

Better Regulation Action Plan

Progress Report





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June 2006

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Foreword



In the Better Regulation Action Plan we published last December we set out our plans for improving regulation. We continue to work hard to ensure the costs of regulation are justified by the benefits they bring. I also committed us to moving regulation, where possible, away from detailed rules and towards a more principles-based approach.

I am pleased that we are able to report here the progress we have made in delivering these changes over the past several months.

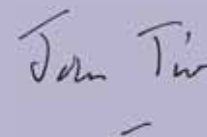
The three reports we have published on the costs and benefits of regulation provide us with new information which will underpin our work to deliver better regulation: new information about where firms consider the costs which are additional to their normal operating costs are greatest; the significance of firms' interpretations of our rules and their regulatory risk appetite as cost drivers; the ways in which firms absorb regulatory change into their business processes and

how the costs of regulation are built up from a large number of small costs associated with individual rules. All of these findings will inform our ongoing reviews. We will delete or amend rules over which we have discretion where the costs are not justified by the benefits.

We have also been continuing our work to develop more principles-based regulation. Our proposal for a more principles-based approach to listing requirements for investment entities and the streamlining of our money laundering requirements are two recent examples. Others are set out in this paper. In October 2006, the consultation on our new Conduct of Business requirements will be an important milestone and much of the new information from these reports will help us create a more proportionate and principles-based regime in this key area of our responsibilities. These changes will begin to change the look and feel of our Handbook, but we think we can go a lot further.

We want to ensure that our Handbook conveys a clearer sense of what we believe to be important. Sometimes the clarity of our messages can be lost in the detail of the explanation that goes with them. It should support the improved judgement we want to see in our people and in firms. This means a more focused Handbook, although one associated with much useful guidance outside it. Guidance, in turn, needs to be readily accessible and located, or drawn together in one place on our website. This is so the flexibility we want to achieve with a more principles-based approach is not at the expense of confusion or a lack of clarity.

I very much welcome the ideas, concerns and input more generally from firms, consumer bodies and others who want to help us shape this programme of change. Please send me your feedback to betterregulation@fsa.gov.uk.

A handwritten signature in dark ink, appearing to read "John Tir". The signature is written in a cursive style with a horizontal line underneath.



Introduction

Purpose

In December 2005 we published a Better Regulation Action Plan which set out some of the ways in which we intend to improve regulation. It explained that we are committed to promoting better regulation by ensuring the overall benefits of our regulation outweigh the costs, and that we maximise those benefits. In particular, we outlined our intention to change the balance of regulation significantly towards a more principles-based approach and away from detailed rules. This publication provides a progress report on the initiatives we presented in December.

We have published three studies on the impact of regulation on the financial services industry¹. These studies provide valuable information on the costs and benefits of regulation and we will be using the information on the costs of individual rules to focus our better

regulation work on those areas where the costs may not be justified by the benefits they produce. We are publishing here our initial analysis of the extent to which recent work has taken account of the identified cost-drivers, and our plans to respond to the others. We are conscious that the Cost of Regulation study surveyed firms from three sectors rather than the whole financial services industry, but believe the results offer information that can be used more broadly.

In this update, we report progress, expose our plans and seek feedback from stakeholders. Please send your feedback to betterregulation@fsa.gov.uk.

Context

As we explained in our December Action Plan, our proposals have to be seen in the context of our responsibilities and powers.

We must continue to meet our statutory objectives and ensure that European directives are implemented. It is also central to our approach to regulation that we intervene only in response to identified market failures, and in a way that is justified by cost-benefit analysis. This means there will be instances in which the costs of regulation are increased – either because we are obliged to or because there will be an overall benefit.

This year and next will require significant activity by many sections of the financial services industry to implement some significant European directives. These include the Capital Requirements Directive (CRD) and Markets in Financial Instruments Directive (MiFID). In implementing directives we do not gold-plate EU requirements. We will only add additional requirements when these are justified in their own right.

¹ *Cost of regulation study* by Deloitte; *Estimation of FSA Administrative Burdens* by Real Assurance Risk Management; and *The Benefits of Regulation – what to measure and how* by Oxera Consulting.



Review of progress

In the December 2005 Better Regulation Action Plan we set out specific proposals to improve regulation. This section reports on those proposals where we have delivered results since then, as well as additional better regulation initiatives that have been identified since December.

Promoting efficient, orderly and fair markets

*Simpler, more up-to-date,
Listing rules*

We have proposed changing the Listing rules for investment entities to introduce greater flexibility and a more principles-based approach. This would enable those employing a wider range of investment strategies to list in the UK for the first time, including some strategies currently pursued by hedge funds. These proposals also include simplifying other ongoing disclosure obligations that apply to an entity once it is listed. The consultation closes at the end of June. Proposals to enable greater retail access to funds of hedge funds are set out below.

*Looking to make shareholder
notifications more
proportionate*

As part of implementing the Transparency Directive (TD) we have been given responsibility for the rules under which shareholders have to notify a company if they acquire or dispose of a major stake in it. Our consultation, published in March, invited views on two options. The first would be to retain the broad parameters of the current UK regime, which is more onerous than the TD requires. The second would be to move to the TD minimum notification requirements. The consultation period closes at the end of June and we will frame our final rules in the light of responses.

*An industry solution for
contract certainty*

We announced in March that we have put on hold our work to develop new rules and requirements to bring about contract certainty in the insurance market based on the market's progress at the end of 2005. We have challenged the market to solve the problems with the lack of contract certainty by the end of 2006, or face regulatory intervention, and our preference has been – and remains – for the market to find its own solution to the problem. If achieved, contract certainty will lead to greater certainty for buyers about what cover they have bought and for insurers about the risks they are covering, while also reducing risks for brokers. We will continue to assess progress against our challenge over the next few months and give the market areas on which to focus. We hope the market will be able to demonstrate, at the end of this year, that it has reduced the areas of greatest risk and changed both its practices and culture. This is so we can conclude that our challenge has been met and we will not need to introduce new rules.

*Taking a measured response
to hedge funds*

Following extensive dialogue with the industry we published our feedback on the risks posed to our objectives by hedge funds and how they can be mitigated in a proportionate way. This approach confirmed that the risks we identified were the correct ones and enabled us to make a modest change in our regulatory approach to deal with these risks effectively.

Helping retail consumers achieve a fair deal

Increasing flexibility for collective investment schemes

We are consulting on proposals to allow fund managers more flexibility to adopt single or dual pricing of units in authorised collective investment schemes. Fund managers will be able to judge for themselves which pricing method best meets the needs and expectations of their investors.

Flexibility for a wider-range of retail investments

In response to our Discussion Paper on this issue, we have decided to consult in 2007 on widening the range of funds that can be marketed to retail investors to include new authorised funds of hedge funds. This corresponds with the proposals to change the Listing rules for investment entities, outlined above.

Improving our business capability and effectiveness

Reducing bureaucracy for approved persons

We have scrapped the reporting requirement for firms to notify us each year of the roles and responsibilities of their approved senior managers. We estimate this will save the industry about £2 million a year in administrative costs. A wider review of the approved persons regime is outlined on page 14.

Focus on senior management responsibility for money laundering controls and the importance of a risk-based approach

In January 2006 we confirmed, following overwhelming support at the consultation stage, that we would proceed with streamlining our anti-money laundering requirements. Our new Handbook provisions focus on ensuring that firms have effective risk management and systems and controls; and that firms' senior management take responsibility for managing money laundering risk. From September the new provisions will replace our existing rules in the Money Laundering Sourcebook that set out more specific obligations. These changes are intended to give firms more flexibility over gearing their systems and controls to reflect the particular risks to which they are exposed; they do not signal a reduction in the importance we accord to anti-money laundering work.

Less detailed prescription for training and competence

In March 2006 we confirmed that we will remove detailed rules relating to training and competence for firms that deal only with wholesale business (that is, with non-private customers). The high-level Principles and Commitments will still require firms to maintain the competence of their employees, but this change gives the senior management of these firms the flexibility to make their own decisions about how best to do that. We believe that wholesale firms pose a different level of risk to our objectives, and that wholesale customers can provide market disciplines and incentives in a way that retail customers may be less well equipped to do. These proportionate changes, plus any arising from a further review of training and competence for retail business, will be implemented at the same time as MiFID.

Streamlining our manuals

We are finishing the dismantling of the Authorisation Manual and are aiming to consult in the fourth quarter of 2006 on changes to our Enforcement and Decision Making manuals to make them consistent with a more principles-based approach and more relevant and user-friendly for firms. We have also begun reviewing the administrative burdens imposed by the Supervision manual and will report on progress by the end of 2006.

Lifting audit requirements on small firms

We have consulted on proposals to remove the statutory requirement for small firms authorised by us and their Appointed Representatives to have their annual accounts independently audited. There would be an estimated total saving of £12.9m each year for 3,200 small firms and 1,490 Appointed Representatives. We are considering the responses to the consultation.

Better guidance, greater accessibility

We have further improved the accessibility of the Handbook of rules and guidance by using technology to develop 'Personal' and 'Focus on' handbooks. The 'Personal' handbook feature is a tool enabling a user to build, view and manage bespoke handbooks for up to ten different firms or purposes by answering ten questions. It contains just the rules and guidance the person needs. The 'Focus on' handbooks deliver filtered content of the full Handbook presented by subject-matter. This enables a user to find key material quickly and easily on the subjects most frequently asked about, such as financial promotions or approved persons.

Delivering prompt and efficient service to firms and consumers

We recognise that regulatory burden does not just stem from our Handbook and the legal texts of our requirements. There is potentially a burden from how we operate when applying the Handbook. So we are determined to maintain high standards of service delivery to firms to ensure that the impact of our processes does not unduly or unnecessarily disrupt firms' plans.

To do this we have set ourselves standards that apply to a range of services. In the six months from the beginning of October 2005 we closed almost 750,000 transactions with firms, which demonstrates the scale of the challenges we face and the impact our service standards has on firms. In this period there were 74 service standards in place: eight received no requests from firms; of the remainder we met 52 and achieved better than 90% of the target level for the remaining 14. These figures show an improvement over the previous six months. On 1 April we launched three new standards for replying to correspondence received from firms, notifying firms of our findings following a risk assessment visit and the timely payment of invoices. Two existing service standards – how quickly our Firm and Consumer Contact Centres answer telephone calls – have been tightened.

Measuring our quality of service

Alongside high service standards we have commissioned a programme of customer satisfaction research from NOP to seek regular feedback from firms on eight key regulatory processes. This is conducted by an independent company and invites firms who have used one of our processes to comment on how we performed, which aspects they would like to see improved and to offer suggestions. We have begun publishing the results alongside our targets and benchmarks and have improved processes and practices as a result.

Shorter application packs

We have reviewed and shortened the application pack that most applicants for authorisation have to complete, which was launched at the end of March. We have streamlined the authorisation process by removing any surplus questions and trying to ensure the initial application forms ask for the right information to avoid follow-up questions. Applicants now have a 'build your own application pack' facility to ensure they only get the sections relevant to the business they want to conduct. Work is underway to roll out the streamlined approach for nearly all our remaining applicants.

Improving our fees process

We have again facilitated through an industry working group a plan for firms to pay their fees by instalments, for the second consecutive year. We have introduced an online Fee Calculator to enable firms to plan their finances before receiving their invoices. And we have consolidated our rules on fees into a single section of our Handbook, to make them easier to navigate.

Easier, more focused regulatory reporting

Since December 2005 new reporting requirements for insurers have come into effect and we have launched a major consultation on the reporting requirements for credit institutions and certain investment firms.

Effective working with the OFT

We have published with the Office of Fair Trading (OFT) an action plan setting out how we believe we can deliver benefits to consumers and firms². We will do this by working more effectively together and collaborating more efficiently on supervisory and enforcement matters, and giving guidance to business and consumers.

We will complete a series of feasibility studies over the next six months to further investigate a range of ways to reduce the administrative burden on firms seeking authorisation from, or regulated by, both organisations, and to deliver more risk-based regulation.

Finally, we have consulted on a proposal to change our rules on advertisements subject to dual regulation by us and the OFT so they need contain only one risk warning.

Delivering further improvements

Responding to information on the costs of regulation

The changes we have delivered so far represent real improvements for firms and their customers. However, we intend to do much more to ensure that financial services regulation is proportionate, as set out in detail in the December Action Plan and our Business Plan for 2006/07.

In undertaking these streams of work, we now have the advantage of the empirical evidence provided by our studies into the cost of regulation. We are committed to using the data from these reports to determine whether regulation is proportionate – that the costs are justified by the benefits they produce. The work-streams to which we are already committed will use this data to focus their attention on the costliest aspects of regulation, and use the results as the basis for thorough cost benefit analysis. The reports have also highlighted areas for further work:

- Where the costs associated with a particular rule or group of rules are much higher for some firms but not others, we need to understand why that is. It could be, for instance, that our

requirements are being interpreted too zealously by some firms and not sufficiently by others.

- There are a number of European directives still to be implemented, such as the Markets in Financial Instruments Directive. We will assess what these reports tell us about the most effective way of implementing these directives.
- The most costly rules in the investment and pension advice sector justify particular scrutiny. Only a few rules have a large impact.

It is clear from both the Deloitte and the Real Assurance work that it is difficult to get an accurate picture of the costs to firms of regulation. This is partly because of the way rules are aligned with existing business processes, and partly because firms have not felt the need to separately identify the costs associated with regulation. We are also conscious that the one-off costs associated with change can be very important in large areas of regulation.

Our work programme will continue to need to balance carefully opportunism – making changes alongside other developments – with being proactive. We will continue to analyse the case for particular policy proposals on their

merits. But the cost studies we have undertaken are the foundation for our ongoing review programme, and for agreeing with firms and consumer groups where room for improvement may lie.

The extent of our discretion

The discretion we have to remove or amend requirements is constrained by European legislation. We have no choice other than to implement directives on time and in full. Our approach to fulfilling these obligations is to ‘copy out’ the directive text into our rules. We will add additional requirements only where there is a proven market failure and the proposal is justified by a cost benefit analysis. Existing requirements which become additional to a directive will be subject to the same disciplines.

We have undertaken an analysis of the rules identified as cost drivers to determine how many of them are driven by European requirements. We have some element of discretion over all of the rules identified in the Cost of Regulation study; amongst the administrative burdens 11% of the underlying rules are non-discretionary, which equate to 9% of the total administrative burden costs.

This does not mean that all of the remaining rules are solely at the discretion of the FSA. In some cases only a part of a rule relates to a European requirement; in others we have flexibility over how a European requirement is implemented; or we have extended the scope of the rule beyond that required to implement the directive. It is right that against the background of this complex mix of requirements we do not discount reviewing areas where European requirements bite, but we will be limited in the changes we can make.

Work already completed

The results of these reports have underlined the strength of our approach so far to reviewing the Handbook. In July 2005 we published a Consultation Paper (CP05/10) proposing changes to our requirements on money laundering, training & competence, approved persons and the Conduct of Business (CoB) sourcebook. On the basis of our own analysis and feedback we felt these were areas where there were real costs for the industry which justified a fresh look.

Now, with the benefit of these reports, it is clear that these were the right areas to focus on initially. Of the total administrative burden on the financial services industry from FSA requirements, the largest single contributor was money laundering requirements, representing 42% of the total. We will be deleting the specific record-keeping and reporting requirements from our Handbook but recognise that firms will still be required to comply with equivalent non-FSA statutory requirements and that in managing their risks effectively they will continue to use techniques that were previously an explicit Handbook requirement. Most respondents to our consultation said there will be some transitional costs in adapting to this new regime, but that ongoing compliance costs would fall to some extent in the long run.

Also, training and competence record-keeping requirements – at 6% of the total – were among the largest costs. The requirements relating to approved persons also featured among the highest administrative burdens, and CoB regulation figured strongly in the costs identified by the Deloitte study.

The changes we have made on money laundering, training and competence and approved persons are described on page 8. The information provided by these reports will help to steer us in the work that is continuing on approved persons, training and competence and reforming CoB regulation.

Work in progress

We highlight below seven significant areas of work already underway which will take these results into account. Where a requirement over which we have discretion cannot be justified, we will delete it.

Many of these have been extensively explained in other FSA publications – particularly our Business Plan 2006/07. Where we have explained the background in other publications, we do not repeat it here.

Annexes 1 and 2 show specifically which of these work-streams will review each of the highest regulatory costs.

Helping retail consumers achieve a fair deal

Reforming Conduct of Business regulation:
 Delivery Q4 2006

We are radically reforming our retail Conduct of Business (CoB) regime as part of the move to more principles-based regulation and the implementation of MiFID. The new sourcebook, which we will consult on in a package of Consultation Papers in October, will be easier to understand, comply with and amend.

Financial promotions review:
 Delivery Q4 2006

Alongside reforming CoB requirements we are undertaking a fundamental review of the financial promotions rules intended to simplify them. They will be more principles-based, with an emphasis on financial promotions being fair, clear and not misleading. Some detailed requirements will be necessary to implement MiFID.

Review of the general insurance regime:
 Delivery by Q1 2007

In 2005, we announced a review of the general insurance regime to focus on how far the ICOB rules for retail customers are delivering the intended outcomes for consumers. The review will be structured to examine whether the intended benefits of ICOB regulation differ in relation to personal protection insurance and non-protection insurance. Consistent with our desire to be more principles-based, and in light of our further experience of the regime, the review will also explore the scope for moving further towards high-level rules and the potential for deregulation. Our options will be limited by European directives. We will publish the findings of our review in the first quarter of 2007, and we will consult on any proposed rule changes arising from the review in the first half of 2007.

Improving our business capability and effectiveness

FOS funding review:
 Delivery Q4 2006

A review of the funding of the Financial Ombudsman Service (FOS) is underway. We published a joint Discussion Paper with the FOS in May. Some of the options raised then would make the current information requirement redundant. We have scheduled a Consultation Paper on the funding review for the autumn.

Integrated Regulatory Reporting:
 Delivery Q4 2006

Five of the largest administrative burdens and one of the highest costs of regulation stem from requirements for firms to send us regular standardised information about their activities.

Since 2003 we have been reviewing these requirements as part of a project to develop 'Integrated Regulatory Reporting' (IRR) from the very different approaches we inherited from our predecessor regulators. Reporting is an important supervisory tool for identifying and mitigating risks to our objectives through our risk assessment model – ARROW³. Our aim is to make reporting more risk-based and proportionate to the mix of a business a firm undertakes. Where data is no longer needed we will remove it from our requirements, but we will also introduce new requirements where necessary. Even when we are able to cut the number of data fields firms have to submit, that does not necessarily lead to a reduction in the ongoing costs to firms.

From the first quarter of 2006 – after the administrative burdens work was calculated – a revised annual financial return took effect for insurance companies and certain friendly societies. The changes include simplifying some of the forms. The cost benefit analysis undertaken at the time estimated a total annual reduction in ongoing costs to the life insurance industry of £1.24m and savings of £200,000 for the general insurance industry. We did not undertake a more fundamental review because international regulatory developments may have a major impact on these returns, but they will be kept under review.

³ Advanced Risk Responsive Operating framework (ARROW) which guides the way in which we risk assess and supervise firms, and target thematic work relating to consumers, sectors or multiple firms.

In May 2006 we began consulting on proposals to overhaul the reporting requirements of credit institutions and certain investment firms. The review has been timed to coincide with the implementation of the CRD and MiFID. This covers a large and diverse population of firms so the impact on them varies considerably. Some types of firm will see reductions in the amount of data we ask for, while other firms will see increases arising from these Directives or where we feel their historic reporting does not match their risk profile.

We estimate that our current proposals will increase ongoing costs by £5m for the CRD-related changes and £2m for the remainder. For the CRD firms it is difficult to reconcile the expected increase in ongoing costs reported by the firms we surveyed with the general reduction in data requirements we have proposed. We will publish later in 2006 a more detailed analysis of the overall impact of the finalised changes to reporting.

We have also taken this opportunity to highlight the inconsistent use of the routine submission of auditor reports between credit institutions (who are not required to submit them) and certain investment firms (that are required to submit them). We will be carrying out a separate review in 2007 of the Handbook provisions that require firms to use an auditor in relation to aspects of their reporting with a view to streamlining them and making them more risk-based. In the meantime, we are discontinuing these reporting requirements for investment firms subject to the CRD from 1 January 2007 and certain MiFID firms from 1 November 2007.

The two remaining significant regulatory burdens stem from the Retail Mediation Activities Return (RMAR), one as it relates to general insurance intermediaries and the other as it relates to financial advisers. Firms have been submitting the RMAR, the Mortgage Lending & Administration Return (MLAR) and the Complaints return since July 2005. We have already undertaken to review these returns in the light of experience and assess whether any data needs to be added or taken away. We will begin this review in the third quarter of 2006.

You can find a full summary of our IRR work in Annex 1 of our latest IRR Consultation Paper, CP06/11⁴.

Approved persons review:
Delivery Q4 2006

In July 2005 we published proposals for simplifying the approved persons regime, but postponed our feedback until the impact of MiFID became clear. We have concluded that a further and wider review of the approved persons regime would benefit firms. As well as the impact of MiFID, this will take account of our desire for more principles-based regulation and the new data we have on the administrative burden of the regime. We are reviewing both the approval process (such as the scope of the controlled functions), with consultation planned for the third quarter of 2006; and the requirements falling on approved persons (such as APER and the Code of Conduct), with consultation planned for the first quarter of 2007. We expect implementation to be linked to MiFID.

Regulatory transactions:
Delivery ongoing

Several of the largest administrative burdens are those types of regulatory transactions in which firms ask us for our consent to something, such as a Variation of Permission (VoP). Other regulatory transactions feature amongst the smaller administrative burdens.

Many of these requirements stem from the Financial Services and Markets Act (FSMA), so we need to assess in each case the extent to which this limits our

scope for change. However, we are focused on continually making these processes as simple as we can for firms while performing them in a risk-based way. For instance, at the end of March we changed the forms that firms use to let us know when there is a change in control of the firm. We have tailored these to the circumstances of the new controller, while also making them quicker to complete and understand. This is a further example of our continuing appetite to identify and address areas of concern raised by our stakeholders.

Of the three largest regulatory transaction burdens, we have already made significant improvements to our application pack and the authorisation process, as explained on page 9.

With Variations of Permission (VoPs) our work to ease this burden includes:

- Consulting with the Treasury on future legislative changes to minimise (and where possible remove) the need for unnecessary VOP applications.
- Working with the Treasury to amend FSMA to relax the requirements imposed by section 49 of FSMA concerning consultation with home state regulators. Reduced consultation should lead to a fall in the overall time taken to process such cases.
- Responding to issues raised in customer satisfaction monitoring, such as using telephone and email to speed up contact between the VoPs team and firms.
- Undertaking a wider review of VOPs.

Additional work

Two of the administrative burdens identified do not fall within the remit of an existing piece of work. Given our commitment to focusing on the areas of greatest cost, we will use this data to review them.

Client money audit

The client money audit requirements – along with the wider client asset rules – are an important consumer protection. MiFID imposes annual audit requirements for client assets within its scope. We are planning a review in 2007/08 of our overall client assets regime and in that context will examine any opportunities for reducing the burden of the audit provisions set out in our Handbook.

Client asset records

Our client asset record-keeping requirements help to protect clients and in large part reflect directive obligations. MiFID will set the holding period for such records within its scope at five years, compared with our current 3-year requirements. We are planning a review in 2007/08 of our overall client assets regime and in that context will examine any opportunities for reducing the burden of the record-keeping provisions set out in our Handbook.

Other significant costs

Across all three of the sectors in the Cost of Regulation study the highest single cost identified was regulatory fees. These are the total fees payable to the FSA, the Financial Ombudsman Service (FOS) and the Financial Services Compensation Scheme (FSCS).⁵ For each sector, the FSA received the largest proportion of the fees paid by the firms who took part in the study, from 68% in the investment & pension advice sector to 94% for the institutional fund managers. The FSCS's fees made up between 5% and 28% of the total, and FOS fees between 1% and 5%.

The FOS and FSCS are independent from us in their day-to-day operations, but remain accountable to us through various mechanisms. They are funded in a different way to us (and each other), but we are involved in the

administration of both organisations' fees.

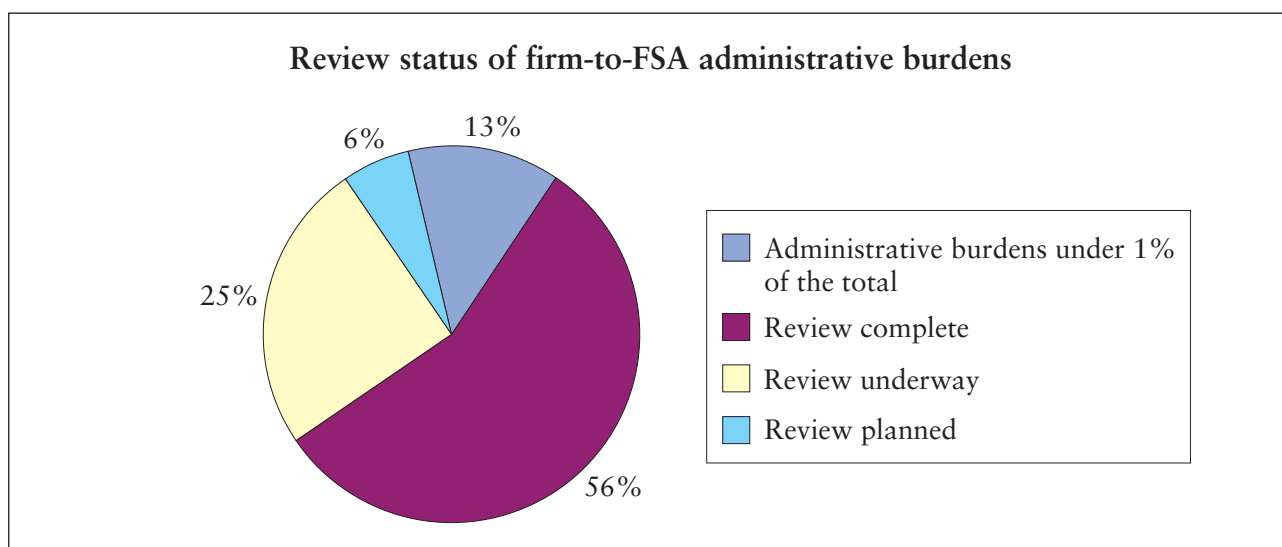
We remain committed to increasing the efficiency and productivity of the FSA to limit the impact of our fees on stakeholders. Our budget for 2006/07 increased 5.3% from last year's budget, but for the third consecutive year we have been able to freeze the minimum fee paid by most small firms and keep any increases below inflation. We expect 61% of authorised firms to be liable for only minimum fees in 2006/07.

The second highest cost, across all three sectors, related to keeping up to date with FSA publications and communications. We are conscious we must only publish material that is important and useful to stakeholders. We have improved our website for small firms to help them access the most important information they need by targeting it at nine different types of business. We have also reduced the amount of routine correspondence to small firms

from around two items per day to one a month. As part of our work on making us easier to do business with, we will continue to look for ways to be clearer, simpler and more focused in how we communicate.

Given limited resources (both ours and the industry's) we have adopted a risk-based approach in looking at the rest of the results. We recognise that there is a long tail of smaller costs spread across the Handbook. It would be inefficient and impracticable to establish specific reviews of each burden. Instead, we will take into account the data we now have on costs when opportunities arise to review the underlying rules.

The chart below shows the proportion of the administrative burden costs over which we have discretion that have or will be reviewed. It is not possible to produce equivalent charts for the three sectors in the Cost of Regulation study.



We will be rigorous in using this data to review the proportionality of our requirements. But we must continue to balance the costs against the benefits, including secure our statutory objectives and consumer protection. However, we will be considering how best to set a target for reducing regulatory costs.

⁵ The FSCS is funded by a compensation costs levy to cover the actual compensation payments made to claimants; and a management expenses levy, to cover all the FSCS's expenses other than compensation costs.

Annexes

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Annex 1

Highest costs of regulation

	Policy rule	Existing policy review work
A. Rules that drive incremental costs in more than one sector		
1	Total FSMA Fees	
2	Keeping up to date with FSA seminars, cluster reports, speeches	
3	Maintaining employees' competence (including FSA seminars, cluster reports, speeches)	Review of Training & Competence
4	Provision of periodic statements to customers when firm maintains a customer portfolio/account	Reforming COB Regulation
5	Keeping up to date with relevant FSA sector emails	
6	Appropriate form and content of financial promotions	Financial Promotions review
7	Preparing and submitting quarterly/monthly and annual financial return and annual accounts to the FSA	Integrated Regulatory Reporting reviews
8	Customers' understanding of risk	Reforming COB Regulation
B. Top rules that only drive incremental costs in the Investment & Pension Advice Sector		
1	Production of suitability letter	Reforming COB Regulation
2	Provision of key features/simplified prospectus for packaged products	
3	Ensuring products sold are suitable or clients needs (including research and sales meeting)	Reforming COB Regulation
4	Tailoring of projections in key features documents to clients circumstances	
5	Performance of 'know your customer' checks	Reforming COB Regulation
6	Record keeping – 'know your customer'	Reforming COB Regulation

	Policy rule	Existing policy review work
7	Disclosure of charges	
8	Disclosure in letters to private customers	
9	Cooperation with FSA information gathering exercises	
10	Submission of forms to become authorised or vary permissions and modify rules	Regulatory transactions
C. Top rules that only drive incremental costs in the Corporate Finance Sector		
1	Creation of Chinese walls	
2	Maintain records of reports sent to customers	Reforming COB Regulation
3	Providing information and reports to the FSA	
4	Monitoring and maintaining externally generated financial resources in excess of requirements	
D. Top rules that only drive incremental costs in the Institutional Fund Management Sector		
1	Establishment and maintenance of systems and controls in relation to the management of operational risk (for insurers)	
2	Retention and record of customer order information	Reforming COB Regulation
3	Performing regular stock reconciliations for safe custody investments or notify FSA if not compliant with this	
4	Taking reasonable care to ascertain the price which is the best for the customer	
5	Record keeping – Transaction confirmation	Reforming COB Regulation
6	Requirement to not churn or switch	Reforming COB Regulation

Annex 2

Administrative burdens over 1% of total.

Handbook reference	Title	Cost £ '000	% of total FSA admin. burden	Cumulative %	FSA action
ML 7.3.2	Money laundering – records of evidence customer identity	99,242	16.69	16.69	Money laundering review – completed
ML 7.3.3	Money laundering – records of transactions	70,271	11.82	28.50	Money laundering review – completed
ML 7.3.3	Money laundering staff training	46,272	7.78	36.28	Money laundering review – completed
TC 2.4.9G	Training & competence record requirements	38,672	6.50	42.78	Training & competence review – part complete
ML 4.3.2	Money laundering reporting to the National Criminal Intelligence Service	38,537	6.48	49.26	Money laundering review – completed
ICOB 7.7.1	Claims information to be kept for three years	29,880	5.02	54.29	Review of the general insurance regime
ICOB 5.7.1	Records of policy summaries and policy documents provided to customers	24,910	4.19	58.48	Review of the general insurance regime
IPRU (INS) 9	Life insurers' annual return	21,310	3.58	62.06	Integrated Regulatory Reporting reviews
SUP 16.7.77	RMAR returns – general insurance intermediaries	15,996	2.69	64.75	Integrated Regulatory Reporting reviews
AUTH 3.9	Application for authorisation	14,809	2.49	67.24	Application pack review – completed for most applicants
DISP 1.5.1	Making and retaining records of complaints	14,411	2.42	69.66	Reforming COB regulation
DISP 1.5	Half-yearly complaints report	13,850	2.33	71.99	Integrated Regulatory Reporting reviews
IPRU (INS) 9	General insurers' annual returns	13,775	2.32	74.31	Integrated Regulatory Reporting reviews
SUP 16.7.77	RMAR returns – financial advisers	12,735	2.14	76.45	Integrated Regulatory Reporting reviews
CASS 2.6.15	Client asset records	11,785	1.98	78.43	Planning a review in 2007/08

Handbook reference	Title	Cost £ '000	% of total FSA admin. burden	Cumulative %	FSA action
SUP 10.12.2	Applications for approval of approved persons	9,092	1.53	79.96	Review of approved persons regime
SUP 16.7.24	Securities and futures firms regular returns	8,604	1.45	81.40	Integrated Regulatory Reporting reviews
SUP 6.3.15	Application for variation of permission	8,200	1.38	82.78	Regulatory transactions
SUP 3.10.4	Client money audit	7,695	1.29	84.08	Planning a review in 2007/08
COB 3.7	Records of non-real time financial promotions	6,852	1.15	85.23	Financial promotions review
COB 5.2.9	Record-keeping private requirements	6,588	1.11	86.34	Reforming COB regulation
DISP 5.5 (now FEES 5.4)	Annual report of relevant business for general levy	6,479	1.09	87.43	FOS Funding Review

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