Chapter 1A

The FCA's approach to supervision

1A.3 The FCA's approach to supervision

Purpose

1A.3.1 G The *FCA* will adopt a pre-emptive approach which will be based on making forward-looking judgments about *firms*' business models, product strategy and how they run their businesses, to enable the *FCA* to identify and intervene earlier to prevent problems crystallising. The *FCA*'s approach to supervising *firms* will contribute to its delivery against its objective to protect and enhance the integrity of the *UK financial system* (as set out in the *Act*). Where the *FCA* has responsibilities for prudential supervision, its focus will be on reducing the impact on customers and the integrity of the financial system of *firms* failing or being under financial strain. In addition, when *consumer* detriment does actually occur, the *FCA* will robustly seek redress for *consumers*. This approach will be delivered through a risk-based and proportionate supervisory approach.

1A.3.2 G The overall approach in the *FCA* supervision model is based on the following principles:

(1) forward looking and more interventionist;

(2) focused on judgment, not process;

(3) *consumer*-centric;

(4) focused on the big issues and causes of problems;

(5) interfaces with executive management/Boards;

(6) robust when things go wrong;

(7) focused on business model and culture as well as product supervision;

(8) viewing poor behaviour in all markets through the lens of the impact on *consumers*;

(9) orientated towards *firms* doing the right thing; and

(10) externally focused, engaged and listening to all sources of information.

The scope of the supervision model for firms

1A.3.3 G The *FCA* supervision model risk assessment process applies to all *firms*, although the detail required may vary from *firm* to *firm*. For example, some *firms* may experience a highly intensive level of contact although others may only be contacted once every four years. *Firms* judged as high impact are likely to require a more detailed assessment. A peer review process within the *FCA* assists consistency and will be focused on *firms* and sectors of the industry that could cause, or are causing, *consumers* harm or threaten market integrity.

1A.3.4 G The supervision model is based on three pillars:

(1) the Firm Systematic Framework (FSF) - preventative work through structured conduct assessment of *firms*;

(2) event-driven work - dealing with problems that are emerging or have crystallised, and securing customer redress or other remedial work (e.g. to secure the integrity of the market) where necessary; and

(3) issues and products - thematic work on sectors of the market or products within a sector that are putting or may put *consumers* at risk

1A.3.5 G In order to create incentives for *firms* to raise standards and to maximise the success of the *FCA's* supervisory arrangements, it is important that a *firm* understands the *FCA's* evaluation of its risk so that it can take appropriate action.

1A.3.6 G

(1) The *FCA* intends to communicate the outcomes of its pillars of supervision to each *firm* within an appropriate time frame. In the case of *firms* in which risks have been identified which could have a material bearing on the *FCA* meeting its *statutory objectives*, the *FCA* will also outline a remedial programme intended to address these.

(2) The *FCA* considers that it would generally be inappropriate for a *firm* to disclose its *FCA* risk assessment to third parties, except to those who have a need or right to be aware of it, for example external auditors. *FCA* risk assessments are directed towards a specific purpose - namely illustration of the risks posed by a *firm* to the *FCA's statutory objectives* and to enable the *FCA* to allocate its resources accordingly. Using a risk assessment for any other purpose has the potential to be misleading. The *FCA* therefore discourages *firms* from disclosing their assessments, unless they are required to make them public under relevant disclosure obligations.

The nature of the FCA's relationship with firms

1A.3.7 G As many *firms* will not have dedicated, fixed portfolio resource, the first point of contact for many issues for such *firms* will be handled by the *FCA's* Contact Centre, with the aim being that fewer issues and queries will need to be referred to the supervisors. To support all *firms* the *FCA* will also provide regional workshops and road shows to clarify its expectations on these risks and issues that are particularly important to the *FCA*.

The nature of the FCA's relationship with the PRA

1A.3.8 G While respecting each regulator's different *statutory objectives* and mandates, in undertaking its supervisory activity the *FCA* will co-ordinate and co-operate with the *PRA* as required and necessary in the interests of the effective and efficient supervision of regulated *firms* and individuals. Both regulators will coordinate with each other as required under the *Act*, including on the exchange of information relevant to each regulator's individual objectives. However, the *FCA* and *PRA* will act independently from one another when engaging with *firms*, reflecting an independent but co-ordinated regulatory approach. Maintaining effective working relationships with the *PRA* will be vital to achieving the *FCA* vision. To this end, and as required under the *Act*, the *FCA* will maintain a memorandum of understanding with the *PRA* which will set out how the two organisations will work together.