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FCA 2019/20 Business plan released highlighting conduct supervision and financial crime as key focus

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The Financial Conduct Authority ("FCA") has released its business plan for 2019/20, in which it sets out its areas of focus for the coming year, and outlines how it proposes to respond to issues it has identified. It covers the FCA's supervisory priorities and objectives and provides a useful insight into changes that can be expected and the approach firms may expect it to take over the next 12 months.

Firms have experienced a period of significant uncertainty as a result of Brexit-related developments over the past year. Unsurprisingly, the FCA's immmediate priorities will remain supporting a smooth transition post-Brexit and strengthening international engagement with its international counterparts. This is part of a shift towards an increasingly outward-looking approach as the FCA seeks to become more globally focused.

As well as its work on changes brought about by Brexit, the business plan also addresses other key areas of focus for the year ahead such as work on firms' culture and governance, including extending the Senior Managers and Certification Regime to all firms, fair treatment of customers and combatting financial crime through enhanced technology and data sharing on a cross-border basis.

Asset management focus

The business plan sets out a number of areas of focus of relevance to asset managers.

- **Culture and governance**
    - The FCA intends to review firms' remuneration and recognition practices to ensure that rewards incentivise healthy cultures and plans to review more broadly the role bonuses play in driving behaviours.
    - Culture is still a key area of focus for the FCA. This is a continuation of an old theme and the FCA will be carrying out further work in this area, in the lead-up to a second 'Transforming Culture' conference in 2020. The FCA will expect firms to demonstrate awareness of its expectations on culture, reflect this in practices and make specific improvements in relation to identified shortcomings.
- **Financial crime**
    - Further work in this area will include multi-firm work to better understand firms' weaknesses in identifying and detecting cyber-attacks on assets and how firms can improve resilience. Firms of all sizes will need to consider necessary changes in this area, noting that smaller firms are increasingly being targeted and will need to adapt accordingly.
    - The FCA will be focusing on areas including the control of inside information within M&A businesses and corporate broking functions with a view to ensuring that firms respond appropriately to the 2018 update to the FCA's Financial Crime Guide for Firms on the risks of insider dealing and market manipulation. The FCA's supervisory engagement with firms' capability to detect and report suspected market abuse will focus particularly on surveillance of fixed income markets.

- **FinTech**
  - Further consultation is expected on cryptoassets that currently fall outside the existing regulatory framework with a view to considering the extension of financial crime provisions to cover certain activities in relation to them. The FCA's priorities will be three-fold: improving the methods of data exchange between industry and regulators; a continued focus on new technology-focused solutions in relation to anti-money laundering and financial crime compliance; and considering vulnerable consumers with specific health or financial needs and how technology can help firms and consumers achieve positive financial outcomes in these areas.
- **Brexit and further legislative reviews**
  - The FCA will consult on the introduction of a new prudential regime for MiFID firms. It plans to publish a consultation paper laying out the way in which the new regime will be implemented towards the end of 2019.
  - The introduction of the PRIIPs Regulation in January 2018 saw concerns raised about the nature of the requirements it imposed. Industry will be relieved to learn that the FCA intends to work with firms and trade associations to remedy the issues identified over the next year.
  - The FCA will work with other European regulators to ensure consistency of interpretation of the framework introduced by the EU Securitisation Regulation and Amendment to the Capital Requirement Regulation, which came into effect in January 2019.
  - The FCA has provided a route for EEA firms currently operating in the UK to continue to do so through the Temporary Permissions Regime. The business plan addresses the need for implementation of the subsequent formal applications process for full authorization in a manner that does not place an undue regulatory burden on firms.
- **Looking forward**
  - The FCA's upcoming review of MIFID implementation will assess how asset managers oversee the design of their products and distribution activities in compliance with the MiFID Product Governance requirements.
  - There will be an increased focus on the implementation of the new requirements stemming from the Asset Management Market Study, which gave rise to certain changes to the FCA Handbook. These included changes to fund governance rules and the rules and guidance to improve the information provided to investors.
- **Action points**
  - Firms should consider:
    - how well their target market and product governance assessments have been implemented;
    - how well their market abuse controls will withstand regulatory scrutiny;

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- how far they have come in defining their culture: does the existing culture drive good outcomes for clients, is an appropriate tone set at the top and how is this demonstrated, for example through remuneration practices or senior management communications?

- what issues are set on board agendas, e.g., are culture/conduct issues being addressed?

- whether they have adequate protection against cybercrime threats: Is the firm's IT infrastructure robust enough for its business flow and the potential threats it is exposed to?

In light of the areas the FCA intends to target in the upcoming year, now is a good time for firms and relevant individuals in organisations to consider reviewing these areas to ensure that they meet the regulator's expectations.

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