 Chair: You will understand that it is our duty obviously to ensure that the independence that you have in statute is reflected in practice.

Martin Wheatley: Yes.

Q33 Chair: You are giving me a cast-iron assurance that there has been no pressure that could in any way prejudice that independence?

Martin Wheatley: That is right. There is nothing that I would describe as inappropriate in terms of the relationship or the desire for information.

Q34 Chair: That has been true at both official and ministerial level?

Martin Wheatley: Yes.

Q35 Chair: You have discussed this with Ministers or not?

Martin Wheatley: Again, in the very early stages, yes.

Q36 Chair: When did you last have a discussion with Ministers about this?

Martin Wheatley: Probably at the start of this year or late last year, but before the agreement was entered into.

Q37 Chair: So a long time ago. That is a very helpful clarification.

In those exchanges, neither you nor I have mentioned UKFI. What role do UKFI play in all this?

Martin Wheatley: None. I have had no contact with UKFI over this issue.

Q38 Chair: Don't you think that there is a prima facie case for saying that UKFI should be the body representing the shareholders in those discussions and not the Treasury or Ministers?

Martin Wheatley: Possibly, but when you say "representing" I would not characterise any of the discussions as being a formal representative discussion. It is more the ongoing course of business discussions that we would have with the Treasury.

Q39 Chair: The shareholders have a specific interest and to represent those interests, the Government has created a body it claims is independent called UKFI to look after those interests, so I am asking whether that body made the representations you have described earlier in your answers in terms of the shareholder interest?

Martin Wheatley: The answer is that I did not have any direct contact, but I do not know if the organisation did. I can find out for you.

Q40 Chair: They have not been involved at all, as far as you are aware, and certainly the top people at UKFI have not spoken to you about this?

Martin Wheatley: Not to me personally.

Q41 Chair: You do not find that a bit strange?

Martin Wheatley: Now that you have put it, it is a potential route, but as I say, nothing has ever got to the point of being a very formal discussion where shareholders are formally representing a view.

Q42 Chair: What is the point of UKFI, Mr Wheatley?

Martin Wheatley: I do not think I am the best placed person to answer that.

Q43 Chair: No, but on the basis of the answers you have just given, it strikes one that there might not be much point.

Martin Wheatley: Again, I am possibly not the best placed person to answer that one.

Chair: That was in fact the conclusion of the Banking Commission.

Q44 John Thurso: I would like to turn to the question of tailored business loans. Earlier this year, the Business Secretary asked you to have a look at these and described them as being akin to swaps mis-selling. What progress have you made?

Martin Wheatley: When you say that tailored business loans are akin to swaps, they are in economic terms not significantly different from swaps. In legal terms, they are structured differently and they are structured such that they are not under our jurisdiction, so we have no jurisdiction and we have no powers over tailored business loans. I have written to the Government to explain that that is a potential gap within the system. I am not aware of what the Government's latest consideration is or what they might be thinking.

Q45 John Thurso: *The Daily Telegraph* on 13 March reported that the FSA—but basically you—the predecessor body and the Treasury have begun discussing the problem of unregulated commercial loans that contained embedded interest rate derivatives. What has come out of those discussions?

Martin Wheatley: Simply from our point that we have flagged that this is a potential gap in the regulatory structure. We had a very initial discussion. It was probably around the time of that article, around March. I am not aware of the subsequent thought process as to whether this should be brought within regulation or not.

Q46 John Thurso: So basically you have said to the Government, “We don’t regulate this. It is your problem”?

Martin Wheatley: Essentially it is a problem of where the regulatory boundaries are drawn and at the moment they are drawn outside of our boundary.

Q47 John Thurso: Let me ask you—it is a hypothetical, but it is close to an actual case—a farmer wishes to buy some new land. The next-door farm comes up for sale. He does not want to buy it all. He agrees funding with his bank; he makes an offer based on that funding. He buys the farm with the intention of selling half the land off. He comes to sell half the land and discovers that he has a break cost in his loan that he knew nothing about, because there was an embedded swap in it. He then not only loses the entire profit, if any, on the land that he was selling, but ends up having bought something that he cannot afford, simply because of the break cost. At no time did the bank supplying the product mention this, give him any hint, and they had a business plan that showed fully that the sale of the land was integral to what he was seeking to achieve, in other words, a classic case for a bridging loan without a break cost. Are we to say to that farmer that there is absolutely no way that he can have justice in a case where he has clearly been sold a product that was clearly wrong for what he wished to do and the written business plan that he delivered to the bank?

Martin Wheatley: The first answer we always give in any circumstance is, “You have to take this up with the bank” and I presume in a hypothetical case that that would have happened. The second port of call, depending on the size and the complexity, would be the FOS, so the FOS will adjudicate on cases up to a certain point. There is always a call to the courts, which I appreciate is expensive and for many people it is not appropriate, or it may be within our scheme. Without knowing all the details, I do not quite know where that would fit in those different options that are available.

Q48 John Thurso: The bank rejected it on the grounds that it was a perfectly proper project; the FOS rejected it on the grounds the bank has ticked the box; you do not regulate it. He has gone bust so he cannot go to court. That is where he is left.

Martin Wheatley: Okay. Obviously that is very unfortunate.

Q49 John Thurso: So the question is on tailored business loans: here are a great many farmers and small businesses that bought, in good faith, a product that they had no idea had break costs of literally hundreds of thousands of pounds. We, in the world of regulation, are saying to them, “Terribly sorry. There is a bit of fine print that says nobody is responsible for this”.

Martin Wheatley: I am not sure it is fine print. I know that you would hold us to account if you saw us reaching beyond our responsibilities.

Q50 John Thurso: No, I am not saying it is your fault; I am asking who should be regulating this? Is it acceptable that a large PLC can get redress because they bought a

complex derivative—and you might argue they should have known what they were doing—whereas a farmer who wishes to buy land next door to his own farm is stuffed because he was not told of the consequence of the product he was buying?

Martin Wheatley: But there are lots and lots of areas where financial interactions are outside regulation because the two parties are deemed to be sufficiently mature and experienced.

John Thurso: Let me put it—

Martin Wheatley: No, I understand that, in this case, that doesn't appear to be the case, but it is still the case that we cannot reach out beyond where we have power to reach. What we can do is raise with the Government, "There is a gap here and you might need to think about whether you want to close it".

Q51 John Thurso: But what I am trying to get at is what you think should happen. I wrote to you about this. You replied to me on 4 June and you informed me that you had written to Greg Clark on 25 February 2013 to bring this matter to the attention of the Treasury. So clearly you think there is a lacuna and clearly you think Government should deal with it. I have asked Greg Clark for a copy of the letter and he replied saying that that was up to you. I have asked you for a copy of the letter and you have declined to give it to me. What was so toxic in that letter to the Government that you don't feel it can be published or come into the public domain?

Martin Wheatley: I don't think anything was so toxic. It was almost simply a statement of fact that there are economically similar products that are legally structured so that they fall outside regulation and this is something that the Government ultimately has to work out—what the scope of regulation is, what the perimeter is.

Q52 John Thurso: Help me here. You are not currently regulating this product; I think you are telling me that you advised the Government that you are not regulating the product, but you think it should be regulated is the assumption. You have written to the Minister on that. In this era of freedom of information and transparency, what is it about that letter that you feel cannot be put in the public domain?

Martin Wheatley: I am not aware of that.

Q53 John Thurso: Why can't that letter be put in the public domain?

Martin Wheatley: I am not aware of what was in the letter. I will go and reappraise myself of it.

Q54 John Thurso: So you wrote a letter to the Minister on the subject of tailored business loans and you are not aware of what is in it?

Martin Wheatley: It was written, as you said, nine months ago, so I would have to go and remind myself.

Q55 John Thurso: Will you undertake to me and this Committee to let us have a copy of that letter? There is a form, you can give it to the Chairman under the usual terms of confidence and allow the Chairman to discuss with you whether it should be published, but I am at a loss to know why what looks like a very simple letter cannot be put in the public domain.

Martin Wheatley: Yes, I agree to do that. Via the Chairman, I will provide the letter and we will have a discussion if there are reasons why I cannot.

John Thurso: Thank you.

Q56 Andrea Leadsom: My apologies, because I will have to go straight after this, but good morning, Mr Wheatley.

Martin Wheatley: Morning.

Andrea Leadsom: I just wanted to ask you a few quick questions about seven-day account switching and full account portability. First, do you think a seven-day switching service is a misnomer, because it is in fact seven business days, isn't it, it is not seven calendar days? Do you think that is misleading?

Martin Wheatley: Possibly, but I am sure that can be explained.

Q57 Andrea Leadsom: So you do not have a problem with it?

Martin Wheatley: No, provided that is properly explained to people, I don't see that that in itself is an issue.

Q58 Andrea Leadsom: Secondly, are you concerned at all about the money-laundering rules and the ease with which banks will be able to switch within seven days, bearing in mind the quite onerous money-laundering rules around setting up new accounts?

Martin Wheatley: Obviously setting up new accounts from scratch are quite onerous rules, because we expect banks to do proper Know Your Client checking. I am expecting that, with a transfer from another bank, there would be some sort of contractual arrangement whereby that bank will be able to assure a bank that it has gone through proper AML processes in setting up the account initially.

Q59 Andrea Leadsom: So you think that those switches will be able to take place without starting all over again with the money-laundering?

Martin Wheatley: That is what I would expect.

Q60 Andrea Leadsom: I think that is a very important point, because that is quite onerous and it is potentially a big advantage of full account portability and it is obviously a potential big problem with switching bank accounts where you do change your bank account details and in effect you have moved on, but you haven't had to re-complete money-laundering rules. I would be very grateful, Chairman, if I could ask Mr Wheatley to consider that and perhaps give us more considered answer, because it does seem to me to be a potential problem.

Chair: You would be happy to do that, wouldn't you?

Martin Wheatley: Yes, I will do.

Q61 Andrea Leadsom: Thank you. The consumer body Which? found that just 6% of customers have switched banks in the last two years. Could you tell us what measures you have put in place to measure whether the seven-day switching is going to improve that abysmal switching rate?

Martin Wheatley: Clearly the switching rate in itself will be an indicator and we have said that we will review the impact of switching after the event, so after we have had some experience, and I imagine we would want a year of experience to understand whether it is having an impact. The pure statistics will tell us something. We will do some qualitative work as well to review with customers the ease with which they found the process and the follow-up facts: did things work seamlessly or not; were they put under pressure not to switch and did they have account retention policies, as you find in many parts of the commercial world to try to prevent them from switching? I think it would be a combination of quantitative and qualitative follow-up measures.

Q62 Andrea Leadsom: You will be looking at how much switching takes place, how good the experience was. Will you also be measuring the impact on competition in banking?

Martin Wheatley: Competition in banking is clearly a core responsibility for us and on lots and lots of different levels. We will be doing a review looking at competition in various aspects of banking and this will feed into that study, when we do that study. We are currently doing a piece of work on SME banking with the OFT. We announced yesterday that we will be looking at savings rates, so we are gradually looking at all aspects of how banks compete with each other and how consumers get services from banks.

Q63 Andrea Leadsom: Are you persuaded that more switching is correlated with the prospect of greater competition in banking?

Martin Wheatley: It is a difficult one, because clearly if customers who have choice can punish a bad experience, that is a good thing that you want. We have seen examples of where the competition for switching has created other distortions as well. I would not simply make the assumption that as high a switching level as possible must be a good thing. I think there are a number of things we would look into, including charging levels and profitability levels on different products. There are quite a lot of components that we would consider in looking at competition.

Q64 Andrea Leadsom: Would you do any sort of peer reviews with, for example, switching in the electricity market or the gas market or perhaps the telephone industry to look at what levels of switching should be—where they are in the 20% and 30% per annum, aren't they?

Martin Wheatley: I am sure we will learn from other industries and other regulators. I am not sure that we start with a preconceived idea of what an appropriate good level of switching is. I just do not think we are at that stage yet.

Q65 Andrea Leadsom: Clearly the Government is now talking, as you know, in the Bank Reform Bill about bringing in a new independent payments regulator. Is that something that the FCA anticipates becoming, and very specifically, has the FCA done some scoping work to consider what the role of an independent payments regulator might look like?

Martin Wheatley: We have had some discussion with Government. We have not done scoping work to consider what it might look like in any detail, because frankly, if it becomes our job, clearly we have resources to put on it. If it isn't our job, we do not have resources to use on that sort of work. So our discussions with the Government have been to try to help the Government reach a conclusion on it. When they reach a conclusion, if that involves the FCA, then we will gear up appropriately for that.

Q66 Andrea Leadsom: A final question: have you done any work yet on account portability and on the introduction of a common utility platform?

Martin Wheatley: On account portability, some work, only insofar as the discussions with banks about their preparation. Sorry, not on portability for switching. We have not done a detailed study on portability or the costs that would go with it, no.

Q67 Andrea Leadsom: Are you aware that the Banking Commission specifically pointed out that they were shocked at how anti account number portability the big banks were, and that gave them some cause for concern: "We were concerned that the largest banks objected very strongly to bank account portability whilst at the same time they have done no real work on it". Do you think that there therefore could be an interesting opportunity to look at why they object so strongly?

Martin Wheatley: Yes. We would want to see whether transferability works, so whether seven-day switching delivers, and as part of looking at that, we would want to look at whether there are alternatives. The banks assert—and it is, as far as I am aware, simply an assertion at the moment—that the costs would be astronomical. We have not tested that assertion and so I do not know whether that is true. Therefore it would be very difficult at this stage to work out what the cost benefit would be of moving to full portability, but that is something we would need to look at when we review the success or otherwise of the current scheme.

Andrea Leadsom: Thank you.

Q68 Mr McFadden: Can I just follow up on one of the questions Andrea Leadsom asked you about this new payments regulator? The Government has put forward three options, a standalone regulator, giving the FCA the job or one of the existing economic regulators. What is your preference? Do you want the FCA to have this job?

Martin Wheatley: If I am really honest, we are full in terms of the number of initiatives, the amount of work that we are being asked to take on board. Consumer credit is a huge, huge challenge for us and that is a big piece of work that will occupy us hugely in the next two and half years. Do we want more work? The answer is probably no, but the reality is where is the best place for it, and the Government will have to work out the pros and cons between giving us some additional responsibilities that we will have to resource, as against if it went elsewhere—would that be a sub-optimal structure? The truth is that we regulate all the banks at the moment, we know the major users of the payments system and therefore we have an established relationship with them.

Q69 Mr McFadden: You sound like you are not bidding for it; you are quite happy for it to go elsewhere.

Martin Wheatley: As I say, there are two sides to it. There is the question of, structurally, where it should be, and of whether we are well-set at the moment to take that on, if it was decided. My honest view is, structurally, there are reasonable arguments to say it should be with the FCA, but under the current resourcing model we would be challenged in taking on another responsibility, depending on the timing, and that comes back to the timing of the decision.

Q70 Mr McFadden: The Banking Commission called for a review of whether the large banks should be stripped of their ownership of the payments systems. Do you think they should be?

Martin Wheatley: I think you have to look at the conflicts first and how the conflicts are managed and until that piece of work is done, you cannot make that decision.

Q71 Mr McFadden: May I ask you a final thing on a slightly different topic, a story in some of the press today about the FCA launching an investigation into what are called teaser rates, introductory rates for savers? What is your concern here and what do you think banks should be doing that they are not doing at the end of these teaser rate periods for customers?

Martin Wheatley: There are three concerns. One is probably the easiest one to deal with: when you go from 3% to .001%, is the customer properly informed at that point in time and given the ability to switch?

Q72 Mr McFadden: Do you think they are informed?

Martin Wheatley: We are getting there, so we are moving to a situation where we are getting the banks to write to people at that point in time and giving them opportunities. There is a second point, which is a much more difficult one: even if people have been given that information, is it reasonable that—and until we have done a study, I do not know the percentage, but hypothetically—80% of savers, because of inertia, laziness, whatever reason, stay on .001% while a set of active savers would move around, constantly shopping for the best deal? Is that the best solution for the consumer base as a whole? Then there is a competition issue, which in many ways is the more difficult one: for those banks that only have to compete for the marginal savers, but are subsidised by a whole set of inert savers, how does that allow new players to come into the market, who, by definition, do not have an inert group to subsidise competing at the front end? So it is a potential barrier to competition, to new banks entering the industry.

Q73 Mr McFadden: We have had evidence that the banks call what you called active savers “rate tarts”. What do you think that shows about the banks’ attitudes to their customers?

Martin Wheatley: It is quite a derogatory term. It is people who are seeking to maximise their return from the structure that the banks have adopted.

Q74 Mr McFadden: They are doing absolutely nothing wrong, are they?

Martin Wheatley: People who are seeking to maximise their return are the smart savers who will go around and look for the best possible return. I don’t see any problem with that.

Q75 Mr McFadden: It doesn’t say much for the banks’ attitude to their customers if that is what they are called internally.

Martin Wheatley: It is a slightly derogatory term, but as I say, most people are not in that camp. Most people are in the camp of just leaving their money on deposit at whatever the minimal rate is.

Q76 Mr McFadden: So the outcome you would want is more customers actively moving their money around and looking for the best deal, because there is nothing wrong with doing that in a savings environment where interest rates are low, is there?

Martin Wheatley: No, that is right. That is one outcome. One outcome would be that if you are going to offer a new rate, you give all your customers the opportunity to benefit from that new rate, not just incoming customers.

Mr McFadden: Okay, thank you.

Q77 Chair: That answer is a radical shift from current policy—

Martin Wheatley: Yes.

Chair: —and would involve a transformation of the way the savings industry is run from the perspective of the banks. Perhaps you would like to develop a little bit how you are thinking on that.

Martin Wheatley: As I say, we have announced a study. We have not completed the study, but we have announced it because we think *prima facie* there are some things that aren’t working well in this market. One of the things not working well is that there are a high proportion of savers who, for a number of reasons—and we would want to understand the reasons—never benefit from the good rates. There is another problem: this is a barrier to entry, because any new bank coming into the system, in order to win deposits, has to compete

at the marginal high return without the benefit of a low-cost book that has been built up over many years.

Q78 Chair: What you have said is that it is for consideration whether every existing customer of a bank, every period—six months is common—should be offered a teaser rate. That is what you have just said.

Martin Wheatley: You would question would they be teaser rates? A teaser rate is something that tempts you into something that is a short-term return. If they were not a short-term return, you would question, “Well, is it just the rate to save?”

Q79 Chair: So therefore the next point to make in response to your suggestion is that we are effectively bringing an end to teaser rates, we are not?

Martin Wheatley: If that was the outcome—

Chair: You have just described exactly that.

Martin Wheatley: Yes, and we are just having an open discussion here. We have not started the study yet, so as part of the study, we would need to understand why a set of people who are very aggressive at shopping for good rates, what proportion of the total that is. The people who do not, are there factors as to why they do not? Is it just about information availability, in which case you do not need to do anything with the rates, you just give them the ability to respond to information and an easy way of responding to information? That would be a different form of intervention from one that was very aggressively requiring that all banks offer the same rates.

Q80 Chair: This is the equivalent of getting into a taxi that says, “The first mile is free” but then they do not remind you when they have travelled the first mile.

Martin Wheatley: It is on the clock. It is usually there on the clock.

Q81 Chair: Yes. With a bank, you never know what you are charged, do you, or what you are going to get? It is very difficult to find out.

Martin Wheatley: I think in fairness you are told when you are enticed into a bank and into a product. It becomes more difficult thereafter.

Chair: We will leave it there for the time being, but you can hear the interest in this, and if I wanted to, I am sure a number of other colleagues would want to come in on the same subject too apart from those who already have.

Q82 Mr Love: Good morning, Mr Wheatley. The FCA takes responsibility for consumer credit, including payday lending, in April of next year. You are obviously thinking very carefully about that transfer. You mentioned earlier on in an answer to Mr McFadden that it is a huge challenge. What early priorities have you set yourself for the takeover of these responsibilities?

Martin Wheatley: The early challenge is simply getting the 40,000 or 50,000 firms registered with us, so we need to know who the firms are that are offering services, so as of last week, we have started that process where firms would be pre-registering with us for interim authorisations, so that by 1 April we will have all firms registered with us. We have consulted once in March this year on the rule pack that we intend to apply to this market and we will be coming out again at the end of this month with our rules that will be in place from 1 April. Many of those rules will be taking on board existing OFT guidance and turning that into rules, and then we have looked at whether any particular parts of the market—and the payday loan element is always the one that grabs the attention—require additional protections

in place over and above what currently exists in the OFT structure. So that is the set of things that we are working through at the moment.

Q83 Mr Love: In that work that you are doing in relation to payday lending, there have been many reports about payday lending and you will have seen all of them. It is a market characterised by irresponsible lending practices and a lack of information for consumers. Has your research reached the same conclusion and have you made any judgments about how you deal with those practices?

Martin Wheatley: No, we haven't reached that conclusion yet, in part because, as I am sure you will appreciate, we need evidence to reach the conclusions that we reach. Because this is an unregulated market at the moment, our ability to capture that evidence is somewhat constrained, so we are working off the various reports that have been written and we understand some of the comments that have been made, but it is premature to say that we have reached the same conclusions. Partly our consultation at the end of this month will be our ability to gather that evidence, so in response to our consultation, we will be expecting a lot of information to come back and we will have to get to a point where we reach our own conclusions about this market. When you say it is characterised by poor lending practices and lack of information, as ever, there is a wide range of different types of operators in the market, some of whom that is true for and some of whom that is not true for. So the challenge always for us is trying to work out what is a proportionate intervention that we can make?

Q84 Mr Love: But you will have seen the reports. There have been many and there has been a focus of the media in this particular area. It is characterised, if I can put it that way, by a lack of affordability assessments on behalf of the lenders, no limit on the number of loans that someone can take out, often these loans are rolled over, all practices that I think you would suggest a responsible lender would not enter into. You mentioned that you are undertaking a consultation exercise. The OFT has referred this whole issue to the Competition Commission. Are you seized by the need to take action early on when you take over responsibility in April of next year?

Martin Wheatley: Yes, absolutely. We need to take action. You mentioned three things. No affordability assessment: it is a requirement that firms do affordability assessments, so if they are not doing that, then they are breaking the rules today and we will take strong action if we feel that that is the case. No limit on rollovers: many of the firms have voluntarily introduced structures and we would need to look at whether there needed to be some sort of limit for the number of rollovers that could be put through. So there are a number of things that we will do and that we see the need for today, but obviously there are many, many different views and some of those views are asking for very, very strong interventions in this market and the point I am making is they have to be proportionate interventions, from our point of view.

Q85 Mr Love: I want to come on to that intervention issue, but let me ask you one final question relating to this. A lot of the concern is in relation to the information that is provided to those taking out these payday loans. Are they properly informed about both the timescale and the cost of the loans? Is that a focus for your activity and are you concerned about the lack of information?

Martin Wheatley: I think from the limited work—and we haven't completed—that we have done, advance information about costs of loans is not one of the big concern areas, so typically the loans are very transparent, in a form that people understand. So people may not understand 5,000% APR, but they do understand if they borrow £100 today and they have to pay back £130 in three weeks' time, so they understand the cash flow elements of it. What

people fail to appreciate is the likelihood of rolling over and the additional debt problems that are created when people roll over the loans, but in terms of information upfront, certainly the internet-based models are reasonably transparent.

Q86 Mr Love: You mentioned about intervention, and of course under the Financial Services Act you have been given a new power to cap the cost and duration of payday loans. Have you taken a view? The Government has decided on the basis of the evidence they have received that it was not appropriate. Have you looked at this issue and do you think these are appropriate powers? As you mentioned, you have to be proportionate in the response. Is this a proportionate type of response?

Martin Wheatley: Are they appropriate powers for us to have? Yes, I think they are. Is the case made that they should be used at the inception of the new regime? I don't think that case is made yet. There have been a number of reports, the *Bristol Report*, which was done for BIS, came down with the view that the case was not made for an ultimate cap on consumer credit. Most other markets around the world where there have been attempts to do that, the model has simply changed into a slightly different model and has morphed to something different. As I said, the fact is we will come out at the end of September with our proposals for consultation, but they need to be proportionate, we need to have a cost benefit analysis behind them and we cannot simply respond to some of the wilder headlines that have been written.

Q87 Mr Love: I wondered whether you were carrying out any research. Bristol University has dominated the research in this area and has always concluded that if you cap the interest rate, then some of the lenders will leave the market and force those who need the loans to go to, let us say, less reputable lenders. Have you carried out any research to see whether that is an appropriate view to take and will you be carrying out some research, because I think there is a lot of genuine concern that the level of interest rates being charged by some of these payday lenders is disproportionate, to put it mildly.

Martin Wheatley: The answer is yes, we are carrying out research and we will do, but the paradox in this market—and genuinely it is a paradox—is that consumers are typically not cost sensitive, so you may say that 5,000% APR is outrageous. For most of the consumers of these, whether it is 2,000%, 3,000%, 5,000% is almost irrelevant. What matters is the convenience of getting money in the bank within 15 minutes and so capping the loans will not necessarily have the effect of taking out some of the poor behaviour in the market.

Q88 Mr Love: But you are carrying out research in relation to that matter?

Martin Wheatley: Yes.

Q89 Mr Love: Let me ask you one final question, and that is in relation to an article that appeared *BBC Newsline* in relation to consideration as to whether an advertising ban—you mentioned, I think in response to a question that you were asked, as to if the payday lenders were targeting people in work, why they were advertising during working hours. Can you give us some idea of what your thoughts are in relation to an advertising ban? You suggested that a complete ban would be disproportionate, but have you some thoughts on what may be an appropriate advertising ban?

Martin Wheatley: This area is complicated by European law, so the Consumer Credit Directive has maximum harmonisation constraints on what we could impose in terms of any restrictions on advertising. I would be very happy to write to the Committee with the detail of how those constraints would operate, but we would be constrained by European law in terms of interventions on advertising.

Mr Love: Perhaps he could write to the Committee. I would be interested to—

Chair: I think that is the third letter, plus a letter you have already written we would like to see—

Martin Wheatley: Of course.

Chair: —but I am sure you understand it is in the nature of these six-monthly reviews.

Q90 Mr Ruffley: Good morning, Mr Wheatley. Payment protection insurance. The statistics are not very encouraging from the high street banks point of view, because they have been able to reject many thousands of legitimate PPI complaints, and we know that because the FOS has been upholding over 90% of the PPI complaints. Just to put some numbers on that, the last two quarters of last year, July to December 2012, the FOS has shown that Black Horse, part of Lloyds Banking Group, 97% of complaints have been upheld; CitiFinancial, part of Citibank, 94% have been upheld and HFC, which is part of HSBC, 83%. Could I ask you whether you think that is acceptable, and secondly, what you can do about that?

Martin Wheatley: On the first part, it is absolutely not acceptable that that number of rejected complaints by a bank are subsequently found against them.

Mr Ruffley: Upheld, yes.

Martin Wheatley: I think it is outrageous that those sorts of figures are still the case. We have been working very hard through the work we have been doing to look at banks' complaint handling. We have taken enforcement actions, we will take more enforcement actions and we will continue to pressure through our ongoing supervision and through our themed work to look at how banks handle complaints, but I share your concern that those sort of figures are not good for an industry.

Q91 Mr Ruffley: How many enforcement actions are currently in process approximately?

Martin Wheatley: I can tell you exactly: two large investigations underway. We have completed two where we have taken quite strong fines.

Q92 Mr Ruffley: I want to get on to fines, because when you were at the FSA, Lloyds Banking Group were fined £4.3 million for failing to deal with PPI complaints properly and we understand that you are taking enforcement action. Is it enforcement action or is it investigation following the undercover report by *The Times*?

Martin Wheatley: Obviously we have read the article. We were aware of the issues. We have not commented publicly on—

Q93 Mr Ruffley: But you are investigating it?

Martin Wheatley: You can imagine that something like that would not go unnoticed; can I put it that way?

Q94 Mr Ruffley: I think we can read between the lines, but I just want to get on to this issue of fines and how far you view them as a deterrent, not just in relation to PPI, but generally when you are doing your regulating. On 10 August, we were given a clue as to your organisation's thinking about fines and their role in the regulator's arsenal when your Chairman is reported as saying that, "FCA fines don't need to get any bigger". Your Chairman said he rejected the suggestion that banks regard typical penalties of a few million pounds as just another cost of doing business, and he is quoted as saying, "If it, the offence, is a really big thing, then it should be a really big fine, but there shouldn't be a really big fine just because it is a really big organisation. I don't want to be measured by the size of fines". I just want to understand this. Some people think big punitive fines of the kind you see doled

out by US regulators do have an effect, are important, bigger fines act as a deterrent. Are we to take your Chairman's view as the view of the organisation that you are Chief Executive of, because it sounded pretty lily-livered to me?

Martin Wheatley: Our fines have grown astronomically. Last year, we put out over £400 million in fines, which was something like four times the amount only two or three years earlier. The largest fine was £160 million and we have now moved into a range where the fines are much bigger. They do have an impact and they have an impact because of the related components, and you may argue that the banks have taken enough negative publicity that they become inured to it, but the banks do care about negative publicity and every large fine is a negative, it damages their public perception, but also this year, as part of the bonus round, there was a significant amount of clawback that we required from banks in response to poor behaviour. So fines are just not now a corporate cost that get taken out of the pockets of shareholders, they are now hitting the senior employees of banks and I think that will make a bigger difference than simply a fine that gets paid frankly by the shareholders at the end of the day.

Q95 Mr Ruffley: So it is concern for the interests of shareholders that have to be weighed against punitive effect?

Martin Wheatley: No, I don't think so. What I am saying is that I think fines would have had less impact on the behaviour of a bank if they simply passed it on to their shareholders and therefore the employees do not suffer. If the employees feel it, I think that makes a difference and that is increasingly what is happened.

Q96 Mr Ruffley: That is interesting. I just want to get on to a more general point, if I may, beyond PPI, and it is something that the Parliamentary Commission on Banking Standards did a lot of good work on, I believe, and moved the agenda forward, and it is in this respect: the powers that regulators should have in the future to single out senior persons who have behaved negligently, recklessly, improperly and to inject into the regulatory mix individual responsibility, personal responsibility by senior directors where they have messed up and where it can be proved that they have done so. Can you just explain what powers you have, rather than any other regulator, in that respect to target individuals compared with the powers you had when you were at the FSA?

Secondly, without naming names—unless you want to name names—are there any actions you are taking against individuals?

Martin Wheatley: If I can deal with the first part, so the powers that we will have, the powers moving from the FSA to the FCA doesn't significantly change our ability to hold individuals to account. The implementation of the Banking Commission's proposals will. So from my point of view, I see moving to the senior persons regime, the licensing regime and the clear personal responsibility as being a significant step forward from our current approved persons regime. So as we work through the recommendations and implement them, that will get us to a position where you have senior persons who are given designated responsibilities—rather than the problem at the moment, it was amorphous and it was confused across the organisation—stronger sanctions available against those individuals and a licensing regime that allows us to go to a much larger number of people within the organisation. So I see the Commission's work as giving us the change of powers rather than simply the change from the FSA to the FCA.

Q97 Mr Ruffley: What is the timescale?

Martin Wheatley: We will consult, obviously subject to the legislation being passed, so we have to follow that, but in the first half of next year, we will consult on our detailed regime and we expect to be able to introduce that in 2015.

Q98 Mr Ruffley: Under the existing law, the FCA has limited powers to go after individuals, does it not?

Martin Wheatley: I wouldn't say it is limited powers. It is the evidential trail that is the challenge, so because there is no absolute set standard as to what it means to preside over a product design process, it is hard for us to show that, "You fell short of the desired standard" because the standard moves over time. It has been hard to nail an individual against responsibility because matrix organisation structures, committee decision-making means that individuals always defuse responsibility and it ends up that you have to take action against a committee. So it is not the powers that are lacking, but frankly, evidence is hard to gather in a way that would allow you to take action.

Q99 Mr Ruffley: Just a final question, would you see it as part of your mission as a very senior regulator in the United Kingdom to be known for prosecutions or enforcement action against individuals, and secondly, higher punitive fines? Do you want that to be part of your legacy, that you are a tough regulator who is going after individuals, not just companies, and making an example of them and also dishing out really heavy punitive fines, not because you want to bash capitalism or bash bankers, but where someone has crossed the line or a firm has really crossed the line and behaved badly and poorly, that they should expect the full force of the regulator coming down on them like a ton of bricks? Is that a reputation you want personally or not, and if you don't, why not?

Martin Wheatley: No, no, but you put a caveat in there, where there is clear misbehaviour, misconduct, then we want people to face the full consequences of that, and yes, I do want that to be a legacy, that people don't get away with misbehaviour in our markets, but also we want a vibrant market and we don't want people so scared of the industry or so scared of the regulator that they won't want to come into this industry or to take reasonable business risks. So frankly, there is a balance to be struck. We do want to be seen as a regulator absolutely that punishes wrongdoings, but also a proportionate regulator that allows innovation and growth and development to operate within the market.

Q100 Chair: Just on the level of fines, the fines have risen a lot, but they are still lower than in the United States case for case, so it is widely alleged. First of all, in a nutshell, do you agree with that?

Martin Wheatley: It is a statement of fact, yes, they are.

Q101 Chair: When you establish what you think the right level of fine should be institutionally, do you have any contact with other regulators who are looking at the same or parts of the same offence in other jurisdictions?

Martin Wheatley: We have contact with other regulators who may be looking at a similar offence, but there are no discussions—if I understood the question—that say, "Okay, if the total is X, then we will take 20% and you take 40% and you 60%". It doesn't quite work like that. So we—

Q102 Chair: Why did you add the word "quite"?

Martin Wheatley: We develop our fines in relation to our policy at the time and other experience and when we have a discussion, we will have come to a figure. I can't speak for how other regulators reach the figures that they have reached.

Q103 Chair: It is widely held in the industry and by those who are close to the industry in the United States that there is an informal percentage operating between the regulators.

Martin Wheatley: As I say, not between the regulators, because that is not how we operate. If other regulators end up looking as though whatever figure we end up with, they are at 200% and 250% of that, that is not a decision that we have been any part of. That is somebody else's separate decision-making process.

Q104 Chair: So these decisions about fines take place between impenetrable Chinese walls?

Martin Wheatley: I don't think it is as impenetrable as that. We will discuss the level of fine and we will discuss the level of egregiousness of an action, but we do not attempt to influence other people's fining levels. So clearly we are co-operating, and particularly on LIBOR, as you know, with DOJ, CFTC and then some other regulators. Co-operation means sharing information, sharing records and therefore discussing the nature of the offence and we will discuss at the latter stage of that what the potential fines might be, but that is quite different from trying to agree them.

Q105 Chair: Is the fact that you have given me a very robust—pretty robust—reply in rejecting the allegation that has been made in any way connected to the widely-held view that if it were to become established there were a percentage, these fines would be easier to challenge in the courts, in the tribunal, in our case?

Martin Wheatley: I am not aware of that view. The reason I am giving you a robust response is because I am giving you the truth.

Chair: That is very helpful. Thank you very much.

Q106 Stewart Hosie: Mr Wheatley, you have been quoted as saying in respect of Co-op retail bondholders that it is not a deposit, it is a bond and it is subject to certain risks. Are we correct to infer from that that you have limited sympathy with the position of the Co-op bondholders?

Martin Wheatley: No. We have a huge amount of sympathy with the Co-op bondholders. Many of these are individuals who have sought to invest wisely and to seek a yield to supplement their pension or provide their pension, but it is a simple fact that a capital market instrument is different from a deposit and we wanted people to understand that a capital market instrument is different from a deposit.

Q107 Stewart Hosie: Indeed, and I will come back to that in a moment, but the anger from the bondholders is mainly about the fact that there was such limited disclosure from Co-op Group and the bank about capital before the £1.5 billion shortfall was announced, but that the PRA themselves has said it is not for them—not for you, not for the PRA—to influence the terms of offers made to investors, so is that still the position of the PRA, that it is not for you to influence the terms of offers made?

Martin Wheatley: I think it is for the Co-op to determine what the offer they would make to investors is, but we would have a view if we felt that that offer was unfair, and so we would have conversations with the Co-op if we felt that they had wilfully disadvantaged one group of interests from another. Of course this is complex, because you have depositors in Co-op, you have bondholders, both retail and sophisticated, you have the Co-op Group itself as the equityholder and then you have broader mutual interests, so it is quite a complex set of relationships in the Co-op.

Q108 Stewart Hosie: Indeed it is, but just thinking specifically about the bondholders—and others, of course—they will argue that the Co-op Group should and financially are able to meet the entire shortfall themselves. If Co-op Group were able to do this, then from a conduct perspective, is that not the preferable outcome?

Martin Wheatley: If the Co-op Group were able to, then that would be a preferable outcome. I think the Co-op, when they announced their results, made a number of statements that they did not believe that they were in that position and when they publish their prospectus and the precise offer, I hope that they are able to truthfully say exactly what their position is and then the bondholders would get the insight into what the real situation for the Co-op Group is.

Q109 Stewart Hosie: Although they would probably argue they have been rather frozen out of the discussions so far as the offer is being prepared. However, it has been argued that the PRA has the power to step in and then order qualifying payment undertakings to take action to shore up UK banks that they own. Has the PRA board, of which you are a member, discussed ordering Co-op Group to fund the entire capital shortfall?

Martin Wheatley: I don't think I can disclose what conversations have happened in the PRA board with respect to that, but it is certainly the case that in terms of the distribution of the coupons on the various bonds, the Co-op were fairly public that they had not been allowed to because the PRA had not allowed them to, so that is in the public domain.

Q110 Stewart Hosie: You said you are not able to discuss what took place on the board. Had the PRA made a determination to have one of these qualifying payment undertaking orders, then we know that you would have asked the Co-op Group to fund the entire capital injection themselves, would they not?

Martin Wheatley: Yes. Were that to be the case, then as the Co-op published its plan, they would publish how they intend to fund the rescue.

Q111 Stewart Hosie: We would know from the Co-op if they were doing that, but we would know from the PRA if you had asked them to do that?

Martin Wheatley: The answer would probably be yes, because I am sure the Co-op would state, "Here is what we are doing and here is why we are doing that".

Q112 Stewart Hosie: But you are not able to tell us whether or not you have discussed this on the board and how you came to a decision either to do that or not to do that?

Martin Wheatley: No.

Stewart Hosie: That seems slightly peculiar.

Martin Wheatley: It is the nature of when we are dealing with very sensitive issues within the board. When they can be published, they are typically published by the company, not necessarily by the PRA board, but the PRA would require a company to make certain disclosures, and until they have made those disclosures, it is not fair for me to prejudice that by talking about any discussions that have led up to that.

Q113 Stewart Hosie: Okay, but given we know Project Verde was a shambles, Co-op are now in difficulty, that the bondholders feel they are being unnecessarily squeezed and that the PRA do have the potential at least to order a qualifying payment undertaking, it does not seem unreasonable that this Committee might know whether or not that was even discussed by the PRA board. I am struggling to see what it is that is confidential that you might not want to tell us in that regard.

Martin Wheatley: This has been a very difficult process, and the bondholders clearly have felt that they have not had sufficient information. The Co-op are trying to prepare a package of information that they will take out to their bondholders and when they present that package of information, it would have all the relevant information to allow people to make a decision. It would be difficult if considerations were dripped in as to what might have been said at different parts of the process. This is the Co-op's exercise. It is for the Co-op to manage this exercise and they have to communicate with their bondholders and wider public.

Q114 Stewart Hosie: Indeed it is. They are the ones in difficulty and they need to fill in this financial hole and I appreciate that, but it is the PRA that is before this Committee today. We can speak to the Co-op separately about this.

I wonder if you could have another think about why you cannot tell us whether or not this was even discussed. That does seem quite a bizarre point. Self-evidently, it was discussed in respect of the conclusion.

Martin Wheatley: There is a technicality. I don't want to hide behind technicalities, but the terms of reference on which I sit on the PRA board are such that I am not party to individual institution discussions or decisions. That is the way the terms of reference have been drafted, so if you wanted to ask that, you need to ask Andrew that rather than me.

Q115 Stewart Hosie: I understand the rules and I suspect this might be something we will come back to, because it is opaque, to say the least, and while that particular rule may be there to offer some very real protection to you or others, I am not sure if it helps enlighten us, but I am sure others may want to probe this just a little further.

Q116 Jesse Norman: You, Mr Wheatley, have said that with regard to the Co-op Bank, you would intervene if you thought there was unfair treatment of one group of creditors or shareholders with regard to it. Is that right? You just said that.

Martin Wheatley: I think we have an obligation to consider whether fairness has been observed.

Q117 Jesse Norman: So why haven't the shareholders been wiped out?

Martin Wheatley: The final offer has not been made yet, so we have had a lot of talk about the exercise, but the Co-op are preparing their prospectus, they are preparing their offer. At the point they publish that, they will disclose what happens to the various different groups.

Q118 Chair: So they might yet be wiped out?

Martin Wheatley: Yes.

Q119 Jesse Norman: Thank you, Chairman. But your normal understanding of the capital structure resolution or anything close to it would be one in that the shareholders got wiped out first and then you work your way up the creditors?

Martin Wheatley: Yes.

Jesse Norman: That is good, thanks.

Q120 Chair: Sorry, just before we move off that, so they might yet be wiped out?

Martin Wheatley: I think the normal hierarchy, you are absolutely right, is that equity and then various classes of subordinated, unsubordinated debt are wiped out at different levels, so there is a waterfall cascade and I don't see that that be any different.

Q121 Chair: I am just trying to get the answer. The answer is yes?

Martin Wheatley: I don't want to commit to that being the answer, because that is for the Co-op to say.

Q122 Chair: There is a "might" in there?

Martin Wheatley: Yes, there is a potential outcome. Yes, that is a potential outcome.

Q123 Jesse Norman: That is the normal approach you would expect to be taken to a bank's balance sheet?

Martin Wheatley: Yes.

Q124 Jesse Norman: Thanks. So the second question is you said that it would be preferable for the Co-op Group to pay out all of the cost incurred by its wholly-owned subsidiary, the Co-op Bank. You just said that in response to Mr Hosie, ideally, all other things being equal, it would be preferable for that to happen.

Martin Wheatley: Yes.

Q125 Jesse Norman: So have you made any assessment at all? Are you aware if the PRA has made any assessment of whether the Co-op can meet those costs?

Martin Wheatley: I think I am being asked the same question again, which I have said I don't think it is appropriate for me to answer, so that is clearly a discussion that is happening currently. That is an ongoing discussion. There are a number of parties involved, obviously the PRA, the Co-op and then the syndicated loan to the Co-op, which has a number of covenants attached to it, which also cover what the Co-op can and cannot do.

Q126 Jesse Norman: But from an FCA perspective, you have made no assessment and would not expect to make any assessment then of whether the Co-op could meet those costs?

Martin Wheatley: We would make an assessment when we know the final terms of the treatment to bondholders and whether we think at that point that that is a fair treatment.

Q127 Jesse Norman: Because of course one of the things they could do is to sell other assets. It has been mooted in the press they could potentially sell their funeral business, for example.

Martin Wheatley: They will have to look at every option available to them.

Q128 Jesse Norman: And satisfy you on that front?

Martin Wheatley: Yes.

Q129 Jesse Norman: Thank you for that. Are you concerned about the possibility that a false market may have been created in Co-op bonds?

Martin Wheatley: If there was a concern, then we would investigate that through the normal course of events and where there has been a requirement for Co-op to make any further disclosures, we have pressed them to make further disclosures.

Q130 Jesse Norman: But you have not so far begun to reflect on the question of whether or not a false market has been made as an institution?

Martin Wheatley: I don't believe at this stage that we have reached a conclusion that that would be of sufficient probability that we would have opened an investigation into it.

Q131 Jesse Norman: I draw your attention to a letter from Mark Taber of 15 August, copied to me, in which he includes tweets by the Co-op, e-mails, a reference to the PRA's—or pre-PRA—warning by Andrew Bailey in December 2011 on the PRA concerns about the Co-op's balance sheet, and remarks in the Co-op's 2010 annual report, which said: “The underlying strength of the business is evident in its stable capital and liquidity profile. The Bank core tier 1 ratio was 9.6%...while the capital ratio was 14%...and the tier 1 ratio, 9.9%...These ratios reflect the strong capital base of the business, yet it is notable that the Bank has not taken, or needed, government capital support. This capital position has been more than sufficient to fund ambitious transformation projects while delivering outstanding services to our customers”. The following year, we heard: “Our underlying capital position continues to be a source of strength, and reflects our prudent approach”. None of that was true, was it? That was all false, in fact.

Martin Wheatley: We received the same correspondence that you referred to. As I mentioned earlier, we would always start a process of gathering facts and if we felt that there was a potential infringement, then we would launch an investigation.

Q132 Jesse Norman: Okay, that is helpful. If you thought that these remarks were untrue, would you look at the question of whether or not bondholders had been misled by the failure to disclose the truth at the time?

Martin Wheatley: As a matter of course. Again, I do not want to be too specific, but—

Q133 Jesse Norman: No, but in terms of your procedure, your procedure would be to look at these things, and whether they were true when uttered?

Martin Wheatley: Yes.

Q134 Jesse Norman: Had they received regulatory invention, that might have indicated that they were not true.

Martin Wheatley: Yes.

Q135 Jesse Norman: You would look at all that, and then you would look at current tweets and e-mails and such to see whether those were misleading as well?

Martin Wheatley: Yes.

Q136 Jesse Norman: If you were persuaded they were misleading, that would give you a strong inclination that there had been a false market in these bonds.

Martin Wheatley: I would not want to jump to that conclusion. We would open an investigation and draw all the facts out as part of an investigation.

Q137 Jesse Norman: That is helpful. There is video interview on 19 July by the Co-op with the Group Chair, who is a man called Len Wardle. In that interview, Mr Wardle said, “We spent considerable time and effort in looking at this”—this is the purchase of bank branches—“in detail to satisfy ourselves it is the right thing for our members and our businesses. In the long term, this will be a very satisfactory investment. We have kept the FSA up-to-date”. This is seven months after he has received an e-mail from Mr Bailey warning of concerns, and a year after he has had an actual meeting, according to Neville Richardson, with Mr Bailey, in which Mr Bailey expressed concern over dinner. That was in July the previous year. He says, “We have kept them up-to-date, as have Lloyds, and they have not intervened, so one might have expected them to have intervened if they weren't happy with what was taking place”. You do not think this sounds pretty misleading?

Martin Wheatley: It is an attempt to put a strong face on a deal that they were trying to do at the time.

Q138 Jesse Norman: That does not sound like an answer to my questions.

Martin Wheatley: I think that the point was that we never—as the FSA or the subsequent organisations—came to a point where there was a clear business proposal that we could assess for approval or non-approval. What we had was a number of approaches, three in total, all of which were subtly different from each other, where both the FCA and the PRA raised a number of questions that would need to be answered if the deal was going to be approved.

Q139 Jesse Norman: Will you look at the question of whether or not Mr Wardle and members of the Co-op Group with responsibility for the bank, its board and its management were fit and proper persons? There is now an enormous cascade of evidence to suggest that a series of misleading statements were made. There may have been a false market in bonds, let alone other public information given out that was potentially misleading about the status of the bank and its expectations, prospects and relationships with the regulators.

Martin Wheatley: As I have said earlier and will repeat, where there are suspicious circumstances in the market, our duty is to look at those, gather facts and form a view as to whether there was potential misleading activity.

Q140 Jesse Norman: That sounds as though you will take very seriously the question of whether or not these people are fit and proper persons.

Martin Wheatley: Yes.

Jesse Norman: Thank you very much.

Q141 Teresa Pearce: I would like to talk to you about the annuities market. Do you think that historically the annuities market has worked well for consumers?

Martin Wheatley: I think historically it has had problems. The problems have largely been around transparency and consumer choice, and we are in the process of gathering information from the market about its operation with a view to looking at whether we need to conduct a further study into it. But it is fair to say that it has had problems.

Q142 Teresa Pearce: For most people, the two biggest financial decisions they make in their life is a mortgage to purchase a house and a pension. There are going to be a large number of people with auto-enrolment coming into the pension system who have not been in before, and they are likely to be less sophisticated people. Do you think this is an area of high risk?

Martin Wheatley: I think it is an area of high impact, because as you say, you only make these decisions once—or certainly with an annuity, you only make these decisions once—and getting it wrong is obviously a significant issue, so therefore almost any mistakes get amplified. Until we have carried out our piece of work, I would rather not get drawn on whether we think it is a very high-risk structure as it currently operates.

Q143 Teresa Pearce: But your piece of work is due to publish in early autumn, which is very soon, so are you saying you do not have a view at the moment on that?

Martin Wheatley: No, I am saying I do not want to front-run the conclusions that we agreed.

Q144 Teresa Pearce: How many staff work at the FCA?

Martin Wheatley: Around 3,000.

Q145 Teresa Pearce: How big is your pension policy unit?

Martin Wheatley: I would have to come back to you on that.

Q146 Teresa Pearce: Is it very small?

Martin Wheatley: Relative to 3,000, it is not going to be double-digit numbers in policy terms, but obviously the people who are working on something like annuities would be partly within the policy unit itself, partly within supervision, and partly within our new competition area, so the number of people that we have working on these issues at any one time could be large, but I would have to research that and come back to you.

Q147 Teresa Pearce: Do you think you have enough resources to cover what could be a large issue going forward?

Martin Wheatley: At the moment, yes, but it depends how this issue unfolds over the next few months.

Q148 Teresa Pearce: We have mentioned your thematic review, and it being published in early autumn. Do you have a more specific date?

Martin Wheatley: Again, I haven't. I will have to come back to you and confirm the timetable for that.

Q149 Teresa Pearce: When do you believe autumn begins?

Martin Wheatley: Autumn began on Saturday, I think.

Teresa Pearce: Right, so we are in early autumn now.

Martin Wheatley: Yes.

Q150 Teresa Pearce: At what point will it be late?

Martin Wheatley: Again, I cannot tell you that. Let me come back to you with the exact timeline.

Q151 Teresa Pearce: All right. Another Select Committee that you appeared before earlier in the year, the Work and Pensions Committee, has recommended that when a customer wants to purchase an annuity, pension providers give a comprehensive breakdown of all the different annuity rates and providers. Would you support that idea?

Martin Wheatley: I think yes, we would want to see greater breakdown and transparency, and we have started to see other organisations provide comparisons, but our concern has always been that disclosure in and of itself is not enough. There needs to be behavioural change. Where we find problems, there needs to be behavioural change as well, so I think my answer would be yes to that, but not to assume that that would therefore solve all problems.

Q152 Teresa Pearce: Are you expecting pension providers to provide this information voluntarily, or do you think there needs to be regulation?

Martin Wheatley: We would normally give the industry an opportunity to step up and give them the chance to show that they can meet that requirement, and if they cannot, then we may step in and impose requirements. Obviously we would have to discuss with the pension regulator how that might be introduced.

Q153 Teresa Pearce: How well do you work with the pension regulator?

Martin Wheatley: Oh, very well. Obviously, we have some overlapping responsibilities in different areas, and we meet with them on a very regular basis to discuss what we think are the gaps and how we use our respective powers, and we come up with joint work plans to address what we think are the gaps.

Q154 Teresa Pearce: There is evidence that with individuals who invest in a pension fund, there is a large level of ignorance about what happens at the end of the pension fund. People think that they just get a pension; they are not aware that they have to purchase an annuity. There are people who have just gone with the annuity of the pension provider and lost 20% to 40% of possible future income. Once you have made that decision, it is too late, and the public look to your organisation to protect them, don't they?

Martin Wheatley: They do. Unfortunately, it is partly inertia and partly familiarity. Even if a pension provider—and I know; I have had pension providers say this to me—told customers, “You can get better elsewhere” they will say, “Well, that is fine, but I will stay with the one I know, thank you.” I think that structurally there are some problems with this market.

Q155 Teresa Pearce: Do you think we need a “GoCompare” annuities website or something?

Martin Wheatley: I am very wary of the comparison sites, because they are all gamed and various things happened with those, so there is clearly a combination of greater disclosure and some behavioural change needed in the market.

Q156 Teresa Pearce: We are looking forward to the reports, and also to behavioural changes. If those behavioural changes do not happen, and if the industry does not clean up its act, the Work and Pensions Committee recommended to the Pensions Minister that steps should be taken to separate the function of pension schemes from that of providing annuities. Do you think that would be a step too far?

Martin Wheatley: If it is necessary. You have said that if other things do not happen, more structural change may be needed. That is one option. I think we would probably want to look at what the range of options would be before giving a view on whether that is the right option or not.

Q157 Teresa Pearce: But you are hopeful that this would be a voluntary code?

Martin Wheatley: That is where we would like to start, and if it does not work, then clearly we will move on from there.

Q158 Teresa Pearce: For each person who makes the wrong decision, that affects them for the rest of their life.

Martin Wheatley: It is irretrievable, yes. I appreciate that.

Q159 Teresa Pearce: It is important that we do this, and do it quite quickly. If you could let us know a rough date for when this report will be out, that would be really good. Thank you.

Martin Wheatley: I will do that.

Q160 Chair: Mr Wheatley, you did a very interesting review of LIBOR, but in fact the leading benchmark rate for interest rate swaps is a rate used largely in the United States, the ISDAFIX, which I am sure you know about. It is sometimes known colloquially, this

whole issue, as Treasure Island, which I am sure you have noticed in the press reports. Have you had any contact with US regulators about investigations into ISDAFIX?

Martin Wheatley: Yes.

Q161 Chair: Are you satisfied with the work that is going on in the United States on it?

Martin Wheatley: I think so. We are at an early stage and—

Q162 Chair: You didn't sound very convincing there.

Martin Wheatley: With all these processes, you see a headline, and the headline usually follows from some initial investigations being made, so either we or the CFTC will ask for records and that is sort of the start of the process.

Q163 Chair: You have asked, have you?

Martin Wheatley: We have asked for records, the CFTC has, and I think one or two others have as well. That process itself takes quite a long time to get to a point—because we are talking thousands, maybe millions of records—where we start to form a conclusion as to whether there is a formal investigation needed. I would just say that we are at an early stage.

Q164 Chair: You are happy that we are at an early stage, and that this is not being dragged out? In other words, you do not feel concerned that this is taking too long?

Martin Wheatley: Not yet.

Q165 Chair: Do you think that on the basis of what you know, and without disclosing specific institutions, this whole area of investigation is likely to lead to concerns smaller or about the same size or larger than what we uncovered over LIBOR?

Martin Wheatley: Again, I would just say it is too early to say. There had been headlines around a number of benchmarks. ISDAFIX is one. There were headlines around FOREX, gas, electricity—a wide number of areas. All of them are areas where we subsequently start to collect information, but it is too early to say whether they will lead to investigations, or what we will conclude.

Q166 Chair: But you are conducting a parallel investigation on this?

Martin Wheatley: We are always very careful of the use of the word “investigation”, so we are making inquiries.

Q167 Chair: Making inquiries? It sounds like “Dixon of Dock Green”.

Martin Wheatley: It has a formal status.

Chair: Helping with inquiries down at the Yard.

Martin Wheatley: It has a formal status in our organisation, so we are at the stage of gathering data.

Q168 Chair: Can you tell me at this point whether you are aware of any other attempts to manipulate other important benchmarks?

Martin Wheatley: Yes, but again, they are something that is—

Chair: Beyond the ones that you have just outlined.

Martin Wheatley: We have in our enforcement process at any one time several hundred lines of inquiry, some of which become formal investigations and some of which are lines of inquiry that do not proceed beyond that, but the answer is yes.

Q169 Chair: So there is a great deal going on—

Martin Wheatley: Yes, we are very busy.

Chair—on all this right now, and we can expect more news in due course?

Martin Wheatley: Or not. If we find ultimately that there is not a case to be brought, then that will be the end of the story. If there is a case to be brought, then that will work its way through a disciplinary process.

Q170 Mark Garnier: May I quickly turn to the Retail Distribution Review? You are currently reviewing the implementation of the RDR. I have one quick question, which is in two parts, obviously.

Chair: We would like a quick two-part reply.

Mark Garnier: The first is how are you getting along with this and when you think you will be reporting on it, but the second and more crucial point is whether you are seeing any evidence that the Retail Distribution Review has resulted in a reduction of the supply of advice to people, particularly at the more impoverished end of the marketplace.

Martin Wheatley: I will answer the two parts. How are we getting on? I think the professionalisation of the industry has been a big success. We now have 30,000-odd advisers who have gone through a process and who are now qualified, so we are very pleased that that part went very well. I think the removal of product bias has been a great success; we have removed the incentive for advisers to advise on products based on what they would earn from the product.

Q171 Mark Garnier: This is getting rid of the trail.

Martin Wheatley: Getting rid of the trail, but also the initial rebate—the commission rebate that would come from the provider. To deal with the second part of the question, I do think that there are some issues with the removal or withdrawal of some of the mass-market distributors from the retail market. You can question how much of it was advice before, or simply sales dressed up as advice. I think most of the banks and advisers worked out that you cannot provide a fully advised service with less than five or six hours of work, and that costs, and we are therefore seeing less of that model. What we are seeing is the arrival of web-based, internet-based entrepreneurial-type models that are delivering advice in a different form. We are at the relatively early stages of seeing that, and some of those banks or insurers that have withdrawn have said, “We have withdrawn and we don’t see it as a space to be in.” Some of them are, frankly, trying to work out how they can offer a cost-effective advisory model to that part of the market. That part honestly is still in transition, I would say.

Q172 Mark Garnier: Are you alarmed by the drop-out of advice, potentially, for the lower end of the market?

Martin Wheatley: Yes. It is a concern. People who have portfolios that are below—I don’t know what the threshold level is—maybe £50,000 or £100,000 are not getting the same sort of service that they were getting, so that is a concern.

Q173 Chair: We need to think more about how to address that.

Martin Wheatley: Yes.

Chair: Thank you very much for coming to give evidence this morning.

Martin Wheatley: Thank you very much.

Chair: It has been extremely enlightening and you have covered a wide range of subjects. We are very grateful to you for your detailed replies, and we await, I think, five letters.

Martin Wheatley: Yes. There are a number of areas that I will come back to you on.

