Chapter 1A

The FCA's approach to supervision

1A.4 Tools of supervision

1A.4.1 G In order to meet the *statutory objectives* and address identified risks to those objectives, the *FCA* has a range of supervisory tools available to it, including the power to impose financial penalties.

1A.4.2 G These tools may be usefully grouped under four headings:

(1) identify – identifying instances where the *UK financial system* or *firms* are harming *consumers*, have the potential to do so, or where the *UK financial system* is working poorly and not providing sufficient benefit to *consumers*;

(2) diagnose – diagnosing potential harm, including its cause, extent and potential development;

(3) remedy – assessing the range of the *FCA's* available regulatory tools and making a judgement about whether these tools can remedy or mitigate the harm cost-effectively; and

(4) evaluate – for the *FCA's* largest interventions, the *FCA* will test how effective these were and publish analysis after the event.

1A.4.3 G Tools may serve more than one purpose. For example, supervisory powers can be used to address risks which have materialised or to assist in preventing risks from escalating. In the first instance they are remedial; in the second, preventative.

1A.4.4 G Some of these tools, for example the use of public statements to deliver messages to *firms* or *consumers*, do not involve the *FCA* in direct oversight of the business of *firms*. In contrast, other tools do involve a direct relationship with *firms*. The *FCA* also has powers to act on its own initiative to impose or vary individual *requirements* on a *firm* (see SUP 7) and to ban or impose requirements in relation to specific *financial promotions*. The *FCA* may also use its general rule-making powers to ban or impose requirements in relation to specific products, types of products or practices associated with a particular product or type of product. The use of the *FCA's* tools in its oversight of market practices, in ensuring the protection of client assets and for prudential supervision of *FCA*-only *firms*, will also contribute to the integrity and orderly operation of the financial markets.

1A.4.5 G The *FCA* uses a variety of tools to monitor whether a *firm*, once *authorised*, remains in compliance with regulatory requirements. These tools include (but are not limited to):

(1) desk-based reviews;

(2) liaison with other agencies or regulators;

(3) meetings with management and other representatives of a *firm*;

(4) on-site inspections;

(5) reviews and analysis of periodic returns and notifications;

(6) reviews of past business;

(7) transaction monitoring;

(8) use of auditors; and

(9) use of *skilled persons*.

1A.4.6 G The *FCA* also uses a variety of tools to address specific risks identified in *firms*. These tools include:

(1) making recommendations for preventative or remedial action;

(2) giving other individual *guidance* to a *firm*;

(3) imposing individual *requirements*; and

(4) varying a *firm*'s *permission* in another way.

1A.4.7 G For further discussion of the *FCA*'s regulatory approach, see publications on the *FCA*'s website.