

Ten point summary

- Principles-based regulation will sustain the current rigorous regulatory environment for UK financial services, but with better and more effective outcomes.
- Over the next few years we will move to more principles-based regulation, supplementing our risk-based and evidence-based approach. This is a continuing process, which will require significant change of behaviour by both firms and the Financial Services Authority (the FSA).
- The balance of the FSA Handbook and our approach to supervision will rely increasingly on principles and outcome-focused rules rather than detailed rules prescribing how outcomes must be achieved.
- We will provide – either directly or through confirmation of industry guidance – a greater range of helpful and clearly sign-posted information to help firms plan their business processes and controls with confidence.
- We will invest in developing the capabilities of our people so that they have the experience, expertise, judgement and communication skills to make principles-based regulation work. We will also invest in improved online search facilities and enhanced knowledge management processes to give firms and our own people easy access to relevant information.
- We will measure our own performance against clearly articulated regulatory outcomes, using a wide range of metrics. Using the new Outcome Performance Report, this process will be integrated into the FSA's operations and governance.
- Firms will have increased flexibility in how they deliver the outcomes we require. Many will find a closer fit between meeting their business objectives and meeting regulatory requirements. Responsibility for key regulatory decisions will move to more senior levels, challenging firms' compliance, risk management and internal audit functions as they provide the necessary support to senior management and Boards.
- Well controlled and managed firms that engage positively and openly with us and the outcomes that we are aiming to achieve should expect to experience real benefits in the form of a 'regulatory dividend'.
- Principles-based regulation will achieve benefits for consumers by fostering a more innovative and competitive financial services industry. Principles-based regulation also offers effective protection as senior managers drive the changes necessary for their firms to meet the Principles. UK consumers can play a role in achieving this as, over the long term, they become more financially capable. We will work to see whether it is possible to achieve greater clarity about the respective roles of consumers and firms in achieving the right outcomes.
- There are constraints on how far and how fast we can move towards principles-based regulation, including the inevitable and proper establishment of precedent by the Financial Ombudsman Service (FOS) and the current preference of the EU Commission to adopt specific rules and regulations. We will continue to work actively with stakeholders and other regulators both domestically and internationally to make more principles-based regulation a reality.