

**“OUR NEW APPROACH TO RISK-
BASED REGULATION AND WHAT
WILL BE DIFFERENT FOR FIRMS”**

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Topics to cover:

- **Identifying the main “risks” to our statutory objectives;**
- **Assessing their impact and probability;**
- **The preliminary risk profile of firms and risk categories;**
- **How we will select from our regulatory toolkit;**
- **What all this implies for the FSA’s relationship with regulated firms.**

Key elements of our approach:

- Risk-Based
- Proactive
- Thematic

Risks to:

- **Market confidence;**
- **Public understanding;**
- **Consumer protection;**
- **Reduction of financial crime.**

Sources of risk:

- The external environment;
- Consumer and industry-wide risks;
- Regulated institutions.

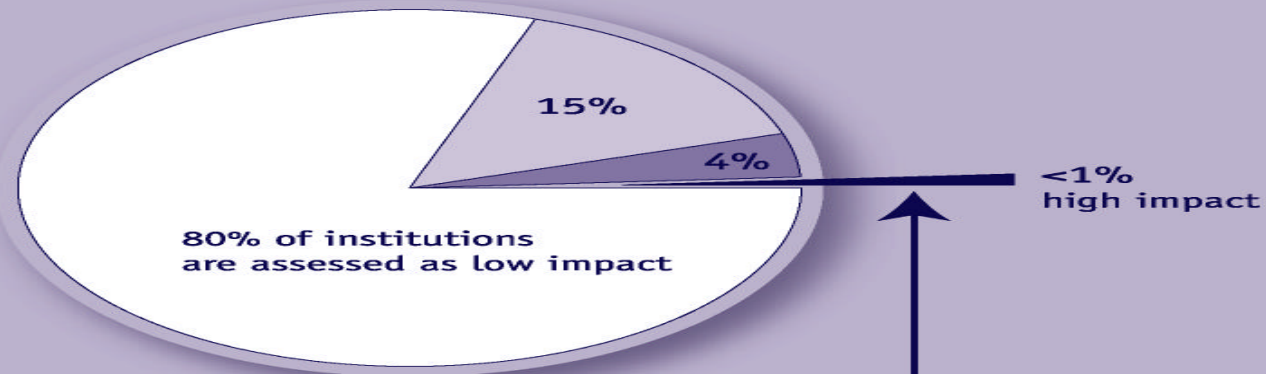
Sector by sector impact indicators:

• Banks and building societies	Total assets/liabilities, and deposits weighted according to type of holder
• Credit Unions	Number of members
• Life assurers and friendly societies	Total assets/liabilities
• General insurers	Gross premium income
• SFA institutions	Total assets/liabilities, financial resources requirement, number of registered individuals, and volume and value of daily trades
• IMRO institutions	Funds under management
• PIA institutions	Number of registered individuals and annual turnover

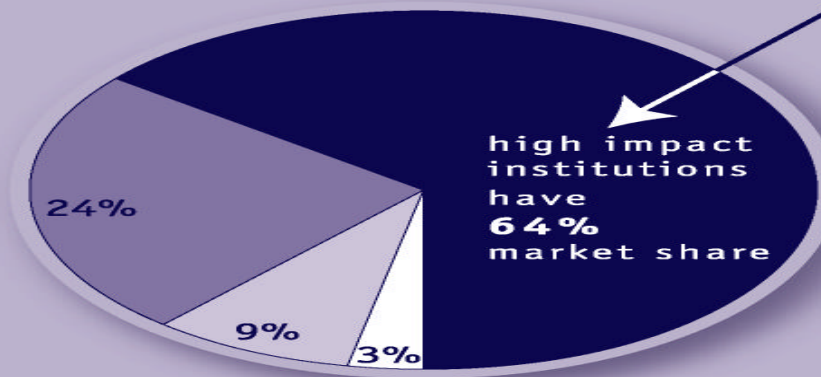
Provisional impact assessments:



**Impact assessments:
institutions regulated under current legislation†**



**“Market share”
of institutions across all sectors**



low impact medium 2 medium 1 high impact

Business risk sub-divides into issues relating to:

- **Market, credit, operational and legal risk;**
- **Financial soundness;**
- **Strategy; and**
- **Nature of customers, products and services.**

Control risks arise from institutions:

- **Marketing, selling and advice practices;**
- **Systems and controls;**
- **Organisation; and**
- **Board, management and staff.**

Results of pilot probability assessments:

		P R O B A B I L I T Y R A T I N G		
		High	Medium	Low
I M P A C T B A N D	High	0.5%	3%	1%
	Medium 1	2.5%	12%	10%
	Medium 2	5%	25%	41%

Objectives achieved:

- **Putting the new integrated risk assessment framework into practice for the first time;**
- **Providing feedback for the subsequent development and full implementation of the new operating framework;**
- **Helping us in initial allocation of our resources for the coming year.**

Types of tool:

- **Diagnostic** - to identify, assess and measure risks;
- **Monitoring** - to track the development of identified risks;
- **Preventative** - to limit or reduce identified risks and prevent them crystallising or increasing;
- **Remedial** - to respond to risks when they have crystallised.

FSA Divisions:

- **Deposit Takers;**
- **Markets & Exchanges;**
- **Major Financial Groups;**
- **Insurance firms; and**
- **Investment firms.**

Different ways of dealing with risk:

- **Aim to incentivise institutions to behave in ways which reduce their regulatory burden;**
- **Cease routine monitoring visits to institutions which represent a low risk to the FSA's objectives - replaced by more thematic work;**
- **Some institutions will not have the close continuous interaction with FSA staff that they have at present.**