

# The FSA's new regulatory approach: key messages

February 2003

## Summary

- Our new risk-based regulatory approach is fundamental to how we will work and meet our regulatory objectives in future. It focuses regulatory attention on institutions and activities likely to pose the greatest risk to consumers and markets. It recognises the responsibilities of consumers themselves and of firms' management, and the impossibility and undesirability of removing all risk and failure from the financial system.

## The risk assessment frameworks

- The Financial Services and Markets Act 2000 gives us four clear objectives, seven principles of good regulation and a range of powers including the authority to charge fees. The scope of our responsibilities is wide and there will always be more that we *could* do than our resources will allow. So, we have developed an integrated and transparent way to identify the key risks and opportunities we face. We then select which ones to address, choose the most effective and efficient way of doing so and measure what we have set out to do.
- We have developed two risk assessment frameworks for:
  - firm risks; this provides a consistent risk assessment of all firms we regulate; and
  - consumer and industry-wide risks; this provides a coherent risk assessment process for risks to our regulatory objectives that do not arise from individual financial institutions.
- These frameworks involve scoring risks against a number of probability and impact factors. The probability factors relate to the likelihood of an event happening, and the impact factors indicate the scale and significance of the problem if it were to happen. Combining the probability and impact factors gives a measure of the overall risk to our objectives.
- The frameworks drive the use of our resources and the intensity of our regulatory efforts. Our regulatory activities have to be directly linked to the results of the analysis coming out of these frameworks. We also have a transparent and objective process to decide on priorities (both for firm and consumer & industry-wide work and the balance between them).

## Regulatory tools

- We have a much more diverse range of regulatory tools than was available to previous regulators, because of our broad coverage and the regulatory objective to promote consumer understanding. This, and a new approach to training and competence, adds greatly to the traditional tools of authorisation, rule-making, supervision, investigation and enforcement.
- There are two categories of tools:
  - those designed to monitor and influence the behaviour of consumers at large, groups of regulated firms (or exchanges), or the financial services industry as whole; and
  - those designed to monitor and influence the behaviour of individual institutions and of approved individuals in firms.

## Roll-out of the risk framework for firms

- We are planning to roll-out the new framework fully by the end of 2003. This means that all firms (other than low impact) will have had full reviews, including on-site work by them.
- Insurance firms are on a different timetable: we do not know so much about the firms in this sector, and they are under particular stress caused by current market conditions. So, we are planning to complete their reviews by the end of March 2003.
- More details of the implications for firms are published in *'The firm risk assessment framework'*.
- We have developed a strategic planning process that we used for the first time when planning for 2002/3. It enable us to determine collectively our regulatory priorities for the coming year, and to explain to stakeholders how we will measure our achievement of those priorities.
- We have recently published our Plan and Budget for 2003/04, which sets out our priorities for the coming year.