



Regulation and Risk Ltd.

UK Regulatory Reform

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Regulatory Reform

- Prudential Regulation Authority
- Financial Conduct Authority
- Financial Policy Committee



EU Regulatory Architecture ^{RAR}

European Systemic Risk Board
(ESRB)

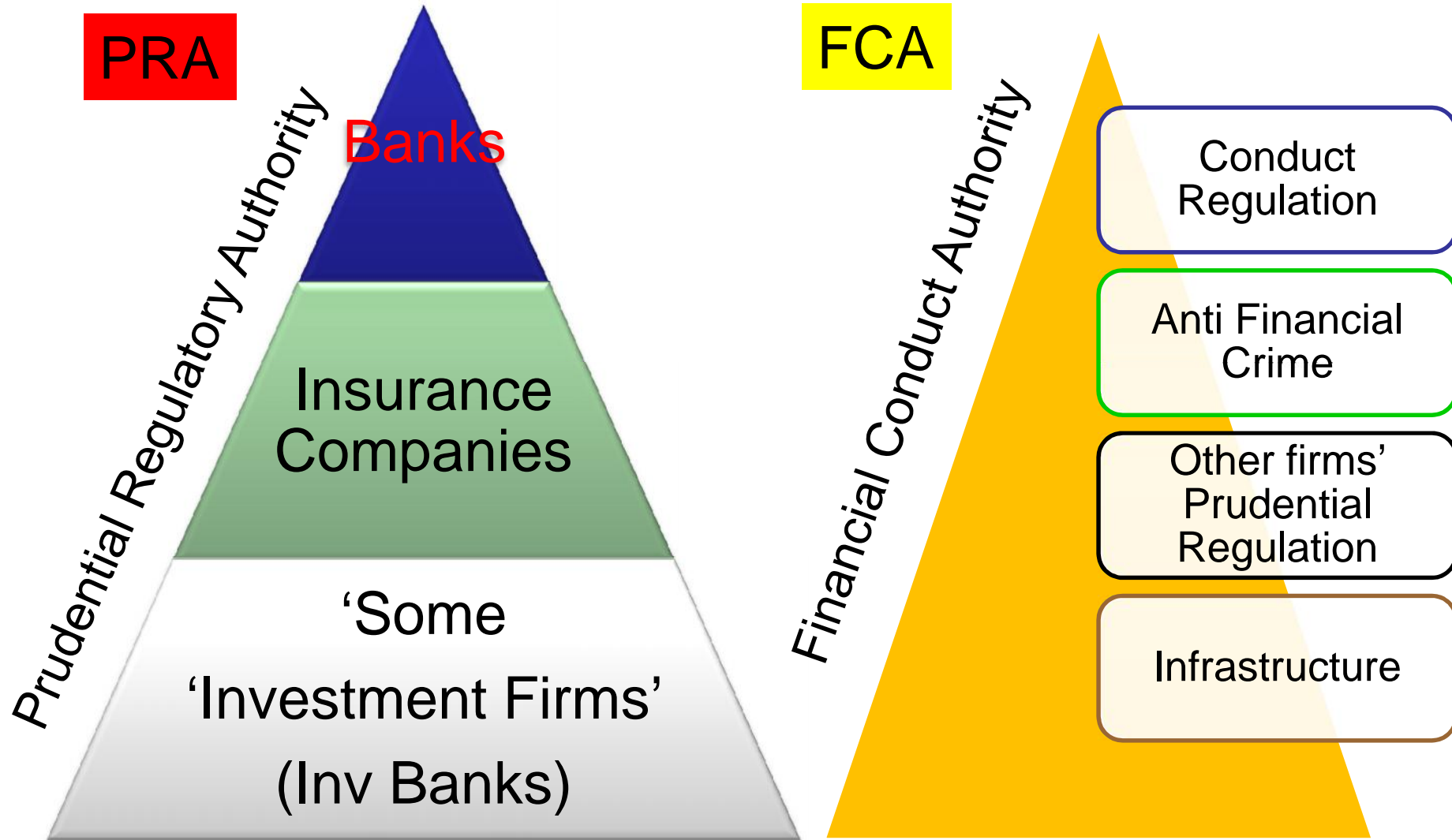
European
Banking
Authority
(EBA)

European
Supervisory
Authorities
(ESAs)

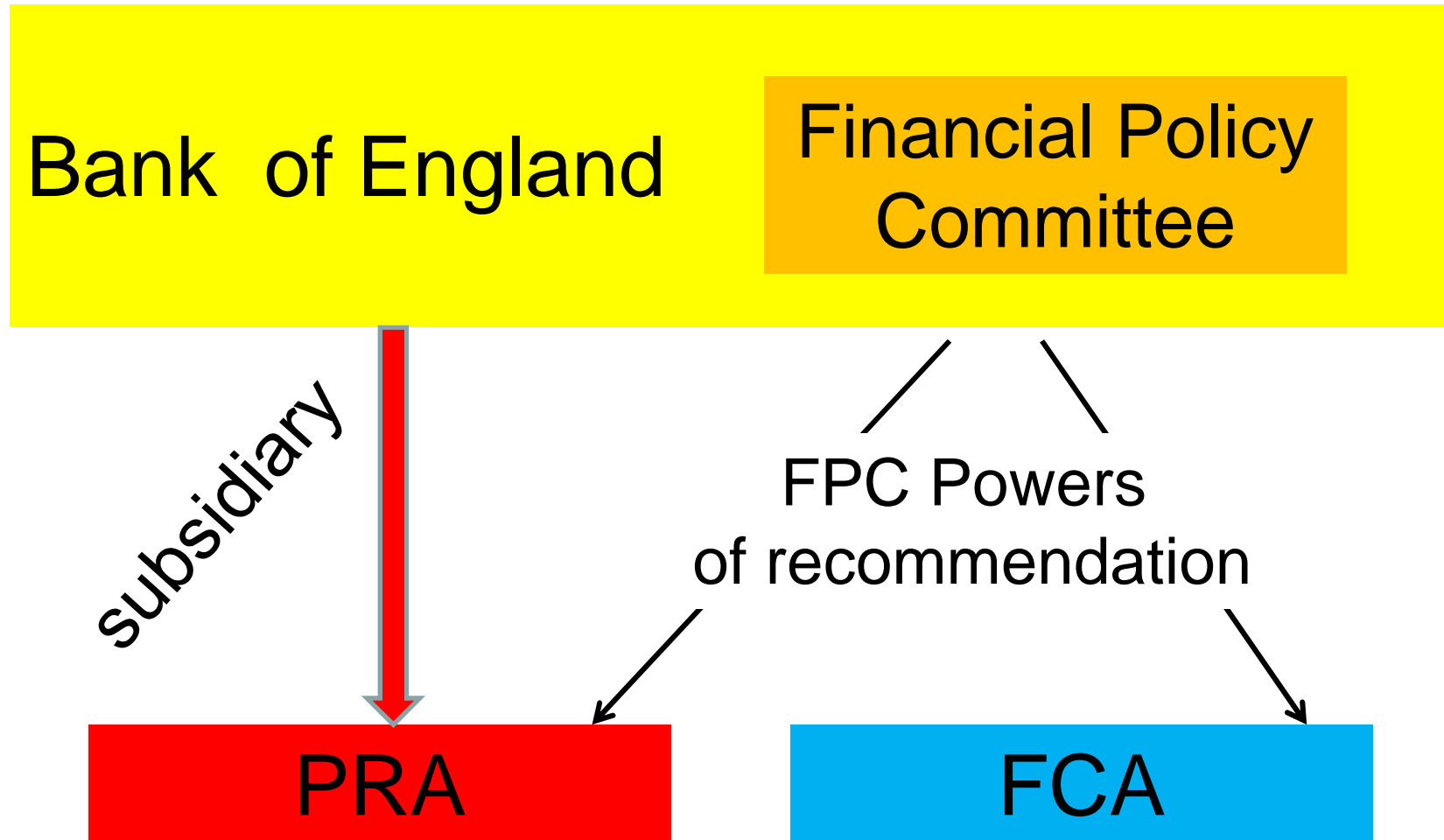
European
Securities
and
Markets
Authority
(ESMA)

European Insurance and
Occupational Pensions Authority
(EIOPA)

What will the New Regulators look like ?

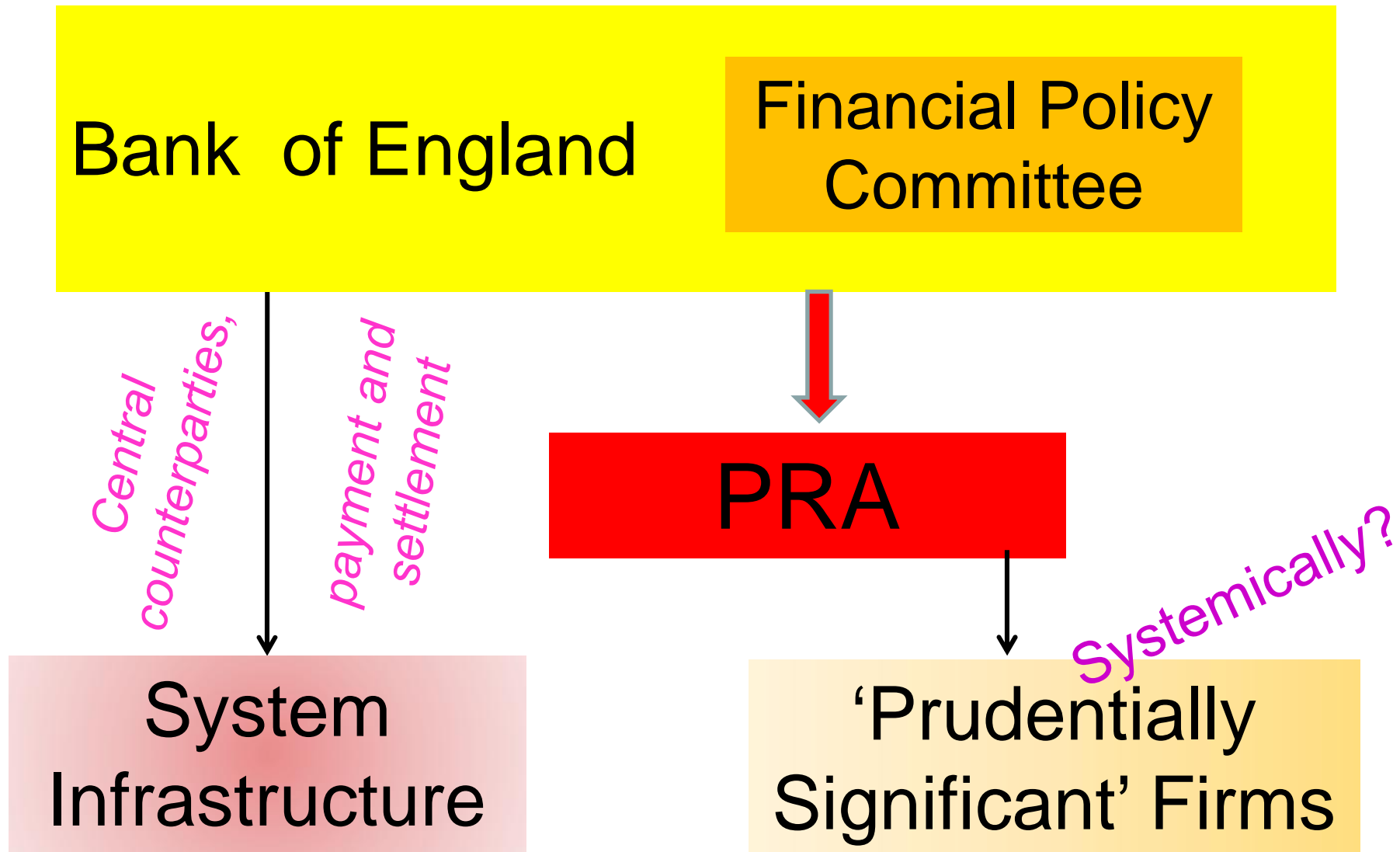


The Framework



Bank of England Regulation

RAR



Bank of England

- Protecting and enhancing
the stability of the financial system
- 'Aiming to work with': HMT, PRA, FCA
- Special Resolution Unit

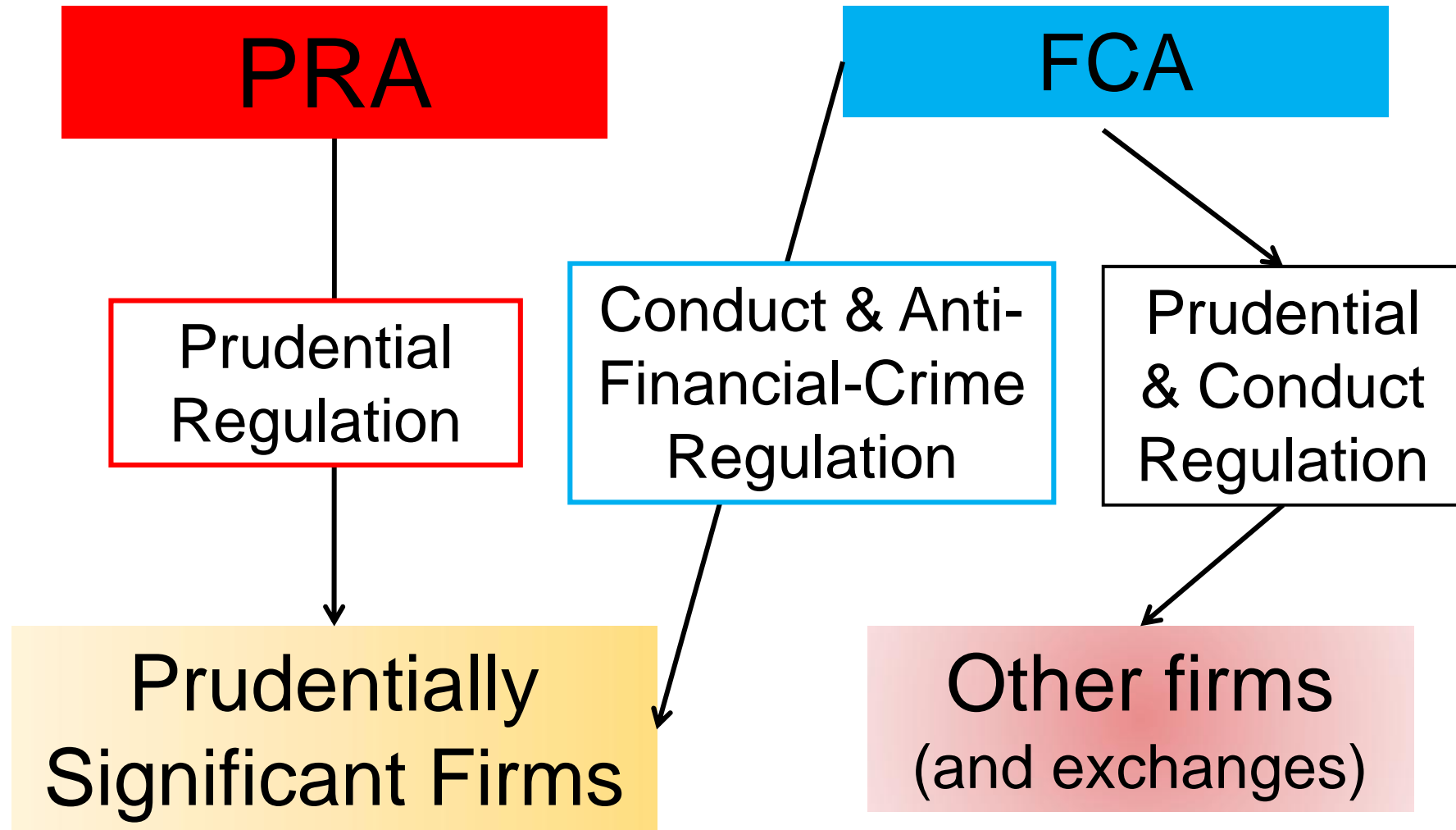
Financial Policy Committee (FPC)

- contribute to the Bank's **financial stability** objective
- by identifying, monitoring, and taking action to
- remove or reduce, **systemic risks** with a view to
- protecting and enhancing the resilience of the

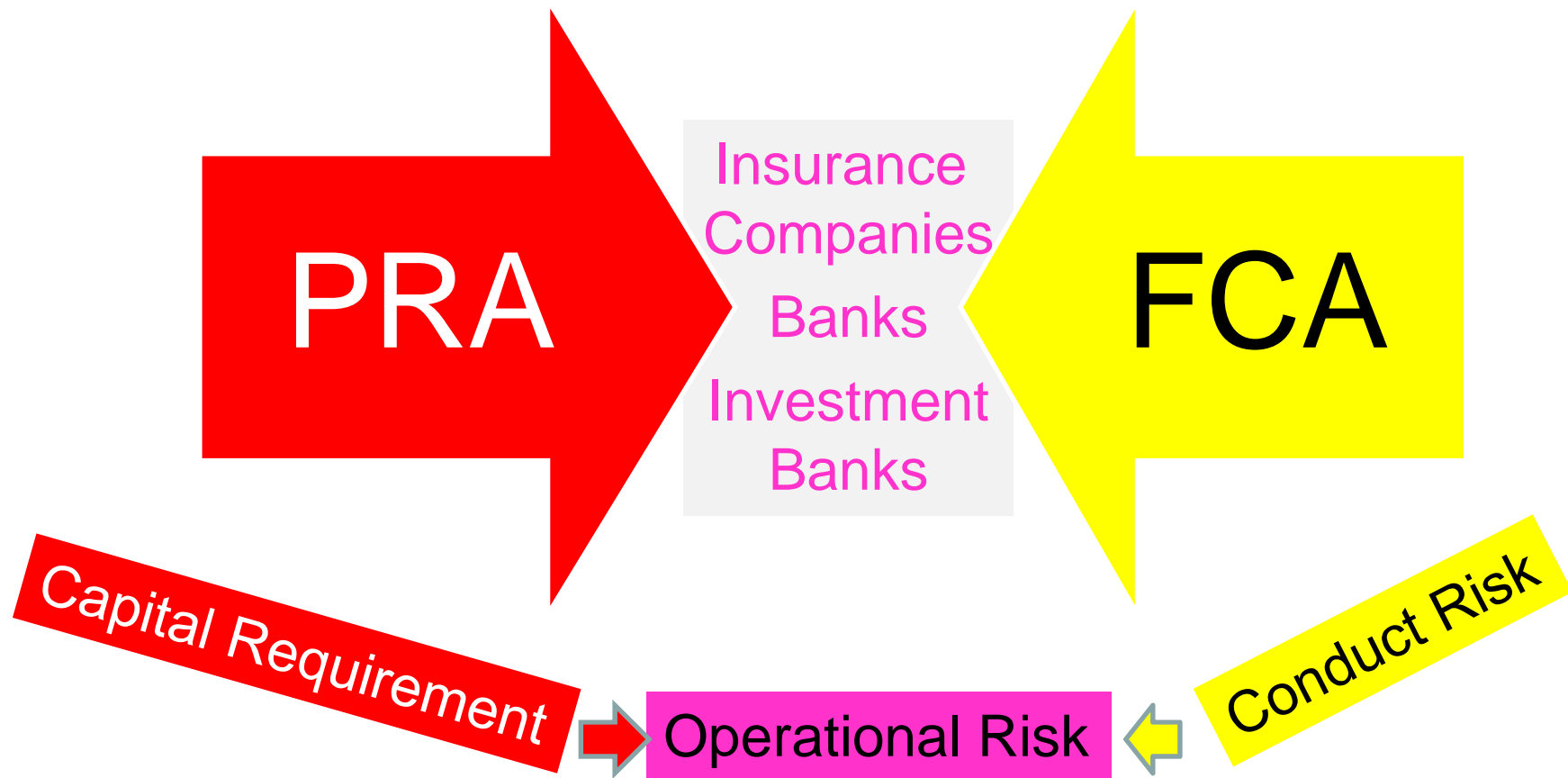
UK financial system.

macro-prudential role

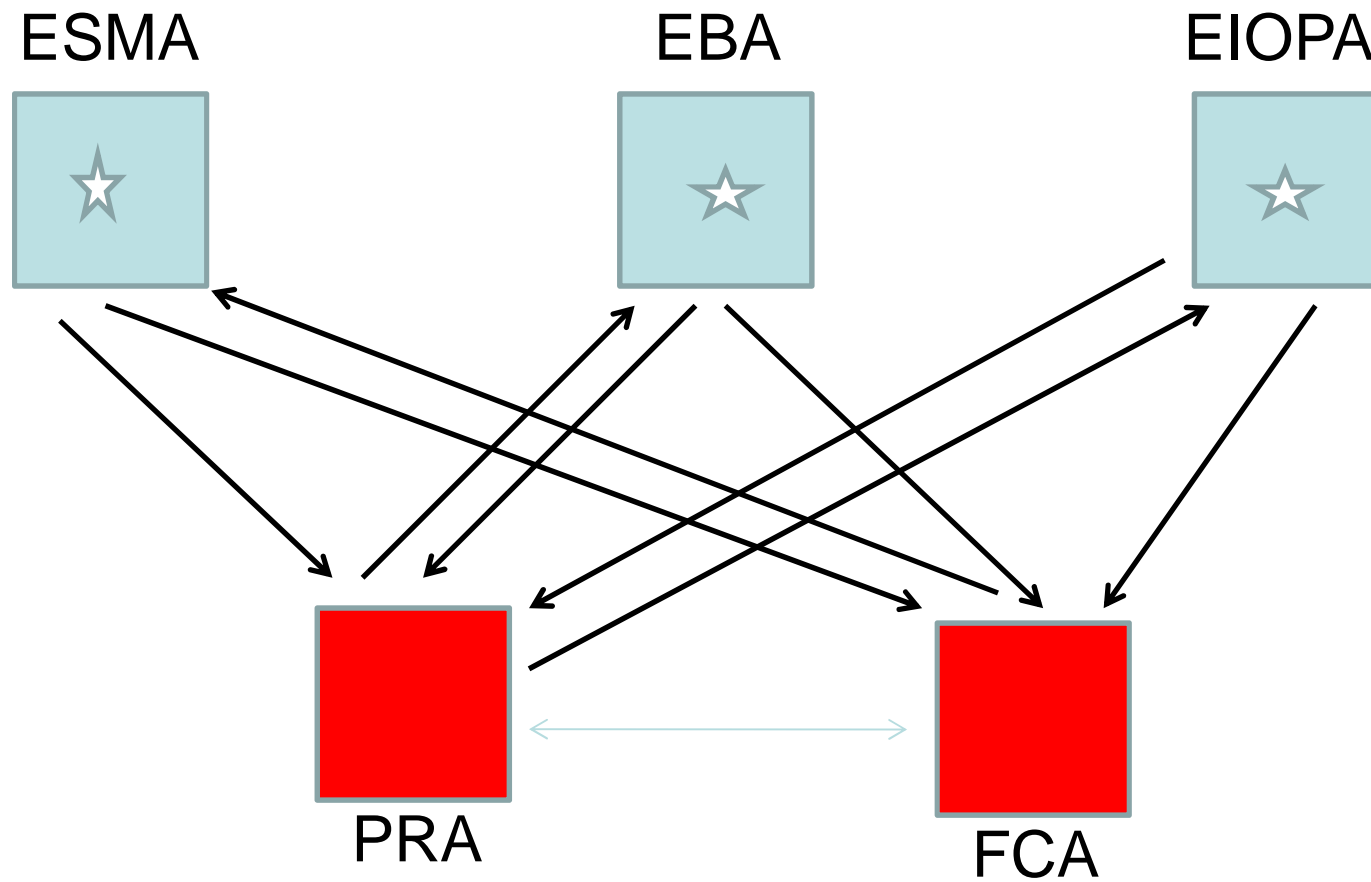
PRA / FCA: Who does what



Competing governance requirements



Links with the New EU Regulators



Challenges for dual Regulation?

- Authorisation
- Change of permission
- Supervision
- Enforcement
- Approved Persons
- Passporting
- Waivers
- Change of control

Background to the changes 1

- In June 2010, the Chancellor announced the government's intention to replace the FSA as a single financial services regulator with two new successor bodies, and restructure the UK's financial regulatory framework
- This was a response to the 2007 financial crisis, foreshadowed in numerous reports and in Mark Hoban MP's speech to the Institute of Financial Services

Background to the changes 2

- The cornerstone of the thinking was that if the central bank, the Bank of England was in charge of financial services supervision, there would be no more problems.
- But earlier, the Bank of England was in charge, of supervision when Barings Bank, BCCI, Johnson Matthey Bankers and earlier the fringe banks, collapsed.

FCA Objectives

The FCA will have the single strategic objective of protecting and enhancing confidence in the UK financial system and three operational objectives:

- securing an appropriate degree of protection for consumers;
- promoting efficiency and choice in the market for financial services; and
- protecting and enhancing the integrity of the UK financial system

The FCA will: 1

- Promote good outcomes for consumers
- Take into consideration the knowledge and financial sophistication of the various types of consumer
- be more outward-looking and engaged with consumers than the FSA has been, (providing more consumer-oriented and more effective communications) and being better informed about their concerns and behaviour where this is relevant to regulatory action;

The FCA will: 2

- set clear expectations for firms and be clear about what firms can expect from the FCA;
- intervene earlier to tackle potential risks to consumers and market integrity before they crystallise; and
- be tougher and bolder, building on and enhancing the FSA's credible deterrence strategy, using its new powers of intervention and enforcement.

Types of firm the FCA will regulate

- Personal investment firms 6,198
- Insurance intermediaries 6,246
- Mortgage intermediaries 1,640
- Investment managers 2,124
- Non-deposit taking lenders 137
- Corporate finance 452
- Wholesale firms 224
- Custodians 149
- Professional firms 333
- Markets (exchanges & infrastructure providers) 27
- Collective investment schemes 561
- Other (including travel insurance only and media firms) 6,388
- Other brokers 2
- Managing agents 4
- Investment firms 11

FCA will regulate payment services providers

Electronic money institutions 87

Payment institutions 872

FCA will regulate consumer credit also

Last week the Government and the FSA published separate consultations on transferring responsibility for the regulation of consumer credit from the Office of Fair Trading (OFT) to the Financial Conduct Authority (FCA)

PRA Statutory Objective

Promote the safety and soundness of firms.

It is required to pursue this primarily by seeking to avoid adverse effects on financial stability, and in particular seeking to minimise adverse effects resulting from disruption to the continuity of financial services that can be caused by the way firms run their business or upon their failure.

PRA Objectives: some qualifications

Seeking to minimise the adverse effect of the failure of a firm does not require the PRA to take steps to avoid any and all such adverse effects or to prevent all instances of failure. The statute is explicit that **it will not be the PRA's role to ensure that no firm fails.**

- **combine firm-specific supervision with work to protect and enhance the resilience of the system**
- **work closely with the rest of the Bank of England, including, the Financial Policy Committee,**
- **co-operate with the FCA**
- **play a full and active role with its counterparts globally and in the European Union**

Threshold Conditions

set out the Minimum Requirements:

- appropriate amount and quality of **capital** and **liquidity**,
- appropriate resources to measure, monitor and manage risk,
- be fit and proper
- Conduct their business prudently.

The PRA's approach to supervision 1

- will rely significantly on judgement.
- The PRA will supervise firms to judge
 - whether they are **safe and sound**,
 - and whether they meet, and are likely to continue to meet the **Threshold Conditions**.
- Supervisors will thus reach judgements on
 - the risks that a firm poses to PRA objectives
 - how to address any shortcomings.

The PRA's approach to supervision 2

- forward looking; it will assess firms not just against current risks, but also against those that could plausibly arise in the future
- focus on issues and firms that pose the greatest risk to the stability of the UK financial system

PRA: Approach to Deposit Taker Supervision 1

The PRA will supervise over a thousand deposit-takers:

- some 330 banks, and
- about 300 overseas bank branches
- 50 building societies and
- 600 credit unions

PRA: Approach to Deposit Taker Supervision 2

all banks, building societies and designated investment firms must have a framework for stress testing and capital management that captures the full range of risks

To support their judgements on the appropriate size and composition of liquidity buffers, the PRA will expect firms to develop a framework for managing liquidity risk that captures the full range of liquidity risks to which they are exposed.

PRA: Approach to Insurance Supervision

The PRA will have two complementary objectives for insurance supervision:

- **secure an appropriate degree of protection for policyholders and,**
- **minimise the adverse impact that the failure of an insurer or the way it carries out its business could have on the stability of the system**

Memorandum of Understanding: FCA and PRA

- Sets out a high level framework for how the two regulators will work together within the new regulatory system set out in the Financial Services Bill.
- Jointly produced by the Bank of England and Financial Services Authority.
- It will be vital that the two authorities pursue their own mandates, respecting the UK's Twin Peaks micro regulatory system.

Memorandum of Understanding: FCA and PRA

- But it will also be essential that they coordinate activities in some areas, and cooperate in others.
- The MoU sets out these arrangements to help ensure they are effective and efficient.
- The MoU will remain in draft form until the Financial Services Bill has completed its parliamentary process

What is happening to the FSA Handbook? 1

- At legal cutover, the FSA Handbook will be split between the FCA and the PRA to form two new Handbooks, one for the PRA and one for the FCA.
- This will be in line with each new regulator's set of responsibilities and objectives.
- The new Handbooks will reflect the new regulatory regime (for example, references to the FSA will be replaced with the appropriate regulator), and in some areas more substantive changes will be made to reflect the existence of the two regulators, their roles and powers.

What is happening to the FSA Handbook? 2

- As set out in the [PRA Approach Documents](#), the PRA will, over time, replace the Handbook with a PRA rulebook.

What does this mean for firms?

- Firms will have a new regulator or regulators, and will consequently need to assess how the new Handbooks of these bodies will apply to them.
- Dual regulated firms will need to look to both the PRA and the FCA Handbooks, and FCA-only regulated firms to the FCA Handbook.

Authorisations 1

- In April 2012, Supervision adopted the internal-twin peaks structure,
- Authorisations are implementing a similar structure, with assessments carried out by both regulatory authorities
- This change will only affect firms that will be dual regulated in future. The application submission process is not yet scheduled to change
- What will change is how the application is processed internally.

Authorisations 2

- There will be a FCA case officer and a PRA supervisor responsible for each application and
- they will coordinate to minimise duplication or the impact on applicant firms and individuals.
- The final decision will need to be agreed by both the FCA and the PRA
- The current arrangements mirror the future authorisation procedures in the PRA and the FCA.

Product Regulation

Means getting more closely involved at an earlier stage, to **identify products** with the potential for problems for consumers and to **intervene to prevent their inappropriate sale** — often this will be where the risks are likely to outweigh the benefits the products will bring.

Financial Services Bill 1

FCA Statement of Policy on Temporary Product Intervention Rules

[FCA draft statement of policy - making temporary product intervention rules](#) [PDF]

[Explanatory annex to the FCA draft statement of policy – making temporary product intervention rules](#) [PDF]

Draft guidance on super-complaints

This draft guidance sets out how the Financial Conduct Authority (FCA) might implement the super-complaints process in section 234B of the Financial Services Bill [Super complaints draft guidance](#) [PDF]

Financial Services Bill 2

Draft guidance on references under section 234D

Complaints by authorised firms, e-money issuers and payment services providers

[Draft section 234D guidance](#) [PDF]

Financial Services Bill 3

The PRA's approach to consultation

On the 27 February the FSA and Bank of England provided Parliament with an explanation as to how the Prudential Regulation Authority (PRA) will consult.

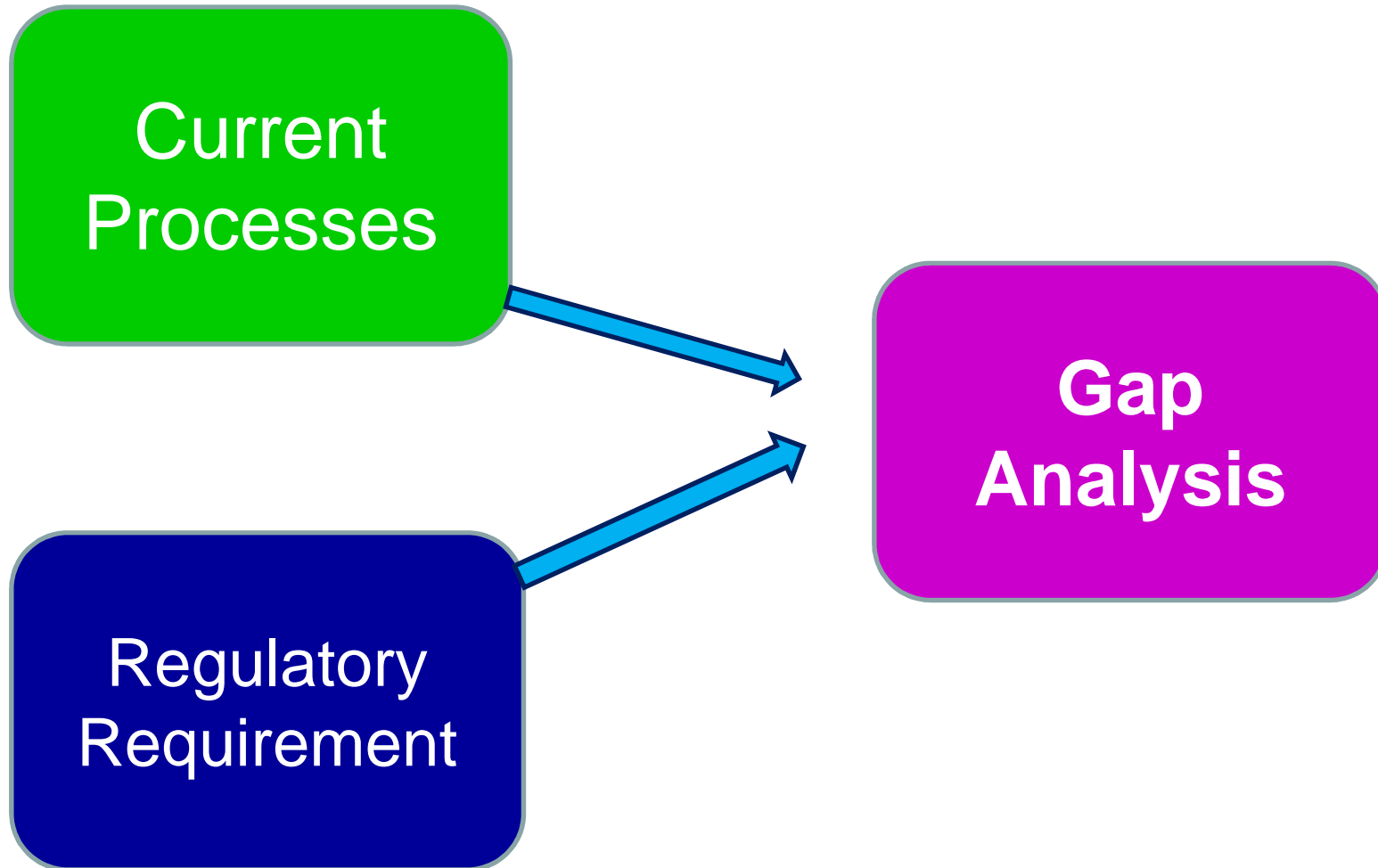
[The PRA's approach to consultation \[PDF\]](#)

Designated Investment Firms

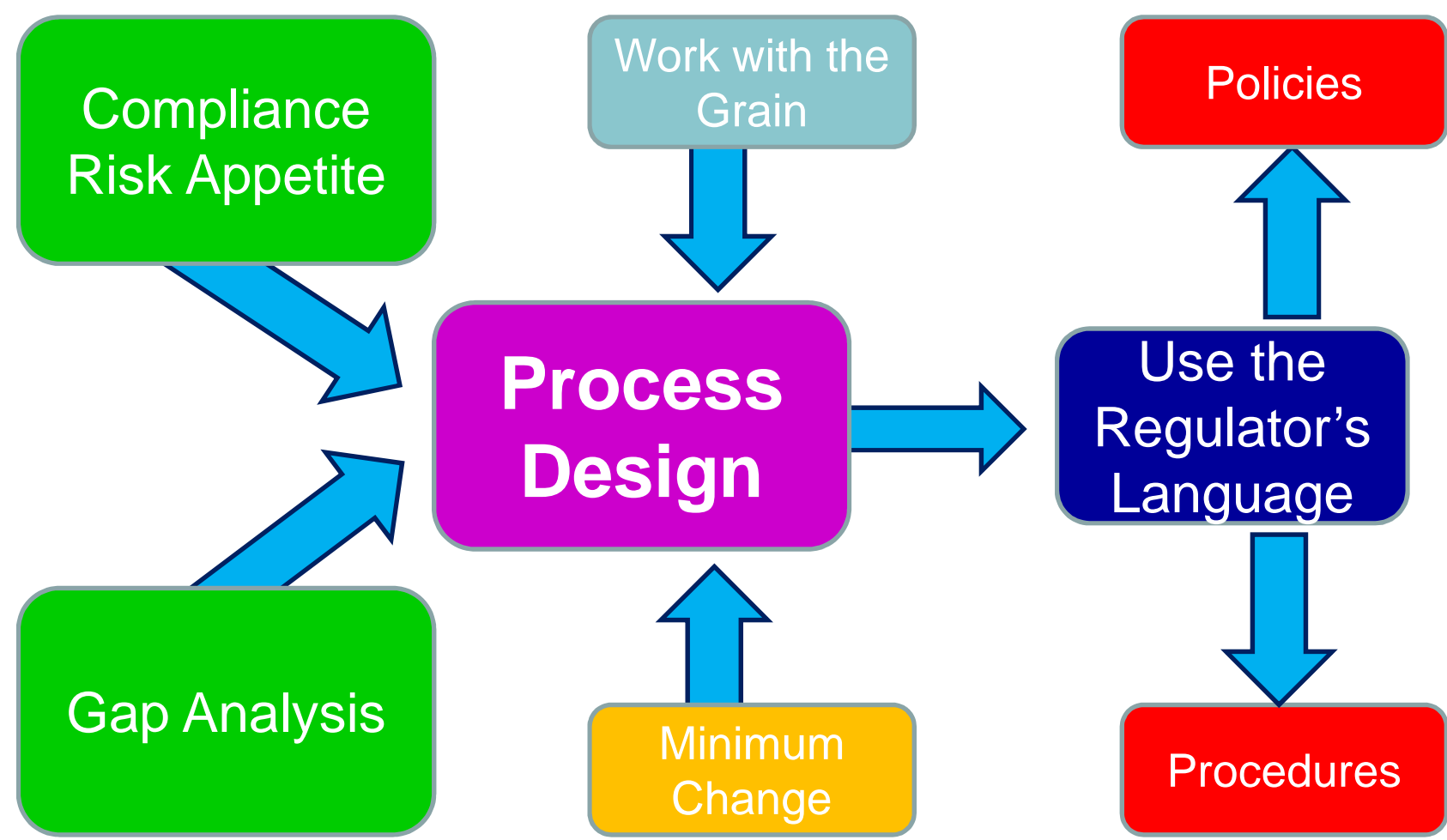
How powers that would be conferred under the Financial Services and Markets Act to designate certain investment firms for prudential regulation by the PRA rather than the FCA will work.

[Designation of Investment Firms by the PRA \[PDF\]](#)

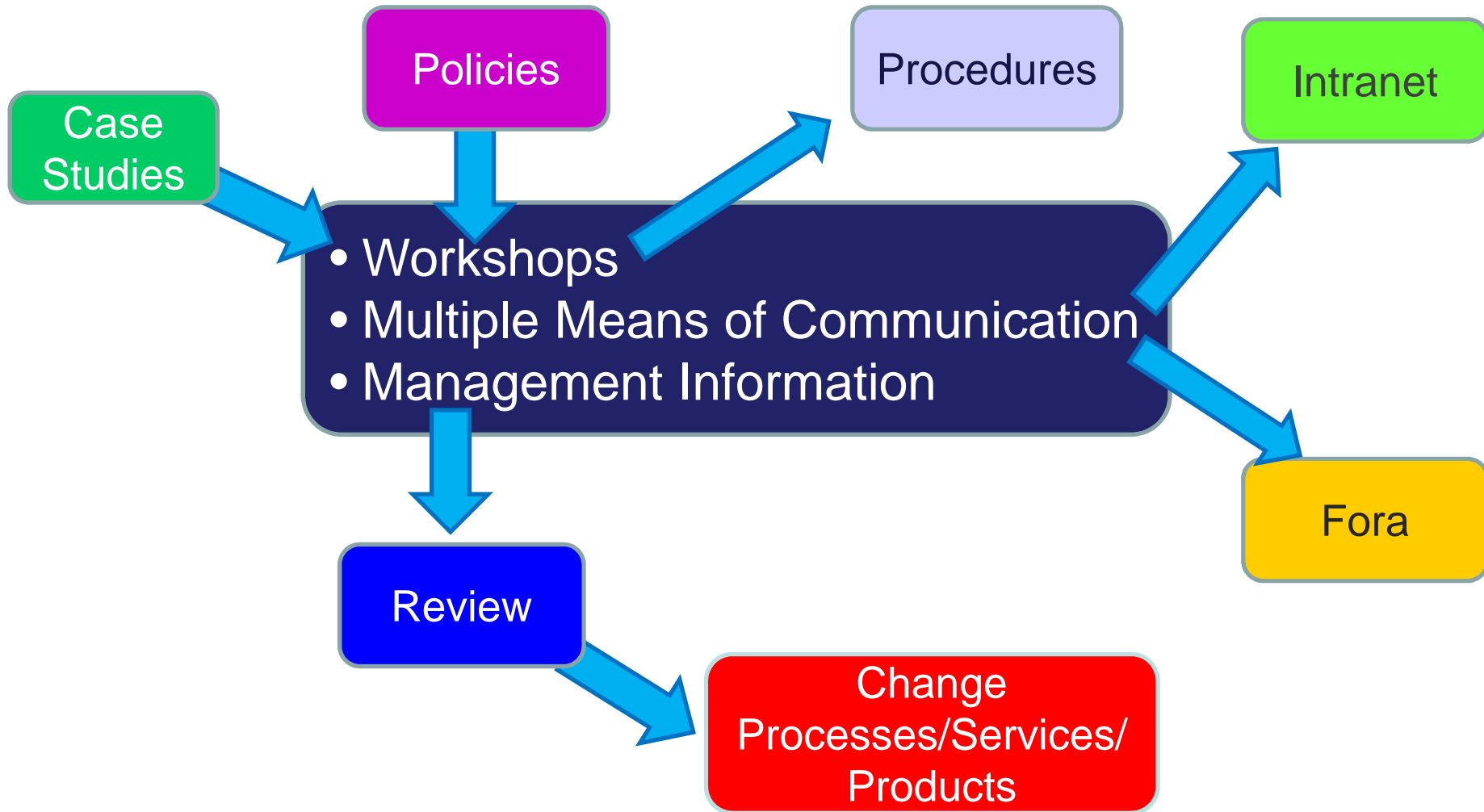
Meeting the Requirements Cost-Effectively: *Gap Analysis*



Meeting the Requirements Cost-Effectively: *Process Design*



Meeting the Requirements Cost-Effectively: *Implementation*



Questions?

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