

John Glen MP  
Economic Secretary to the Treasury  
HM Treasury  
1 Horse Guards Road  
SW1A 2HQ

16 April 2021

Dear John,

### **Re: Progress of the FCA's Transformation Programme**

On 17 December 2020, Nikhil Rathi wrote to you following the publication of the London Capital & Finance plc (LCF) and Connaught Independent Reviews. The FCA committed to report in April 2021 on the progress of our transformation programme, including the implementation of the recommendations made by Dame Elizabeth Gloster and the lessons learnt identified by Raj Parker. This letter sets out the progress the FCA has made and, given the public interest, I will be copying it to the Treasury Committee and, early next week, publish it on the FCA's website.

### **Strengthening the FCA structure**

As you know, the FCA accepted all the recommendations that were made by Dame Elizabeth Gloster and the lessons learnt identified by Raj Parker. To strengthen the FCA, we have made substantial changes to our operating structure:

- Our Policy, Supervision and Competition functions have been brought together under two new Executive Directors in order to build a strong coordinated regulatory framework.
- We have appointed a new Chief Operating Officer and, to reflect the importance of maximising our use of data to drive better outcomes, the FCA's first Chief Data, Information and Intelligence Officer. These changes will help to ensure that the data and intelligence we possess are better joined up to drive more effective and timely interventions.
- We have appointed an Executive Director of Authorisations. This newly created role will oversee the FCA's Authorisations Division, the gateway for firms and individuals applying to undertake regulated financial services. As Dame Elizabeth's report shows, effective policing of this gateway is an essential part of being a more preventative regulator.

### **Operational improvements**

We have also made a number of operational improvements such as:

- All frontline Supervisory, Authorisations and Enforcement staff have completed mandatory training on 'FCA Powers and Unregulated Activities', 'Financial Accounting' and

'Business Model Analysis'. We will continue to regularly update and improve the training and coaching for all relevant staff with a view to increasing their ability to spot unusual business models and indicators of financial crime.

- We are undertaking a wholesale review of our regulatory learning pathways and are developing further case studies, coaching guides and other on-the-job learning tools to enable colleagues to apply the skills and knowledge to real-world examples. This will include how to address issues with firms who are operating on both sides of the perimeter.
- We have launched the next phase of our Scamsmart Investment campaign which warns consumers of the increased threat of clone investment fraud, alerting them to the key warning signs and driving investors to the FCA's warning list of firms to avoid and the Financial Services Register of authorised firms.
- We announced our "use it or lose it" exercise on 18 January 2021<sup>1</sup> - with the aim of: 1) identifying and intervening against firms that have reported no income from regulated activities for the last 12 months, persuading these firms to exit or demonstrate that they are using all of their permissions; and 2) a second phase to identify and intervene in relation to firms reporting activity in some, but not all, of their permissions.
- In January this year we published our Investment Harms report which highlighted the many ways in which we work to protect consumers from investment harm by stopping and disrupting potentially harmful firms and activities. This focussed on action we took during the first ten months of 2020, when many consumers found their finances under pressure as a result of coronavirus lockdowns and restrictions. We will refresh this twice-yearly going forwards, with the next update due in June.
- We have made changes to our Consumer Hub policies regarding non-regulated activities of a regulated firm and FSCS protection. In line with these changes we have provided briefings and training to all call handlers (and supervisors) within the Hub and have reflected these changes in our Induction training programmes for new starters.
- On financial promotions, we have instigated a new 'repeat breacher' policy and introduced more proactive monitoring of financial promotions.
- We have updated the criteria and thresholds for use of our Warning List to alert consumers to potential action and fraud.
- We have recruited specialist expertise within Supervision and Authorisations to provide additional scrutiny and expertise to assist with making judgements on firms' financial accounts in appropriate cases. We have 56 specialists across both our Financial Resilience and Authorisations teams and recruitment continues.
- We launched our first Whistleblowing external communications campaign 'in confidence, with confidence'. As part of the campaign, the FCA has published materials for firms to share with employees and we will use future events to highlight the campaign and encourage individuals to have confidence to step forward, if they need to. We have also improved the information that is available on our website about our whistleblowing service and the approach we take to Whistleblowing.

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<sup>1</sup> <https://www.fca.org.uk/news/press-releases/fca-clamps-down-consumer-investment-harm>

- We have established a working level group with HMRC to improve intelligence sharing between the two organisations. This has already resulted in new intelligence being shared and acted on, including the removal of over 30 no longer eligible firms from HMRC's ISA manager register in time for the 2021/22 tax year. This work is continuing and is being overseen by a Director-led steering group made up of HMRC, HM Treasury and FCA representatives.

## **Actions to implement Review recommendations**

Having completed a series of initial measures, we have established a programme of work consisting of around 90 further actions that we will take to implement the recommendations. Progress is reported regularly to the Executive Committee, the Board Audit and Risk Committees and the FCA Board, all of which are closely overseeing this work. We will set out more details and a further update on progress against key actions in the summer, as agreed.

There is a significant amount of work underway and our objective is for the majority of actions to be completed by the end of this year. Some actions are reasonably straightforward to implement; others will take time in order to have a sustainable and enduring impact. We have, therefore, had to make prioritisation decisions about the actions required to address the recommendations of the Reviews and our report in the Summer will explain the rationale behind these further.

We have also established a new team to provide continuous independent and comprehensive assurance on the delivery of all these actions. This team will, consistent with the three lines of defence model, provide the FCA's Board Risk and Audit Committees and the Board with an assessment of progress from the second line.

## **Transformation**

Implementing the above actions will improve the FCA and meet the recommendations of the two Reviews, but will not deliver all the improvements the Board and I wish to see nor all of the changes in the organisation that are necessary to make the FCA as effective as it can be. These are longer-term objectives, which are at the heart of our transformation agenda.

We need to transform to ensure the FCA can make fast and effective decisions and can prioritise the right outcomes for consumers, markets and firms and delivering these objectives requires us to reform our approach to how we gather and use intelligence and information. These reforms are vital so the FCA can sustainably oversee the 60,000 firms under its remit and effectively make the difficult choices about where to allocate resources this entails.

I would like to highlight two aspects of the programme: our investment in technology to support better use of data; and a fresh approach to tackling firms and individuals who do not meet the required standards.

A core focus of our investment is enabling us to be fit for a more digital future, with efficient systems and processes which allow us to make the absolute best use of our data that we can. The FCA has made a very significant investment in its technology. In last year's business plan, we set out how we would make a further capital investment of £40 million on our technology, in addition to the £60 million we invested in it during the previous year. As a result of this, we will be moving fully into a cloud environment. We are bringing all our data together in a 'data lake'

and have invested significantly in bringing in data science expertise. As set out in our data strategy, we now have more resilient, robust technology systems and better access to better quality data. This will help us deliver more effective supervision of both small and large firms.

The improvements in systems and data are key to the second aspect of our transformation I would like to highlight: moving faster to identify firms and individuals who are more likely to cause harm. We are strengthening our capabilities in this area. We are establishing a stronger surveillance function to improve how we identify issues and firms and individuals of concern. We are creating specialist teams trained to act on intelligence and information faster, achieving better outcomes for consumers. We know that this approach works well as demonstrated by how we tackle market abuse in trading markets. We now need to expand and adapt this approach so it can be applied effectively to the bulk of the activity we regulate. This will work in concert with our tougher approach at the gateway so that we ensure we stop firms who do not meet the required standards from entering the market.

We are undertaking the detailed foundational work on the processes and structures to support this and aim to complete the work this year. In the meantime, we will report on our progress in the summer.

This programme will be good not just for consumers, but for firms as well. We know that many firms are concerned about the growing cost of the Financial Services Compensation Scheme. In time, tougher action at the point of application and against poorly performing firms will reduce the number and hence the costs of firms failing.

## **Recommendations for HM Government**

Dame Elizabeth also made four recommendations for the government which were accepted in full. In its response, the government committed to work with the FCA to consider whether paid-for advertising on online platforms should be brought into the scope of the financial promotions regime, and with DCMS to ensure that fraudulent online advertising is addressed as a priority harm through its Online Advertising Programme.

On the question of the applicability of the financial promotions regime to online platforms, we note that since the UK's departure from the EU an exemption to the financial promotions regime available to online platforms has fallen away. As a result of this change, we are looking at the operations of the major online platforms to determine whether they now fall within our rules and, if so, whether they are compliant. Where they are not, we will take action to ensure consumers are protected.

As you know, the FCA has been consistently of the view that financial harms should be included in the Online Safety Bill to ensure that social media firms take responsibility for the promotions on their websites. Legislative change could see significant benefits very quickly. We would highlight that these issues are not limited to consumer investment scams: for example, we also see disturbing activity from lead generators and others in relation to personal debt restructuring services; and, as you will be aware, payment fraud has proliferated in part due to weak controls at technology platforms.

As ever, we stand ready to provide any assistance your officials require to implement these recommendations.

We also look forward to the outcomes of the Treasury's consultation on a regulatory gateway for authorised firms approving the financial promotions of unauthorised firms; its review of policy on non-transferable debt securities, including any consideration of the appropriateness of exemptions to the Financial Promotions Order; and its assessment of consumer understanding of the potential risks, as well as possible rewards, of investments held within an Innovative Finance ISA wrapper.

Finally, the FCA's Chief Executive, Nikhil Rathi, will write to the Treasury Committee with a further update ahead of our next accountability hearing, which has been scheduled for 12 May.

Richard Lloyd and Liam Coleman, respectively the chairs of our Risk and Audit Committees, have authorised me to sign this letter on their behalf too.

Yours sincerely,

**Charles Randell**  
**Chair**