

# **Institutional Framework for Regulation**

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## **Preliminary**

- **Not here to argue for benefits of a single regulator**
- **Share UK experience on this basis**

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## FSA background

- **Created in 1997**
- **Amalgam of 9 former regulators plus listing authority**
- **New legislation**
  - Statutory objectives and principles of good regulation
  - But largely enabling
- **More recently, three 'aims'**
  - Maintain efficient, orderly and clean financial markets
  - Help retail consumers achieve a fair deal
  - Make FSA easier to do business with

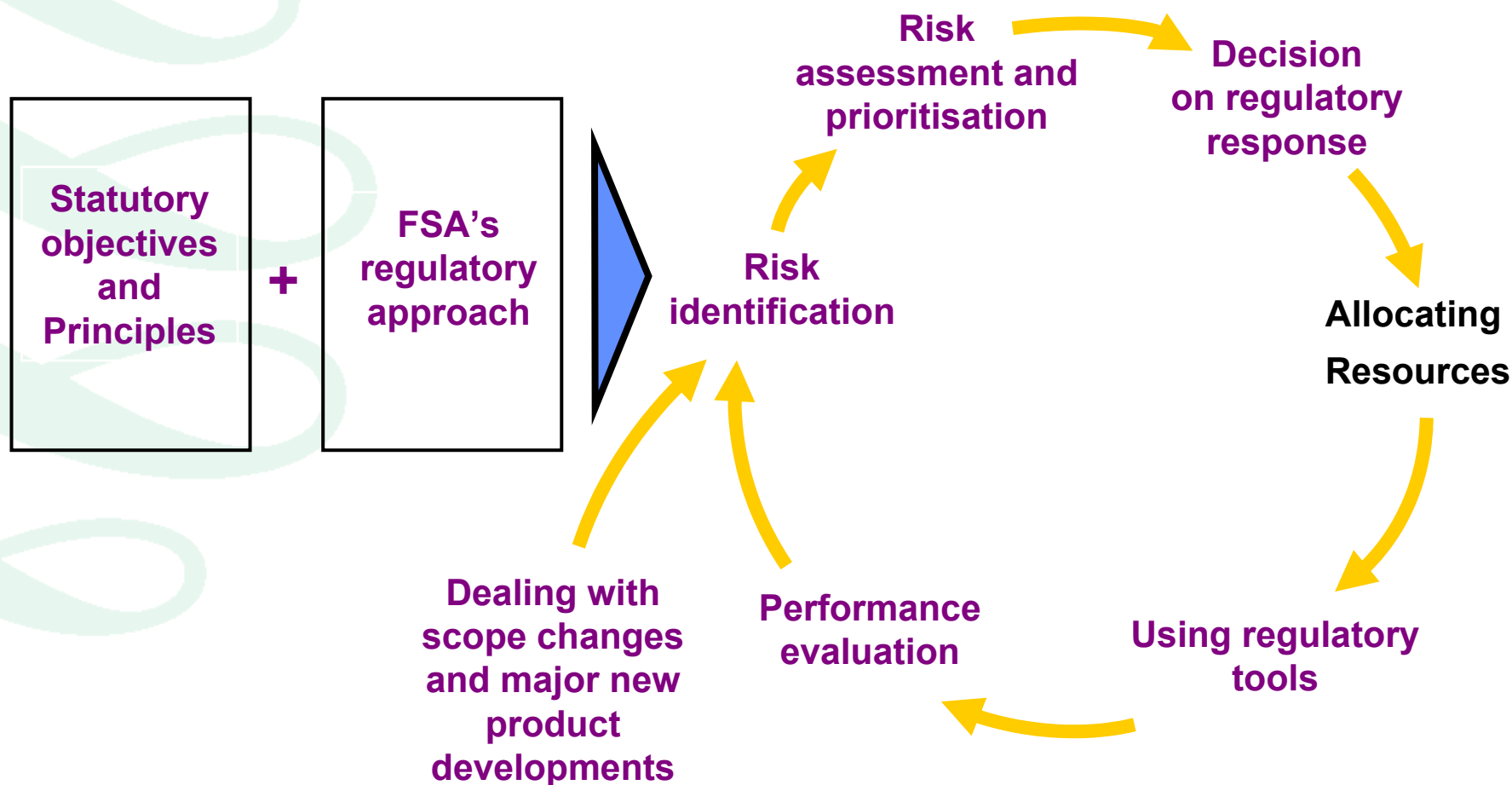
## Three aspects

- Risk based
- Lead/group supervision
- Industry wide/thematic

## **Risk based**

- **Infinite demand for regulatory resources**
- **Very finite supply**
- **Need for risk based prioritisation**

# FSA's Risk Based Approach



## Risk based

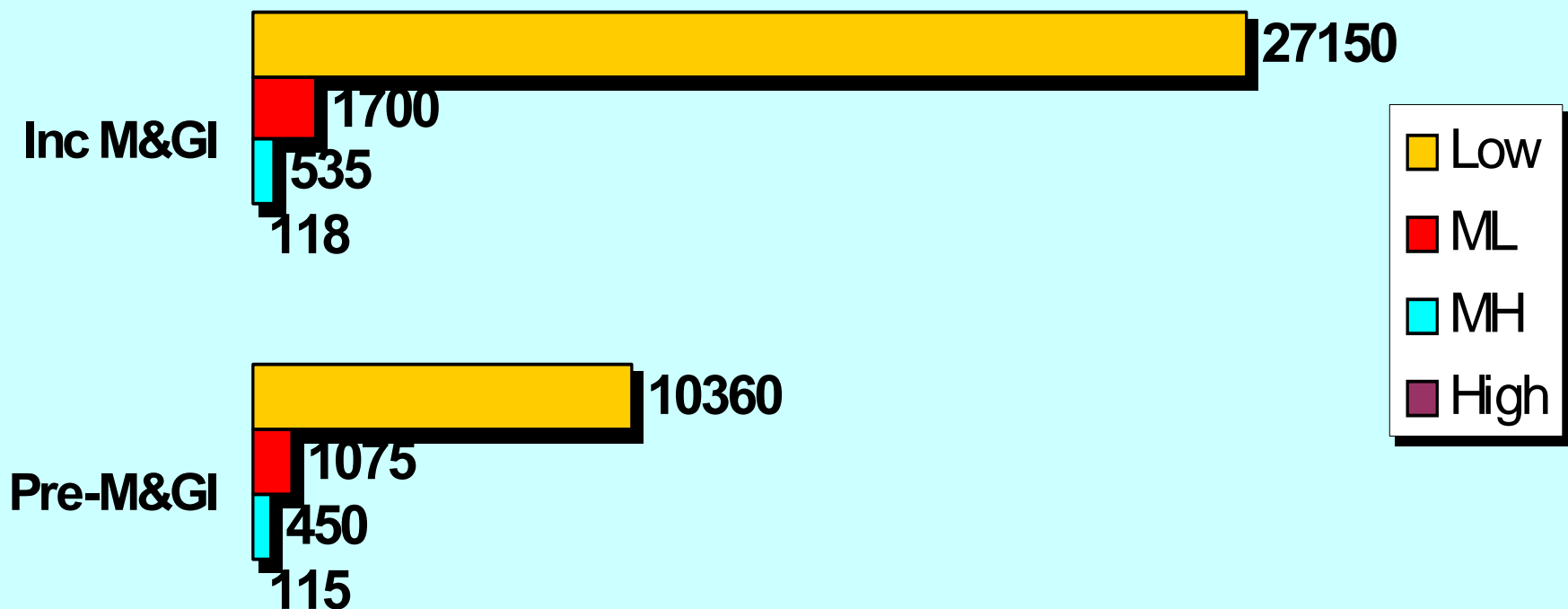
- **Risks to what?**
  - FSA case: our statutory objectives
  - Adverse publicity?
- **Probability and impact**
  - How likely that a risk will crystallise?
  - How much would it matter if it did?
- **Firm specific and industry wide frameworks**
  - Risks posed by individual firms
  - also industry wide eg conflicts of interest

## Risk based

- **How much of our work is *really* risk based?**
  - authorisation/waivers vs firm specific
- **How do we aggregate?**
  - lots of 'low impact' risks
  - Disparate risks
- **How do we specify a work programme?**
  - risk based supervision is about what you *don't* do

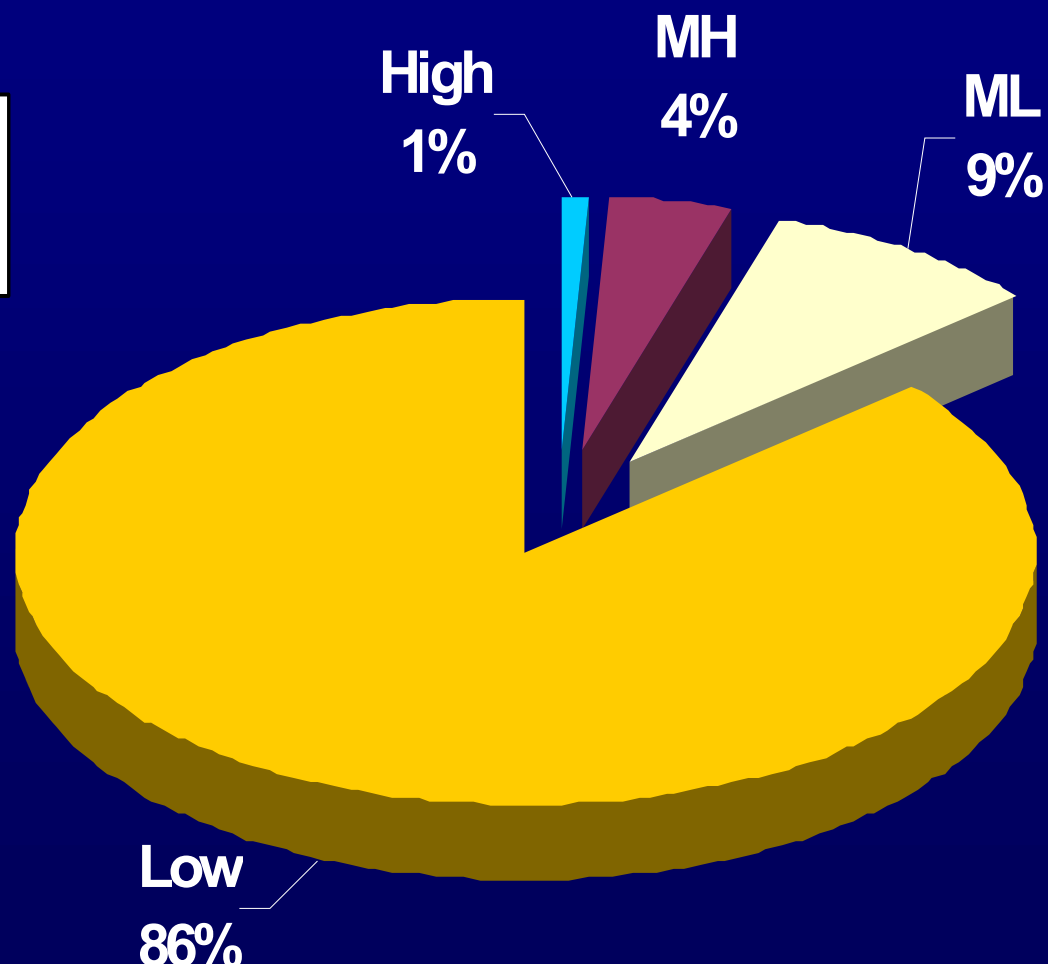


**No. of authorised firms pre & post M&G**

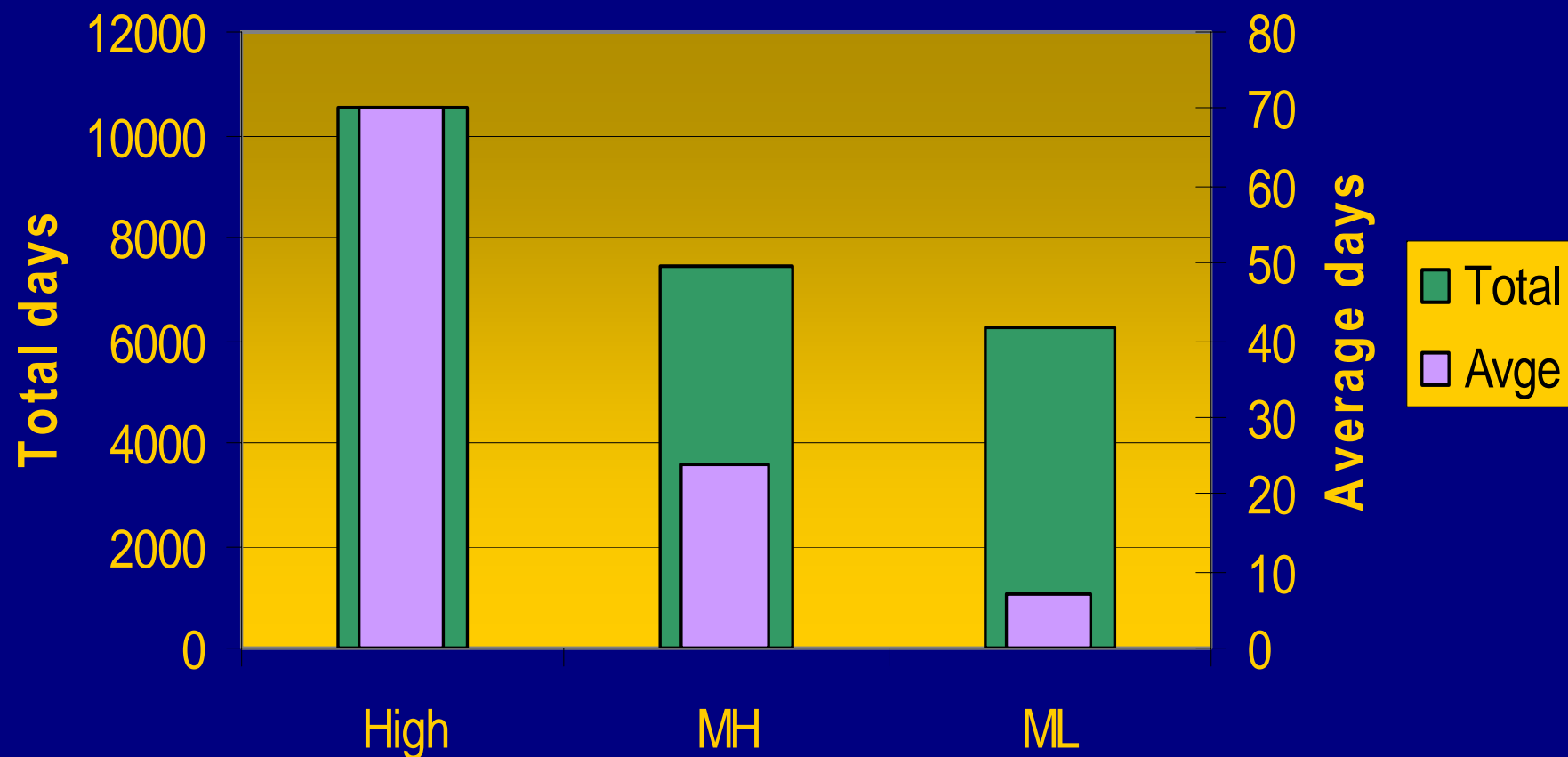


## No. of authorised firms by Impact Category

Pre M&GI 14% of firms subject to risk assessment



## Supervision Resource by Impact category



## Single regulator aspects

- All risks can (in principle) be weighted dispassionately
- Can be responsive to changes in risks
- Efficiencies – eg common issues in controls of prudential, AML, conduct of business
- But this relies on effective collaboration

## **Lead/group supervision**

**Single regulator can control the extent to which regulatory approach is coordinated**

**Two issues:**

- **Avoid duplication**
- **Group wide risks  $\neq$  sum of the parts**

## Avoid duplication

- **Some areas warrant scrutiny from more than one perspective (cob/prudential; banking securities)**
- **Potential overlap is supervision if fragmented**
- **NB basis of part of ‘home host’ debate in EU**
- **LS: coordination of different parties**
- **GS: concept of single team or regulator**

## **Group wide $\neq$ sum of parts**

- **LS and GS have worked well in identifying common control issues**
  - effectiveness of risk management
  - corporate governance
  - financial firewalls
- **Still some way to go in identifying implications for business risks**
  - banking/insurance correlations
  - use of balance sheet in investment banking

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## Industry wide/thematic

- **Examples**
  - BCP
  - Money laundering
  - Conflicts of interest
- **Efficient to address in common framework**
- **Identify sound practice**
- **May lead to rules (or not)**
- **Don't forget that firms are intermediaries**



## Recent changes

- **Strategic business unit**
- **Retail vs wholesale**
- **Sector leaders**
- **Operations, economies of scale**

## Summary

- **Any structure – needs to be risk based but no substitute for judgement**
- **Need for industry-wide approaches**
- **Lots of scope for different structures**
  - Single regulator with no coordination
  - Separate regulators with good coordination
- **Rules (regulation) vs principles and practice (supervision)**
- **No-one has got this right yet**
- **EU implications for home/host**