Kinetic Partners | A Division of DUFF & PHELPS

regulatory focus

Issue 90

A synopsis of the Financial Conduct Authority's (FCA) latest news and publications issued in November 2015.

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Welcome to Duff & Phelps' Kinetic Partners division's latest issue of *regulatory focus*, our regulatory newsletter for the financial services community.

Publication of the PRA and FCA review into the failure of HBOS

On 1 October 2008, HBOS plc ("HBOS") sought Emergency Liquidity Assistance from the Bank of England. The 410 page report by the PRA and the FCA seeks to explain why HBOS failed, the role played by the HBOS Board and senior management in HBOS' failure and the FSA's supervision of the bank.

The review concludes that ultimately the responsibility for HBOS' failure rests with its Board and senior management, who failed to set an appropriate strategy for the business and failed to challenge a flawed business model, which inappropriately emphasised continuous growth without due regard to risk. Flaws in the FSA's supervisory approach are also highlighted, which resulted in the former regulator failing to fully appreciate the risks that HBOS was running and meant that it was not able to intervene until it was too late.

Sir Brian Pomeroy, Senior Independent Director at the FCA and Chairman of the HBOS Review Steering Committee, commented on the extensive work that had gone into the review, including the review of around a quarter of a million documents and interviews with 80 key individuals, and stated that he believed it to be "the definitive account and to be a thorough, fair and balanced view of what occurred."

As part of the review, Andrew Green QC was asked to provide an independent assessment on whether the enforcement decisions taken by the FSA were reasonable and therefore on the same day published a report into the FSA's enforcement actions. He recommends that the FCA and PRA consider whether any former managers of HBOS should be the subject of an enforcement investigation with a view to prohibition proceedings. The PRA and FCA are likely to conclude as to whether further enforcement action is needed early next year.

The report by the FCA and PRA can be found here.

Exempt reporting advisers

There have been reports from certain sources that the U.S. Securities and Exchange Commission's (SEC's) Office of Compliance Inspections and Examinations ("OCIE") is now examining Exempt Reporting Advisers (ERAs) as a routine matter. However if this is the case, this is an important departure from OCIE's previous approach in relation to ERAs. Dodd-Frank introduced new exemptions for investment managers that fall into the ERA definition which meant that they did not have to fully register with the SEC as registered investment advisers but introduced reporting requirements for those firms. When Dodd-Frank was adopted the SEC said that whilst it would be allowed to visit these firms it would only do so if it had cause for concern and would not conduct routine examinations of ERAs. It appears that ERAs will now be included when OCIE staff determine which entities to examine using a risk based approach. It remains to be seen in practice how this will impact the number of ERAs examined.

Regulatory highlights this month include:

- FCA fines Barclays £72 million for poor handling of financial crime risks
- Policy proposals and Handbook changes related to the implementation of the Market Abuse Regulation
- FCA publishes terms of reference for asset management market study
- Culture and governance - speech by Mark Steward

Regulatory Update
We also provide regulatory updates on key developments as and when these arise.
For further information, including recent updates, please visit here.

- NFA's Information Systems Security Program
- SEC adopts paperless individual licences
- MiFID transaction reporting for US and Asian firms: what is coming?
- UK reporting fund status regime
- MAS clarifies supervisory expectations in key areas

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Enforcement Matters

FCA fines and bans former Investment Analyst at Aviva Investors

17 November 2015

The FCA has fined Mothahir Miah, a former Investment Analyst at Aviva Investors Global Services Limited (Aviva Investors), £139,000 for failing to act with honesty and integrity. Due to Mr Miah's cooperation in the investigation, he qualified for a 30% (Stage one) discount off the original fine of £198,600. Mr Miah has also been banned from performing any regulated activity function in the financial services industry. However, due to his cooperation, the FCA is minded to revoke his ban after five years.

Between January 2010 and October 2012, Mr Miah was approved by the FCA to hold CF30 (Customer) function, in order to carry out trades on behalf of hedge and long-only funds. During this period, he exploited weaknesses in the trading systems and controls that enabled him to delay the booking and allocation of trades. He assessed the performance of a trade during the day and subsequently allocated trades which generated favourable price movements to hedge funds that paid performance fees. Trades that had not benefited from price movements were allocated to certain long-only funds, which paid lower or no performance fees. This abusive practice is known as "cherry picking".

Aviva Investors' policy stated that details of each trade were required to be booked in an online system within 15 minutes of trading on behalf of the long-only funds. Nevertheless, weaknesses in the trading systems and controls enabled Mr Miah to book and allocate trades hours after they had been executed. The FCA's investigation found that Mr Miah deliberately and regularly delayed the booking and allocation of trades by several hours.

Mr Miah's actions were motivated by striving to prove his trading ability to his colleagues and increase his prospects of being promoted. His motivation reflected the culture within the Fixed Income business, which was focused on performance, and the fact that promotions were often based on reported investment performance. Although his motivations and the pressures of the culture of the business were acknowledged by the FCA, it was emphasised that cherry picking cannot be excused or justified in any way.

Mark Steward, the FCA's Director of Enforcement, stated that "Mr Miah abused the trust given to him by his clients in a very clear and deliberate way. It is vital that Approved Persons operate with honesty and integrity at all times. Mr Miah did not."

Mr Miah's misconduct contributed to Aviva Investors being fined £17.6 million on 24 February 2015 in relation to its failings, as well as Aviva Investors paying significant amounts of compensation to a number of its long-only funds.

The press release can be found here.

The Final Notice can be found here.

It is vital that Approved Persons operate with honesty and integrity at all times. Mr Miah did not."

FCA fines Barclays £72 million for poor handling of financial crime risks

26 November 2015

Barclays has been fined a record £72m penalty by the FCA for disregarding its own procedures when handling a £1.9bn transaction for a group of wealthy and politically connected customers.

The FCA said that Barclays "went to unacceptable lengths to accommodate the clients" and failed to carry out adequate due diligence on the transaction. As a result, it "failed to minimise the risk that it may be used to facilitate financial crime".

When Barclays arranged and executed the transaction in 2011 and 2012, its executives knew it involved "Politically Exposed Persons" that should have been subject to enhanced levels of due diligence and monitoring by the bank. Rather than follow standard procedures, the bank rushed to take on the clients as quickly as possible and bypassed the necessary verification checks, which should have included verifying the clients' source of wealth and the source of the funds.

The FCA drew attention to the breaches of its guidance in the Financial Crime Guide and its 2011 thematic review of banks' handling of financial crime risks.

The FCA found no involvement of financial crime in the transaction and did not identify the clients involved. However, the regulator did note that the clients gave rise to a "higher level of risk", requiring a higher level of due diligence. Barclays not only failed to apply the higher standard, it also fell short of the requirements for lower-risk business.

The penalty is the largest imposed by the FCA or its predecessor for financial crime failings. It includes a £20m fine as well as disgorgement of the £52.3m in revenue generated by the deal.

The press release can be found here.

The FCA said that Barclays "went to unacceptable lengths to accommodate the clients" and failed to carry out adequate due diligence on the transaction.

FCA bans Phillip Harold Boakes and sentence of 10 years upheld

24 November 2015

On 6 March 2015 Philip Harold Boakes, a former FCA approved Independent Financial Advisor ("IFA"), was sentenced to ten years' imprisonment for running a Ponzi scheme which resulted in 30 investors losing over £2.5 million. Mr Boakes operated the scheme through his company Currencytrader Limited, which purported to carry out foreign exchange spread betting for its customers. Currencytrader accepted deposits without authorisation from investors and promised guaranteed annual returns of 20% or more.

On 24 November 2015 the Court of Appeal dismissed Mr Boakes' appeal, upholding his sentence of ten years' imprisonment. Lord Justice Jackson commented on the vulnerability of Mr Boakes' victims and stated that the offences he committed were "extremely unpleasant" and a "gross breach of trust". In deciding to uphold the sentence, the Court took into account the number of Mr Boakes' victims and the 'life changing loss' they suffered.

In addition to securing Mr Boakes' conviction, the FCA has also made a Confiscation Order against him for the sum of £165,731 and has banned him from performing any function related to regulated activity.

Commenting on Mr Boakes' case, Mark Steward, the Director of Enforcement and Market Oversight at the FCA, said that his "crimes involved serious dishonesty and caused real harm to many innocent investors who are entitled to feel vindicated by the decision of the Court of Appeal and the confiscation of his assets which can be used to compensate his victims."

If the confiscation order is not paid on time, Mr Boakes is liable to spend two additional years in jail.

The press release can be found here.

In deciding to uphold the sentence, the Court took into account the number of Mr Boakes' victims and the 'life changing loss' they suffered.

Supervision Matters

Asset management market study terms of reference

18 November 2015

On 18 November the FCA published the terms of reference for its 2016 asset management market study. The study will be focused on competition and the aim is to understand whether competition is working effectively to enable both institutional and retail investors to get value for their money when purchasing asset management services.

The wholesale sector competition review undertaken in 2014 raised a number of questions about competition in the asset management sector and therefore the FCA will seek to understand:

- How asset managers compete to deliver value, as the wholesale sector competition review demonstrated that investors can have difficulty in making sure they are getting value for money and in monitoring the performance of assets managers;
- Whether asset managers are willing and able to control costs and quality along the value chain;
- How investment consultants affect competition for institutional asset management; and
- Whether the bundling of ancillary services can affect the quality of some of the services provided.

The market study into the asset management sector will be the second competition study looking into wholesale markets following the publication of the terms of reference on investment and corporate banking in May 2015.

Market studies are a key tool to analyse the effectiveness in the market the FCA regulates. Therefore, the FCA would like to hear from all market participants and will host a number of roundtable and/or bilateral meetings with stakeholders. In addition,

The wholesale sector competition review undertaken in 2014 raised a number of questions about competition in the asset management sector.

the FCA will be contacting a sample of market participants to discuss the information and data necessary to enable them to assess the issues set out above. The FCA expects to publish an interim report during the course of next summer with a final report expected in early 2017. The interim report will set out both those areas which the FCA considers raises concern as well as those in which it has found few or no problems.

Market participants can make submissions on the topics raised by email at the following address: assetmanagementmarketstudy@fca.org.uk by 18 December 2015.

The press release can be found here.

Culture and governance - speech by Mark Steward

11 November 2015

Mark Steward, Director of Enforcement and Market Oversight at the FCA, delivered a speech at the MetricStream Governance, Risk and Compliance Summit in London in which he gave his views in respect of culture and governance within the financial services industry.

He focussed on culture and described his fears that culture is in danger of becoming a "buzz term", intangible, theoretical and merely regulatory. However, he reminded the audience that there is value in culture and without it there is cost.

Mr Steward explained that good rules and standards set the expectations and boundaries, however they cannot by themselves create the environment in which good governance, regulatory compliance and fair process "magically" appear. He strongly believes that "more" is needed and described in his speech what constitutes a good culture.

Firstly, he stressed that it is necessary to have a detailed understanding of the nature of the business and how the front line, the middle management and the senior management actually operate. He mentioned a case in which a bank was suspected of mis-selling a retail structured product. He would have expected detailed due diligence of the product, assessment of its risks and a study of the kinds of customers to whom it might be suitable, including how frontline staff would be trained. Instead the board received a single slip of paper that calculated the profits that would be earned from commissions that were being offered by the issuer, if the product could be sold widely.

Mark Steward explained that having terrific systems and controls on paper but which are not implemented, or implementing effective systems and controls but not maintaining them are equally as fatal.

Secondly, he acknowledged that senior management cannot be involved with every single decision and therefore reinforced the need for firms to have robust systems and controls in place to ensure that the business is operating effectively and in accordance with the standards of conduct designed and approved by senior management. However, firms have to find the right balance. He explained that having terrific systems and controls on paper but which are not implemented, or implementing effective systems and controls but not maintaining them are equally as fatal.

Thirdly, he preached for a healthy dose of reality. Having systems and controls should not lull senior management into a false sense of security, they cannot be "set and forget". He believes that these should be kept up to date by performing a risk-focused counterfactual or counterintuitive audit from the perspective of the cynic who is able to exploit the system's gaps.

After describing what constitutes a good culture, he then moved on and explained "what is needed" to implement the above. In his opinion, prudent forethought should also be accompanied by the following:

- A sense of not only what should be done but a compulsion to set about doing it;
- An interest in execution - being able to think through what is needed and to actually perform it;
- An ability to lead and to engender leadership across an organisation.

He also commented that a key challenge in making culture a pragmatic reality is the difficulty in knowing whether the culture that exists is good or even working, as there is no standard regulatory metric available. Evidence of a failing culture would be when things go wrong and the situation gets worse or just goes wrong again. He provided a few questions that firms should consider when determining how their organisation deals with problems:

- How quickly are problems escalated to the right person or group of persons for effective decision making or action?
- How many problems linger in the inbox or the draft box or the bottom drawer beyond easily fixable date?
- How difficult is it to fix things once they are detected?

From a regulatory viewpoint misconduct is inevitable, but misconduct that is detected quickly and effectively stopped should engender confidence in the market, whereas allowing a problem to grow unchecked will erode confidence far more quickly than it can ever be engendered. He also stressed that discipline is not about fines but the upholding of values.

The speech can be found here.

Internal investigations by firms

5 November 2015

The FCA's Director of Enforcement (wholesale, unauthorised business and intelligence), Jamie Symington, delivered a speech at the Pinsent Masons Regulatory Conference 2015.

The speech addressed investigations undertaken by firms into issues that either they or the regulator has identified. While the FCA sees the value of such exercises, particularly where there is little likelihood of enforcement action subsequently taking place, Mr Symington stressed that these investigations needed to be conducted in the correct way in order not to potentially prejudice any subsequent investigation by the regulator or to cause any investigation to have to be repeated.

Mr Symington reminded firms of the need to consider, in the first instance, whether a breach warranted reporting to the FCA under Principle 11. If so, then early engagement with the FCA is encouraged prior to launching any internal investigation in order to ensure that it is properly scoped and matters such as having in place an adequate degree of independence are addressed, which could involve instructing third parties. This early engagement would also help manage important risks that might be present. For example, if the case potentially involved a criminal offence, there is a risk of tipping-off, so there could be circumstances where it is not appropriate for a firm to conduct such an internal investigation. The FCA sets out a number of ground rules that it would seek to establish with firms before they conduct an internal investigation where there was a potential for enforcement action. Although the overriding requirement is one of a firm's transparency as regards to sharing information with the FCA, these rules include matters such as: the FCA's ability to be able to rely on subsequent findings; access to source material by the regulator; whether legal privilege can or should be claimed by the firm and the timescale for completion.

Mr Symington reminded firms that the FCA has no interest in deliberately undermining confidentiality or legal privilege and is aware of its own responsibilities and duties in this area, including strict statutory restrictions on the onward disclosure of confidential information. The FCA believes that understanding this point would encourage firms to work with the regulator in an appropriate way should a matter requiring investigation arise so that the root cause can be identified and dealt with in an appropriate and efficient manner.

The full speech can be found here.

Mr. Symington stressed that these internal investigations needed to be conducted in the correct way in order not to potentially prejudice any subsequent investigation by the regulator.

Policy Documents

CP15/35: Policy proposals and Handbook changes related to the implementation of the Market Abuse Regulation (2014/596/EU)

5 November 2015

The FCA has published its policy proposals and Handbook changes to support the implementation of the new European Market Abuse Regulation ("EU MAR") regime, which will apply from 3 July 2016.

This Consultation Paper ("CP") will be of interest to firms and individuals that directly and indirectly deal in, or issue any financial instruments ("FI") on a regulated market, traded or admitted to trade on a multilateral trading facility ("MTF") or an organised trading facility ("OTF") or where the price or value of the FI depends on, or has an effect on, the price or value of an FI. It will also be of interest to emission allowance market participants ("EAMPs") and any person discharging managerial responsibilities within issuers or EAMPs or any person closely associated with them.

The current market abuse regime is largely established by the EU Market Abuse Directive ("EU MAD"), which required modifications to the Financial Services and Markets Act 2000 along with FCA Handbook changes. Being a Regulation (as opposed to a Directive) means that the new requirements will be directly binding in all Member States without the need to introduce new rules in the Handbook. Nevertheless, changes will be made and are being proposed within this CP. Firms and individuals to whom it applies will need to be aware of and comply with all of EU MAR and any relevant ESMA guidelines. Majority of the changes will be made within the MAR section of the Handbook, however a number of other consequential changes will be made within COBS, SUP and DTR among others. Final Handbook provisions are expected to be published in spring 2016.

Responses to the questions in Annex 3 of the CP should be submitted by 4 February 2016, using the online form, or via email to cp15-35@fca.org.uk, or in writing to the address contained within the CP.

The consultation paper can be found here.

The response form can be accessed here.

The FCA has published its policy proposals and Handbook changes to support the implementation of the new European Market Abuse Regulation ("EU MAR") regime, which will apply from 3 July 2016.

GC15/6: Proposed guidance for firms outsourcing to the 'cloud' and other third-party IT services

12 November 2015

The FCA believes that there is confusion about how its rules apply to firms outsourcing to the cloud and other third party IT services, and therefore is consulting on proposed guidance on the subject so that uncertainty does not act as a barrier to financial innovation. The proposed guidance will cover private, public and hybrid clouds as well as Infrastructure as a Service (IaaS), Platform as a Service (PaaS), and Software as a Service (SaaS). Firms will not be required to follow the guidance, but if they ignore it, they must be able to explain how their alternative arrangements achieve the same result. Fundamentally, the FCA believes that cloud services can be implemented in ways which are compliant with the rules.

The consultation confirms the FCA's long-established outsourcing principles, namely that firms may outsource a function, but cannot outsource the firm's regulatory responsibility to identify and manage the risks associated with outsourcing. The consultation paper also gives guidance on legal and regulatory considerations, risk management & oversight, data security, access to data and business premises (by firms and the regulator), sub-contracting arrangements, change management, business continuity planning, resolution and exiting arrangements.

The consultation period ends on 12 February 2016.

The Guidance Consultation can be found here.

Fundamentally, the FCA believes that cloud services can be implemented in ways which are compliant with the rules.

The FCA has advised that investors may need to consider their holdings and determine whether re-notification is required when TDAD comes into force on 26 November 2015.

PS15/26: Implementation of the Transparency Directive Amending Directive (2013/50/EU) and other Disclosure Rule and Transparency Rule changes.

6 November 2015

Following the receipt of feedback to proposals set out in the joint Consultation Paper published by HM Treasury and the FCA in March 2015, on 26 November 2015 the new Disclosure Rules and Transparency Rules ("DTRs") came into force. The FCA has published a Policy Statement which summarises feedback it received, which will be of particular interest to firms advising on, investing in, or dealing in listed securities or securities traded on a regulated or prescribed market. The feedback will also interest issuers of securities, firms advising issuers, or listed companies required to comply with Listing rules and DTRs.

Respondents to the Consultation Paper were supportive of the plan to integrate the new Regulatory Technical Standards in the FCA Handbook which should alleviate the issue of cross referencing between documents. The FCA made clear that the Transparency Directive Amending Directive ("TDAD") has bought financial instruments with similar economic effect within scope. This is likely to be an area that firms impacted by the TDAD should review, particularly considering EU Directive requirements will supersede existing DTR provisions (as implemented from 2009) as well as previous FSA guidance.

Feedback provided by firms and trade associations has been adopted largely where clarification was required, particularly in defining glossary terms and terms in the current DTRs. It had been queried whether there would be changes to the vote holder notification thresholds to meet the EU minimum thresholds, but the FCA will not consult on this as they will continue to use the UK super equivalent thresholds. The FCA has advised that investors may need to consider their holdings and determine whether re-notification is required since TDAD came into force on 26 November 2015.

The FCA has clarified that it will not provide additional transitional provisions, other than those discussed in the March 2015 Consultation Paper, as this goes against the implementation of the Directive.

The policy statement can be found here.

The removal of shared rules will avoid the need for duplicate consultation exercises where either of the regulators would look to make changes.

CP15/34: Regulatory fees and levies: policy proposals for 2016/17

5 November 2015

On 5 November 2015 the FCA issued its Consultation Paper (CP 15/34), which outlines changes to how fees and levies are raised. The FCA is proposing to create a standalone FCA fees handbook, separate to the PRA handbook. The consultation's remaining proposals cover:

- the means to recoup data reporting costs associated with market monitoring under the Markets in Financial Instruments Directive (MiFID II) and the Markets in Financial Instrument Regulation (MiFIR);
- clarifying the transaction charges and annual fees for UK Listings Authority (UKLA) to cover costs;
- providing for a 10% discount on fees received from branches passorting into the UK as home finance intermediaries; and
- bringing forward the invoicing date for larger firms from the 30 April to 1 April with effect from 1 April 2016.

The FCA sees creating a standalone Fee handbook, distinct from that of the PRA, as another step towards fully separating both handbooks. The removal of shared rules will avoid the need for duplicate consultation exercises where either of the regulators would look to make changes. The consultation does not cover the levels of fees paid, but outlines how the split of responsibilities for administering fees by the FCA and PRA will operate. Accordingly, the consultation proposes to list fees separately for FCA and PRA regulated firms. Dual registered firms are not expected to pay more purely as a result of this administrative change.

The consultation provides insight into the level of fees firms could expect to pay when seeking authorisation as approved reporting mechanisms (ARMs), approved publication arrangements (APAs) and consolidated tape providers (CTPs). This includes those entities/systems that are currently approved by the FCA as ARMs or Trade Data Monitors (TDMs) or as trade repositories by the European Securities and Markets Authority (ESMA). The FCA has also provided information on fees, which it will request from certain firms to cover the cost of building and running IT systems for submitting regulatory data under MiFID II and MiFIR. The fees will be requested from all those firms that will use such IT systems.

Part of the consultation outlined that the FCA, in its role as the UK Listing Authority, has found that the process of applying transaction/vetting and periodic fees by UKLA could be streamlined; accordingly, the FCA draws a comparison between the current and the proposed UKLA fee structure.

The consultation paper can be found here.

CP15/38: Provisions to delay disclosure of inside information within the FCA's Disclosure and Transparency Rules

20 November 2015

Following the Upper Tribunal's decision to uphold the FCA's ruling in the Ian Hannam case, which involved the improper disclosure of inside information, the FCA has decided to review its rules and guidance about delaying disclosure of inside information in the Disclosure & Transparency Rules ("DTR").

The FCA is proposing to amend its guidance on when an issuer can legitimately delay disclosure of inside information. The FCA believes the proposed guidance will maintain the integrity of the regime and also is consistent with the Market Abuse Directive (MAD) and the Market Abuse Regulation (MAR) which comes into effect from July 2016.

The definition of inside information has been applied increasingly widely and the consultation breaks down the definition and discusses each element. In addition, the balance between the requirement to disclose inside information as soon as possible and the ability to delay it in appropriate circumstances (for instance when negotiating a transaction) is crucial in setting an appropriate framework for disclosures of inside information.

The FCA has received comments that a combination of factors is causing practical difficulties in deciding what should be disclosed and there are concerns that more information should be classified as inside information than had previously been understood. In addition, it was highlighted that the DTR put constraints on an issuer's ability to delay disclosure which went further than the EU requirements. A common view was that these factors could begin to force issuers into disclosure before the information is significantly formed and would be of benefit to the market. Therefore, the FCA is consulting on changing the guidance on disclosure of inside information.

The Consultation Paper can be found here.

The proposed guidance will maintain the integrity of the regime and also is consistent with the Market abuse Directive (MAD) and the Market Abuse Regulation (MAR).

Other Developments

Innovation in financial services

10 November 2015

Christopher Woolard, Director of Strategy and Competition at the FCA, delivered a speech on the progress of Project Innovate which was launched by the FCA in 2014.

Mr Woolard began by explaining that there is a need to consider risk more widely, instead of just in terms of established business models. He underlined the importance of creating a balance between risk and innovation so that healthy competition can exist within financial services. Furthermore, he set out the value of listening to consumer needs and facilitating the emergence of innovative firms with new business ideas to meet those needs.

The factors that the regulator is considering in its competition mandate, of which innovation forms a part, are as follows:

- The ways in which new entrants and challengers experience regulation;
- Whether the FCA's frameworks provide the protection required in order to instil customer confidence in new businesses;
- Whether the frameworks allow enough room for innovation; and
- Strategies for fostering an environment of innovation and creativity in an environment of fast paced technological change, without deepening risk to unacceptable levels.

Mr Woolard spoke of the need to ensure that regulation is sustainable. This inevitably involves the reassessment of existing regulations, because it is not possible for regulations to always be right in the first instance. However, he stressed the importance of avoiding the repetition of past mistakes, such as repeating the cycle of regulating and then deregulating in times of successful compliance. History suggests that during times of deregulation, regulators "fail to anticipate and prevent the problems of the future".

Christopher Woolard underlined the importance of creating a balance between risk and innovation so that healthy competition can exist within financial services.

Project Innovate

As part of Project Innovate, the FCA established an Innovation Hub, which is a unit that works with innovative businesses. He gave examples of the regulator listening and engaging with the ideas in the financial services and adopting a collaborative approach towards regulating emerging business models. There is also evidence that this project is allowing the regulator to manage risks pragmatically. The aim is "at this critical early stage, not to make regulation an impossible hurdle".

The next stage of Innovate

The regulator is intending to work with and learn from fellow regulators' approaches to innovation. The FCA aims to improve its regulatory processes and assist the entrance into the market of innovative businesses. Mr Woolard also encouraged big players intending to change their business models to engage with the project.

Sandbox

The FCA is publishing plans to implement a "regulatory sandbox" which "will allow businesses to test out innovative financial products, services or business models without incurring all the normal regulatory consequences of engaging in those activities".

The proposed benefits are: a reduction in the amount of time it takes for innovative ideas to come to the market and improved access to finance for innovative firms.

Please see here for the full transcript of the speech.

regulatory focus

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