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FSA[®]

Mr Roy Leighton
Chairman
Financial Services Practitioner Panel

21 April 2006

Dear Roy,

Thank you for your letter highlighting industry concerns in relation to principles based regulation. This was very helpful and timely as it fed into our recent ExCo away day, which focused on defining what a move towards principles-based regulation will mean for firms and how we can turn our vision into concrete action plans. In fact, your letter, in effect created the agenda for our meeting.

I appreciate the general support you and the panel have given to this move, and see it as crucial that we maintain an open dialogue. As is implied in your letter, the devil is in the detail of what I refer to as the 'regulatory architecture' – what are the components and tools which will make-up the regulatory landscape and how do they fit together to make the regulatory outcome predictable, effective and efficient. At our next bilateral I will update you on the progress we have made, therefore, I will not respond to your points in detail at this stage, but will make a couple of more general comments.

The FSA does have a programme of work underway which is specifically looking at the implications of a move towards principles-based regulation. This will pick up many of the concerns you have identified in your letter. For example, we are looking at what skills and training our supervisory, enforcement and policy staff require to make effective and proportionate judgements when interpreting principles; I too want to see them as having 'appropriate understanding, flexibility and pragmatism'. We are also looking at the feasibility of encouraging the industry to help us set standards through the use of industry codes and guidance, and we have an open dialogue with FOS to look at the implications for them.

I am also aware that there is a certain amount of anxiety or curiosity about what principles based regulation means in practice, and while we have started to speak externally about this, I am fully aware that more needs to be done. You may have seen my recent speech at our Insurance Sector conference, where I highlighted in addition to the challenges that face us, the benefits of principles based regulation: greater flexibility, the ability to align good

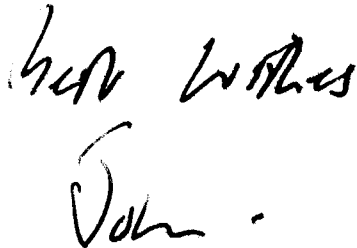
regulation with good business practise and the potential to make London a more competitive financial centre.

You also raised some comments in your letter about thematic work. As outlined in the Better Regulation Action Plan (December 2005) we have reviewed the way in which we communicate the nature, timetable and outcome of major pieces of thematic work. The outcome of this is that before a piece of major thematic work begins, we will generally inform the major trade associations of the scope, purpose and timing. We may not always do this if mystery shopping is involved, particularly if it is to be undertaken in relatively concentrated sections of the market. We have also offered trade and consumer bodies a briefing twice a year on our programme looking up to 6 months ahead.

Before publishing findings on major thematic work, we will send all relevant trade associations a summary of our conclusions and/or, if it is part of the output from the review, the 'Dear CEO' letter explaining our handling plans. As well as writing to the trade bodies, we will write to firms that were included in the sample of visits, explaining our conclusions, handling plans and, if appropriate, anything concerning their individual positioning in relation to others.

These changes – being clear in advance about our future agenda and improving information sharing about outcomes – will improve the transparency of our thematic work programme for all our stakeholders.

As agreed at the Panel meeting on 28 February, Vernon Everitt will write separately to you on the issues you have raised on mystery shopping.

A handwritten signature in black ink, appearing to read "John Tiner". The signature is written in a cursive, slightly slanted style.

John Tiner