

Directors' Report

Throughout the Directors' Report, references are made to the FSA website.
The full addresses are detailed below.

Table 8.1

Retail Conduct Risk Outlook 2011	www.fsa.gov.uk/pages/library/corporate/rcro/index.shtml
Prudential Risk Outlook 2011	www.fsa.gov.uk/pages/library/corporate/pro/index.shtml
Business Plan	www.fsa.gov.uk/pubs/plan/pb2011_12.pdf
Corporate Responsibility	www.fsa.gov.uk/Pages/About/What/cr/index.shtml
Health & Safety	www.fsa.gov.uk/pubs/staff/staff_handbook.pdf
Equal Opportunities	www.fsa.gov.uk/pubs/staff/staff_handbook.pdf

Table 8.2

Name	Board meetings	Additional Board meetings*	NedCo	RemCo	AuditCo	RiskCo	Original appointment date	Expiry of current term
Margaret Cole	5/6	0/0					7. 9.10	6. 9.13
Amanda Davidson ^e	9/9	1/2	6/7		2/3		1. 5.10	30. 4.13
Sandra Dawson ^e	9/9	2/2	6/7	12/12	3/3		1. 5.10	30. 4.13
Sally Dewar	6/7	2/2					9. 1.08	8. 1.11
Carolyn Fairbairn ^{c & e}	9/10	2/2	5/8			4/4	11.12.07	10.12.13
Peter Fisher ^{c & e}	7/10	1/2	7/8			3/4	19. 1.07	17. 1.13
Brian Flanagan ^{c & e}	8/10	1/2	6/8	13/14	3/4		19. 1.07	17. 1.13
Karin Forseke ^{d & e}	8/10	2/2	7/8	14/14	4/4		1.12.04	31. 8.12
Mick McAteer ^e	10/10	2/2	7/8			4/4	1.11.09	31.10.12
Jon Pain	7/8	1/2					8. 9.08	28. 1.11
Brian Pomeroy ^{b & e}	8/10	2/2	8/8		4/4		1.11.09	31.10.12
Hector Sants ^d	9/10	2/2					4. 5.04	19. 7.12
Andrew Scott ^e	10/10	2/2	8/8			4/4	1.11.09	31.10.12
Hugh Stevenson ^{a, c & e}	2/2	2/2	2/2	2/2		0/0	1. 6.04	31. 5.10
James Strachan ^e	9/10	1/2	7/8	10/14	3/4		1.11.09	31.10.12
Paul Tucker ^e	8/10	2/2	5/8			2/4	1. 3.09	29. 2.12
Adair Turner	10/10	2/2					20. 9.08	19. 9.13

Key

a Chair of the FSA Pension Plan Trustee Ltd (until 31 May 2010)

b Chair of the FSA Pension Plan Trustee Ltd (from 1 June 2010)

c Director serving second concurrent term

d Director serving third concurrent term

e Independent non-executive director

* Additional to those scheduled at the start of the year.

Committee membership during the year:**Audit Committee (AuditCo)**

Amanda Davidson (member since 27 May 2010)

Sandra Dawson (member since 27 May 2010)

Brian Flanagan

Karin Forseke (Chair of AuditCo)

Brian Pomeroy

James Strachan

Remuneration Committee (RemCo)

Sandra Dawson (member since 1 June 2010)

Brian Flanagan

Karin Forseke (Chair of RemCo from 1 June 2010)

Hugh Stevenson (Chair of RemCo until 31 May 2010)

James Strachan

Risk Committee (RiskCo)

Carolyn Fairbairn (Chair of RiskCo from 1 June 2010)

Peter Fisher

Mick McAteer

Andrew Scott

Hugh Stevenson (Chair of RiskCo until 31 May 2010)

Paul Tucker

Committee of Non-executive directors (NedCo)

All non-executives are members of NedCo.

Hugh Stevenson was chair of NedCo until 31 May 2010.

Karin Forseke was chair of NedCo from 1 June 2010.

The only members of the FSA are the directors. Each current director has undertaken to guarantee the liability of the FSA up to an amount of £1.

The executive directors are not directors of any UK-listed companies and have no other paid positions.

The deputy governor (Financial Stability) at the Bank of England is a member of the Board of the FSA. In a reciprocal arrangement with the Bank of England, the FSA's chairman serves as a member of the Court of the Bank of England.

All the FSA's directors are appointed by the Treasury, with input on the selection panel from at least one incumbent member of the FSA Board. Although the FSA is not subject to the code of practice issued by the Commissioner for Public Appointments, appointments are made in line with the principles in the code.

The chairman of the FSA is appointed for a five-year term and all other directors are appointed for three-year terms. The executive directors have continuous employment contracts with the FSA, details of which are given in the Remuneration Report.

The directors present their report for the year ended 31 March 2011.

Principal activities

The FSA is the primary regulator of financial services in the UK and has statutory responsibilities set out in FSMA. Detailed information on the FSA's principal activities for the year can be found in Sections 2 to 5 of this Annual Report.

Business review

As a company, it is necessary for the FSA to provide a fair review of its business. This requirement is fulfilled by information provided in the first six sections of the Annual Report.

Principal risks and uncertainties

The principal risk for the FSA is the failure to meet its statutory objectives. The key external issues that pose risks to the FSA's ability to meet its statutory objectives are explained in the Prudential Risk Outlook.

In addition, following the government's announcements on regulatory reform, there are considerable risks relating to the execution of the transition of the FSA into the PRA, the FCA and the Bank of England, including the impact on the FSA's capacity to deliver against its current FSMA obligations. The Board has regularly reviewed the FSA executive's strategy to mitigate these risks, which is led by a high-level transition committee, and will continue to scrutinise and challenge the plan to ensure operational risks are minimised. All identified risks and uncertainties are kept under review throughout the organisation, including by the Executive Risk Committee and, at the highest level, by the Risk Committee and the Audit Committee. Further information on some of the key areas recently reviewed can be found in the committees' reports.

Development and performance of the FSA

Analysis of the FSA's performance during the year and the position at the end of the financial year are set out in the Financial Review and the financial statements for the year. Future developments of the FSA can be found in the Business Plan for 2011/12, which is available on the FSA website and provides information relating to the FSA's budget and priorities.

Qualifying indemnity provisions

Qualifying third-party indemnity provisions for the purposes of section 232 of the Companies Act 2006 were accordingly in force during the course of the financial year and remain in force at the date of this report.

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare financial statements in accordance with international financial reporting standards as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and for taking reasonable steps to detect and prevent fraud and other irregularities.

Insofar as the directors are aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the FSA website. Legislation in the UK governing the preparation and distribution of financial statements may differ from legislation in other jurisdictions.

Financial position

The FSA's primary source of income is the fees charged to regulated firms. Specific information on the FSA's financial position is provided in the financial statements and in the Financial Review. The Financial Review explains how the

FSA manages its pensions liabilities. The directors agree with the analysis in the Financial Review and believe the FSA remains able to meet its liabilities as they fall due.

Going concern

The business activities of the FSA are summarised in the chief executive's report, with details of the factors likely to affect the future activities of the FSA being outlined in Sections 1 to 6 on pages 15 to 103.

The FSA's financial strength, liquidity position and borrowing facilities are described in the Financial Review on pages 105 to 113. The FSA's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments, and its exposures to credit risk and liquidity risk are included in the notes to the financial statements.

The FSA has statutory power granted to it under the Financial Services and Markets Act (2000) to raise fees to fund its regulatory activities. Having regard to this and to the FSA's credit facilities, the directors believe that the company is well placed to manage the future funding requirements of its regulatory activity.

Based on the above, the directors have a reasonable expectation that the FSA has sufficient resources to continue its business for the foreseeable future and therefore the 'going concern' basis continues to be appropriate in preparing the annual financial statements.

Corporate responsibility

With regard to corporate responsibility (CR), the FSA aims to be a good corporate citizen and develop projects that will both help the community and be of benefit to staff.

For the FSA to consider undertaking a CR activity it must pass one of three tests. The activity must:

- support the FSA's statutory objectives;
- make the FSA a better regulator, as defined in the FSA's principles of good regulation; or
- be considered best practice by the industry and be seen as appropriate for the FSA.

The FSA publishes a separate CR Report that focuses on the following key areas.

People

The FSA is committed to promoting equality and diversity and creating a positive culture in all areas of its work as an employer and a regulator, where differences are recognised, supported and celebrated. The FSA has policies that outline its approach

to equality, diversity and inclusion, flexible working, career development, and wellbeing. Each of these emphasise the FSA's commitment to its people. The FSA has key performance indicators that focus on these areas. Performance, where possible, is measured and reported in the CR section of the website. The FSA continues to review and develop measures for those areas that are not currently assessed.

Environment

The FSA is conscious of the impact of its operations on the environment and the increasing expectation that organisations should manage this impact. The FSA aims to reduce CO₂ emissions, energy use, water and the waste it produces, as well as increase the amount of waste that is recycled. To achieve these aims, the FSA seeks to raise awareness of environmental issues among its staff. It sets targets in each of its key impact areas, and these are measured and reported on in the CR section of the FSA website.

Community

The FSA strives to have a positive impact on society. It encourages, supports and enables staff to play an active role in the local community near its headquarters. Key performance indicators assess the numbers of employees involved in volunteering and the number of community recipients of the FSA's various projects. Staff are encouraged to view volunteering as a part of their personal development, and, to facilitate that, all applications for volunteering are now put through the FSA's internal learning and development booking system.

Equality and diversity

The FSA is committed to the principles of equality, diversity and inclusion. The FSA continues to seek ways of further improving its performance in this area, ensuring that all members of staff, visitors and applicants are treated on the basis of their merits and abilities and that no one suffers discrimination or disadvantage regardless of gender, race, disability, sexual orientation, religion/belief or age. The FSA also takes into account its equality responsibility regarding its regulatory approach.

To ensure effective governance of this work, the FSA has in place an Executive Diversity Committee, which acts with the full authority of the Executive Committee. The Executive Diversity Committee is responsible for leading and directing the FSA's internal and external diversity agenda. This supports the FSA being an employer of choice and a more effective regulator, and includes Senior Leader Champions for each of the diversity strands.

During the last year, a mandatory training package for all staff was developed and delivered, in addition to specific training and awareness sessions for the Senior Leadership Team. There are a number of staff networks in place, a staff representative group and a regular programme of awareness talks and interactive sessions covering different aspects of diversity. A diversity-specific all staff survey was initiated to gauge perceptions of diversity within the FSA and highlight priority areas for the coming year.

With regard to the FSA's responsibilities within the regulatory sphere, the Equality Impact Assessment process for all new policies and processes has been enhanced and this has been used to revisit some of the key existing processes to ensure the FSA's obligations are fully met.

The FSA has begun to develop a portfolio of work looking at the issues of gender representation on boards and worked on the development of a supervisory toolkit in relation to equality, diversity and the industry's obligations. This will be delivered in the forthcoming year.

Over the course of the year, the FSA has been preparing to ensure that its obligations in relation to its Public Sector Equality Duty are met, and have opened discussions with key stakeholders, including representatives of the industry, to develop the best approach to take forward.

Employee involvement

A variety of media is used to communicate with employees, including the intranet, email, weekly floor briefings, forums and staff meetings. Employees are invited to give feedback on the FSA and its operations, both informally and formally, through a number of staff surveys.

The Staff Consultative Committee is the forum through which the FSA complies with the EU Information and Consultation Directive 2004. It also provides a clear channel of communication and consultation between the FSA and its staff. It gives staff the opportunity to contribute to and influence the development of the FSA, and to provide their views to the highest levels in the organisation. The FSA recognises the importance and value of ensuring this process happens effectively.

Employee training

Employees are given opportunities to undertake a variety of in-house and external training and, during the year, each employee spent an average of 6.5 days training (5.8 days in 2009/10).

Charitable donations

Following the termination of the lease agreement at 25 Bank Street, the FSA (in partnership with its service providers) made a voluntary gift of furniture which was no longer required by the FSA to a registered charity. This furniture, when purchased as new furniture four years ago, cost the FSA £70,000 and at the time of the donation had an estimated value of £42,000.

Health and safety

The FSA is committed to providing a healthy and safe environment. It pursues a policy to promote health and safety at work and seeks the cooperation of all employees and visitors in this endeavour.

Creditor payment policy

The FSA's policy is to aim to pay 90% of valid invoices with a correct purchase order within 30 days of receiving them. The average time taken to pay suppliers from receipt of invoice was 30 days (30 days in 2009/10).

Auditors

The National Audit Office were appointed as auditors of the company at a General Meeting on 1 July 2010.

By Order of the Board

K Iain Brown
Secretary
26 May 2011