FCA Focus 2024

Clare Curtis, February 2024

Financial Conduct Authority's 2024 business plan. What will be their key areas of focus?

The Financial Conduct Authority (FCA) has published its business plan for 2024, which very much continues in the same vein as last year.

Consumer Duty

2023 began with, what is probably the key element within the regulator's plans, a UK-wide roadshow regarding the introduction of the broadly encompassing new **'Consumer Duty' ("the Duty")**. This continued to be a headlining matter throughout 2023 and will continue to be so as 2024 unfolds.

The underlying message the FCA are trying to get firms to adopt is to **'Put themselves in the customer's shoes,'** by delivering the best option, just one, resulting in the finest possible outcome for the said customer. The firms' profits are to be of a secondary nature.

The **three main focus areas** of the Duty are:

1. **Reducing and preventing serious harm** to consumers and markets alike by employing new stricter measures for dealing with problem firms and their misbehaviour, in turn eradicating the harms they cause.
2. **Setting and testing higher standards.** This aims to improve consumer outcomes, in part using the aforementioned 'Put themselves in the customer's shoes,' resulting in the best results for the consumer.
3. **Promoting competition and positive change:** The target being to ensure the UK retains and increases its global competitiveness through international high standards.

The wide-ranging proposals will require firms to review their product suite, communications and end-to-end customer journey, and to consider changes in areas including governance and accountability, MI and reporting, product design, pricing, distribution, servicing and staff training - all within a challenging implementation timeframe.

Cost of living crisis

Whilst the FCA's main focus will be on implementing the Consumer Duty, which the regulator has now dubbed **'Consumer Duty and Cost of Living,'** its main concern is the cost of living crisis. The FCA will now also look to assisting and protecting consumers that have been impacted by the cost-of-living crisis. Included in this initiative will be a review of debt advice rules and of rules around the treatment of borrowers facing financial difficulty.

Anti-money laundering

2024 will see the FCA amplifying the number of reviews into firms regarding their Anti-Money Laundering (AML) commitments as well as more intense utilisation of data analytics in its endeavour to identify suspicious activity. On top of this, the regulator's **Market Surveillance Refresh** project is anticipated to enhance the FCA's ability to pinpoint any market abuse concerns.

Operational Resilience (OpRes) And Critical 3rd Parties (CTP)

The FCA will continue to systematically review how firms are enhancing their control frameworks on OpRes to comply with the regulator's increased expectations. Firms are expected to have oversight of their systems and controls at all times, utilising stress-testing on an ongoing basis and anticipating the worst possible scenarios. This is to ensure that they are able to continue to operate in line with the relevant regulatory requirements or, if not, have adequate resources to implement an orderly wind-down.

In co-operation with the Bank of England (BofE) and the Prudential Regulation Authority (PRA), the FCA will be seeking to establish new rules for the oversight of Critical Third Parties (CTPs). With CTPs not always visible to firm's on a day-to-day basis, for instance a CTP may be an outsourced IT company or suchlike, the Regulators view is that in these scenarios it is essential that greater governance over CTPs is exercised to enhance protection of the markets and consumers, as the Regulators are under the impression that firms themselves are not overseeing them effectively enough.

Appointed Representatives

Another concern for the FCA during 2023 was, and still is, the role of Appointed Representatives (ARs). **ARs act on behalf of/and under the umbrella of principal firms** and therefore must also fall under those principal firms systems and controls. In 2023 the FCA reinforced the regulation regarding ARs, requiring the principal firms to enhance their oversight and governance over them.

Firms must now update and amend where necessary, all details of every AR operating under their license and also those whom they intend to onboard in the future. Details such as any staff changes, business address changes as well as current and projected revenue are to be maintained by the firm and made available to the FCA. All AR's should be monitored on an ongoing basis and be treated the same as any other part of the principal firm.

Investment Firms Prudential Regime (IFPR)

The FCA conducted a comprehensive review of the Investment Firms Prudential Regime (IFPR) throughout 2023 and published their additional findings on how effectively firms were implementing the **Internal Capital Adequacy Risk Assessment (ICARA)** process within the IFPR.

The ICARA process, which applies whether trading or winding down, enables firms to identify any potentially harmful risks their operations could cause to markets and consumers, and affords them the opportunity to step in and mitigate them before any damage occurs by being able to allocate appropriate resources and controls.

Applying to all MiFID (Markets in Financial Instruments Directive) firms, the regulator primarily focused on **Capital Adequacy, Liquidity Adequacy and Wind-Down Planning.**

Firm's are still struggling on a practical level with keeping ICARA's up to date and 2024 will continue to shine the FCA regulatory torch light on these documents. It is also likely that some of the wind down plans proposed may also be put in to action which once again will potentially see the FCA providing further guidance on their expectations in relation to these plans.

Uk Regime For Asset Managers

The FCA are looking to improve the UK Regime for Asset Managers, with three main priorities for reform, these being:

4. Making the regime for alternative Fund Managers more proportionate
5. Redesigning the regime for retail funds
6. Corroborating with technological innovations.

This regime change is likely to be a key area of change in the coming year with the hope that the proportionality being proposed will encourage more alternatives to set up or stay in the UK given the competition being seen from other jurisdictions.

Artificial Intelligence (AI)

Artificial Intelligence appears to be growing exponentially and its expanding role within the financial industry was and is inevitable. The regulator issued a questionnaire as to how AI has been, and will be seen to be, including itself with firms' businesses, systems, and controls. After collating all responses, the regulator published its findings and thoughts.

The summary includes:

- Potential benefits and risks regarding the employment of AI in UK Financial Services.
- How the current framework applies.
- Whether additional clarification of existing regulations may be of benefit.
- How policy can best underpin further safe and responsible AI adoption.

Given the developments made in this area the regulator is keen to ensure it doesn't stifle initiatives but also ensure that the misuse of these tools is monitored and controlled to avoid possible consumer and market harm.