

3 March 2023

Dear CEO/Director,

Implementing the Consumer Duty in the Retail Finance Providers Portfolio

The Consumer Duty is a significant shift in our expectations of firms. It introduces a more outcomes-focused approach to consumer protection and sets higher expectations for the standard of care that firms give customers.

We are sending this letter to firms whose primary business model is providing Retail Finance to help them implement and embed the Duty effectively. This letter sets out:

- A reminder of the implementation timeline, key elements of the Duty and how it applies to firms in the Retail Finance Providers portfolio
- Our expectations for how firms should embed the Duty in the Retail Finance Providers portfolio
- Feedback from our recent review of firms' implementation plans
- Our approach to supervising the Duty in the Retail Finance Providers portfolio and planned next steps

We expect the Consumer Duty to be a top priority for you personally. We want good outcomes for customers to be at the heart of firms' strategies and business objectives, and leaders have a key role to play here. Firms' Boards and senior management should embed the interests of customers into the culture and purpose of the firm.

We have also reviewed the key risks of harm for firms in the Retail Finance Providers portfolio, their consumers, and the markets in which they operate as part of our Approach to Supervision incorporating the Consumer Duty which is integral to our strategy for this market. This follows on from our previous review, and our letter to you of January 2020. We have therefore included, in Annex 2, an updated view of the current key risks of harm and an overview of our expectations and areas of focus.

You and your Board should carefully consider the extent to which your firm presents the risks we refer to in this letter, review your strategies for mitigating them and be able to demonstrate that you and your senior managers are taking reasonable steps to mitigate these risks.

Your timeline for introducing the Duty

In July 2022 we published final rules and guidance for firms, and set out the following timeline for firms to implement the Duty:

- By the end of October 2022 firms' boards or management bodies should have agreed their plans for implementing the Duty
- By the end of April 2023 manufacturers should have completed all reviews necessary to meet the outcome rules and shared necessary information with their distributors
- The Duty comes into force on 31 July 2023 for new and existing products or services that are open to sale or renewal
- On 31 July 2024 the Duty comes into force for closed products or services.

While our work on the Duty pre-dates the cost-of-living crisis, it is particularly important as consumers face increasing pressures on their household finances. Even before the crisis, consumers were being asked to make an increasing number of complex and important decisions in a faster and increasingly complex environment. But the crisis underlines the need for high standards and strong protections. It is more important than ever that consumers can make informed, effective decisions, act in their interests and pursue their financial objectives.

How the Duty applies to firms in the Retail Finance Providers portfolio

The Duty applies to products and services offered to retail customers, and to all firms who determine or have a material influence over customer outcomes - not just those with a direct customer relationship. We've set out some more information and examples about how the Duty applies to firms in the Retail Finance Providers portfolio in Annex 1 to this letter.

Overview of the requirements of the Duty

The Finalised Guidance we published in July provides firms with a full explanation of the requirements of the Duty, including many helpful examples of good and poor practice.

The Duty requires firms to act to deliver good outcomes for retail customers. Firms must act in good faith towards customers, avoid causing them foreseeable harm, and enable and support them to pursue their financial objectives. Firms should consider the diverse needs of their customers – including those with characteristics of vulnerability (see chapters 4-5 of the Guidance).

The Duty also introduces new rules and guidance to ensure that:

- **Products and services:** are designed to meet the needs, characteristics and objectives of a specified target market (chapter 6)
- **Price and value:** Products and services provide fair value with a reasonable relationship between the price consumers pay and the benefit they receive (chapter 7)
- **Consumer understanding:** Firms communicate in a way that supports consumer understanding and equips consumers to make effective, timely and properly informed decisions (chapter 8)
- **Consumer support:** Firms provide support that meets consumers' needs throughout the life of the product or service (chapter 9)

A key part of the Duty is that firms are able to define, monitor, evidence and stand behind the outcomes their customers are experiencing (chapter 10). This monitoring must enable firms to identify where customers, or groups of customers, are experiencing poor outcomes, and where this is the case firms must take appropriate action to rectify the situation.

The Duty does not have a retrospective effect and does not apply to past actions by firms. However, the Duty applies, on a forward-looking basis, to firms' ongoing work for existing customers (chapter 3).

Our expectations for how firms should embed the Duty in the Retail Finance Providers portfolio

The Retail Finance Providers portfolio includes firms with a range of business models with firms varying significantly in size. We aim to improve firms' conduct and understanding of our expectations so that financial markets work well and are able to deliver good outcomes for consumers, market participants and the economy.

We continue to see challenges for the market, particularly around consumer vulnerability, product design and governance and how the assessment of creditworthiness is undertaken by firms.

We expect firms' culture and governance to drive good behaviours and good consumer outcomes and for individuals to be accountable for their actions. We want Boards and senior management in firms to prioritise embedding a healthy culture, one with meaningful purpose reflected in their policies and decision-making aligned with consumer interests and outcomes at the heart of their business.

Our previous portfolio letter in January 2020 reflected on how the impact of firms' inadequate understanding of their own, appointed representative and broker responsibilities can drive a range of harms. It also reflected that we had concerns about inadequate affordability assessments and treatment of customers in arrears.

Since then, we have also considered the impact of the pandemic and the implications resulting from the rising cost of living. Given the unprecedented impact of these, we expect firms to provide customers in financial difficulty appropriate tailored forbearance that is in their interest and takes account of their individual circumstances. In Annex 2, we set out our updated view of the key drivers of harm in the context of the Duty, encompassing harms we have highlighted previously, as well as emerging harms.

We are also working closely with HM Treasury ("HMT") to help shape the new regulatory regime for Deferred Payment Credit ("DPC") products. HMT recently issued its second consultation (published on 14 February)¹.

Feedback from our review of implementation plans

On 25 January we [published feedback](#) for firms on the implementation plans we have reviewed. This feedback contains examples of good practice, and areas for improvement, which will be useful for all firms to review as they implement the Duty.

¹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1136257/BNPL_consultation_on_drift_legislation.pdf

Many of the plans we reviewed showed that firms have understood and embraced the shift to focus on consumer outcomes, established extensive programmes of work to embed the Duty, and are engaging with the substantive requirements.

However, we did also identify plans that suggested some firms may be further behind in their thinking and planning for the Duty. This brings a risk that they may not be ready in time, or they may struggle to embed the Duty effectively throughout their business.

We have identified three key areas where firms should particularly focus their attention during the second half of the implementation period (to 31 July 2023):

- **Effective prioritisation:** We saw some plans where it was not clear what the basis was for prioritising some implementation work ahead of other aspects. Firms should make sure they are prioritising appropriately, focusing on reducing the risk of poor consumer outcomes and assessing where they are likely to be furthest away from the requirements of the Duty.
- **Embedding the substantive requirements:** We saw some plans that suggested firms may have considered the requirements superficially or are over-confident that their existing policies and processes will be adequate. We urge firms to carefully consider the substantive requirements of the Duty, so that when they are reviewing their products and services, communications and customer journeys, they identify and make the changes needed to meet the new standards.
- **Working with other firms:** To implement the Duty on time, many firms need to work and share information with other firms in the distribution chain. However, some firms may need to accelerate their work on this important aspect of implementation.

As they oversee the implementation of the Duty, firms' boards and management bodies will want to particularly focus and provide challenge in the three areas above, and on the other issues highlighted in our feedback.

Our supervisory approach and next steps

The Consumer Duty is a cornerstone of our [three-year strategy](#), and a key element of our work to set and test higher standards between now and 2025. It is being prioritised at every level of the FCA, from the board down, and it will drive our supervision strategies and prioritisation.

As part of this work, we are developing a strategy for the Retail Finance Providers portfolio to embed the Duty in our Supervision work and tackle key harms, as well as metrics to measure the impact of the Duty in the sector.

Firms of all sizes in the sector should be prepared to discuss the Consumer Duty with us and to provide us with information on the reviews and assessments they have conducted as part of the embedding process. These additional engagements will be carried out through a variety of means, likely to include bilateral engagement, continued close engagement with the trade bodies, and industry events.

We will continue our work to support firms' embedding activities in the run-up to the July 2023 implementation deadline. Our programme of communications on the Duty will continue, with further events and updates to our dedicated [webpages](#). We are working

with an external research agency that will soon be sending a short survey to a sample of firms. This anonymised survey will help us understand the progress firms are making in implementing the Duty and will inform our ongoing communications to firms.

We want firms to be better informed at the point they apply for authorisation, during the early stages of being authorised and beyond. We are expanding our [Early and High Growth Oversight](#) to provide closer support for newly authorised businesses to help address some of these concerns.

For more information:

- Read our **Finalised Guidance** [Finalised Guidance \(FG22/5\)](#)
- Consider our [feedback](#) on our **review of implementation**
- Visit our **Consumer Duty homepage** www.fca.org.uk/firms/consumer-duty where you will find additional information about the Consumer Duty, on-demand webinars and [podcasts](#), and the option to sign up for email updates

If you have any questions, you can **email us** at firm.queries@fca.org.uk

Yours sincerely,

Roma Pearson,
Director, Consumer Finance
Supervision, Policy & Competition Division

Annex 1 – How the Duty applies to firms in the Retail Finance Providers portfolio

The Duty will require firms to act to deliver good outcomes for customers (including those in vulnerable circumstances). This reflects the positive and proactive expectation we have of firm conduct, and our desire for firms to think more about consumer outcomes and place consumers' interests at the heart of their activities.

We expect the focus on acting to deliver good outcomes to be at the centre of Retail Finance Providers' strategy and business objectives.

Retail Finance Providers will need to consider in their implementation of the Duty and setting or re-setting their strategy and business objectives, how their business is delivering the outcomes that the Duty supports.

We expect to see firms implementing the Duty with particular focus on the following issues:

Retail Finance lending products are designed to meet the needs, characteristics, and objectives, of your intended customers. Where firms are developing new products, for example DPC products, it is important that they are fit for purpose and designed to meet the needs, characteristics, and objectives of the identified target market. The target market should be identified at a sufficiently granular level and regularly reviewed.

Firms should ensure that the distribution strategy for lending products is appropriate for that target market, and that products are distributed to the customers they were designed for.

To deliver the products and services outcome, firms should consider what product governance arrangements, oversight and controls they need to have in place, including to prevent unsuitable products being offered.

Retail Finance lending products and services provide fair value. Firms must assess whether there is a reasonable relationship between the total price of the product and the benefits the customer receives. The value of the product provided should not be compromised by unmanaged commercial or staff incentives. Fair value is about more than just price, the Duty aims to tackle factors that can result in products or services which are unfair or poor value, such as unsuitable features that can lead to foreseeable harm or frustrate the customer's use of the product.

Firms communicate in a way that supports consumer understanding and equips consumers to make effective, timely, and properly informed, decisions. Firms must tailor communications to meet the needs of the customers they are intended for; and test and monitor whether the communications deliver good outcomes. Financial Promotions should be clear, fair and not misleading and contain accurate and balanced information.

Firms provide support that meets consumers' needs throughout the life of the product or service. This might include ensuring there are sufficient staff members with the knowledge, training, and experience, to meet the changing needs of the customer, identify vulnerabilities, and handle them appropriately.

It is also important that complaint procedures are prominent, easy to understand, and sufficiently resourced.

Meeting the needs of customers in financial difficulty is an important part of achieving this outcome. Ensuring that customers in financial difficulty receive fair and appropriate support remains a key priority for the FCA and a key outcome that the Duty seeks to enhance by ensuring that firms act in their customers' interests.

Firms to be clear on their roles in the distribution chain and meet their commitments under the Duty. Finance providers and those broking finance need to consider their respective roles, i.e. whether they are acting as manufacturer, distributor or are co-manufacturers and distributors. Firms are manufacturers if they create, develop, design, issue, manage, operate, carry out, or (for insurance or credit purposes) underwrite a product or service. There may be multiple manufacturers for a single product or service. A firm would be considered a co-manufacturer where they can determine or materially influence the manufacture of a product or service. This would include a firm that can determine the essential features and main elements of a product or service, including its target market. As an example, if a lender negotiates an APR price-point with a broker firm, the firms may need to consider whether the lender is making the pricing decisions or if the broker has a material influence on this.

Where firms collaborate in this way, they must have a written agreement outlining their respective roles and responsibilities to comply with the rules in this section. We expect the agreement to be a confirmation of which firm is responsible for meeting different aspects of the rules under this outcome. So, in the event of a problem, it is clear which firm is accountable.

Evidencing good outcomes

Under the Duty, firms must understand and be able to evidence the outcomes their customers are getting. These are broader than the four specific outcomes set out in the Duty's rules and include the overall outcomes consumers receive from a product or service or when interacting with a firm, such as whether they are using the product or service as expected, the benefits they are receiving, and whether they are incurring harm.

The Duty rules therefore require firms to:

- Monitor and review customer outcomes to ensure that products and services are working as they and their customers expected and in a way that is consistent with the Duty
- Identify where customers or groups of customers are not getting good outcomes and assess the reasons why
- Have processes to adapt and change products and services, or policies and practices, to address the risks or issues identified and stop them recurring in the future. Firms' regular reviews under the Duty must provide an opportunity to identify further harms, including new and emerging harms.

Firms will need to use their judgement to identify relevant sources of data. There will be significant differences in the capabilities of firms and, in general, we would expect firms with more sophisticated data strategies to have more detailed monitoring strategies. However, one key question all firms can ask themselves is whether they are using the same (or similarly sophisticated) management information capabilities as they use to inform other elements of their business, such as product development or sales, to also monitor customers' outcomes.

For further guidance on measures you could use, see especially Chapter 11 of the Guidance. Rather than replacing existing rules and guidance, the Duty seeks to overlay and supplement the existing rules and guidance, with an emphasis on firms' obligations to monitor, understand and evidence the customer outcomes resulting in practice from their conduct and, where necessary, to improve those outcomes.

Expectations for Board oversight

Your firm's Board or governing body will need to monitor whether customers are getting good outcomes and whether further action is needed to comply with the Duty. At least once a year, the Board or governing body should review and approve an assessment of how well the firm is complying with the Duty. It should also make sure your firm's strategies, governance, leadership, processes, and people policies (including incentives at all levels) lead to good outcomes for customers. For further guidance on our expectations on monitoring and governance, see especially Chapter 13 of the Guidance.

Annex 2 – Key things for firms to consider

We have set out our expectations of firms and view of the key drivers of harm in the Retail Finance Providers portfolio in the context of the Duty:

Products and services

Affordability

Firms should consider their approach to affordability considering the Consumer Duty, in particular the requirement to avoid causing foreseeable harm. Inadequate assessment of affordability is likely to cause customer harm. We want Retail Finance Providers to help deliver outcomes that ensure consumers do not become overindebted by being given credit they cannot afford.

Under our rules, as supported by the Duty, it is important that any lending product is affordable for the customer, and firms must have in place adequate systems and controls to make this assessment as set out in [CONC Chapter 5](#)

New and Evolving Business Models

We welcome innovation in the retail finance market to support the aims of ensuring that there is a competitive and innovative market that meet the varied needs of customers.

We will work to support innovation in the sector, including through our work on Credit Information following our market study which will, over time, help to enable lenders to make better decisions on whether to offer credit and at what price, ensuring consumers receive fair outcomes.

We are aware of a range of new business models and products in the retail finance market, including some new products being offered to customers for the purchase of essentials in the context of the rising cost of living. We are increasingly seeing Buy Now Pay Later products (which we refer to as 'Deferred Payment Credit' (DPC)) being used in this context.

As firms seek to deploy new business models, evolve their business models or offer new products, they should ensure they are lending responsibly and designing suitable products considering the whole of the customer journey in their interactions. As part of this, firms should consider how the product will be distributed ensuring that the distribution strategy is appropriate for that target market, and that products are distributed to the customers they were designed for. - Firms should be closely monitoring and aware if the product is being offered to individual customers on the edge of the target market, in these circumstances taking extra care and considering whether the product remains suitable. .

Where firms do identify a change in their business model they should also consider whether a [notification](#) in line with chapter 15 of the FCA Handbook's Supervision Manual ('SUP15') is needed.

For more information, please see chapter 6 of the Guidance on the products and services outcome.

Price and value

We expect to see customer outcomes improve. This means consumers paying a price for retail finance products and services that represents fair value. Products should be designed to meet the needs and objectives of a specified target market and should be delivering fair value for customers throughout their lifecycle. Products need to continue to offer fair value when a customer falls behind with their payments, so in considering the fair value of their products firms must consider all interest, fees and charges a consumer may incur, including late payment/arrears charges. This is especially important if the target market includes consumers with a lower credit rating.

We provide a relevant example in our Finalised Guidance:

A firm provides buy-now-pay-later products at 0% interest over 18 months. Its core revenue comes from the commission it receives from the retailer on the value of the goods sold. However, it also charges default fees, and these can build up to a considerable level. Its target market includes consumers who are on low incomes or who have poor credit ratings. A high number of consumers default and the firm receives considerable revenue from default fees. Under the Duty, we would expect firms to consider whether elements of the pricing structure could cause foreseeable harm and be able to demonstrate that the overall costs that consumers are likely to pay, including potential default fees, are reasonable relative to the benefits. We note that consumers might not give sufficient consideration to the risks and consequences of default when being offered such products, and this can increase the risk of them receiving unfair value.

Incentives and commission models

We know incentives (commission and fee models) where the risks are not adequately identified and managed can lead to poor outcomes for consumers. For example, if a firm operates a 100% commission model, it carries increased risk of inappropriate sales practices and selling products to customers that are not suitable for them. In this situation, we would expect firms to have adequate staff training and oversight and controls in place to prevent this approach causing harm to customers.

Firms need to assess their approach to product sales, arrears management and collections (including incentives and commission models) and identify whether harm is foreseeable as a consequence of that approach, then act to prevent foreseeable harm from happening. We will be looking at retail finance firms' incentive models to ensure that these are compliant with our rules and principles, and do not lead to harm to consumers.

For more information, please see chapter 7 of the Guidance on the price and value outcome.

Consumer understanding

The Duty expects communications to be tailored according to the complexity of the products and the characteristics of the customers intended to receive them, including characteristics of vulnerability. So, firms need to think hard about their customers and the information and support they need to make informed decisions. Firms will also need

to test that information to see how it is likely to work, and subsequently monitor how well it is working in practice.

Financial Promotions

How retail finance products are advertised and, in particular, the need to provide a balanced picture² to customers which is clear and transparent is a priority for us, particularly in the context of the rising cost of living³.

Misleading or inaccurate financial promotions that are not clear or fair can lead to consumers making uninformed decisions, for example where disproportionate prominence is given to weekly/monthly payments or an initial 0% interest rate and the total cost of a product isn't readily apparent or disclosed at all. We will be monitoring financial promotions and will take action where we see problems.

In the Finalised Guidance, as a relevant example of poor practice, we cite online sales journeys we have seen where information is presented in a way that exploits consumers' behavioural biases and encourages customers to take out, or make payment for products, using credit. For example, by defaulting into taking out credit over other options, giving much greater prominence to a credit option, or making other options harder to find or access. Firms must act in good faith and ensure that the options available to consumers are presented in a clear and fair way, and they must go further by ensuring that their choice architecture isn't designed to influence consumers to select a particular option that benefits the firm but may not deliver a good outcome for the consumer.

We note in this regard that sales journeys that seek to exploit consumers' behavioural biases can disproportionately impact those with low financial capability.

For more information, please see chapter 8 of the Guidance on the consumer understanding outcome.

Consumer support

We want firms to provide a level of support that meets consumers' needs throughout their relationship with the firm. This means firms' customer service should enable consumers to realise the benefits of the products and services they buy and ensure they are supported when they want to pursue their financial objectives.

Firms must also ensure that customers do not face unreasonable barriers, for instance when making a complaint. In addition, ensuring that customers in financial difficulty receive fair and appropriate support remains a key priority for the FCA and a key outcome that the Duty seeks to enhance by ensuring that firms act in their customers' interests.

Against a backdrop of higher inflation and increasing interest rates, we are seeing an increasing number of customers facing difficult circumstances, personally and financially.

² <https://www.fca.org.uk/publication/correspondence/bnpl-dear-ceo-letter-2022.pdf>

³ <https://www.fca.org.uk/publication/correspondence/dear-ceo-ensure-your-financial-promotions-clear-fair-not-misleading.pdf>

Whilst our policy work on the Duty pre-dates the rising cost of living, this crisis underlines the importance of the standards and outcomes we expect under the Duty and provides further opportunity for the sector to build public trust.

Our recently published [Dear CEO](#) letter outlines these points in greater detail, and you can find further information for firms in our [cost of living](#) key documents.

Under the Duty firms are required to avoid causing foreseeable harm to customers. We know that customers in financial difficulty are more likely to have characteristics of vulnerability, and that poor treatment of customers in this situation is likely to cause harm.

The Duty makes clear that firms must provide support that meets the needs of customers, including those with characteristics of vulnerability, throughout the life of the product or service.

Firms need to be able to provide appropriate support to these customers through different channels or by adapting their usual approach. For example, some customers may be supported better through telephone channels, rather than automated means of providing services, such as chatbots, when discussing their options, or experiencing repayment difficulties. The level of service remains important and that the right systems and controls are in place to monitor service levels.

Forbearance

Our [Borrowers in Financial Difficulty](#) (BiFD) review found that firms could do more to encourage customers to engage, particularly when payment issues start to arise. The review also highlighted that ineffective discussions can lead to unfair, inappropriate and/or unsustainable forbearance arrangements. Even where well designed policies are in place, forbearance may work poorly in practice where firms do not have adequate systems and controls.

We also found that most firms informed customers about sources of debt advice and guidance through their written and/or online communications but opportunities were missed to highlight the benefit of these services in telephone conversations. We encourage firms to help customers understand what types of debt help or money guidance are available and to tell customers that they can get guidance or not-for-profit debt advice through both digital and telephone services. Firms can signpost and use referral processes so that customers can take the full range of delivery channels available to them into account.

Firms' handling of complaints

Firms are required to adhere to our [DISP](#) rules when dealing with consumer complaints. This includes providing effective and transparent procedures for the reasonable and prompt handling of complaints and providing a response within the necessary time limits.

Firms should also be aware of their requirements under DISP 1.6 to fully cooperate with the Financial Ombudsman Service ("FOS") in the handling of complaints against it, which includes producing documents when requested, adhering to any settlements or awards and conducting root cause analysis.

The Duty requires that firms define, monitor, evidence and justify the outcomes their customers' experience. This monitoring must enable firms to identify where customers are experiencing poor outcomes. This can include learnings from complaint outcomes, including those decided by the Financial Ombudsman Service. Where poor outcomes are detected, firms must take appropriate action to rectify the situation

Please see chapter 9 of the Guidance for more detail about the Consumer Support outcome.

Other Priorities

Changes to the regulatory perimeter

Over the last few years, we have seen the significant growth of unregulated Buy Now Pay Later products (which we refer to as 'Deferred Payment Credit' (DPC)), predominantly supporting digital retail sales. The products often take the form of either deferred payment or short-term instalment loans.

The growth in DPC has in part been due to the popularity of online shopping, particularly during the pandemic and with more flexible payment options becoming increasingly popular with consumers.

In February 2021, the [Woolard Review](#) included a recommendation that unregulated DPC products be brought into the regulatory perimeter to protect consumers. We and the Treasury agreed with the report's findings and the Treasury announced its intention to bring these products into regulation in a proportionate way.

We are working closely with HM Treasury to help shape the new regulatory regime for DPC products. Alongside this, we are planning the design and development of a framework to assess firms applying for authorisation and a supervisory strategy for when these firms fall under our remit and how we enforce these against our rules. We will consult on our proposed approach and changes to our Handbook as soon as we can. The extent of Handbook changes will be dependent on the outcome of HM Treasury's second consultation (published on 14 February).

In the meantime, where we see harm, we will act using our existing powers and our non-FSMA consumer protection powers. For example, we have already acted on concerns over financial promotions which has resulted in the withdrawal of certain marketing material. On 19 August, we published a [Dear CEO](#) letter setting out concerns identified with DPC financial promotions and reminding firms involved in the communication or approval of financial promotions relating to exempt credit agreements of their obligations when doing so. As consumers across the country face the rising cost of living and experience financial difficulties, we also issued a letter to firms in the sector (both regulated lenders offering exempt DPC products and unauthorised firms offering exempt DPC products) setting out our expectations around providing their customers with appropriate care and support, strongly encouraging unauthorised firms to take positive action now. And we have used our powers under the Consumer Rights Act 2015 to intervene where we have identified concerns that terms in the consumer contracts of DPC providers may be unfair and/or not transparent.

Appointed Representatives (AR) regime

In August 2022, we confirmed new rules to strengthen the oversight of ARs by principals. Our rules came into force on 8 December 2022, which clarify and strengthen the responsibilities and expectations of principals. We require principals to provide more information on ARs including Introducer Appointed Representatives (IARs).

If you are a Principal firm, you should ensure that you have appropriate controls in place to effectively oversee your ARs' activities and ensure that your ARs comply with the Duty. Principals should read our [updated rules](#) and expectations and take necessary steps to comply with the changes.

Data-led Regulation

As we transition towards becoming a more data-led regulator (see the [FCA data strategy](#)), we remind firms we will increase our focus on data, not limited to regulatory returns. We also remind firms of their obligations to report regulatory returns accurately, in a timely manner, as well as ensure that their standing data is up to date. Our move towards automated data collection should enable firms to meet their reporting requirements and submit returns more easily.

Data enables us to make better, more informed, regulatory decisions that benefit consumers and firms alike. We are committed to using the data that we receive from firms to test whether firms' products and services deliver good outcomes for consumers, and to simulate policy outcomes before publishing rules. It also helps to identify firms that may be of interest to us for causing potential consumer detriment or failing to meet its regulatory obligations.

Equally, we want to share our data with firms so they can use it to test new products and business models themselves.

Principle 11 includes a requirement for firms to deal with its regulators in an open and co-operative way. Further to this, we expect all firms in this portfolio to be aware of the requirements and guidance in [SUP 15](#), and to submit notifications as required. Failure to notify us of matters set out in SUP 15.3 could have serious regulatory impacts as it may impact our ability to effectively supervise the firm and raise questions about whether the firm is meeting the Effective Supervision Threshold Condition ([COND 2.3](#) Effective Supervision).

Environmental, social and governance ("ESG")

Financial services and markets have a central role in the transition to a low carbon economy and more sustainable future. The Government has committed to achieving a net zero economy by 2050. We will support the financial sector in driving positive change, including the transition to net zero. Our refreshed [ESG strategy](#) sets out our target outcomes and actions we expect to take to deliver these in the coming months.

Achieving a more diverse and inclusive financial services industry is an important part of the FCA's ESG priority. Diversity and inclusion is key to a healthy culture. We believe that diversity of perspectives and thought, when part of an inclusive culture, results in better judgements and decision making. We recently published a [review](#) of approaches to diversity and inclusion in a sample of regulated firms. We encourage all regulated

firms to consider these findings in the development of their diversity and inclusion strategies and practices. We intend to publish a Consultation Paper (CP) this year and encourage firms to read and respond to the CP when it is published.