



Reg Agenda

February 2024 | BULLETIN

What's inside...

- FCA: Duty Calls: Future-proofing finance for everyone
- FCA to undertake work in the motor finance market
- PRA fines HSBC £57 million for failures in deposit protection identification and notification



Foreword by

ASHLEY SEYMOUR-SKINNER

Target Group
Chief Risk Officer

Welcome to Target's Reg Agenda

Welcome to the latest edition of Target's Reg Agenda.

As is tradition, January 2024 started relatively quietly, however it ended with a large fine!

At the end of December 2023, the Financial Conduct Authority (FCA) issued a press release detailing its achievements and milestones over the last 12 months, with the key achievement being, of course, the Consumer Duty.

The FCA also published details of its Rule Review Framework, which explains how rules are monitored, reviewed and if they are working in practice. Chief Executive Nikhil Rathi gave a speech regarding the use of tech as a force for good for consumers, how it can be used to encourage financial inclusion and boost consumer confidence in how their data is being used.

In mid-January, the FCA made a major announcement that it is undertaking work in the motor finance market, looking at historic discretionary commission arrangements (incentives used by brokers to increase the interest rate that a customer paid for their motor finance). This action follows a number of complaints in this area and two recent rulings from the Financial Ombudsman Service (FOS). As a result, the FCA has paused the 8-week deadline for final responses to relevant customer complaints, for 37 weeks, and the FCA will set out next steps by 24th September 2024 at the latest.

The work is being taken by the FCA to ensure firms have not been acting in a way that causes consumer harm. Martin Lewis, Money Saving Expert, has suggested that this could be 'the new PPI'.

Finally, we end on three fines, the largest of which being £57 million for HSBC Bank Plc and HSBC UK Bank Plc (the Firms) for historic depositor protection failings. Because of the size of HSBC, the Firms are deemed to have the 'capacity to cause significant disruption to the UK financial system if they were to fail'. The fine imposed is the second largest in Prudential Regulation Authority (PRA) history and reflects the seriousness of the failings.

Happy reading!



This month's headlines



General

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- FCA: Duty Calls: Future-proofing finance for everyone
- FCA: Our Rule Review Framework
- Consultation on MaPS proposals for the delivery of its debt advice strategy
- Joint Committee of ESAs final reports on first sets of RTS and ITS under DORA
- FCA and World Economic Forum publish white paper on quantum security
- FCA speech: Leaning in on making consumer tech a force for good
- BoE and HMT response to consultation on CBDC



Data protection

- There are no material updates for the sector this month



Investments

- FCA announces establishment of industry-led working group for financial advisers



Complaints

- FCA to undertake work in the motor finance market
- FSCS publishes Budget Update for 2024/25



Financial crime

- Home Office releases guidance on new DAML exemption provisions



Enforcement

- PRA takes action against former CEO for multiple breaches of Conduct Rules
- ICO fines financial services company £50,000 for spam text messages
- PRA fines HSBC £57 million for failures in deposit protection identification and notification



Consumer credit

- There are no material updates for the sector this month



Mortgages

- There are no material updates for the sector this month

List of abbreviations used throughout the Reg Agenda:

AI	Artificial Intelligence
AML	Anti-Money Laundering
BoE	Bank of England
CTF	Counter Terrorism Financing
EBA	European Banking Authority
FCA	Financial Conduct Authority
FOS	Financial Ombudsman Service
FSCS	Financial Services Compensation Scheme
ICO	Information Commissioners Office
ICT	Information and Communication Technology
IRSG	International Regulatory Strategy Group
JROC	Joint Regulatory Oversight Committee
NAO	National Audit Office
PRA	Prudential Regulation Authority
PSR	Payment Systems Regulator
OFSI	Office of Financial Sanctions Implementation
TCFD	Task Force on Climate-related Financial Disclosures



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FCA: Duty Calls: Future-proofing finance for everyone

On 28th December 2023, the Financial Conduct Authority issued a press release titled 'Duty calls: Future-proofing finance for everyone'.

The press release details that the FCA is now into the second year of its three-year strategy and outlines key achievements and milestones from the last 12 months.

The key achievements include the following:

Consumer Duty: The Consumer Duty marks a major shift for both firms and consumers as it sets higher and clearer standards of consumer protection and puts customer needs first. Firms have already made changes to savings rates and fees as a result of the Duty

Reducing and preventing serious harm: The FCA published final guidance for insurance firms on the support they should offer customers in financial difficulty, such as forbearance, waiving fees and providing guidance. It also shared its findings with firms following a multi-firm review into the retail banking sector which highlighted good practices.

Tackling online harms: Through contributing to the Online Safety Bill; launching a consultation on new guidance for firms to ensure that financial promotions made online

are fair, clear and not misleading considering the increase of 'influencers'; and fining firms under its Anti-Money Laundering supervision

Setting higher standards: The FCA took action to tackle low savings rates paid on savings accounts with a 14-point action plan; it also set out new rules to maintain access to cash

Promoting competition and positive change: The FCA delivered a new framework for the future of regulation, implementing a new secondary objective to promote competitiveness and long-term growth

'The financial services sector is vital to the UK economy, and we are committed to supporting its role in long-term economic growth.'

We know at the FCA our role is not just about regulating financial services, it's about safeguarding futures, supporting innovation and informed risk-taking, and maintaining a resilient financial system'.

Nikhil Rath
FCA Chief Executive

Further reading

The full press release can be found [here](#).



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FCA: Our Rule Review Framework

On 10th January 2024, the FCA published its Rule Review Framework.

Under the Financial Services and Markets Act 2023 (FSMA 2023), the FCA must keep its rules under review, and publish a statement setting out how it will do so.

The FCA has developed and published its Rule Review Framework to explain how it plans to monitor and review how its rules are working in practice.

The FCA published a draft version of the Framework in July 2023. It has published a summary of the feedback that it received and changes to the Framework made in response to feedback.

The Framework applies to all FCA rules set out in the Handbook. It explains how the FCA sets, measures and monitors the outcomes of its rules. Stakeholder feedback plays an important role throughout the Framework and the FCA has developed a dedicated feedback tool for stakeholders to give feedback on any rule in the Handbook.

The Framework also explains how the FCA gathers metrics and qualitative intelligence to understand where there are significant concerns about a rule and how it conducts a review if required.

It sets out the three main types of rule review that the FCA may undertake:

- ✓ Evidence assessment
- ✓ Post implementation review
- ✓ Impact evaluation


The FCA will prioritise reviews based on the scale, urgency and extent to harm to consumers and markets, in line with its objectives. The Framework also sets out what actions it may take as a result of a review, if it has concluded a rule is not working as intended.

The Framework builds on the FCA's existing approaches to evaluation and adds new ways to better assess the effectiveness of its rules. As well as monitoring and reviewing the rules, the FCA will also consider whether the Framework is meeting its intended outcomes and update this as needed.

Further reading

The full publication can be found [here](#).

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Consultation on MaPS proposals for the delivery of its debt advice strategy

On 10th January 2024, the Money and Pensions Service (MaPS) published a consultation outlining proposals for the delivery of its debt advice strategy.

The purpose of the consultation is to help MaPS shape its approach to debt advice and help to understand the best ways to commission national and locally based services over the longer term.

The consultation considers:

- ✓ MaPS' proposed approach to debt advice commissioning up to 2028
- ✓ How it interprets its remit in relation to debt advice provision
- ✓ How MaPS might collaborate across the debt advice sector to manage key issues and challenges in debt policy

The consultation does not consider debt advice funding models and sources of funding, despite recognising these as a significant challenge to the sector.

Other key point to note:

- ✓ MaPS undertook a major commissioning exercise for debt advice in 2021/22. This represented a significant change in the way debt advice services are commissioned and funded in the UK. Given the impact of this transformation to the sector, MaPS committed to carrying out a public consultation to help shape its future strategic approach
- ✓ Chapters 1-2 of the consultation set out proposals on MaPS' current commissioning strategy and what additional services they might commission in the future
- ✓ Following the consultation, MaPS indicate that they will engage with debt advice providers ahead of further commissioning of services

The closing date for responses is 3rd April 2024.

Further reading

The full consultation can be found [here](#).



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Joint Committee of ESAs final reports on first sets of RTS and ITS under Dora

On 17th January 2024, the Joint Committee of the European Supervisory Authorities (ESAs) published the final reports on the first set of draft regulatory technical standards (RTS) and implementing technical standards (ITS) under the Regulation of digital operational resilience for the financial sector ((EU) 2022/2554) (DORA):

Final report JC 2023 86: tasks the ESAs with developing draft regulatory technical standards aimed at 'further harmonisation of ICT risk management tools, methods, processes and policies', and a simplified ICT risk management framework for certain financial entities.

Final report JC 2023 83: focuses on the classification criteria for information and communication technology (ICT) related incidents or, as applicable, operational or security payment-related incidents; materiality thresholds for determining major incidents; the criteria and materiality thresholds for determining significant cyber threats; criteria for competent authorities (Cas) for assessing the relevance of incidents to Cas in other Member States.

Final report JC 2023 84: details the requirement from financial entities that they adopt and regularly review, as part of their ICT risk management framework, a strategy on ICT third-party risk, which has to include a policy on the use of ICT services supporting critical or important functions provided by ICT third-party service providers.

Final report JC 2023 85: mandates that the ESAs have to develop draft implementing technical standards to establish the standard templates for the purposes of the register of information, including information that is common to all contractual arrangements on the use of ICT services.

The ESAs consulted on the draft RTS and ITS in June 2023. They will submit the final draft RTS to the European Commission for adoption. It will be adopted as a Commission Delegated Regulation and will then be subject to scrutiny of the European Parliament and the Council before publication in the Official Journal of the European Union.

The expected date of application of the technical standards is 17th January 2025.

Further reading

Further information can be found [here](#).



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FCA and World Economic Forum publish white paper on quantum security

On 17th January 2024, the FCA and World Economic Forum (the Forum) published a white paper: 'Quantum Security for the Financial Sector: Informing Global Regulatory Approaches'.

The paper presents four guiding principles and a roadmap to inform global regulatory and industry approaches for a quantum-secure financial sector.

The four guiding principles are:

- ✓ Reuse and repurpose
- ✓ Establish non-negotiables
- ✓ Increase transparency
- ✓ Avoid fragmentation

Quantum security refers to the use of quantum mechanics to secure the transfer of data. Quantum mechanics provides a powerful tool for encrypting messages and ensuring their privacy and integrity.

Quantum technologies have the potential to revolutionise financial services, improving computation, modelling and fraud detection. It can also disrupt portfolio management and improve risk management. However, it also comes with challenges, as quantum computing could render most

current encryption schemes obsolete, threatening consumer protections, the integrity of digital infrastructures and economies. The severity of these risks, combined with an uncertain timeline to transition to new security models, requires stakeholders to take proactive measures.

The FCA and the Forum recognise the need for a coordinated approach and have initiated a dialogue to help the financial sector to transition to a quantum-secure future.

This effort has brought together regulators, central banks, industry players and academics for coordinated roundtables and curated discussions.

The white paper establishes the groundwork for future discussions between industry stakeholders and regulatory authorities towards a quantum-secure financial sector.

Further reading

The Forum webpage can be found [here](#).



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FCA speech: Leaning in on making consumer tech a force for good

On 23rd January 2024, FCA Chief Executive Nikhil Rathí gave a speech at the Imperial College of London Business School event: 'How can consumer-facing technology help keep consumer markets honest?'

Mr Rathí's speech discussed, among other things:

- ✓ Technological developments marrying personal lifestyle data with financial information and environmental factors could give someone a 'life score'
- ✓ How consumers, industry and wider society can harness the benefits of AI, in technology-heavy scenarios to offer real improvements in tailored products, services and prices (particularly for non-outliers) or in technology-lite scenarios to offer incremental progress on consumer technology but with little extra innovation
- ✓ That regulators must be alert to competition impacts and data must not be the preserve of Big Tech. A digital identity authentication system and a commitment to Open Data could boost productivity and consumer confidence in how their data is used

- ✓ A wider debate between policymakers, industry and consumers is needed about what society is willing to risk in search of innovation and better products and services
- ✓ Consumer facing technology in financial services should be used to boost financial inclusion and security of data and services, or the industry risks triggering a Techlash

Further reading

The full speech can be found [here](#).



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On 25th January 2024, the Bank of England (BoE) and HM Treasury (HMT) released a joint publication: 'Response to the Bank of England and HM Treasury Consultation Paper: The digital pound: a new form of money for households and businesses?'

The work on the digital pound is only one part of the government and BoE's efforts to ensure that the UK remains at the forefront of innovation in money, payments and digital finance.

The Consultation Paper received over 50,000 responses, most of which were largely supportive, from members of the public, businesses, civil society and academia.

This current publication sets out how that feedback will guide the government and the BoE's priorities during the design phase of their work on the digital pound and the further steps being taken to address the concerns that have been raised.

The government has committed to introducing primary legislation with a vote in both Houses of Parliament before any launch of the digital pound, ensuring full Parliamentary scrutiny.

Further reading

The full publication can be found [here](#).



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FCA to undertake work in the motor finance market

FSCS publishes Budget Update for 2024/25

FCA to undertake work in the motor finance market

On 11th January 2024, the FCA announced it will be undertaking work in the motor finance market.

In 2021, the FCA banned discretionary commission arrangements (DCA's) in this market. This removed the incentive for brokers to increase the interest rate that a customer pays for their motor finance.

The FCA's current action follows an increase in the number of complaints from customers to motor finance firms claiming compensation because of historical use of DCA's. Firms are rejecting almost all the DCA complaints they receive because they consider that they have not acted in an unfair or non-compliant way and that their action have not caused loss to consumers.

However, recently the Financial Ombudsman Service (FOS) considered some complaints rejected by firms and found in favour of complainants in two decisions. This is likely to prompt a significant increase in complaints from consumers to firms and the FOS. Claims have also been brought in the County Courts, some of which have been upheld. **Therefore, there is significant dispute between some firms and consumers on whether firms have breached legal and regulatory requirements.**

The FCA's new rules (below) will form part of DISP Appendix 5 and are set out in its policy statement PS24/1 'Temporary

changes to handling rules for motor finance complaints' and are being brought into force through the Dispute resolution: Complaints sourcebook (motor finance discretionary commission arrangement complaints) Instrument 2024.

Key takeaways from the announcement:

The FCA will use its powers under section 166 of FSMA 200 to review historical motor finance commission arrangements and sales across several firms

There is a pause to the 8-week deadline for final responses to relevant customers complaints from 11th January 2024. The pause will last 37 weeks

The pause will apply to complaints received by firms on or after 17th November 2023 and on or before 25th September 2024

Consumers also have up to 15 months to complain to the FOS, depending on when they received their final response, rather than the usual six months

The FCA will set out next steps by 24th September 2024 at the latest. It has cautioned that if it determines firms owe redress to a large number of customers it may need to intervene, e.g. by setting up an industry-wide consumer redress scheme, to ensure people who are owed compensation receive an appropriate settlement in an orderly, consistent and efficient way

Further reading

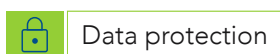
The Policy Statement can be found [here](#), and webpage for affected firms [here](#).

Call to action

- On 24th January 2024, the FCA published a webpage setting out information for firms affected by this review.



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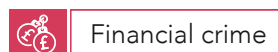
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FSCS publishes Budget Update for 2024/25

FCA to undertake work in the motor finance market

FSCS publishes Budget Update for 2024/25

On 11th January 2024, the Financial Services Compensation Scheme (FSCS) published its budget update for 2024/25.

The FSCS protects customers when authorised financial services firms fail.

Among other things, the FSCS sets out that the proposed management expenses budget for 2024/25 is £103.1 million. This represents a 3% increase on the budget from 2023/24.

The FSCS expects to end this financial year approximately £0.2 million below management expenses budget approved by the FCA and PRA.

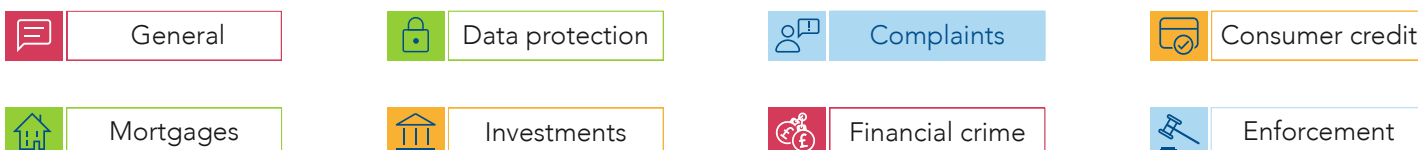
The FSCS proposes an unlevied reserve of £5 million.

Alongside the update, the FCA and PRA published a consultation on the 2024/25 budget: CP1/24: Financial Services Compensation Scheme - Management Expenses Levy Limit (MELL) 2024/25. The overall MELL for 2024/25 stands at £108.1 million.

The consultation closes 12th February 2024.

Further reading

The full Budget Update can be found [here](#).





Investments

FCA announces establishment of industry-led working group for financial advisers

On 16th January 2024, the FCA published a press release announcing that it has established a new working group focused on building capability in sustainable finance across the financial advice sector.

The Chair will appoint the group's membership from across the advice sector, including both small and large industry participants.

The working group will also engage with stakeholders outside of the group throughout its work to ensure a balanced representation of view, including those of consumers.

The announcement follows the November 2023 publication of a package of measure to support the UK's position as a world-leading, competitive centre for asset management and sustainable investment.

The FCA will sit as an active observer of the group and has asked that the working group be ready to report on how the advice service can be supported in delivering good practice in the second half of 2024.

Daniel Godfrey (serves on Legal and General's Independent Governance Committee and is a Senior Adviser to Moneybox and ShareAction) has been appointed as the Chair of the new group, with Julia Dreblow (founding director of SRI Services and the Fund EcoMarket) as Vice-Chair. The Personal Investment Management and Financial Advice Association (PIMFA) is providing the secretariat.

Further reading

The full press release can be found [here](#).



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Home Office releases guidance on new DAML exemption provisions

On 10th January 2024, the UK Government published: 'Guidance on money laundering reporting obligations in relation to Defence Against Money Laundering (DAML) exemption provisions introduced by the Economic Crime and Corporate Transparency Act 2023'.

The purpose of the guidance is to set out the government position on money laundering obligations in the Proceeds of Crime Act 2002 (POCA) as amended by the Economic Crime and Corporate Transparency (ECCT) Act 2023 following Royal Assent.

On 5th January 2023, the threshold amount specified in section 339A of POCA increased from £250 to £1,000 for acts in operation of an account (such as mortgage payments) maintained with a bank or similar firm. This does not apply to other actions such as returning funds when terminated a relationship with a customer.

The threshold amount is the value of criminal property below which a bank or similar firm can carry out a transaction without submitting a DAML, in operating an account for a customer, without committing one of the main money laundering offences under POCA.

The Act introduces two new reporting exemptions from the principle anti-money laundering offences to:

- ✓ Exempt the whole of the AML regulated sector (beyond those to whom the threshold exemption already applies, to include those such as the legal sector, accountancy sector and casinos) when they end a relationship with a customer and pay away property with a value below £1,000. Before transferring or handing over the money or other property, the business must have complied with their existing customer due diligence duties under the Money Laundering Regulations 2017
- ✓ Clarify the handling of mixed assets where only part of the assets are suspected to be criminal proceeds. The exemption will enable businesses in the regulated sector to allow customers proportionate access to the non-suspicious proportion of their assets

Further reading

The full guidance can be found [here](#).



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PRA takes action against former CEO for multiple breaches of Conduct Rules

ICO fines financial services company £50,000 for spam text messages

PRA fines HSBC £57 million for failures in deposit protection identification and notification

PRA takes action against former CEO for multiple breaches of Conduct Rules

On 11th January 2024, the Bank of England issued a press release detailing that the Prudential Regulation Authority (PRA) had fined the Chief Executive Officer (CEO) of Wyelands Bank PLC £118,808.00 for breaching three PRA Conduct Rules between March 2016 and May 2020.

The PRA found the CEO failed both to act with due skill, care and diligence and to take reasonable steps to ensure that Wyelands had adequate systems and controls in relation to the large exposures regime and PRA record keeping requirement.

The CEO breached the following rules:

- ✓ Individual Conduct Rule 2: you must act with due skill, care and diligence
- ✓ Senior Manager Conduct Rule 1: You must take reasonable steps to ensure that the business of the firm for which you are responsible is controlled effectively
- ✓ Senior Manager Conduct Rule 2: You must take reasonable steps to ensure that the business of the firm for which you are responsible complies with the relevant

requirements and standards of the regulatory system

The CEO has given an undertaking to the PRA that he will not in the future apply for or perform any function in relation to any regulated activity carried out by an authorised person, exempt person or exempt professional firm.

‘This outcome reflects material breaches of the PRA’s Senior Manager Conduct Rules and Individual Conduct Rules. If Senior Individuals fail to meet the Conduct Rules, it undermines the trust in financial institutions and the wider financial system’.

Sam Woods
Deputy Governor for Prudential Regulation and CEO of the PRA

Further reading

The full press release can be found [here](#).



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ICO fines financial services company £50,000 for spam text messages

On 19th January 2024, the Information Commissioner's Office (ICO) issued a press release detailing it had fined financial services company LADH Limited £50,000 for sending tens of thousands of spam text messages, in breach of Privacy and Electronic Communications Regulations (PECR).

From March-April 2022, over a six-week period, LADH Limited sent more than 31,000 text messages without valid consent. Many of these unwanted text messages did not offer an opportunity for the recipients to opt out, which is also unlawful.

The ICO served LADH Limited with an enforcement notice to stop sending direct marketing messages without valid consent and issued a monetary penalty notice of £50,000.

106 complaints were made to Mobile UK's Spam Reporting Service by people who had received the unwanted text messages.

LADH claimed during the investigation that it had received a verbal assurance that the data it had received from a third party contained details of people who had consented to being contacted, however it did not have any written confirmed of the consent.

'Sending unsolicited direct marketing messages is illegal and can be frustrating and distressing for people. All organisations using direct marketing messages are responsible for ensuring they have valid consent to contact every recipient'.

Andy Curry
ICO Head of Investigations

Further reading

The full press release can be found [here](#).



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PRA fines HSBC £57 million for failures in deposit protection identification and notification

On 30th January 2024, the PRA fined HSBC Bank Plc (HBEU) and HSBC UK Bank Plc (HBUK) (together 'the Firms') £57,417,500 for historic depositor protection failings.

This has arisen from the Firms' failures over many years to properly implement the requirements set out in the Depositor Protection Rules.

The failings include the failure to accurately identify deposits that were eligible for Financial Services Compensation Scheme (FSCS) protection, which protects consumer cash up to £85,000.

The failings occurred for HBEU between 2015 and 2022 and for HBUK between 2018 and 2021.

The UK's deposit protection rules require lenders to ensure critical information is held in order for the FSCS to compensate customers if a firm fails. Firms should have in place adequate systems and controls and governance to ensure the integrity of critical information.

The Firms' failings included, amongst others:

- ✓ Failure to assign clear ownership of the processes required under Depositor Protection Rules

- ✓ Failure to ensure that a senior manager, under the Senior Managers and Certification Regime (SM&CR) was allocated responsibility for these processes and the integrity of the information required under the Depositor Protection Rules

- ✓ HBEU incorrectly marked 99% of its eligible beneficiary deposits as 'ineligible' for FSCS protection

This is the second largest fine ever imposed by the PRA.

'The serious failings in this case go to the heart of the PRA's safety and soundness objective. It is vital that all banks comply fully with our requirements around preparedness for resolution'.

Sam Woods

Deputy Governor of the Bank of England and CEO of the PRA

The Firms' cooperation through the investigation, including the early admission of certain rule breaches, resulted in a 15% reduction to the penalty. The Firms agreed to resolve the matter and therefore qualified for a further 30% reduction in the fine. Without the reductions, the fine imposed by the PRA would have been £96.5 million.

Further reading

The full press release can be found [here](#).



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Feb 2024	Regulatory Framework for approval of financial promotions
15 Mar 2024	Operational Resilience: CP23/30 Critical Third Parties to the UK financial sector consultation closes
March 2024	Synthetic sterling 3-month LIBOR rate ceases
H1 2024	Tailored Support Guidance (TSG) - Policy Statement
H1 2024	ESG Governance, Remuneration, Incentives and Training - Feedback Statement
H2 2024	Diversity and Inclusion in Financial Services – Policy Statement
July 2024	Proposed Consumer Duty implementation period ends, and rules and guidance come into force for closed products
Late 2024	Credit Information Market Study Final Report – Consultation Papers
Q4 2024	Evaluation of the persistent debt intervention – Publication
End 2024	Post-implementation review of the Guidance for firms on the fair treatment of vulnerable customers – Final Report
2024	Reviewing the Appointed Representatives (ARs) Regime – Treasury Feedback Statement
2024	Complaints Reporting Review
2024	Ban on cold calling for consumer financial services products
2024	Review of the Senior Managers and Certification Regime (SM&CR) – Consultation Paper
2024	Regulation of Buy Now Pay Later (BNPL)
2024	Second Consumer Credit Act Consultation to be published with more detailed proposals
17 Jan 2025	The EU's Draft Digital Operational Resilience Act (DORA)



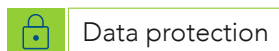
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