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Rt Hon Mel Stride MP
Chair - Treasury Select Committee
House of Commons
London
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Our Ref: C211011D

Dear Mel,

Update on the FCA's Transformation Programme

I am writing to you in advance of my next appearance before the Committee on 8 December to provide you with an update on our ongoing transformation programme.

Charles Randell wrote to John Glen in April providing an extensive update, and I included a short update as part of our response to your report into the regulation of London Capital and Finance in August. As such, I thought it would be helpful to focus on the elements of the transformation programme which have been delivered since then.

Firm and consumer-facing activity

We have launched our new 'Single View of Firm' dashboard, which enhances the intelligence available to our supervisors by aggregating in one place the publicly available and restricted data we hold on a firm. This reduces the time taken to analyse risks and intervene on the areas of greatest harm. Alongside this we now have an established, enhanced framework for monitoring the prudential position of all c.49,000 solo-regulated firms and thereby assessing their likelihood of failure. For example, through this framework we have assessed over 70 payment firms, which collectively safeguard £3.9bn of customer funds. As a result of our interventions, 17 of these firms raised additional capital and liquidity totaling c.£68 million, thereby better protecting customer assets of over £0.7bn.

We are driving towards clearer articulation of the strategies we will pursue to deliver our objectives. Our Consumer Investments Strategy, published in September, represents the first time we have set out metrics to measure our work against our desired outcomes across a sector, increasing transparency over whether we are making effective progress towards delivering these outcomes. In the first half of next year, we will publish similar strategies, metrics and outcomes across all the sectors we oversee. These outcomes will be stretching, reflecting our ambition for change in each sector.

Our most recent consumer campaign, launched as part of our Consumer Investments strategy, is a brand new type of campaign for us, which uses a gaming theme and the message 'Don't get played' to help consumers make better informed investment decisions. Our research shows that younger investors typically have lower levels of financial resilience, lower levels of investment knowledge and a higher propensity to invest in high risk, high return investments. Our campaign marks a new way for us to engage with this more dynamic investor audience, which has grown during the pandemic.

We have enhanced our scrutiny of firms' business and financial models at the gateway. Alongside a tougher assessment, we are considering how the application process can be made more straightforward through work on better digital applications and easier-to-use forms. This will also help to ensure that applications are complete on receipt, with missing information being one of the main causes of assessments and decisions being delayed.

We have launched a pilot Early Oversight function, which will provide strengthened oversight of firms in the initial period following authorisation. There is often evolution in the business models and plans of newly authorised firms – and therefore a resulting benefit to additional oversight, which will allow us to check that firms are operating as we would expect and spot emerging risks.

This is in addition to our recently published draft guidance, setting out how we will use the new powers given to us by the Financial Services Act 2021. We confirmed that we will seek to wield new 'use it or lose it' powers, allowing us to revoke permissions from firms after 14 days, where we assess that they are not using them.

Culture and approach

I set out in July, alongside publication of our Business Plan, our ambition to be a more innovative, adaptive and assertive regulator.

The foundations of this will involve making sure our people are appropriately skilled and empowered to make swift, accurate judgments based on the available evidence. We recently moved certain decisions away[1] from the Regulatory Decisions Committee (RDC) – a committee of the FCA Board. Decisions that will now be taken by decision-makers within our organisation include:

1. imposing a requirement on a firm or varying its permissions by limiting or removing certain types of business;
2. making a final decision in relation to a firm's application for authorisation or an individual's approval that has been challenged;
3. making a final decision to cancel a firm's permissions because a firm does not meet the FCA's regulatory requirements; and
4. starting civil and/or criminal proceedings.

The RDC will continue to make decisions in relation to contentious enforcement cases, where the FCA is proposing a disciplinary sanction or seeking to impose a prohibition order. However, the new process will ensure more assertive decision-making and enable accountability to sit at an appropriate level, within the FCA, whilst also ensuring due process and a right of appeal to the Upper Tribunal.

We are also considering how our internal processes need to change to ensure we can be an assertive regulator in a changing environment. Most recently we finished a review of our approach to legal risk, with a view to ensuring that we intervene when we should while respecting the rule of law. While you will recognise it would not be appropriate for me to go into specific cases or what tools we apply, what I can say is that we are more prepared to make use of the full set of powers available to us. This includes enhancing our framework for escalating the challenge or testing of the legal advice which underpins our decision-making, to ensure that advice takes into account the wider circumstances of the issues we tackle.

Skills, capabilities and culture

Since my last appearance before the Committee, I have expanded the FCA's leadership team, including with the addition of two new positions on areas of critical focus. Over the summer we brought in Sacha Sadan to be our first Director of Environment, Social and Governance, and

[1] https://www.fca.org.uk/publication/policy/ps21-16.pdf

Jessica Rusu to be our first Chief Data, Information and Intelligence Officer. Each brings a wealth of experience from their respective fields. Sacha will ensure that we maintain our world leading efforts to bring about a regulatory response to the climate crisis, having already steered his team through a successful COP 26. Jessica will spearhead our mission to put data at the heart of all that we do, including connecting the dots in terms of intelligence across the organisation, drawing on strategies and approaches from data science, and leveraging data to create new tools and techniques which allow us to detect harm and intervene more quickly. She recently gave a speech setting out her initial thoughts which can be viewed here.

We are currently consulting on changes to our career, pay and grading framework. There are many aspects of our proposals, which aim to build a more joined-up FCA, tackle our pay gaps (including in relation to gender and ethnicity) and deliver effective individual and collective performance through a new system of performance related pay. We are proposing to end discretionary cash bonuses from next year as we do not consider these have delivered effective individual or collective performance. We are also proposing to substantially raise the pay of our lowest paid colleagues meeting clear performance thresholds. Our proposals entail 800 of our lowest paid colleagues receiving base salary rises of an average £3,800. For example, a contact centre colleague in our Supervision Hub meeting their objectives could see their base salary rise from £23,000 currently to closer to £28,000 from April 2022, with a commitment to further significant rises in the following financial year. More senior and higher paid colleagues are likely, however, to be more negatively impacted overall by the proposals. Nevertheless, the FCA currently offers one of the highest overall reward and benefits packages (and often the highest) of any public authority, regulator or enforcement agency in the UK at all levels and we have committed to continuing to do so in order to deliver our objectives effectively.

Understandably there are questions and concerns amongst our colleagues which we are addressing through the consultation process, including continually working with our internal Staff Consultative Committee (SCC), an extensive range of direct engagement with colleagues (such as the opportunity for all colleagues to join a smaller group conversation with members of the FCA's Executive Committee) and an online feedback tool. We expect the Board and FCA Executive team to take final decisions in relation to the consultation by February next year in time for the start of the next financial year.

Technology and innovation

As we look towards the challenges of the future and the technology we will need to harness to tackle them, we have sought to improve our capabilities with efficient systems and processes which allow us to make the absolute best use of our data that we can. As set out in our update to the Economic Secretary, the FCA has made a very significant investment in its technology. Most recently, we completed the migration of 28 million documents to our new system, SharePoint, allowing for easier, more collaborative use of data and information.

A significant milestone was achieved earlier this year after many years of work initiated by my predecessors when we completed our move to the cloud, out of our physical data centre. As part of this, we delivered our new, flexible and scalable data collections platform, completing the migration of 52,000 firms from the old reporting system, Gabriel, to our new RegData platform. We will leverage this as part of our engagement with the Bank of England and industry, to transform data collections. This joint collaborative initiative will reduce the burden of regulatory reporting on firms and improve the data we receive from industry.

As well as increasing our data and analytics capability by introducing new technology, we have employed over 100 employees with data-specific skills and all of our employees have access to the latest data and analytics training. We also have a range of new tools that ensure we can monitor, understand and analyse the market.

More than this, we want to support businesses, not simply scrutinise them. As such, we announced in August that our Regulatory Sandbox, the gold standard for regulators looking to allow firms to innovate safely, will always be open. This shift means that this service will be there for firms to use on a timescale which suits them.

Leadership

Finally, I would like to inform the Committee that Megan Butler will be leaving the FCA and her role as Executive Director, Transformation in the Spring, as part of a planned executive transition. Emily Shepperd joined the FCA in March as Executive Director, Authorisations, following a competitive recruitment exercise. She will lead the FCA's transformation programme alongside her existing role. In her Authorisations role, she has spearheaded changes to our approach to the gateway and has been leading a number of transformation workstreams.

Megan's leadership has been invaluable in ensuring the transformation of the FCA - into the innovative, assertive and adaptive regulator we aspire to be - is now well progressed. I have hugely appreciated Megan's experience and advice since joining the FCA and her support for the transition to a new team of executive leaders. She will leave with my best wishes and the gratitude of the whole organisation.

Emily has over 20 years' experience leading significant change initiatives as an executive leader and has made a very positive impact since her arrival at the FCA in March. We welcome her expertise as she takes on a wider remit.

We have also announced this morning the appointment of Stephen Braviner Roman, Director General of the Government Legal Department as our new permanent General Counsel and member of the FCA's Executive Committee. Full details can be viewed here.

I hope that this is a helpful overview of the work we have been doing to transform the FCA so that it is ready to face the challenges of the future. As always, I would be happy to discuss any of the work set out above in greater detail with the Committee and will continue to keep you updated as we reach important milestones.

Yours sincerely,

Nikhil Rathi

Nikhil Rathi
Chief Executive