

**From Hector Sants
Chief Executive**

7 February 2011

Dear CEO

Transition to new regulatory structure

I would like to update you on our progress towards the new regulatory structure the Chancellor announced in June last year. You will recall that it is the government's intention that the FSA will be replaced in two years by two new regulators:

- The Prudential Regulation Authority (the PRA), which will be a subsidiary of the Bank of England, will be responsible for promoting the stable and prudent operation of the financial system through regulation of all deposit-taking institutions, insurers and investment banks.
- The Consumer Protection and Markets Authority (the CPMA) will be responsible for regulation of conduct in retail, as well as wholesale, financial markets and the infrastructure that supports those markets. The CPMA will also have responsibility for the prudential regulation of firms that do not fall under the PRA's scope. The government is currently consulting on including unsecured credit within the scope of the CPMA.

To ensure a smooth transition we are making changes to our current management structure to help us evolve over the next two years from one unitary regulator into the proposed new structure.

These changes will begin on 4 April when we replace our current Supervision and Risk business units with a Prudential Business Unit (PBU) and a Consumer & Markets Business Unit (CMBU). I have attached an [organisation plan](#) to show you how this will look.

As has previously been announced, I will be the chief executive of the PRA as well as head of the PBU. I will be supported by a new arrival to the FSA, Andrew Bailey, who joins us on 4 April as a Bank of England secondee to act as the deputy head of the PBU. As the government has recently confirmed, Martin Wheatley will be chief executive of the CPMA as well as head of the CMBU.

Until 4 April, we will continue with our existing Supervision and Risk business units. You will be aware that our two former managing directors Jon Pain (Supervision) and Sally Dewar (Risk) left the FSA on 31 January. We will cover these roles between now and 4 April with Rosemary Hilary (Supervision) and Lyndon Nelson (Risk).

I should reiterate that our internal reorganisation on 4 April is the first step on the road to becoming two separate regulators. We will not, however, at this point be moving to 'twin peaks' supervision. Rather, the 4 April reorganisation begins a gradual process of change to ensure we are ready in 2012 to cut over to the twin peaks approach. Integrated supervision will continue until we have designed and piloted new regulatory processes and trained staff. The new management structure will carry on supporting the priorities set out in our business plan. We will also still be subject to integrated executive and board governance throughout the transition process. Adair Turner and I will remain FSA chairman and chief executive respectively.

There will, however, have to be some reprioritising of our workplan to ensure due regard to our need to focus on the transition. This will mainly be achieved by reducing some of our routine supervisory activity. Throughout this process, firms affected by these changes will be kept informed by their supervisors.

We will also have to allocate some money towards paying for the transition. On 1 February we began consulting on our fees for the forthcoming year, and you will see that our budget for 2011/12 sets aside £10.9 million for the direct costs of this work. A budget for transition was not required at the start of this financial year, but we expect to spend £1.4m on the project from existing funds. This gives a total direct cost of £12.3m from 2010-2012.

We will write to you again in April to give you more information on where your firm's supervision will sit within our new structure. Furthermore, we intend to publish papers in the first half of 2011 giving more detail on our approach to the transition to regulation by the CPMA and PRA and their emerging philosophies. In the meantime I attach a link to the [speech](#) I gave to Reuters in December on the new regulatory approach.

You may also be aware that the government has to introduce new legislation to allow for the formal transfer of power from the FSA to the new regulators. The government will begin consulting further on regulatory reform later this month.

Yours sincerely

Hector Sants

FSA New Management Structure MDs and Directors

April 2011

