Practitioner Panel

Fifth Survey of the FSA's regulatory performance

December 2008

Prepared for the Financial Services Practitioner Panel by BMRB

Fifth Survey of the FSA's Regulatory Performance

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Chairman’s Foreword

The Panel’s perspective

Now, more than ever, the financial and regulatory environment is a fast moving one. Therefore, there was never a perfect moment to undertake our biennial survey. We began the survey in the Spring of 2008, shortly after the FSA published its ‘lessons learned’ review of Northern Rock. Most of the questionnaires were completed in the Summer, with some received just after the collapse of Lehman Brothers; however, the responses were received prior to the UK Government’s bank stabilisation and recapitalisation plan in October.

The survey is only ever a snapshot that captures firms’ views within a relatively narrow timeframe. It is, nonetheless, an important barometer of how firms are feeling and, in particular, how they rate the FSA’s performance across its range of functions.

This year, 46% of firms surveyed took the time and trouble to complete and return the questionnaire to us; this represents an increase from a 40% response rate in 2006. This is a much better than the usual response to a survey of this type, for which I would like to express the Panel’s sincere gratitude. I am conscious that these are testing times for the industry, making such a willingness to participate in this piece of work all the more appreciated. It gives the findings, and therefore the representations the Panel might make to the FSA as a result of it, a high degree of authority and credibility.

BMRB was appointed to conduct the research on the Panel’s behalf. The Panel was committed to producing a report and conclusions that were objective, tangible and constructive – thus providing a meaningful and balanced basis for us to give credit where it is due and to make some specific recommendations, based on the views of the industry, for real improvement in the way the FSA goes about its business.

The Panel recognises that certain elements of the survey are based on firms’ perceptions. But that does not, in itself, make those views invalid – in fact, perceptions are often just as important as any other form of measurement and should be regarded and addressed with similar seriousness. That said, we have sought this year to ensure that, wherever possible, the report is clear about those views which are perception-based, those which are formed out of personal experience, and those where frequency of contact or more recent contact with the FSA appears to have a demonstrable impact (whether positive or negative) on firms’ satisfaction.

In doing so, we hope that this will enhance the veracity of the survey and, crucially, help produce genuinely actionable and influential outputs – which the

FSA can understand and engage with positively – for the benefit of regulated firms, their customers and the marketplace as a whole.

The areas we have identified from the survey for the FSA to address

The Panel has already commenced discussions with the FSA about its response to the findings in the survey. Over the period following the survey's publication, the Panel will distil the data and findings in order to identify and prioritise those specific areas where the FSA is seen to be performing well (or better than in 2006), those where the FSA is already striving to make progress, and those where we feel that more could and should be done. In doing so, we shall also seek to distinguish clearly between the views of wholesale firms, retail firms, major groups and smaller firms and target our representations and proposals accordingly.

I shall, therefore, not use my introduction to cover these aspects in great detail at this stage. However, at the high level, the key messages that my fellow Panel members and I are taking from this study – the 'story' that it tells us, from a regulated firms' perspective – can be summarised as follows:

- It is imperative that the FSA learns the lessons arising from the market turbulence at the time of the survey and its handling of it (and is able to demonstrate that it has done so); regulated firms have responded quite positively to the FSA's willingness to learn the lessons from Northern Rock, but it is early days to see whether that learning (and other learning from similar events) is being put into practice.

- Firms have expressed the view, even more forcefully in this survey than previous ones, that strong regulation is a good thing. However, the burden that FSA regulation places on firms – of all types and sizes – remains a source of significant concern.

- Firms continue to want the FSA to improve its understanding of their business and the risks. There is a clear link between individual firms' satisfaction and continuity of supervisory staff. Firms that have experienced continuity in their relationship manager are far more positive in their views than those that have had frequent changes.

- Satisfaction with the FSA's Firm Contact Centre has improved, as has the quality of guidance it provides, especially with those (mainly smaller) firms which have used that facility in more recent times. In addition, firms that had experienced some contact with the FSA in the six months leading up to the survey were more satisfied than firms that had not had recent contact.

- The FSA's perceived performance in maintaining confidence in the financial system has declined significantly since 2006 – though this is not altogether unexpected and the ratings on the FSA's other objectives remain largely unchanged.

- Firms believe that the FSA has tended to focus on 'consumer protection' to the detriment of its other objectives.

- Wholesale firms are typically more satisfied than retail firms when asked about the FSA's performance and/or their regulatory relationship, but the gap has narrowed.

- Smaller firms remain less satisfied than larger relationship managed firms, but there are signs that the gap is closing and that concerns are converging around common themes.

- There is definite improvement in firms' views about the high costs of compliance, but small firms in particular still perceive the FSA to offer poor value for money.

- While continuing to support principles based regulation, firms believe that communication (especially at the point of launch) and implementation of major FSA initiatives could be handled more effectively.

- Firms are not yet convinced about the robustness of the FSA's cost benefit analyses prior to launching new initiatives.

I commend this survey report to you. If you are a regulated firm, I would particularly like to encourage you to review it and see what your contemporaries/peer groups are saying about the FSA – these are the issues that will frame the agenda of the Panel over the coming year.

Finally, my own and the Panel's thanks go to Russell Collins, Helena Morrissey, Iain Cornish from the Panel, and Gillian Cardy from the Smaller Businesses Practitioner Panel for their hard work in our sub-group which oversaw the day-to-day activities relating to the survey. I would also like to thank the team at BMRB who conducted this research on the Panel's behalf and authored the final report, and our own Secretariat staff for ensuring that all operational and communication aspects of this project ran smoothly.

In concluding, I would also like to put on record my thanks to the FSA for the constructive way in which it has engaged with the Panel on this survey.

Nick Prettejohn

Panel Chairman, December 2008

1 Introduction

The Financial Services Practitioner Panel ('the Panel') was established to gauge how the Financial Services Authority (FSA) performs in meeting its objectives. The Panel is a high level body that represents the views and interests of regulated firms in the regulatory process.

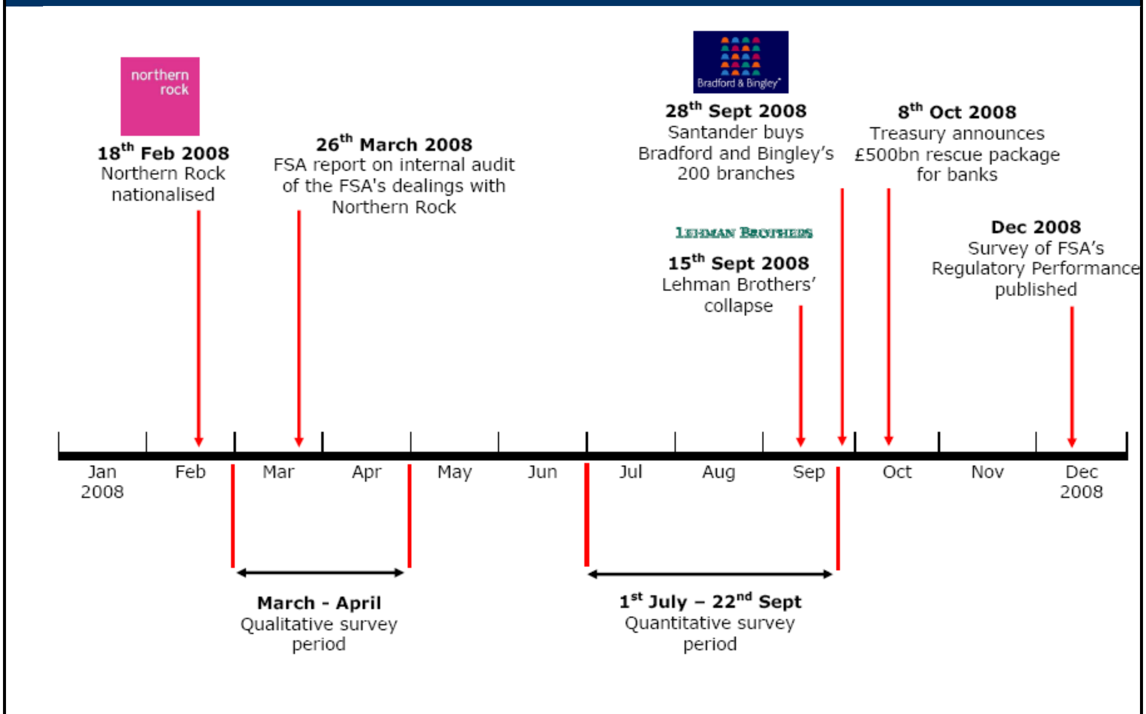
Since 1999 the Panel has conducted a number of surveys to measure industry views and opinions on the performance of the FSA. The 2008 survey is the fifth in this series and was conducted by BMRB. By means of the survey, the Panel is able to measure the views of the industry and to communicate these views and concerns to the FSA.

The Practitioner Panel Industry Survey provides important feedback from the industry on the regulatory performance of the FSA. The findings presented in this report offer clear guidance about where improvements can be made by the FSA to improve its regulatory performance from the perspective of the firms it regulates.

1.1 Timings of survey fieldwork

The responses from practitioners were collected up until 22nd September 2008. Almost all completed questionnaires (99.5%) were returned before the failure of Lehman Brothers and the UK Government announcement of the Bank re-stabilisation plan (Chart 1.1).

Chart 1.1 Timeline of survey development



1.2 Objectives

The main objectives of the 2008 survey were:

- to provide top level assessment from chief executives/principals on their perceptions of the performance and areas of priority of the FSA
- to provide industry-wide views of the operational efficiency of the FSA in dealing with firms
- to provide the Panel with information about the effect of the FSA on the industry (regulatory burden, cost, innovation and competitiveness)
- to provide information that can be used by the Panel in guiding the FSA on how it should set its priorities and guide the delivery of its operations.

1.3 Methodology

As in previous years, a mixture of qualitative and quantitative research was used to meet these objectives.

An initial stage of qualitative research was conducted with firms to explore their attitudes towards, and experiences of, dealing with the FSA and to identify topics of interest to regulated firms that should be included in the quantitative survey.

To this end, 42 exploratory depth interviews were conducted between March and April 2008 with chief executives of regulated firms and three group discussions were conducted with smaller firms to explore their views. The findings from the qualitative research were used to inform the development of the quantitative questionnaire. Once drafted the questionnaire was piloted with a number of firms before the final content was agreed.

The quantitative survey was conducted using a paper self-completion questionnaire, mailed out to regulated firms between July and September 2008. A small number of non-responding firms were contacted by telephone and completed a shortened version of the questionnaire over the phone. Overall 4,459 firms took part in the survey and a response rate of 46% was achieved. This represents an improvement on the 2006 survey where a response rate of 40% was achieved.

The data presented in this report have been weighted to ensure the results are representative of the population of regulated firms.

Full details of the methodology and weighting can be found in the Appendix 1.

1.4 Structure of the report

The report has been structured as follows:

Chapter 2 contains a summary of the key findings from the survey and recommendations as to where to focus improvements to gain the most benefit.

Chapter 3 covers regulated firms' assessment of the FSA's performance against its statutory objectives and firms' attitudes towards the FSA being committed to learning the lessons after Northern Rock.

Chapter 4 looks at firms' attitudes towards regulation in general and their attitudes towards More Principles Based Regulation (MPBR) and the Treating Customers Fairly initiative (TCF) in particular.

Chapter 5 explores firms' attitudes towards the FSA's approach to enforcement, looking at whether this is perceived to be a credible deterrent by the industry.

Chapter 6 examines the costs of compliance for regulated firms and how these costs are perceived.

Chapter 7 examines firms' overall satisfaction with their relationship with the FSA, how easy they find it to deal with the FSA and whether the relationship has improved, stayed the same or deteriorated in the last two years.

Chapter 8 presents the key driver analysis of satisfaction with the FSA and where improvements may be focused to increase satisfaction.

Chapter 9 explores firms' relationship with the FSA and the extent and nature of the contact they have with the regulator.

Chapter 10 examines firms' attitudes towards supervision by the FSA.

Chapter 11 covers firm's attitudes towards the Retail Distribution Review (RDR).

Chapter 12 examines firm's attitudes towards EU and international issues.

Chapter 13 explores issues specifically related to very small firms.

Chapter 14 covers the issues that regulated firms believe are critical for the FSA to address and the key areas of expertise the FSA needs to develop.

Chapter 15 Contains a summary of firms' awareness of the Practitioner Panel and the Smaller Businesses Practitioner Panel and their perceptions of the Panels and the role they play.

1.5 Reporting categories

Throughout the report comparisons have been made between:

- types of firm (major groups, relationship managed wholesale and retail firms, non-relationship managed wholesale and retail firms and credit unions)
- relationship managed firms and non-relationship managed firms
- retail and wholesale firms
- firms that have had recent contact (within the last six months) with the FSA and firms that have not had recent contact with the FSA
- very small firms with fewer than 20 full-time staff and larger firms with 20 or more full-time staff.

Whether a firm has a designated relationship manager or not also provides an indication of its size, with large firms generally having a designated relationship manager and small firms lacking a relationship manager. Therefore comparisons between relationship managed firms and non-relationship managed firms can also be used to provide an indication of differences in attitudes between large and small firms.

An additional size comparison has been derived from the questionnaire to explore attitudes of firms with fewer than 20 full-time staff. The majority of these firms were general insurance intermediaries, financial advisers or home finance brokers.

Comparisons have also been made with the 2006 and 2004 survey findings where possible.

1.6 Notes to tables

1. Base numbers are shown in italics.

2. Very small bases have been avoided where possible. Where the base size is less than 50, both the bases and the percentage estimates are shown in square brackets [ ].

3. Percentages may not always add up to 100% owing to rounding.

4. Unless otherwise stated, changes and differences mentioned in the text are statistically significant at the 95% confidence level.

5. The following conventions have been used in all tables:

-	No cases
*	Percentage less than 0.5%
n/a	Data not available
[ ]	Percentage based on less than 50 cases

2 Executive Summary

Fifth survey of the FSA's regulatory performance

The 2008 survey is the fifth survey of regulated firms conducted on behalf of the Financial Services Practitioner Panel to measure the FSA's regulatory performance. This report is based on the responses of 4,459 regulated firms. An overall response rate of (46%) was achieved. The survey data have been weighted to ensure the survey results are representative of all regulated firms in the industry. Full details of the weighting can be found in Appendix 1.

Fieldwork for the survey was conducted between 1st July and 22nd September 2008. The majority of firms completed a paper questionnaire with a small number (257) completing the survey by telephone. Two-thirds (65%) of questionnaires were completed by the chief executive, managing director, partner or principal in the firm.

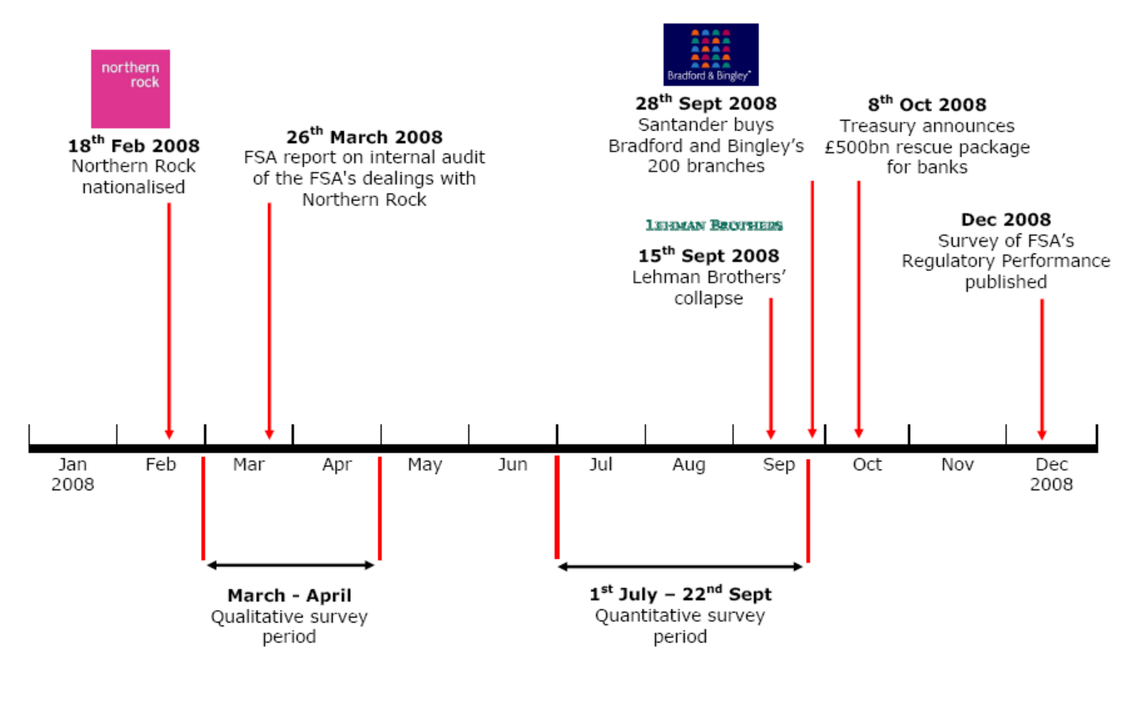
A census of all regulated firms was undertaken with the exception of home finance broker firms, general insurance intermediaries and financial advisers where a random sample was taken.

Prior to the quantitative research, a qualitative phase of research was conducted to identify the key areas of interest to firms. Forty two depth interviews were conducted with chief executives of regulated firms and focus groups were conducted with managing directors of small businesses.

2.1 Overview

A number of high profile events were affecting the financial services industry throughout the time the survey was being designed and undertaken, and it is likely that these events impacted on the views expressed by firms throughout the survey. Chart 2.1 shows a timeline placing the survey in the context of the events that were happening at the time.

Chart 2.1 Timeline of survey development



Firms' rating of the FSA's performance in meeting its four statutory objectives (see Section 2.2) has remained stable since 2006, with the exception of the rating of the FSA's performance in maintaining confidence in the UK financial system which has seen a sharp decline. This is not surprising considering the context in which the survey was conducted.

There is now an even greater acceptance among regulated firms in the financial services industry of the need for strong regulation. The proportion of firms believing that the regulatory system places too great a burden on firms remains high, but has fallen dramatically since 2006, and there has also been a fall in the proportion of firms which believe the costs of compliance to be excessive.

Among regulated firms there is widespread acceptance of the initiatives introduced by the FSA such as Treating Customers Fairly (TCF), More Principles Based Regulation (MPBR) and, to a lesser extent, the Retail Distribution Review (RDR). There are, however, strong concerns in the industry about how these initiatives are implemented and how they are communicated to the industry.

Regarding MPBR in particular there has been a deterioration rather than an improvement since the 2006 survey in the proportion of firms which agree that the FSA has made it clear how MPBR will work in practice.

Since the 2006 survey there has been little improvement in regulated firms' overall satisfaction with their relationship with the FSA. Although the proportion of firms giving a high rating of satisfaction has increased slightly, the average satisfaction score across all firms has seen no change.

Firms with fewer than 20 full-time staff remain less satisfied overall with most aspects of their dealings with the FSA than firms with 20 or more full-time staff. This gap appears to be narrowing and the issues affecting firms with fewer than 20 full-time staff are much the same as those affecting firms with 20 or more full-time staff.

Relationship managed firms are more positive overall about the FSA. Satisfaction with the FSA among relationship managed firms is, however, associated with the turnover of relationship managers. Satisfaction decreases as the turnover of relationship managers increases.

Contact with the FSA is positively correlated with greater satisfaction among firms. Across almost all measures, firms that had had contact with the FSA in the last six months were more positive than those that had had no contact.

2.2 FSA performance

Regulated firms were asked to rate the FSA's performance against its four statutory objectives:

- maintaining confidence in the UK financial system
- promoting public understanding of the financial system
- securing the appropriate degree of protection for consumers
- reducing the extent to which it is possible for a business to be used for a purpose connected with financial crime.

There was a sharp decline in the rating of the FSA for maintaining confidence in the UK financial system, with a fall from an average score of 5.5 to 4.3 out of 10. The proportion of firms giving a low rating (between 1 and 3) has more than doubled since the 2006 survey from 15% to 38%. This is likely to reflect the time at which the survey was conducted, around six to eight months after Northern Rock was nationalised, with reports of the 'credit crunch' becoming widespread and the beginning of the Government's intervention in the financial markets in the UK and internationally.

With the exception of the first objective – maintaining confidence in the UK financial system, there was little movement in firms' rating of the FSA's performance against these objectives since the 2006 survey. This indicates that firms' concern over the first objective has not prejudiced their views of the FSA's performance in general. However, 61% of firms agreed that the FSA has focused on consumer protection to the detriment of other objectives.

Of the remaining objectives, firms were least positive about the FSA's performance in promoting public understanding of the financial system with only 17% rating the FSA highly in this area. Around a third of firms rated the FSA highly for securing the appropriate degree of consumer protection (32%) and reducing financial crime (35%).

The 2008 survey included a question to gauge opinion about what had recently happened with Northern Rock. Four in ten firms (42%) believed that the FSA was committed to learning the lessons following Northern Rock to make it a better regulator.

2.3 Attitudes towards regulation

There is a mixed response to regulation; while the industry as a whole sees the benefit of strong regulation, there is at the same time a real concern that it has a negative effect on firms.

The overwhelming majority of firms (85%) recognised the need for strong regulation, with almost half (46%) agreeing strongly that it is for the benefit of the industry as a whole. This is an increase from 2006 when eight in ten firms (79%) saw it as beneficial and 39% agreed strongly that this was the case.

While most firms see the benefit of strong regulation, at the same time there is a widespread belief across the industry that regulation also impacts negatively on businesses; eight out of ten firms (82%) agreed that the current regulatory system places too great a burden on firms. Although this is still high, it is slightly lower than in 2006, when 86% of firms felt this.

Firms with fewer than 20 full-time staff were more likely than firms with 20 or more full-time staff to see regulation as placing too great a burden on firms. Almost half of firms with fewer than 20 full-time staff (44%) agreed strongly that the current regulatory system places too great a burden on firms, compared with just over a quarter (27%) of firms with 20 or more full-time staff.

As in 2006, there was general support from the industry for MPBR, with three-quarters (75%) agreeing that it is a welcome approach. Most firms also felt that they would benefit from MPBR. Six out of ten firms (60%) agreed that they will benefit from the FSA's focus on principles.

However, although MPBR has been in operation since 2006, fewer than three in ten firms (29%) agreed that the FSA has made it clear how it will work in practice. This is a significant decrease from 2006 when 37% agreed.

There was also a real concern among firms that MPBR may leave them open to retrospective regulation, with six in ten firms (62%) feeling this might be the case. This was a particular concern for major group firms, 80% of which agreed that they may be left vulnerable to retrospective regulation.

There was an overwhelmingly positive attitude to the *principle* of TCF. Around nine in ten firms (89%) supported the TCF initiative, with 68% agreeing strongly that they supported TCF.

However, opinion is more divided on the FSA's implementation and communication of TCF to the industry. Just over half of firms (53%) believed that the FSA has provided a clear explanation of how firms should implement TCF; this is, however, a significant improvement from 2006 when only 39% felt this.

Despite this improvement, one in five firms (21%) still did not feel they understood what management information was required to demonstrate compliance with TCF – a significant number given that the deadline for having this information in place was in March 2008, several months before the survey took place.

2.4 Attitudes towards enforcement

Overall satisfaction with enforcement has remained largely similar to that seen in the 2006 survey, with the majority of firms essentially neutral on FSA performance in this area. There was a general consensus that enforcement is perceived by the industry to be a 'credible deterrent' with two-thirds of firms (67%) endorsing this statement. This was particularly true of major group firms, 77% of which agreed.

While many firms did not know whether a principles based approach was followed by the FSA in its enforcement, half of firms (51%) were inclined to agree that this was the case.

2.5 Cost of compliance

Since the 2006 survey, the proportion of firms believing the costs of compliance to be excessive has declined from 57% to 45%. Relationship managed firms were far less likely to view the costs of compliance as excessive compared with firms without a relationship manager (21% compared with 47%).

When the costs of compliance were estimated as less than 5% of total costs, around a third of firms (35%) felt these to be excessive, and this rises to half of firms (50%) when costs are estimated as 5 to <15% of total costs, two-thirds (64%) with costs of 15 to <20%, and up to three-quarters (73%) of firms believing the costs to be excessive where they account for 20% or more of total costs.

Just one in ten firms (11%) rated the FSA highly in terms of offering value for money.

Firms' views on the importance of strong regulation were correlated with their perception of the FSA offering value for money against the regulatory fees.

Those which believed strong regulation to be important were less likely than those which did not believe this to see the FSA as offering poor value for money. Eight in ten (80%) firms which disagreed strongly that strong regulation is for the benefit of the financial services industry as a whole rated the FSA poorly in terms of offering value for money, compared with 32% of firms which agreed strongly with this statement.

The proportion of firms feeling strongly that the costs of compliance were harmful to their business has fallen from a third of firms (34%) in 2006 to a quarter (23%) in 2008.

2.6 Satisfaction with the FSA

Overall satisfaction among regulated firms with their relationship with the FSA has remained the same as in the 2006 survey, with an average score of 6 out of 10. There has, however, been an increase in the proportion of firms giving high ratings (from 7 to 10) and a decrease in the proportion giving the lowest rating (1 to 3) or a neutral rating (4 to 6).

Relationship managed wholesale firms and credit unions tended to be most satisfied while non-relationship managed retail firms reported the lowest levels of satisfaction. As seen in 2006, wholesale firms reported higher levels of satisfaction than retail firms.

However, satisfaction could be undermined by the perception that there is some lack of balance between the FSA satisfactorily addressing risks in prudential capital and liquidity and their continued process-driven approach to regulation.

Satisfaction among relationship managed firms also declined as the turnover of relationship managers increased. Firms that had seen no change in their designated relationship manager over the last two years were more highly satisfied with their relationship with the FSA than firms that had seen two or more changes in relationship manager over this time period (71% and 56% respectively).

The majority of firms (71%) reported that their relationship with the FSA had remained the same over the past two years, a fifth (19%) said it had improved and one in twenty (5%) said it had deteriorated. The proportion feeling their relationship has remained the same is higher than seen in 2006, suggesting a period of stability over the last two years. Of firms which reported no change, two-fifths (40%) gave a high satisfaction rating, indicating they were very satisfied and had been so over the last two years. Half (47%) gave a neutral rating and 11% were dissatisfied and had seen no improvement to ease this dissatisfaction over the last two years.

More than four in ten firms (43%) gave a high rating in terms of ease of dealing with the FSA. Firms which had had contact with the FSA in the last six months were more likely than firms which had not had contact to feel that their ease of dealing with the FSA had improved in the last two years.

2.7 Relationship with the FSA

The majority of relationship managed firms (77%) were satisfied with their relationship manager, with 35% reporting high levels of satisfaction. One in ten (9%) were dissatisfied. Dissatisfaction was clearly related to the number of times the relationship manager had changed. Just 6% of firms that had kept the same relationship manager over the last two years reported dissatisfaction, compared with 14% of those that had seen two or more relationship managers over this time period.

There were high levels of satisfaction with the Firm Contact Centre among firms which had used it, with 68% being satisfied with the service provided.

Levels of satisfaction with the guidance given by the FSA were good, with 47% of firms rating the guidance highly. The majority of firms had mainly sought guidance from the Firm Contact Centre.

There was a degree of scepticism among firms about the cost benefit analysis carried out in consultation papers, with six in ten firms (59%) able to give an opinion disagreeing that cost benefit analyses were carried out robustly. Firms were, however, slightly more positive about the reliance placed on market-led opinion – half of firms (50%) agreed that the FSA places sensible reliance on market-led solutions.

2.8 Attitudes towards supervision

Around half of all firms (48%) were satisfied with the FSA's performance in its supervisory role. However, six out of ten firms (59%) had never had a supervisory visit and, even when visits had taken place, these tended to be over three years ago.

Encouragingly, three-quarters of firms (74%) felt that the level of supervision they receive is 'reasonable' for a firm of their size and type, an increase from the 67% who agreed with this in 2006.

Relationship managed firms were much more likely to have had a supervisory visit compared with non-relationship managed firms (79% and 29% respectively). Relationship managed firms were also much more positive about all the aspects of supervision than those firms which are not relationship managed. They were more likely to see the FSA as a 'partner', with 89% agreeing that the FSA was willing to hold a dialogue with them about enforcement issues. This is compared with 80% of firms without a relationship manager.

2.9 Attitudes towards RDR

Although the majority of firms giving an opinion welcomed the RDR initiative (60%), there was less support among firms for the RDR than was identified for TCF and MPBR. Wholesale firms were more likely than retail firms to welcome the RDR (75% and 59% respectively).

2.10 Attitudes towards EU and international issues

Since the 2006 survey there has been a fall in the proportion of firms which agreed that the FSA was suitably coordinated with HM Treasury, from 49% in 2006 to 39% in 2008.

Almost six in ten (58%) firms believed that the FSA is alert to emerging EU issues and prepares its position in time. Seven in ten (70%) firms able to give an opinion agreed that the FSA had been consistent in its implementation of the Markets in Financial Instruments Directive (MiFID) and 69% agreed that the FSA had given them sufficient time to prepare for MiFID.

2.11 Attitudes towards the Panels

Before being contacted to take part in this survey, just under half (45%) of regulated firms had heard of the Practitioner Panel. Three-quarters (74%) of major groups had heard of the Panel. Just under a third (31%) of firms had heard anything about the Smaller Businesses Practitioner Panel. Large firms with 20 or more full time staff were equally as likely to have heard of the Smaller Business Practitioner Panel as smaller firms (30% and 32% respectively).

Firms that were aware of the Panels expressed fairly positive attitudes towards them. Of those able to give an opinion, nine in ten (89%) agreed that the Panels had an important role to play on behalf of their type of business and the same proportion agreed that the Panels were helping the FSA to understand industry views. However, just two-thirds (67%) agreed that the Panels were able to influence FSA policies and decisions.

There was a strong belief by firms in the independence of the Panels, with 85% agreeing that the Panels were independent of the FSA. Three-quarters (76%) of firms felt it was easy to express their views to the Panels and the same proportion agreed that the Panels were able to represent the industry as a whole.

2.12 Key areas for improvement

Firms' satisfaction in the FSA's performance against its four statutory objectives is driven by a belief that the FSA facilitates innovation and competitiveness within the UK, understands firms' business and listens to industry views in deciding policies and procedures.

The particular drivers of firms' satisfaction with maintaining confidence in the UK financial system mirror the drivers for all four objectives combined, with the exception that 'fostering a sense of partnership with firms' replaces 'understanding the firm's business'.

Firms' satisfaction with their relationship with the FSA was very closely correlated with the ease of dealing with the FSA. A number of themes were identified that drove firms' satisfaction with the FSA. These were:

- the role as a regulator
- supervision of firms
- the relationship with the FSA
- communication.

Two key areas were identified from the key driver analysis that were important drivers of firms' satisfaction with their relationship with the FSA but in which the FSA was currently not perceived to be performing well. These were:

- understanding firms' business
- satisfaction with the FSA's approach to enforcement.

Improvement in these two areas by the FSA would be expected to show a significant reward in terms of increasing firms' satisfaction with their relationship with the FSA.

The key factors influencing attitudes towards the FSA's understanding of a firm's business were creating a sense of partnership, specifically understanding the firm's risk profile, listening to industry views when developing policy and understanding small firms and the implications of regulatory change on these firms.

In terms of understanding business, it is reasonable to suppose that a relationship manager can play a key role in demonstrating this understanding to firms. Among relationship managed firms it is not surprising that satisfaction with the relationship manager is a key driver in overall satisfaction and the research has identified that numerous changes of relationship manager tend to result in lower satisfaction levels. Although firms that have seen two or more relationship managers in the last two years are still generally satisfied with their relationship manager, they are less likely to be satisfied than firms that have seen no change in their relationship manager.

Satisfaction with the FSA's approach to enforcement was driven by firms' perception of the FSA's enforcement procedure being seen by the industry as a credible deterrent and being used in a way that better protects the public. In addition, improvement could be seen in firms' perception of the FSA's performance in this area if there is clarity of the rationale of enforcement and improvement in the communication and implementation of enforcement (such as ensuring enforcement follows a principles based approach, placing clear and reasonable responsibilities on senior management and demonstrating fairness in its dealings with the financial services industry).

Among major groups the key areas for improvement were in encouraging greater education of the public about financial products and services and redressing the balance between consumer protection and the FSA's other objectives.

3 FSA performance – overview

This chapter first examines the perception of regulated firms of the performance of the FSA against its four statutory objectives along with firms' perceptions about their working relationship with the FSA. In light of when the survey was conducted, after the nationalisation of Northern Rock, this chapter also explores firms' attitudes towards whether they think the FSA is committed to learning the lessons following Northern Rock in order to make it a better regulator.

3.1 FSA performance against its statutory objectives

The FSA has four statutory objectives set out under the Financial Services and Markets Act 2000 (FSMA) namely:

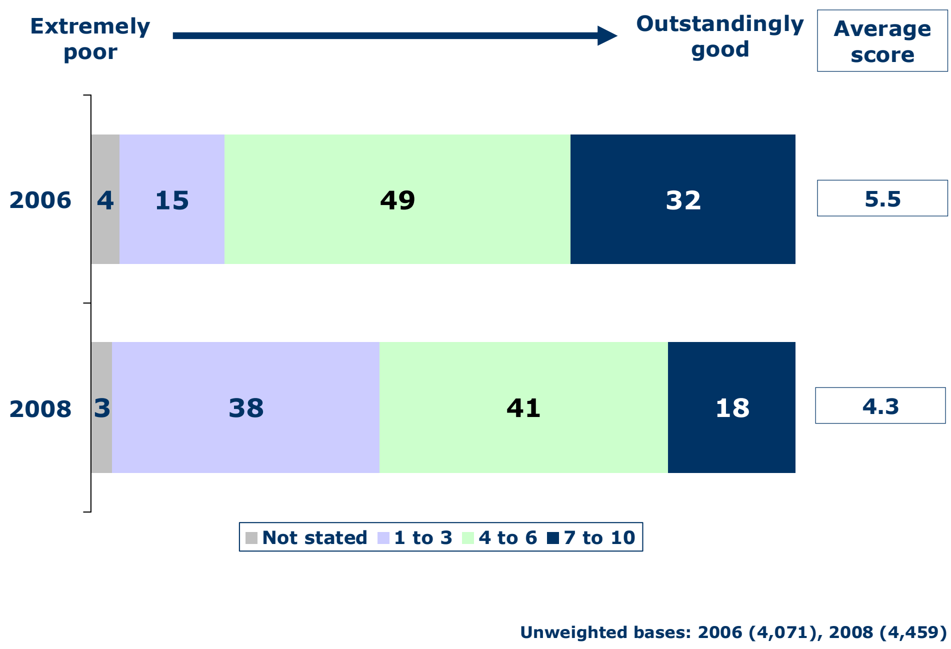
- maintaining confidence in the UK financial system
- promoting public understanding of the financial system
- securing the appropriate degree of protection for consumers
- reducing the extent to which it is possible for a business to be used for a purpose connected with financial crime.

Among regulated firms, perceptions of the performance of the FSA against three of these objectives have remained largely unchanged between the 2006 Panel survey and the 2008 survey. There has, however, been a substantial decrease in firms' perception of the FSA's performance against the objective of 'maintaining confidence in the financial system'. This decline was perhaps to be expected given the climate in which firms were completing the survey. Firms were asked to complete the survey between June and September 2008, after the nationalisation of Northern Rock but before the turbulence that hit the financial markets in the weeks following the collapse of Lehman Brothers on 15th September 2008.

3.1.1 Maintaining confidence in the UK financial system

Firms were asked to rate the FSA's performance over the last two years against each of its statutory objectives using a scale of 1 to 10, where 1 was extremely poor and 10 was outstandingly good. The proportion of firms believing the FSA to have performed poorly (giving a score between 1 and 3) against its objective of maintaining confidence in the UK financial system more than doubled from 15% in 2006 to 38% in 2008 (Chart 3.1). There has been a corresponding decrease in the proportion of firms believing the FSA to have performed well in this area (giving a score between 7 and 10) from 32% in 2006 to 18% in 2008.

Chart 3.1 Maintaining confidence in the UK financial system



Relationship managed firms were more positive than non-relationship managed firms. They were less likely than non-relationship managed firms to give the FSA a low rating against this objective (33% compared with 39%) and more likely to give a neutral rating (a score between 4 and 6); 47% of relationship managed firms gave a neutral score compared with 40% of firms that were not relationship managed.

There is a correlation between firms' overall satisfaction with their relationship with the FSA and their perceptions of its performance against this objective. Three-quarters of firms (74%) which were not satisfied with their relationship with the FSA (scores of 1 to 3) also believed the FSA to have performed poorly in maintaining public confidence, compared with just a quarter (24%) of those who were very satisfied with their relationship (scores of 7 to 10). A third of firms (33%) who were very satisfied with their relationship with the FSA also believed the FSA to be performing well in maintaining confidence, compared with just 2% of those who were not satisfied. There was no significant difference in the rating of the FSA's performance against this objective between firms which had had recent contact with the FSA and those which had not.

Almost all major groups (95%) rated the FSA either poorly (36%) or gave a neutral rating (58%) for maintaining confidence in the UK financial system.

Eight in ten retail firms (80%), three-quarters of wholesale firms (75%) and six in ten credit unions (60%) rated the FSA either poorly or neutrally with regards to understanding their firm and their business.

Firms which agreed that the FSA was committed to learning the lessons following Northern Rock to make it a better regulator were more likely to give a high rating on this measure (29% compared with 6% of firms which disagreed with this statement).

These findings are echoed in the qualitative research with the relationship managed firms taking a global view of the FSA. While recognising that the FSA does not always manage its business perfectly, they were also very keen to point out the high esteem with which the FSA is held both nationally and internationally.

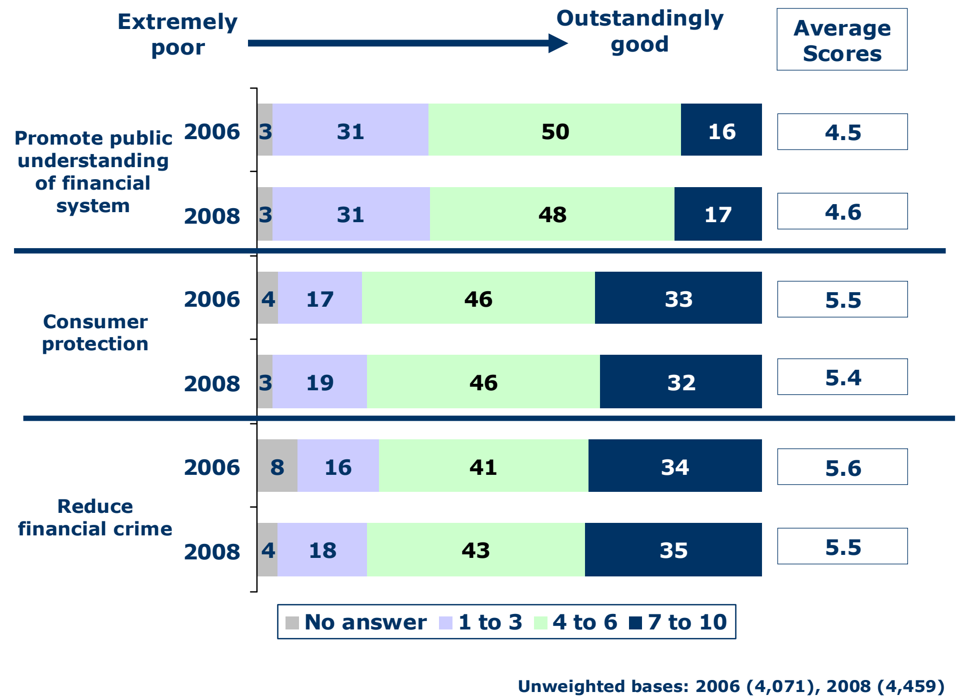
> *'I would always prefer to deal with the FSA if I could, until I get stuck on some tiny issue and then I feel I would prefer to talk to another regulator. They do seem to get hung up on tiny details. But, in the scheme of things, world class and a major player.'*
>
> (Major financial group, relationship managed)

By contrast, non-relationship managed firms had less, if any, contact with the FSA and tended to focus less on how the FSA performed as an industry regulator and more on what they saw as the disproportionate nature of the regulation applied to them.

3.1.2 Rating of the FSA against the remaining statutory objectives

Although there has been a significant fall in the rating of the FSA in maintaining confidence in the UK financial system, this fall is not reflected in firms' rating of the FSA's performance in meeting its three other statutory objectives. Scores for these have remained consistent with the 2006 survey (Chart 3.2).

Chart 3.2 Rating of FSA performance against statutory objectives



As has been seen in previous sweeps of the survey, there were relatively high levels of dissatisfaction with the FSA's performance in promoting public understanding of the financial system. Around a third of firms (31%) gave a low rating of performance against this objective compared with just 17% of firms that rated the FSA highly. Relationship managed wholesale firms and credit unions were the most positive with 26% and 31% respectively giving a high rating and non-relationship managed retail firms tended to be the most negative with 34% giving a low rating.

Relationship managed firms participating in the qualitative research generally felt that 'consumer education' was a distraction from the real business of an industry regulator. This supports the findings from the analysis of the key drivers of overall satisfaction for major groups (Section 8.6.1).

> *'If you took a step back and looked at the objectives of the FSA you would expect that their communications would show a balanced distribution against their statutory objectives whereas the conclusion from this is that they have had a preoccupation with protecting the consumer end as well as the sort of more generic principles based regulation.'*
>
> (Major retail group, relationship managed)

Looking at the different sectors, financial advisers and secondary general insurance firms were the most likely to rate the FSA poorly against the objective of promoting public understanding of the financial system (37% and 34% respectively).

In the qualitative research these types of firms were of the opinion that, while the FSA tried to contribute to public understanding, it could only do so in a generic manner through leaflets and brochures. Perhaps, not surprisingly, they were of the opinion that the best advice was provided by a professional and that, by providing general advice to the public, the FSA was undermining the specialist role of advisers.

> *'Surely, this is why we have advisers. Yes, I can understand that the FSA needs to protect the consumer from the unscrupulous – and they can do that though all sorts of means – but surely we have advisers to advise the consumer. It shouldn't be the FSA's role.'*
>
> (Financial adviser, non-relationship managed)
>
> *'They [FSA] are doing a lot of work on financial capability, school programmes, that sort of stuff. I'm not sure it's the role of the regulator though. I think it should come under the Department of Children, Schools and Families. I'm not convinced it's the regulators job though. I really am not.'*
>
> (Financial adviser, non-relationship managed)

Non-relationship managed financial advisers and mortgage brokers were also very concerned about the FSA's approach to consumer education, seeing this as undermining the sector and potentially pushing the business into the hands of larger players. For non-relationship managed firms this was a key reason for their lack of confidence in the FSA.

Firms which had had recent contact with the FSA (in the last six months) were more likely to give a high rating for the performance of the FSA in promoting public understanding of the financial system compared with firms that had not had contact with the FSA in the last six months (18% compared with 14%).

Firms' attitudes towards the FSA's performance in securing the right degree of protection for consumers and helping to reduce financial crime were more positive with around a third of firms giving a high rating for performance in each of these areas (32% and 35% respectively).

Generally, in rating performance across all four objectives, wholesale firms were more positive than retail, larger firms with 20 or more full-time staff were more positive than very small firms with fewer than 20 full-time staff, those with recent contact with the FSA were more positive than those with no contact, and those who were very satisfied with their relationship with the FSA were far more positive than those who were not satisfied.

3.2 Learning lessons post Northern Rock

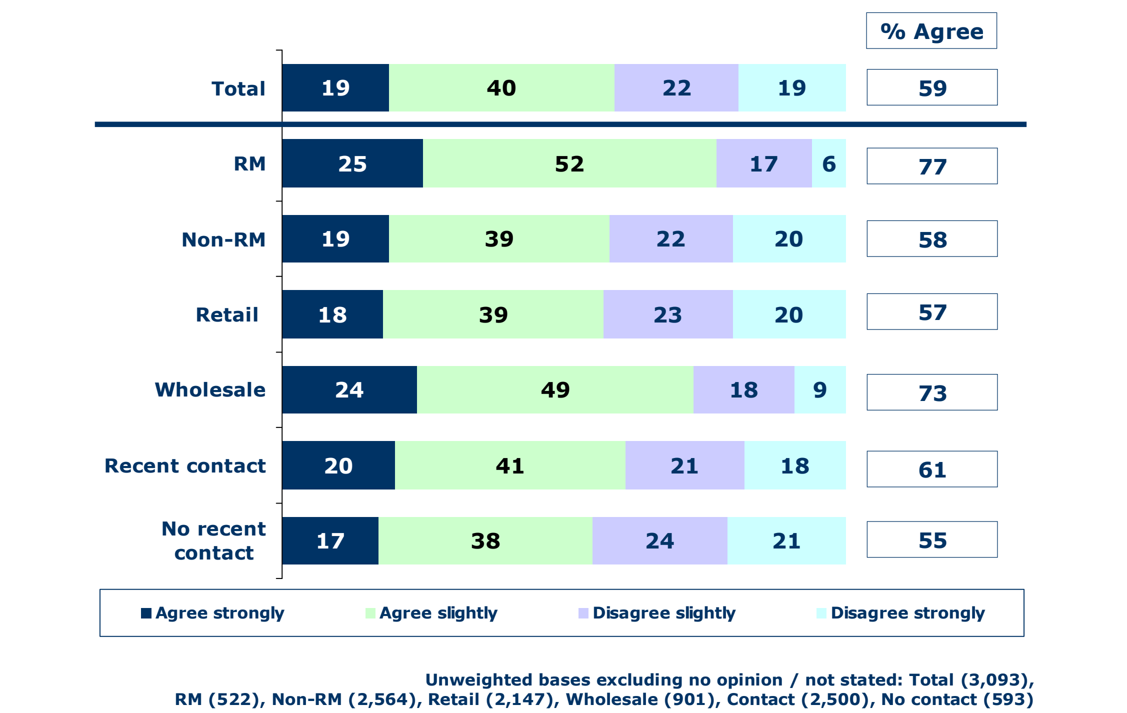
Given the context in which the survey was taking place, it was important to include a question that would gauge opinion about what had recently happened with Northern Rock.

Firms were asked whether they agreed or disagreed that *'the FSA is committed to learning the lessons following Northern Rock to make it a better regulator'.*

Four in ten (42%) of all firms agreed that the FSA is committed to learning the lessons following Northern Rock. A third of firms (30%) were unable to give an opinion on whether the FSA is committed to learning the lessons following Northern Rock, perhaps reserving judgement until more time had passed. The following results are based on those firms that did give an opinion (Chart 3.3).

Of those firms that gave a response, six in ten (59%) agreed that the FSA was committed to learning the lessons following Northern Rock to make it a better regulator, compared with four in ten (41%) who disagreed.

Chart 3.3 The FSA is committed to learning the lessons following Northern Rock to make it a better regulator



Major groups were the most likely to believe that the FSA was committed to learning the lessons following Northern Rock, with almost nine in ten that gave an opinion (87%) in agreement with the statement. Firms with a relationship manager were more likely to agree the FSA was committed to learning the lessons following Northern Rock compared to firms that did not have a relationship manager (77% and 58% respectively). Wholesale firms were more positive than retail firms (73% and 57% respectively), as were firms that had had recent contact with the FSA compared with firms that had not had recent contact (61% and 55%). Firms with 20 or more full-time staff were also more positive than very small firms with fewer than 20 full-time staff (69% and 57%).

4 Attitudes towards regulation

This chapter explores how the industry views the issue of regulation, the way in which the current regulatory system is implemented, and whether it is perceived to be a benefit or a burden to the industry.

The chapter also covers two specific topics that emerged from the qualitative work conducted – namely industry attitudes towards the FSA initiatives More Principles Based Regulation (MPBR) and Treating Customers Fairly (TCF).

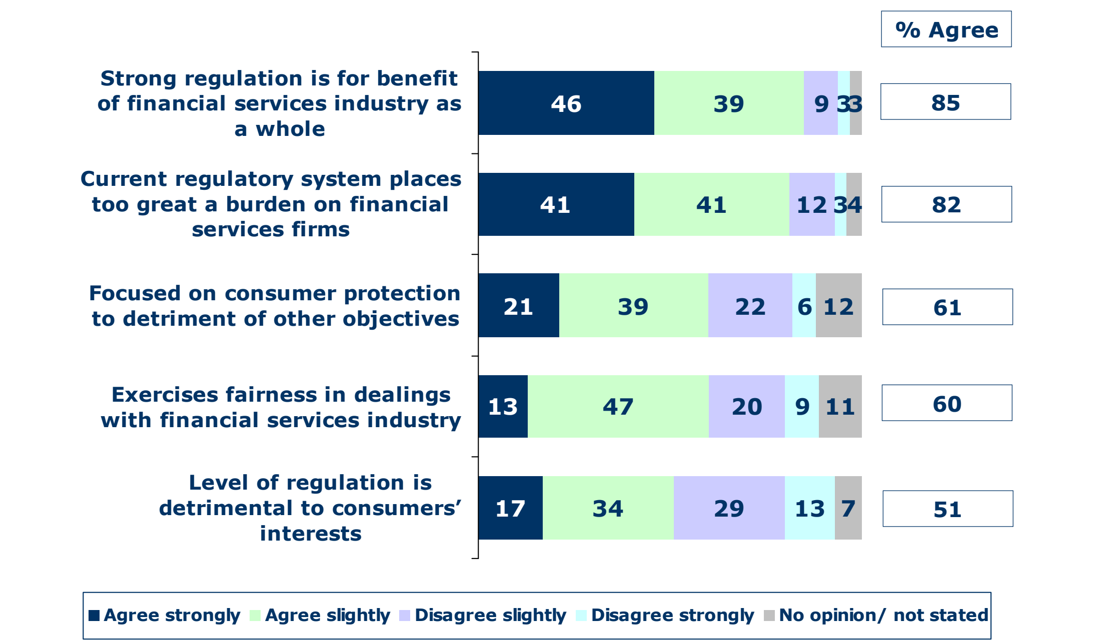
4.1 Overall opinions of the regulatory system

Firms were asked the extent to which they agreed or disagreed with a number of statements about the way in which the FSA regulates the financial services industry (Chart 4.1).

The vast majority of firms (85%) recognised the need for strong regulation and almost half (46%) agreed strongly that it is for the benefit of the industry as a whole.

However, at the same time, there is a widespread belief that regulation also impacts negatively on businesses – eight out of ten firms (82%) agreed that the current regulatory system places too great a burden on financial services firms.

Chart 4.1 Overall attitudes towards regulation



Unweighted base: All firms (4,459)

Very small firms with fewer than 20 full-time staff, firms without a relationship manager and retail firms were all more likely to see the current regulatory system as placing too great a burden on firms. Almost half of very small firms (44%) agreed strongly that regulation is too great a burden compared with just over a quarter of firms with 20 or more full-time staff (27%). Almost nine in ten home finance brokers (87%) and financial advisers (88%) perceived the current regulatory system as too great a burden compared with just over half of credit unions (53%).

Nine in ten major groups (89%) saw the current system as placing too great a burden on firms. Table 4.1 highlights other differences according to type of firm.

Table 4.1 The current regulatory system places too great a burden on financial services firms, by type of firm

	Type of firm						
	Major groups	RM retail	RM wholesale	Non-RM retail	Non-RM wholesale	Credit unions	**Total**
	%	%	%	%	%	%	%
Agree strongly	[22]	28	17	46	22	11	*41*
Agree slightly	[68]	53	51	39	50	42	*41*
Disagree slightly	[5]	16	23	9	20	30	*12*
Disagree strongly	[4]	2	5	2	3	12	*3*
Agree	**[89]**	**81**	**68**	**85**	**72**	**53**	***82***
Disagree	**[9]**	**18**	**28**	**11**	**23**	**42**	***14***
No opinion/ not stated	**[2]**	**1**	**4**	**4**	**4**	**5**	***4***
Unweighted base	*[47]*	*249*	*383*	*2,564*	*937*	*267*	*4,459*
Weighted base	*[17]*	*123*	*186*	*3,451*	*561*	*110*	*4,459*

From the non-relationship managed firms' perspective in the qualitative research, the issue was one of disproportionate regulation. These firms considered that the regulations were designed for the regulation of global entities and then applied equally to every firm in the industry, irrespective of size. The consequence was that non-relationship managed firms considered the regulatory burden to be excessive.

> *'It's all done for Barclays.'*
>
> (Financial adviser, non-relationship managed)
>
> *'I find it unbelievable that an organisation the size of the FSA does not understand that a major bank and a small broker like myself have different risks and cannot find a better way of managing the supervisory process that is appropriate to the size and risk profile of the business.'*
>
> (Mortgage broker, non-relationship managed)

Opinion was divided regarding the effect of regulation on consumer interests. The majority of firms (61%) believed that the FSA focused on consumer protection to the detriment of other objectives. Major groups were most likely to agree that this was the case, with over four in ten major groups (42%) agreeing strongly. Very small firms with fewer than 20 full-time staff were also more inclined to agree (63% compared with 54% of larger firms). Relationship managed firms in the qualitative research thought that not only was there an incompatibility issue but that consumer education and consumer protection distracted the FSA from the overall aim of providing confidence-building risk-based regulation.

Over half of firms (51%) agreed that the level of regulation of the financial services industry is detrimental to consumers' interests. This proportion was higher among retail firms, 56% of which agreed compared with only 28% of wholesale firms. Very small firms were also more likely to feel that regulation was not in consumers' interests, with over half (54%) agreeing with this compared with 39% of larger firms.

4.2 Strong regulation is seen as beneficial

There has been an increase since 2006 in the proportion of firms which agree that strong regulation is beneficial for the financial services industry. In 2008, 85% agreed that strong regulation was beneficial, compared with 79% in 2006.

Indeed, the firms in the qualitative research describe the FSA as being a *'strong, internationally well-respected, regulator'*, basing their views either on their experiences of dealing directly with the regulator or on their perceptions of the regulator gained from the communications they receive from the FSA.

While the recognition of the need for strong regulation was common to the entire industry, there were some notable differences between types of firm (Chart 4.2).

Relationship managed firms were more likely to agree strongly with the need for strong regulation compared with non-relationship managed firms (57% and 45% respectively). Wholesale firms were more likely to strongly agree compared with retail firms (51% and 45%) and firms who have had recent contact with the FSA were more likely to agree than firms that have not had recent contact (47% and 41% respectively).

Chart 4.2 Strong regulation is for the benefit of the financial services industry as a whole

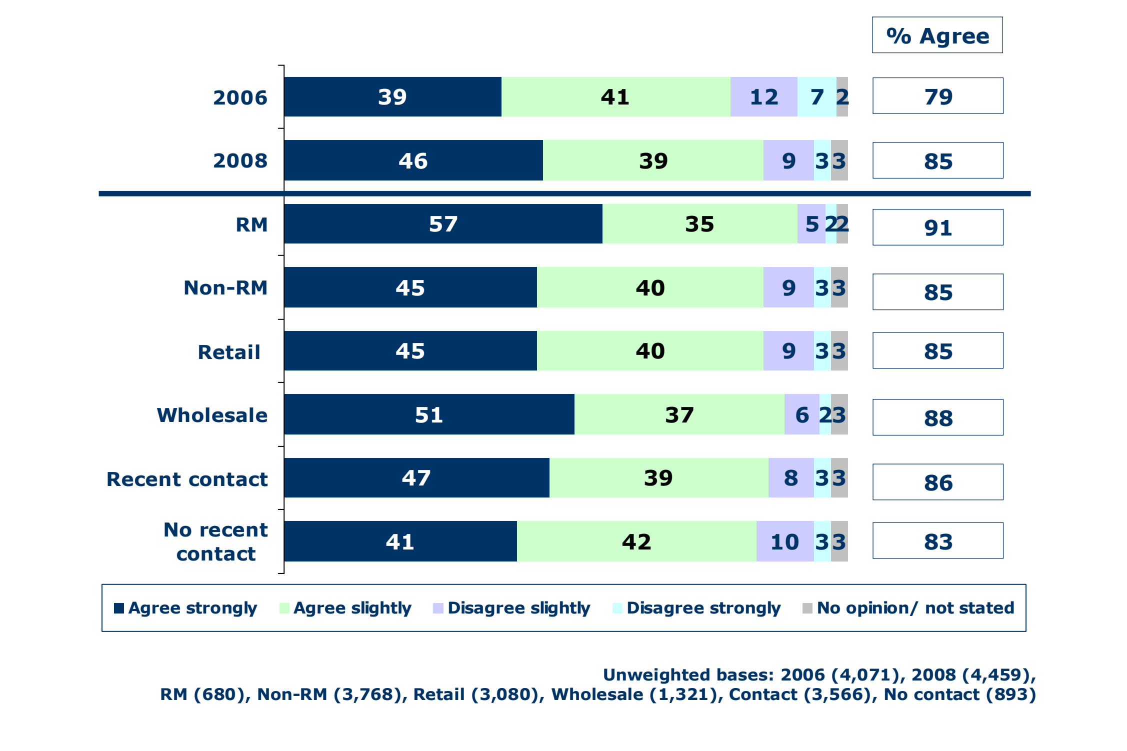


Table 4.2 shows the major differences in perspectives on regulation between various types of firm. While major groups were most likely overall to see the benefit of strong regulation (almost all agreed with the statement).

Interestingly almost all major groups see strong regulation as beneficial to the industry but nine in ten (89%) also felt that the current regulatory system places too great a burden on firms.

Table 4.2 Strong regulation is for the benefit of the financial services industry as a whole, by type of firm

	Type of firm						
	Major groups	RM retail	RM wholesale	Non-RM retail	Non-RM wholesale	Credit unions	**Total**
	%	%	%	%	%	%	%
Agree strongly	[67]	52	58	44	48	73	*46*
Agree slightly	[31]	38	33	41	39	18	*39*
Disagree slightly	[2]	7	5	9	7	3	*9*
Disagree strongly	[-]	2	1	4	3	2	*3*
Agree	**[98]**	**90**	**92**	**84**	**87**	**91**	***85***
Disagree	**[2]**	**9**	**6**	**13**	**10**	**5**	***12***
No opinion/ not stated	**[-]**	**1**	**2**	**3**	**3**	**5**	***3***
Unweighted base	*[47]*	*249*	*383*	*2,564*	*937*	*267*	*4,459*
Weighted base	*[17]*	*123*	*186*	*3,451*	*561*	*110*	*4,459*

Very small firms with fewer than 20 full-time staff were less convinced of the benefits of strong regulation, with 84% agreeing compared with 90% of larger firms.

There was a strong correlation between a positive perception of strong regulation and satisfaction with the FSA. Over half of firms (57%) which were very satisfied with the FSA agreed strongly that strong regulation was beneficial compared with only 30% of those which were dissatisfied.

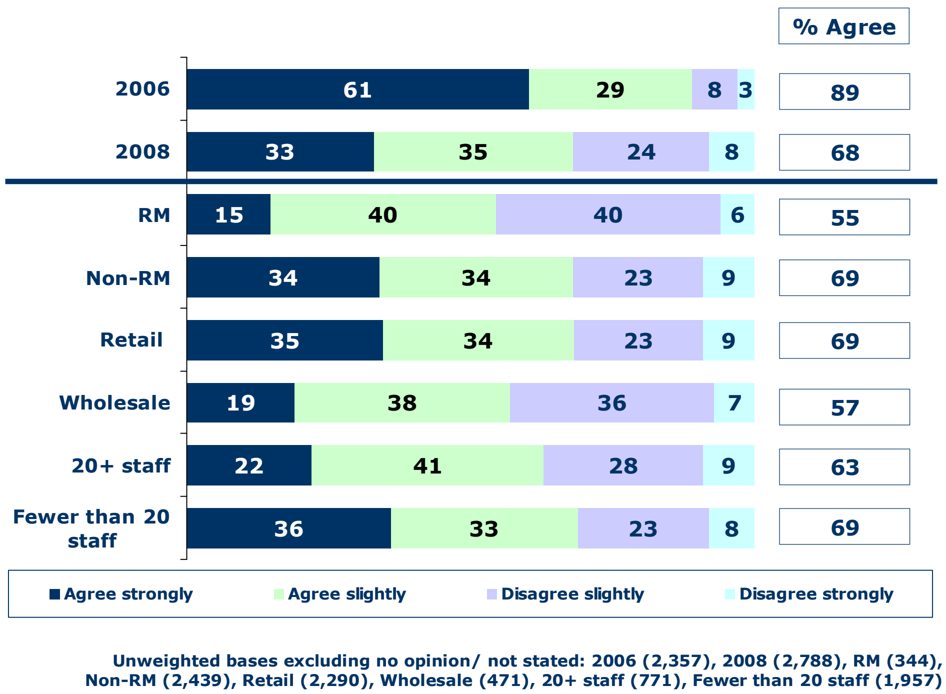
4.3 Retail Mediation Activities Return (RMAR)

Retail Mediation Activities Return (RMAR) was identified as a key area for concern in the 2006 survey and was therefore an important area to be covered by the 2008 survey.

It was particularly an issue for very small firms where it was felt to be the greatest burden.

Although the question asked in the 2006 survey was worded slightly differently to that asked in 2008 (in 2006, the wording was that 'the RMAR has produced a substantial extra burden on firms'), Chart 4.3 shows the improved perceptions of this key area of regulation.

Chart 4.3 RMAR places a disproportionate burden on firms



While nine in ten firms (89%) agreed that RMAR represented a burden in 2006, this proportion has fallen to two-thirds (68%) in 2008. This is a clear improvement. In 2006, RMAR was a relatively new requirement and it would be expected that the time and costs associated with it would decrease over time. There were also widely reported technical problems in 2006 with the electronic filing of data which affected many firms and negatively impacted on perceptions of RMAR as a whole.

However, it is still of concern that around seven out of ten very small firms (69%) and the same proportion of retail firms (69%) still considered the burden of RMAR to be disproportionate.

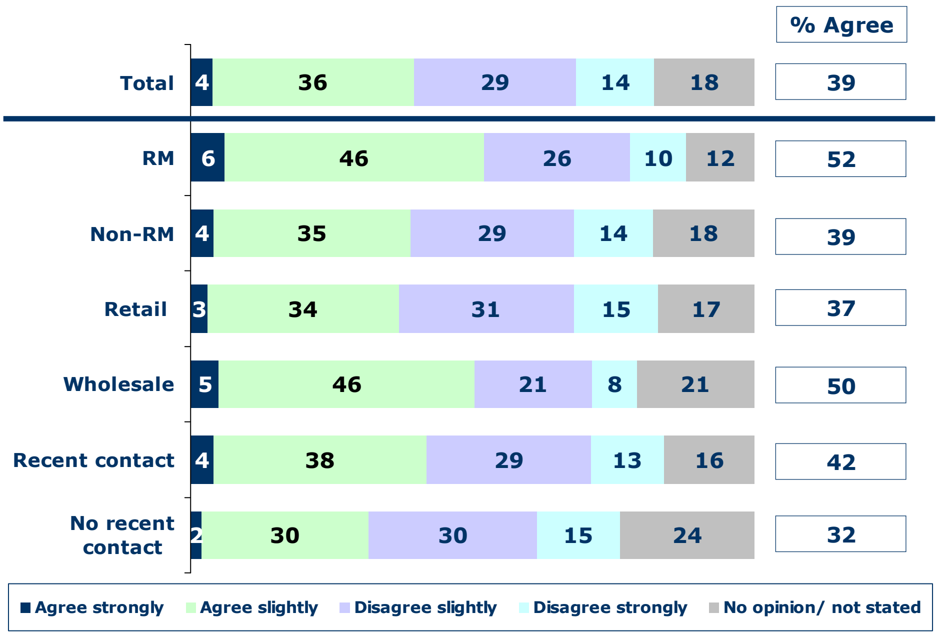
4.4 Balanced approach

A new question was added to the 2008 survey to address the potential concern expressed by some firms in the qualitative research that the FSA introduced initiatives too frequently to the regulatory system.

Firms were asked whether they agreed or disagreed that *'the FSA has a balanced approach in the pace of regulatory change'.*

Four in ten firms (39%) agreed that the FSA had a balanced approach in the pace of regulatory change, but an even higher proportion (43%) disagreed with this statement.

Chart 4.4 The FSA has a balanced approach in the pace of regulatory change



Unweighted bases: Total (4,459), RM (680), Non-RM (3,768), Retail (3,080), Wholesale (1,321), Contact (3,566), No contact (893)

Relationship managed firms were more likely to agree that the pace of regulatory change was balanced – 52% compared with 39% of firms that are not relationship managed. Wholesale firms were also more likely to agree with this than retail firms (50% compared with 37%).

The difference in opinion between larger relationship managed firms and smaller non-relationship managed firms arises primarily from the way in which new initiatives have been introduced and implemented, rather than simply the volume of new regulations. While all firms in the qualitative research had negative comments to make about MPBR and TCF, the commentary was primarily about the way they were being implemented rather than the principle per se. This is discussed fully in Sections 4.5 and 4.6.

4.5 Attitudes towards MPBR

This section looks at firms' attitudes towards More Principles Based Regulation (MPBR). MPBR consists of three main elements: focus on principles and high level rules rather than pages and pages of detail; firms having more flexibility to deliver to agreed outcomes; and the FSA adopting a more interactive and positive approach in giving guidance to firms.

Although the move to MPBR has been in development for several years, it emerged through the qualitative work as still very much a 'hot topic' for firms in 2008.

There was general support from the industry for MPBR, with three-quarters of all firms (75%) agreeing that '*the shift towards principle rather than rule based regulation is a welcome approach*'. This measure has remained stable since the 2006 survey. Although welcomed across all types of firm, relationship managed firms, wholesale firms and firms with 20 or more full-time staff were the most positive about MPBR. Home finance brokers were the most likely to disagree that the principles based approach was welcome (27%).

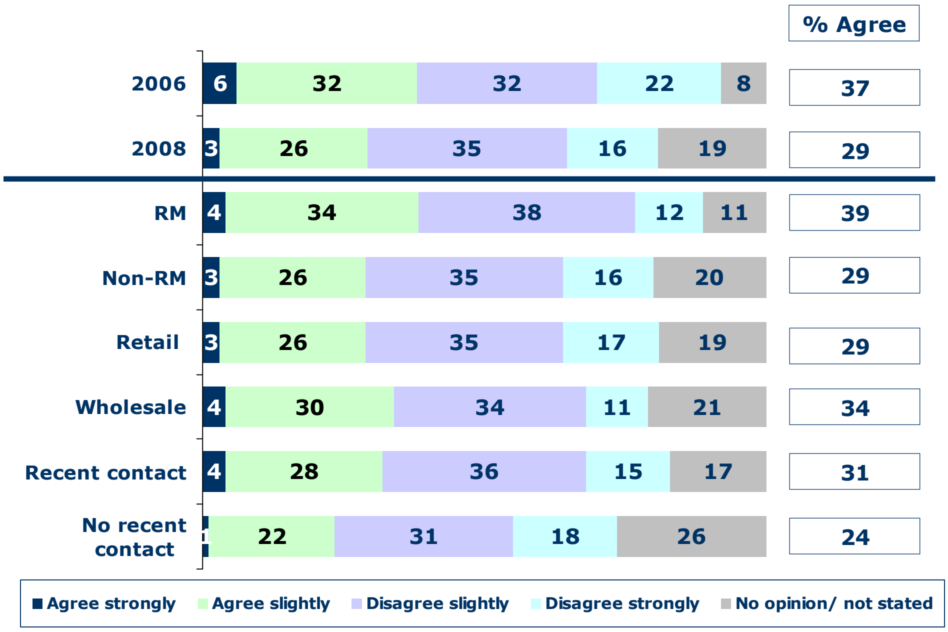
Mentioned by most firms in the qualitative research, but particularly by the relationship managed firms, MPBR was considered to be absolutely the right way for the FSA to evolve its regulatory approach. MPBR was seen as '*a professional and grown up approach'* that should enable firms to run their businesses with more flexibility and allow innovation, thereby enhancing the provision of services to client and consumers.

Firms were asked the extent to which they agreed or disagreed that '*the FSA has made it clear how MPBR will work in practice'.*

Although MPBR has been in operation since 2006, less than three in ten firms (29%) agreed that the FSA had made clear how it will work in practice. This is a substantial decrease from the 37% who agreed with this statement in 2006 (Chart 4.5).

Retail and non-relationship managed firms were less likely than others to agree that the FSA had made it clear how MPBR would work (29% and 29% respectively). Firms with no recent contact with the FSA were the least likely to agree that it had (24%), although even amongst those firms which had had recent contact only a third (31%) agreed that the way MPBR would work had been made clear to them.

Chart 4.5 The FSA has made it clear how MPBR will work in practice



Unweighted bases: 2006 (4,071), 2008 (4,202), RM (660), Non-RM (3,531), Retail (2,872), Wholesale (1,272), Contact (3,364), No contact (838)

There were also major differences among types of firms (see Table 4.3), with major groups being particularly likely to disagree that the FSA had made it clear (84%).

Table 4.3 The FSA has made it clear how MPBR will work in practice, by type of firm

	Type of firm						
	Major groups	RM retail	RM wholesale	Non-RM retail	Non-RM wholesale	Credit unions	**Total**
	%	%	%	%	%	%	%
Agree strongly	[2]	4	5	3	3	5	*3*
Agree slightly	[13]	30	39	25	27	25	*26*
Disagree slightly	[51]	41	35	35	34	25	*35*
Disagree strongly	[32]	15	9	17	12	11	*16*
Agree	**[14]**	**34**	**45**	**28**	**31**	**30**	***29***
Disagree	**[84]**	**55**	**44**	**53**	**45**	**36**	***51***
No opinion/ not stated	**[2]**	**11**	**11**	**19**	**24**	**34**	***19***
Unweighted base	*[47]*	*240*	*372*	*2,379*	*899*	*253*	*4,202*
Weighted base	*[17]*	*119*	*180*	*3,173*	*539*	*104*	*4,142*

The qualitative research showed that, while MPBR is broadly welcomed, there are major concerns about how it is being implemented by the FSA. For firms there remains an element of 'culture shock', moving away from the safer environment of a prescribed set of rules to a set of rules that require a greater degree of interpretation. From the firms' perspective in the qualitative research, the transition to an MPBR approach to regulation has been undermined by an apparent lack of commitment by FSA staff below senior management level and a lack of clarity about how MPBR should be implemented.

Large relationship managed firms considered that the implementation of MPBR was patchy. While senior FSA staff spoke about MPBR at high level conferences and meetings, at the relationship managed level implementation depended on the experience of the relationship management team. Indeed, there was a great deal of concern that MPBR had not had a formal 'roll out' and that the approach was being communicated in an ad hoc manner – *'regulation through speeches'* was how the head of compliance in one insurance company described the approach.

Smaller non-relationship managed firms had seen virtually no difference in approach – still, primarily, being referred to a set of rules on the FSA website.

The major concern of all the firms in the qualitative research was that firms were effectively being asked to interpret the principles. They felt that, with the FSA's previous – and continuing – focus on rules based regulation, this left them with the regulatory risks and costs. They had the need to translate a principles based approach through all levels of their organisation (*'down to the coalface')* but with very little advice and guidance from the FSA.

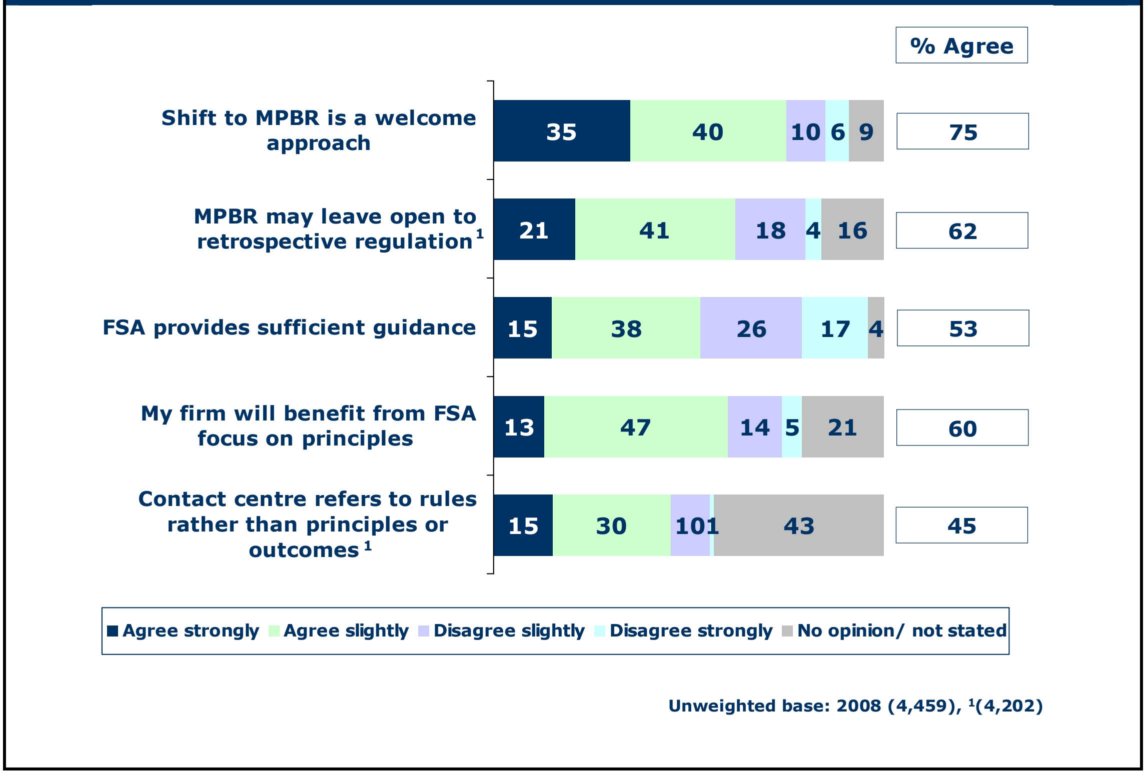
> *'I think the FSA have sort of got it right in the policy area, where they have reduced quite a lot of their complicated rules and made them more principle based … there are three elements, one is the policy, which is the relatively easy bit, that you can just change your rule book to make it more sensible based and I think the FSA has a real commitment to do that. And has made some good progress on that, still some way to go though. The second element is how does the supervisory relationship work and so are the people supervising us on a daily basis able to step back and take a principle base throughout … this is the bit that concerns me – day-to-day relationship, because we push back at them and say proactively we think the right decision in this circumstance, under a principle base regime is X, we have had some successes, some little successes. Third, which I think the FSA hasn't made progress on yet, is enforcement and how do you enforce in a principle base rule environment. And the FSA is trying to make enforcement under principle base, but actually I suspect a lot of the enforcement is taking on the underlying rules and dressed up as principle base. And that's a very difficult thing for them to do. How do you actually enforce against a principle … how do you get the body of evidence to prove that a principle has been transgressed?'*
>
> (Insurance, non-relationship managed)
>
> *'If the outcome of our running our business in our way is that we don't get complaints, that people are generally satisfied with the way we work for them, that they stay with us, then fine that is the outcome. If they [FSA] find problems with the way we arrive at that, then that shouldn't be their business if they're genuinely focusing on outcomes. Because people will take different routes to get to the same destination, but as long as they arrive at the destination that's all you're interested in I presume, if that's what you're interested in – outcomes.'*
>
> (Solicitor, non-relationship managed)

The key problem was not a lack of desire to adopt an MPBR approach within the FSA, but a lack of suitably trained FSA staff:

> *'I've been on training courses but even people on the courses cannot say definitively that you've done enough [to meet the requirements of PBR]. It's like going to the tailor and saying, "I want you to make me a suit, but I'm not going to give you any measurements – you have to guess".'*
>
> (Financial adviser, non-relationship managed)

Despite some concerns about the implementation of MPBR, most firms felt that they would benefit from MPBR. Six out of ten (60%) agreed that *'my firm will benefit from the FSA's focus on principles'* (Chart 4.6). Relationship managed firms in particular felt that they would benefit (72% agreed, compared with 59% of non-relationship managed firms). Firms without a relationship manager were less likely to have an opinion – one in five (21%) did not answer this question. Similarly, firms with recent FSA contact were more likely to feel they would benefit from MPBR (63%) than those with no recent contact (52%). However, 28% of those with no recent contact did not answer, presumably because of their lack of knowledge of MPBR.

Chart 4.6 Attitudes towards MPBR



There was a real concern in the industry that MPBR might leave firms *'more open in the future to retrospective regulation'*, with six in ten firms (62%) agreeing with this statement. This was a particular concern for major groups where 80% agreed that they might become vulnerable to retrospective regulation. Retail firms were more concerned about this as a potential issue than wholesale firms (64% compared with 49%). Very small firms with fewer than 20 full-time staff were also more likely to be concerned about retrospective regulation compared with larger firms (63% and 58% respectively).

Another area of concern for some firms was the amount of guidance they had received on MPBR. Just over half of firms (53%) agreed that *'the FSA provides sufficient guidance for my firm to feel confident we are appropriately applying the principles'.*

The lack of guidance made many firms in the qualitative research anxious about the potential for the FSA adopting 'hindsight regulation':

> *'There's always a risk with a regulator who can come along at any time in the future and apply the benefit of hindsight to a decision taken some years ago … and you get penalised for what, at the time, was a perfectly justifiable decision. There are no minimum standards, no agreed definitions … they do not apply supervision in a principles based way.'*
>
> (Retail bank, relationship managed)

There were also differences by type of firm as detailed in Table 4.4.

Table 4.4 The FSA provides sufficient guidance for my firm to feel confident we are appropriately applying the principles, by type of firm

	Type of firm						
	Major groups	RM retail	RM wholesale	Non-RM retail	Non-RM wholesale	Credit unions	**Total**
	%	%	%	%	%	%	%
Agree strongly	[17]	11	20	14	15	34	*15*
Agree slightly	[38]	38	45	37	40	44	*38*
Disagree slightly	[29]	32	24	27	26	10	*26*
Disagree strongly	[16]	17	7	18	15	5	*17*
Agree	**[55]**	**49**	**65**	**51**	**55**	**78**	***53***
Disagree	**[45]**	**49**	**31**	**44**	**41**	**16**	***43***
No opinion/ not stated	**[-]**	**1**	**4**	**4**	**5**	**6**	***4***
Unweighted base	*[47]*	*249*	*383*	*2,564*	*937*	*267*	*4,459*
Weighted base	*[17]*	*123*	*186*	*3,451*	*561*	*110*	*4,459*

Relationship managed wholesale firms and credit unions were much more likely than other firms to feel the FSA provided sufficient guidance.

4.6 Attitudes towards TCF

The following section looks at firms' attitudes towards the FSA's Treating Customers Fairly initiative (TCF). TCF has been at the forefront of the more general move to a principles based approach to regulation.

In 2008, there were two deadlines for firms relating to TCF. By December 2008 it is expected that all firms will be able to demonstrate that they are consistently treating their customers fairly. In order to do this, firms were expected to have the right management information in place by the end of March 2008 to test whether they were treating their customers fairly or not.

As with MPBR, the TCF initiative was identified by the qualitative research as a key issue for firms this year.

Four in ten firms (38%) had had some form of contact with the FSA about TCF within the previous six months – one in ten firms (11%) had actively contacted the FSA themselves, while three in ten (31%) had been contacted by the FSA about TCF.

Major groups were the most likely to have initiated contact with the FSA – 68% had done so. Relationship managed firms (23%) and retail firms (12%) were also more likely to have made contact.

One in ten major groups (11%) had had *no* contact about TCF in the last six months compared with seven in ten wholesale firms (71%) and around half of retail firms (53%). Non-relationship managed firms were also more likely to not have had any contact about TCF in the last six months compared with relationship managed firms (57% and 45% respectively).

Firms were first asked the extent to which they agreed or disagreed with the statement that *'My firm supports the Treating Customers Fairly (TCF) initiative'.*

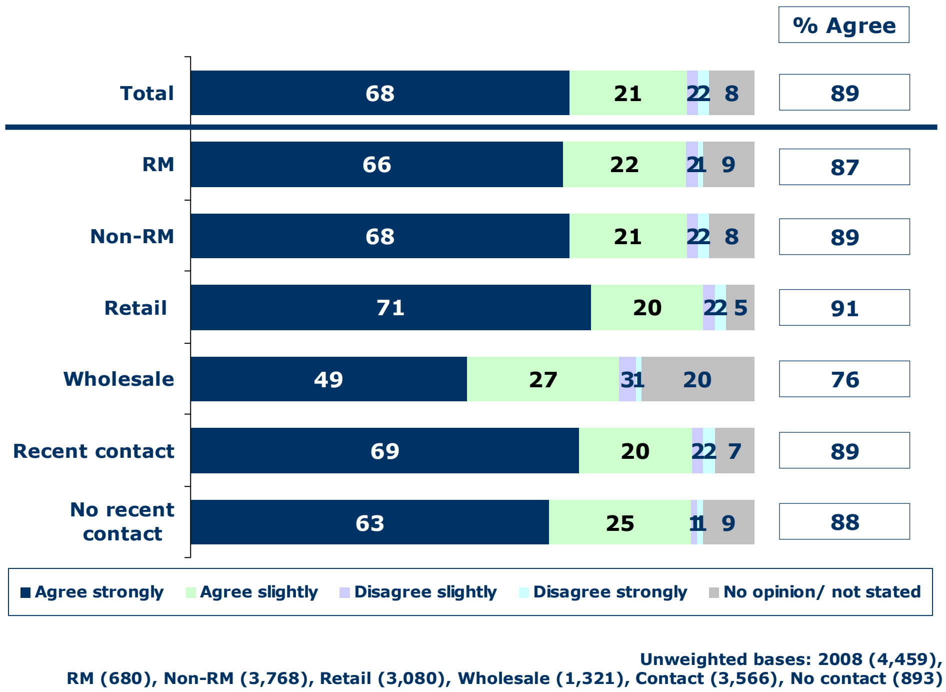
Around nine in ten firms (89%) said they supported the TCF initiative, with 68% agreeing strongly that this was the case. This overwhelmingly positive attitude to TCF overall was consistent across the entire industry (Chart 4.7), although wholesale firms were less likely to give an answer to this question (20% of wholesale firms had no opinion or did not give a response). It should be noted, however, that firms were supporting the principle of TCF rather than necessarily the way it had been implemented by the FSA. This distinction can be seen clearly when comparing the attitudes of firms to other aspects of TCF.

All firms in the qualitative research recognised that there were advantages to TCF and they approved of the principle and recognised the benefits. TCF provided a catalyst for thoughts and ideas about the treatment of customers and helped to spotlight procedures that may have needed tightening up.

> *'We are pretty tight on our procedures … Yes TCF made us take another look and we spotted a couple of things but in the scheme of things it was negligible.'*
>
> (Derivatives – wholesale and retail, non-relationship managed)

However, many of the larger relationship managed firms in the qualitative research thought that that TCF pilot was flawed and were therefore concerned about how TCF had subsequently been implemented.

Chart 4.7 My firm supports the Treating Customers Fairly (TCF) initiative

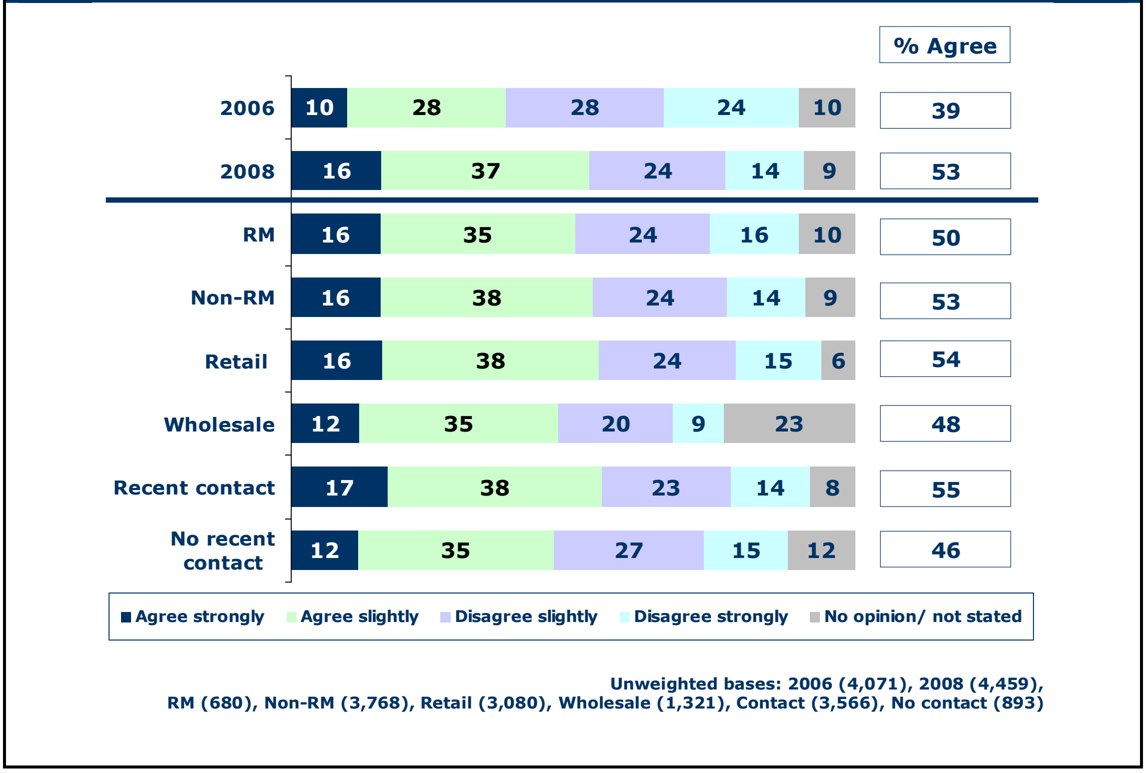


In rating the FSA's communication and implementation of TCF, opinion is divided among firms.

Over half of firms (53%) believed that the FSA had provided a clear explanation of how firms should implement TCF. This is a significant improvement since 2006, when only 39% thought this was the case. It should be noted, however, that a sizeable minority (38%) still felt that the FSA had not provided a clear explanation (Chart 4.8). Major groups were least likely to agree that the FSA had provided a clear explanation (31%, compared with 53% of firms overall).

There was little difference on this measure by size of firm, or by whether or not the firm had a relationship manager. Those who had had recent contact with the FSA were, not surprisingly, more likely to feel they had had a clear explanation of TCF (55%) than those with no recent contact (46%).

Chart 4.8 The FSA has provided a clear explanation of how firms should implement the TCF initiative



Firms in the qualitative research showed their displeasure about how TCF had been communicated and implemented. In terms of communicating TCF, small non-relationship managed firms in particular were very angry at what they saw as the FSA being heavy-handed and essentially implying that firms did not treat their customers fairly. The manner of its implementation caused smaller non-relationship managed firms to view TCF as 'insulting' and 'an outrage', as a wholesale firm explained:

> *'I think we are looking after our customers fairly because, in certain lines of business, particularly on the retail side, if we don't treat customers fairly then we won't have customers.'*
>
> (Wholesale, non-relationship managed)

'I think it's absolutely right that there were players in the market who weren't treating customers fairly and actually FSA needed to have a fairly high profile response to that. What has happened unfortunately is you take a great unarguable concept that everybody should treat their customers fairly and there is little recognition that actually the bulk of the market is treating its customers fairly … What's happened is a huge industry has grown up around it and it's become a massive project in every single financial services firm, to produce the evidence to the FSA that we are treating customers fairly, rather than actually getting on with our business and treating customers fairly. The concept is great, the actual practical application of it, has gone completely awry.'

(Insurance, non-relationship managed)

As with MPBR, firms in the qualitative study were concerned that TCF had been poorly implemented and that it was totally at odds with a principles based regulatory regime.

'The principle is absolutely right because people were in the market who weren't treating customers fairly … not that many admittedly … its application has gone completely awry. We have gone way beyond the benefit we can get for the firm and incurred costs way beyond what is reasonably expected. And it's because FSA have found it difficult to articulate what they are trying to achieve and how they want to be satisfied firms are getting there.'

(Insurance, non-relationship managed)

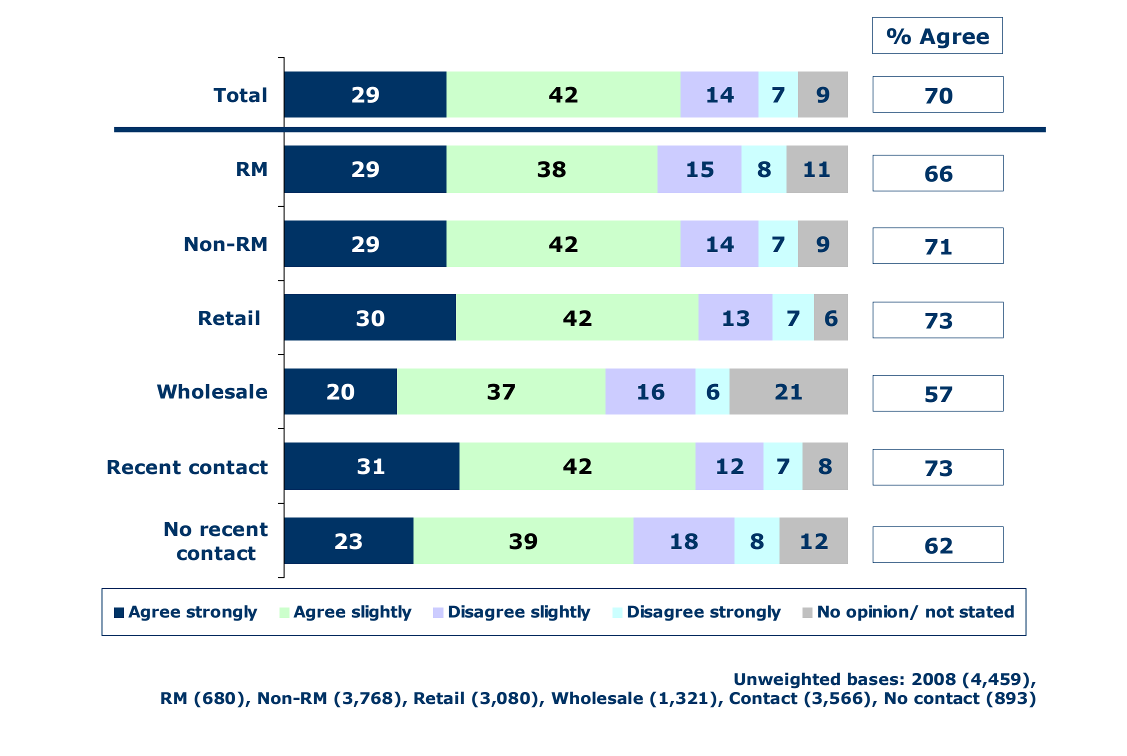
'We end up with piles of forms to complete … it is just a rule based, box-ticking process. How does that fit with principles based regulation? The FSA doesn't seem to know how to deal with its own directives.'

(Financial adviser, non-relationship managed)

In the quantitative survey firms were asked whether they agreed or disagreed that they understood '*what management information or measures are required to demonstrate compliance with TCF'* – a key issue given the 2008 deadlines. Seven out of ten firms (70%) agreed that they understood what was required to demonstrate compliance, although only around half (53%) thought the FSA had provided a clear explanation.

One in five firms however (21%) did not feel they understood what management information was required, a substantial number given that the deadline for having management information in place was in March 2008, several months before the survey took place.

Chart 4.9 I understand what management information or measures are required to demonstrate compliance with TCF



Retail firms were more likely to agree that they understood what management information was required to show compliance with TCF compared with wholesale firms (73% and 57% respectively). Firms that had had recent contact with the FSA were more likely to agree they understood what management information was required compared with firms that had not had recent contact (73% and 62% respectively). Surprisingly, firms without a designated relationship manager were more likely to agree that they understood what management information was required than with firms with a relationship manager (71% compared with 66% respectively). Major groups were the most likely to agree that they understood the requirements to demonstrate compliance with TCF (Table 4.5). Over three-quarters (78%) of major groups agreed compared with 55% of non relationship managed wholesale firms.

Table 4.5 I understand what management information or measures are required to demonstrate compliance with TCF, by type of firm

	Type of firm						
	Major groups	RM retail	RM wholesale	Non-RM retail	Non-RM wholesale	Credit unions	**Total**
	%	%	%	%	%	%	%
Agree strongly	[29]	29	28	31	17	28	*29*
Agree slightly	[49]	43	33	43	39	34	*42*
Disagree slightly	[13]	15	15	13	16	15	*14*
Disagree strongly	[9]	9	7	7	6	4	*7*
Agree	**[78]**	**73**	**61**	**73**	**55**	**63**	***70***
Disagree	**[22]**	**24**	**22**	**21**	**22**	**19**	***21***
No opinion/ not stated	**[-]**	**3**	**17**	**6**	**23**	**18**	***9***
Unweighted base	*[47]*	*249*	*383*	*2,564*	*937*	*267*	*4,459*
Weighted base	*[17]*	*123*	*186*	*3,451*	*561*	*110*	*4,459*

Firms in the qualitative research expressed considerable concern about the costs and benefits of TCF. Whilst welcomed in principle, they could not see that TCF would be advantageous to their business.

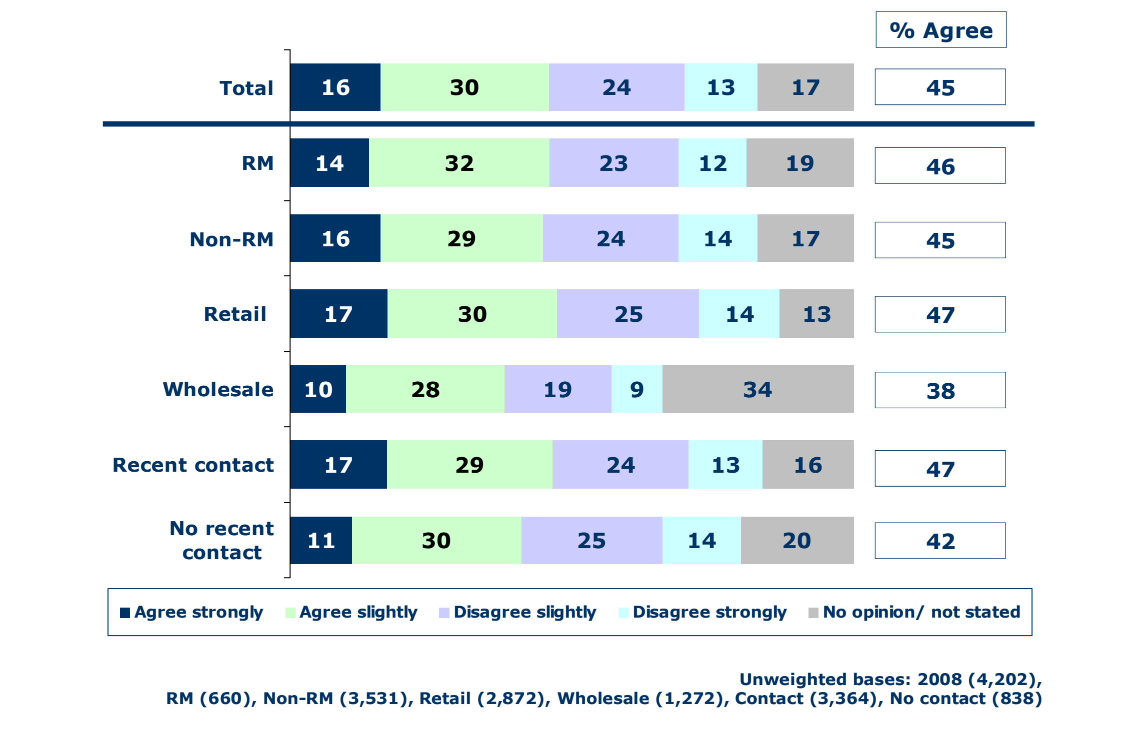
> *'Well the only downside is going to be cost and resource. And the FSA recognises there is a cost but as they said there is a regulatory dividend there. We have yet to see exactly what that dividend is.'*
>
> (Retail bank, relationship managed)

This is reflected in the final question of the survey that specifically relates to the TCF initiative which asked firms whether they agreed that the benefits of TCF outweigh the cost to their firm. Opinion was divided on the benefits of TCF when weighed up against the costs it represented for firms, with almost half (45%)

agreeing the benefits outweigh the costs to their firm and 38% disagreeing (Chart 4.10).

Over a third of wholesale firms (34%) did not know whether the benefits of TCF outweighed the cost to their firms.

Chart 4.10 The benefits of TCF outweigh the cost to my firm



Over half of major groups (53%) disagreed that the benefits outweighed the costs. Relationship managed retail firms were most likely to agree the benefits did outweigh the costs while non-relationship managed retail firms were more evenly divided (Table 4.6).

Table 4.6 The benefits of TCF outweigh the cost to my firm, by type of firm

	Type of firm						
	Major groups	RM retail	RM wholesale	Non-RM retail	Non-RM wholesale	Credit unions	**Total**
	%	%	%	%	%	%	%
Agree strongly	[7]	21	11	17	10	19	*16*
Agree slightly	[23]	35	31	30	26	28	*30*
Disagree slightly	[36]	24	20	25	18	18	*24*
Disagree strongly	[16]	15	9	15	9	6	*13*
Agree	**[31]**	**55**	**42**	**47**	**36**	**47**	***45***
Disagree	**[53]**	**39**	**29**	**40**	**27**	**24**	***38***
No opinion/ not stated	**[17]**	**5**	**29**	**13**	**36**	**29**	***17***
Unweighted base	*[47]*	*240*	*372*	*2,379*	*899*	*253*	*4,202*
Weighted base	*[17]*	*119*	*180*	*3,173*	*539*	*104*	*4,142*

5 Attitudes towards enforcement

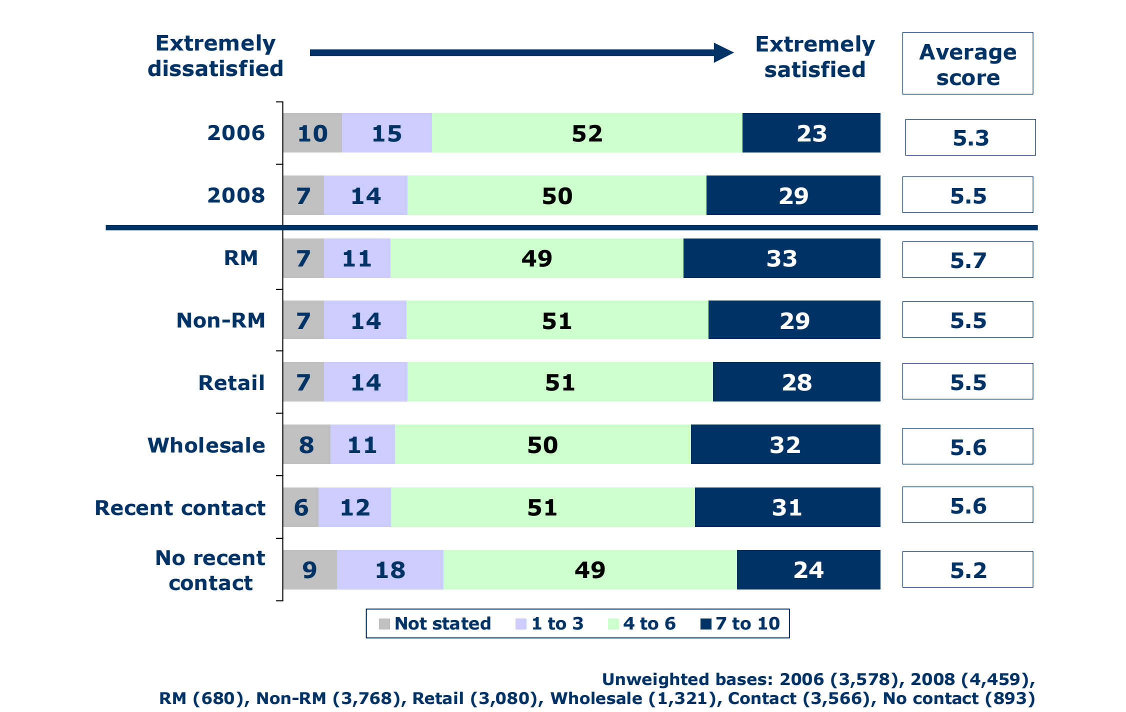
This section of the report explores how the industry views the FSA in terms of its approach to enforcement. Firms' perceptions of the FSA's approach to enforcement are a key driver in their overall satisfaction with their relationship with the FSA (see Section 8.4).

5.1 Overall satisfaction with enforcement

Chart 5.1 details overall satisfaction among firms with the way the FSA fulfils its enforcement role with the industry.

The general pattern of overall satisfaction with enforcement has remained similar to that seen in the 2006 survey, with half of firms (50%) essentially neutral about FSA performance. Since 2006 there has been an increase in the proportion of firms highly satisfied with the way the FSA handles enforcement.

Chart 5.1 Overall satisfaction with enforcement



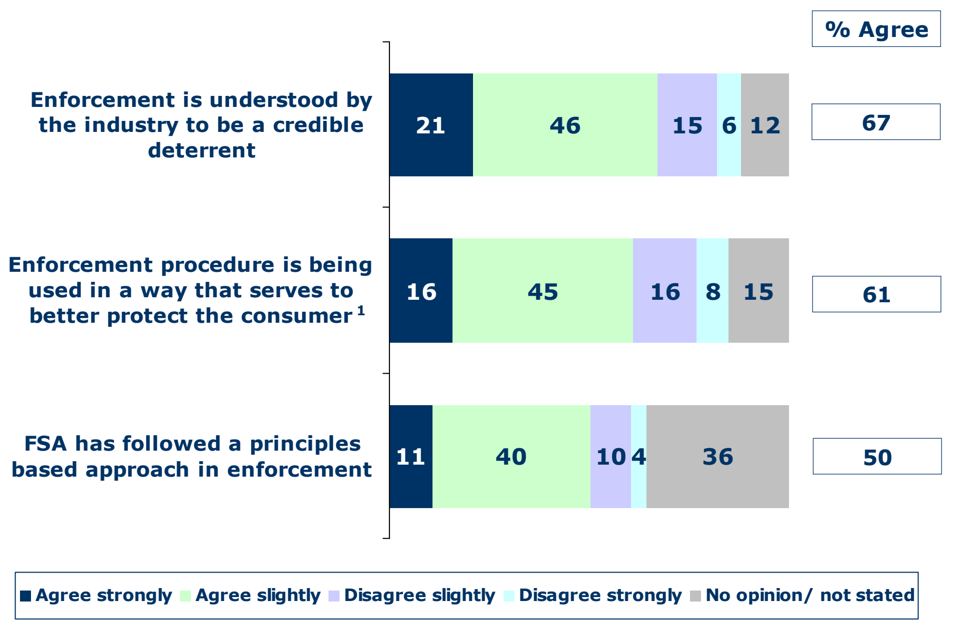
The level of satisfaction with enforcement is generally consistent across different types of firm compared to other measures. However, relationship managed firms were more likely to be highly satisfied with the way the FSA handles enforcement compared with firms that are not relationship managed (33% gave a high score compared with 29%)[1].

Home finance brokers and credit unions were highly satisfied with the way the FSA handles enforcement (38% and 36% respectively giving a high score)

Firms' attitudes towards the other aspects of enforcement are detailed in Chart 5.2.

There is a general consensus that enforcement is perceived by the industry to be a 'credible deterrent', with two-thirds of firms (67%) agreeing with this statement. There is little difference by size of firm, but firms which are relationship managed are more likely to agree with this statement. Three-quarters (73%) of relationship managed firms agreed compared with 66% of non relationship managed firms.

Chart 5.2 Attitudes towards enforcement



Unweighted base: 2008 (4,459), [1](4,202)

Table 5.1 shows differences by type of firm. Major groups are most likely to see FSA enforcement as a credible deterrent with almost four in ten (39%) agreeing strongly with this statement. Almost three-quarters of relationship managed retail firms (73%) and relationship managed wholesale firms (73%) also agreed.

---

[1] This is statistically significant only at the 90% level.

It is interesting to note that over a quarter of credit unions (27%) did not feel able to answer this question. A third (31%) of home finance brokers agreed that enforcement is a credible deterrent.

Table 5.1 The FSA's enforcement procedure is understood by the industry to be a credible deterrent, by type of firm

	Type of firm						
	Major groups	RM retail	RM wholesale	Non-RM retail	Non-RM wholesale	Credit unions	**Total**
	%	%	%	%	%	%	%
Agree strongly	[39]	23	21	21	18	13	*21*
Agree slightly	[38]	50	52	46	46	38	*46*
Disagree slightly	[14]	16	14	15	16	15	*15*
Disagree strongly	[5]	6	4	7	6	6	*6*
Agree	**[77]**	**73**	**73**	**67**	**65**	**52**	***67***
Disagree	**[20]**	**22**	**18**	**21**	**22**	**21**	***21***
No opinion/ not stated	**[4]**	**5**	**9**	**11**	**14**	**27**	***12***
Unweighted base	*[47]*	*249*	*383*	*2,564*	*937*	*267*	*4,459*
Weighted base	*[17]*	*123*	*186*	*3,451*	*561*	*110*	*4,459*

In relation to consumer protection, six out of ten firms (61%) believed that enforcement procedure is being used in a way that serves to better protect the consumer. This is a significant improvement from 2006 when only 50% of firms agreed with this statement.

Wholesale firms were most likely to agree with this statement, with major groups least likely (64% of wholesale firms agreed compared with 47% of major groups).

Interestingly, non-relationship managed firms and very small firms with fewer than 20 full-time staff were more likely to agree that FSA enforcement better serves the consumer.

Over a third of firms (36%) were unable to answer whether in its enforcement the FSA has followed a principles based approach, suggesting a lack of knowledge of the enforcement procedure among many firms. This was particularly true for those firms with no recent contact with the FSA where almost half (48%) were not able to answer this question.

6 The cost of compliance

This chapter examines firms' views of the costs of compliance, whether they felt the costs to be excessive or reasonable and the impact of these costs on firms. It also looks at whether firms felt their regulatory fees gave good value for money.

6.1 Firms' attitudes towards the cost of compliance

Almost half of regulated firms (45%) surveyed felt the costs of compliance to be excessive, 38% thought the costs high but not excessive and 14% regarded them as reasonable. These results represent an improvement on 2006, when around six in ten firms (57%) felt the costs were excessive.

The relationship managed firms in the qualitative research thought that the compliance fees they paid were very high. Where they had a good – long-term – working relationship with the FSA supervisory staff, cost effectiveness was less of an issue compared to those that had experienced a high turnover of staff and a less effective relationship. So, while firms were mindful of the level of fees they paid, the perceived cost effectiveness was related to the quality of FSA staff with whom they worked and the level of service received.

Non-relationship managed firms, however, were more likely to consider that the fees they paid were excessive, particularly where only part of the firm was regulated by the FSA. The reasons for this were three-fold:

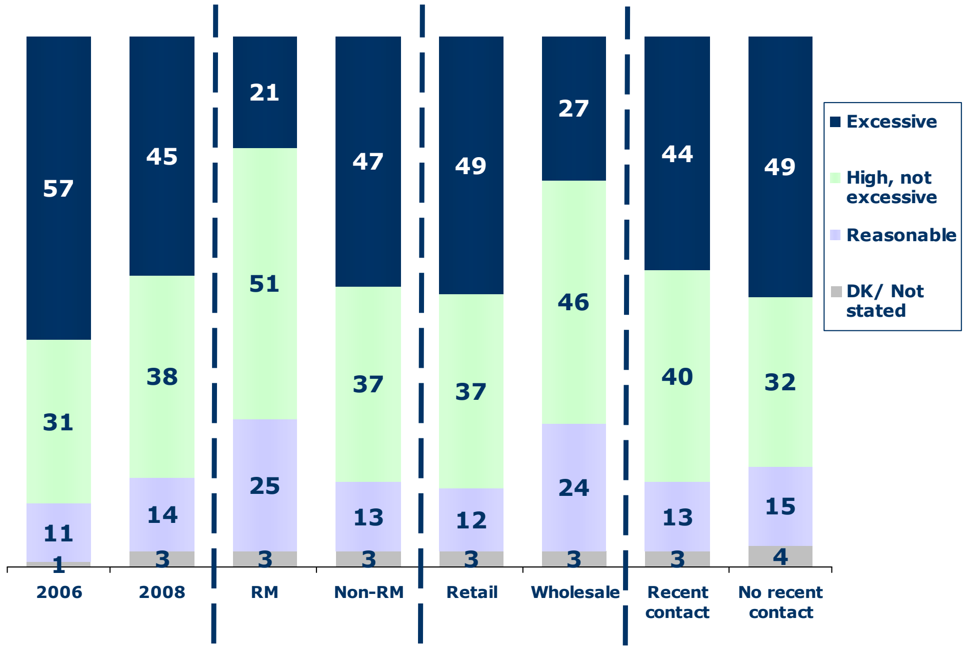
- They see the FSA as an organisation that sends them information, yet also seems to sometimes ignore their views and the effect of disproportionate regulation on their business.

- Non-relationship managed firms, while receiving the monthly email updates and various consultation papers, do not regard the FSA as providing a useful service to them.

- As they infrequently use the Contact Centre – and do not necessarily find the service it provides useful – they do not regard this as a service to them.

This is supported by the quantitative findings which showed that firms which were relationship managed (and therefore likely to have more contact with the FSA) were less likely to perceive the costs of compliance as excessive compared with firms without a relationship manager (21% and 47% respectively). Similarly, firms which had had recent contact with the FSA were slightly less likely to view the costs of compliance as excessive compared with those firms which had had no contact (44% compared with 49%).

Chart 6.1 Firms' opinions of the total costs of compliance



Unweighted bases: 2006 (3,578), 2008 (4,459), RM (680), Non-RM (3,768), Retail (3,080), Wholesale (1,321), Contact (3,566), No contact (893)

Half of retail firms (49%) believed the costs of compliance to be excessive compared with just over a quarter of wholesale firms (27%). This is likely to reflect the fact that retail firms are less likely to be relationship managed than wholesale firms. Relationship managed wholesale and credit unions were least likely to find the costs of compliance excessive (14% and 16% respectively) and non-relationship managed retail firms were the most likely to do so (51%).

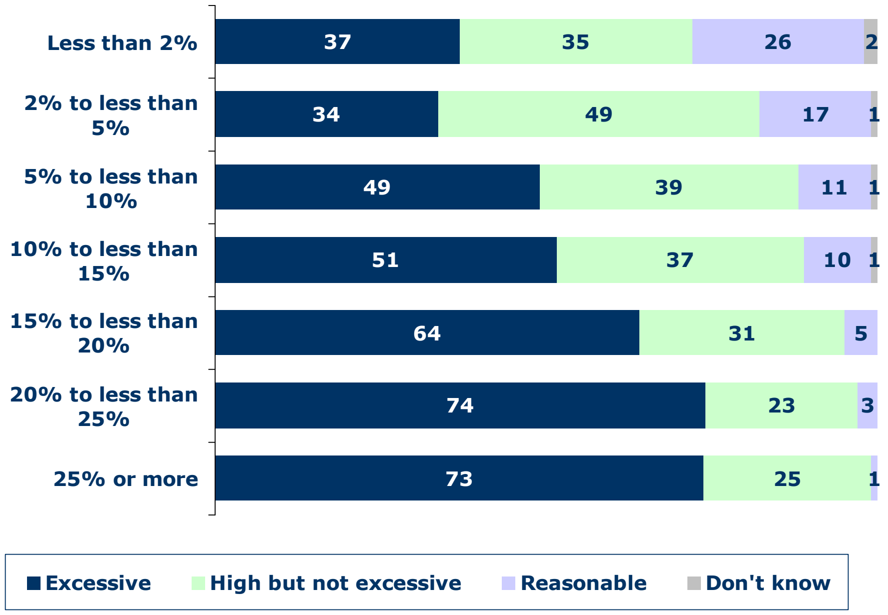
Table 6.1 Firm's opinion on the total current costs of compliance, by type of firm

	Type of firm						
	Major groups	RM retail	RM wholesale	Non-RM retail	Non-RM wholesale	Credit unions	**Total**
	%	%	%	%	%	%	%
Excessive	[36]	29	14	51	31	16	*45*
High but not excessive	[43]	47	54	36	44	30	*38*
Reasonable	[15]	21	29	10	22	41	*14*
Don't know	[5]	2	3	2	2	11	*2*
No opinion	[0]	1	*	1	1	3	*1*
Unweighted base	*[47]*	*249*	*383*	*2,564*	*937*	*267*	*4,459*
Weighted base	*[17]*	*123*	*186*	*3,451*	*561*	*110*	*4,459*

Eight in ten firms (80%) which were dissatisfied with their relationship with the FSA believed the costs of compliance to be excessive, compared with 51% of those which were satisfied and 29% of those which were very satisfied.

Not surprisingly, firms were less likely to perceive the costs as excessive where they accounted for only a small proportion of their total costs. Around a third of firms (35%) which believed the costs of compliance to account for less than 5% of their total costs thought the costs excessive compared with half (50%) of those for which the costs accounted for 5 to 15% of their total costs, two-thirds (64%) where the costs were 15 to 20% of total costs and three-quarters (73%) where the costs were over 20% of total costs.

Chart 6.2 Estimated costs of compliance as proportion of total costs by perception of costs of compliance



Unweighted base: 2008 (4,202)

6.2 Value for money

All firms were asked to rate the FSA's performance in terms of giving value for money against the regulatory fees. Overall, 43% of firms gave a poor rating (score of 1 to 3), 42% gave a neutral rating (score of 4 to 6) and only 11% gave a high rating (score of 7 to 10) in terms of offering value for money. This represents an improvement on 2006, when 48% of firms gave a poor rating. Non-relationship managed retail firms were more likely than all other firms to give a poor rating for value for money (48%) whilst credit unions were more likely than all others to give a high rating (33%) (see Table 6.2).

Relationship managed firms were almost twice as likely as non-relationship managed firms to give a high rating (18% compared with 10%) as were wholesale firms compared with retail firms (19% and 9% respectively).

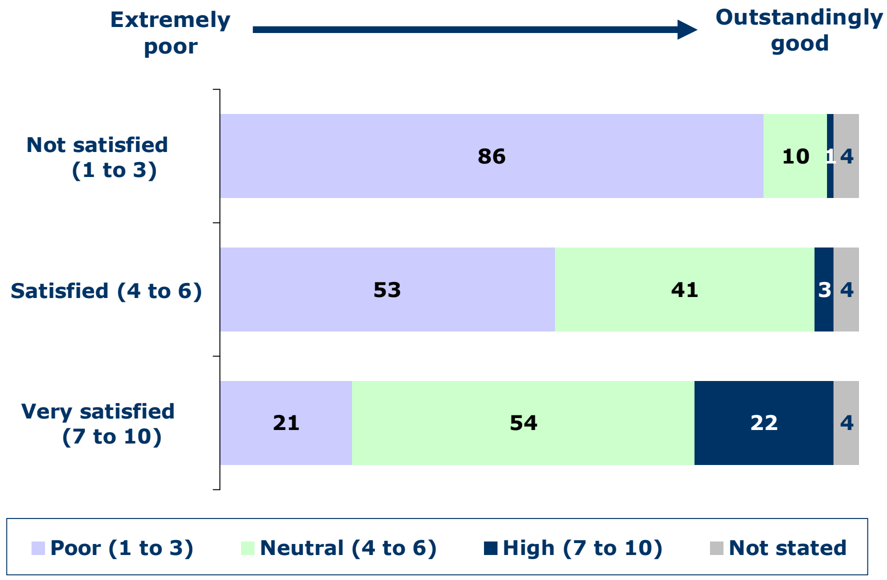
Table 6.2 Rating of the FSA for giving value for money against regulatory fees, by type of firm

	Type of firm						
	Major groups	RM retail	RM wholesale	Non-RM retail	Non-RM wholesale	Credit unions	**Total**
	%	%	%	%	%	%	%
1–3 (Poor)	[25]	35	17	48	26	17	*43*
4–6 (Neutral)	[64]	50	55	40	49	36	*42*
7–10 (High)	[7]	12	23	8	18	33	*11*
No opinion / not stated	[4]	3	5	4	6	14	*4*
Unweighted base	*[47]*	*249*	*383*	*2,564*	*937*	*267*	*4,459*
Weighted base	*[17]*	*123*	*186*	*3,451*	*561*	*110*	*4,459*

Firms that were not satisfied with their relationship with the FSA were far more likely to give a low rating for value for money (86% gave a poor rating compared with 53% of firms that were neutral and 21% of firms that were highly satisfied. A fifth of firms (22%) which were highly satisfied with their relationship with the FSA rated the FSA highly for offering value for money compared with 3% of those who were neutral and 1% of those who were dissatisfied.

Firms which had had contact with the FSA in the last six months were less likely to rate the FSA poorly on value for money than those which had had no contact (40% compared with 50%). As mentioned earlier there was a feeling among firms that, if they had no contact with the FSA, they did not know what they were getting in return for their regulatory fees.

Chart 6.3 Rating of the FSA in giving value for money against regulatory fees by satisfaction with relationship with the FSA



Unweighted base: 2008 (4,459)

As would be expected there was a strong correlation between firms' perceptions of the costs of compliance, whether they regarded them as reasonable or excessive and their rating of the FSA in offering value for money against regulatory fees. Two-thirds of firms (68%) that felt the costs to be excessive gave a poor rating for value for money, compared with 26% of firms that felt the costs to be high but not excessive and 12% of those that felt the costs to be reasonable. Likewise, just 3% of those that thought the costs excessive rated the FSA highly for providing value for money, compared with 13% of those thinking the costs were high but not excessive and 29% of those that felt the costs to be reasonable.

Firms' attitudes towards the regulation of the financial services industry as a whole were also strongly correlated with their perceptions of the FSA as good value for money. Eight in ten firms (80%) which disagreed strongly that strong regulation is for the benefit of the financial services industry as a whole rated the FSA poorly in terms of offering value for money, compared with 32% of firms which agreed strongly with this statement.

Small non-relationship managed firms in particular in the qualitative research did not see the FSA as providing a value for money service. Their commentary tended to focus on the lack of a service and the location of the FSA's offices and staff salaries, which from their point of view were excessive and contributed to their negative perceptions of the FSA.

> *'Do they need to be based in London? Well they will say yes. I know they've got an out post up in Edinburgh, but I think it's very much an out post. Clearly they need a core response team and headquarter staff in London, in case of meltdown in the city but do they need to be in Canary Wharf … the salaries are a fraction of London, and house prices a fraction … what about a Regional Office, or Regional Offices?'*

(Financial adviser, non-relationship managed)

6.3 Costs of compliance as a percentage of current costs

Firms were asked to estimate the total internal and external identifiable costs of compliance to their firm as a percentage of their total costs.

Overall 13% of firms thought that the costs of compliance accounted for less than 2% of their total costs and 22% thought they accounted for between 2% and under 5% of total costs.

Overall just over a third of firms (35%) thought that the costs of compliance accounted for less than 5% of their total costs, about a fifth (19%) thought they accounted for 5 to 10% of total costs, a fifth (20%) thought they accounted for 10 to 20% of total costs and 8% thought they accounted for over 20% of total costs.

A quarter of credit unions (25%) reported total compliance costs of less than 2% of total costs compared with 17% of non-relationship managed wholesale firms, 12% of non-relationship managed retail firms, 11% of relationship managed retail firms and 9% of major groups. Almost half of firms (46%) which were relationship managed reported compliance costs accounting for less than 5% of total costs compared with a third of other firms (34%).

Over half of firms with 20 or more full-time staff (54%) thought that the total costs of compliance accounted for less than 5% of their total costs, compared with just 30% of very small firms. Wholesale firms were more likely than retail firms to report costs of compliance as accounting for less than 5% of total costs (48% compared with 32%).

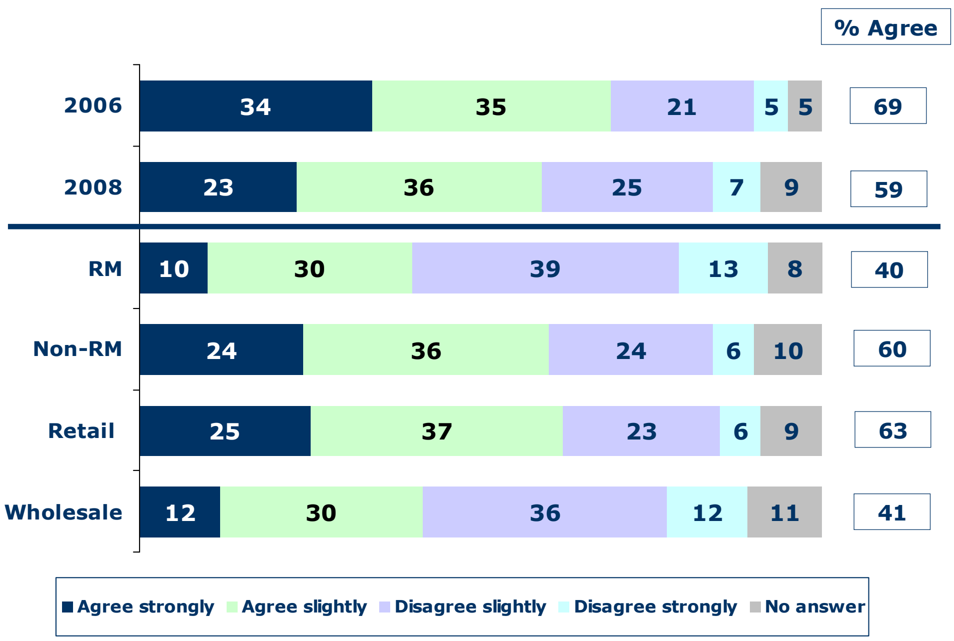
6.4 The impact of regulatory costs

All firms were asked to indicate their level of agreement with a number of statements concerning the impact of compliance costs on their business. The majority of firms had a fairly pessimistic outlook, believing that the overall costs of compliance would continue to rise for the foreseeable future (85% agreed with this). There was little difference between firms in this view, with the exception of credit unions where only 69% of firms agreed (however, this difference is largely accounted for by a fifth of credit unions (18%) which reported having no opinion).

Over half of firms (59%) also agreed that the costs of compliance were harmful to their firm, with a quarter (23%) agreeing strongly. This is an improvement on 2006 when 69% agreed that the costs of compliance were harmful to their firm, with 34% agreeing strongly. There were clear differences across type of firm (Chart 6.4).

Relationship managed firms were more positive than others, with just one in ten (10%) strongly believing the costs of compliance to be harmful to their business compared with a quarter (24%) of other firms. Likewise wholesale firms were more positive than retail firms (12% strongly agreed that the costs of compliance were harmful, compared with 25% of retail firms).

Chart 6.4 The costs of compliance are harmful to my firm



Unweighted bases: 2006 (4,071), 2008 (4,202), RM (660), Non-RM (3,531), Retail (2,872), Wholesale (1,272)

The non-relationship managed firms in the qualitative study thought that the regulatory burden had added significantly to their overhead, with TCF being considered to be particularly burdensome. In some cases, non-relationship managed firms had had to buy in extra staff hours in order to deal with the additional burden of the continuing stream of regulation.

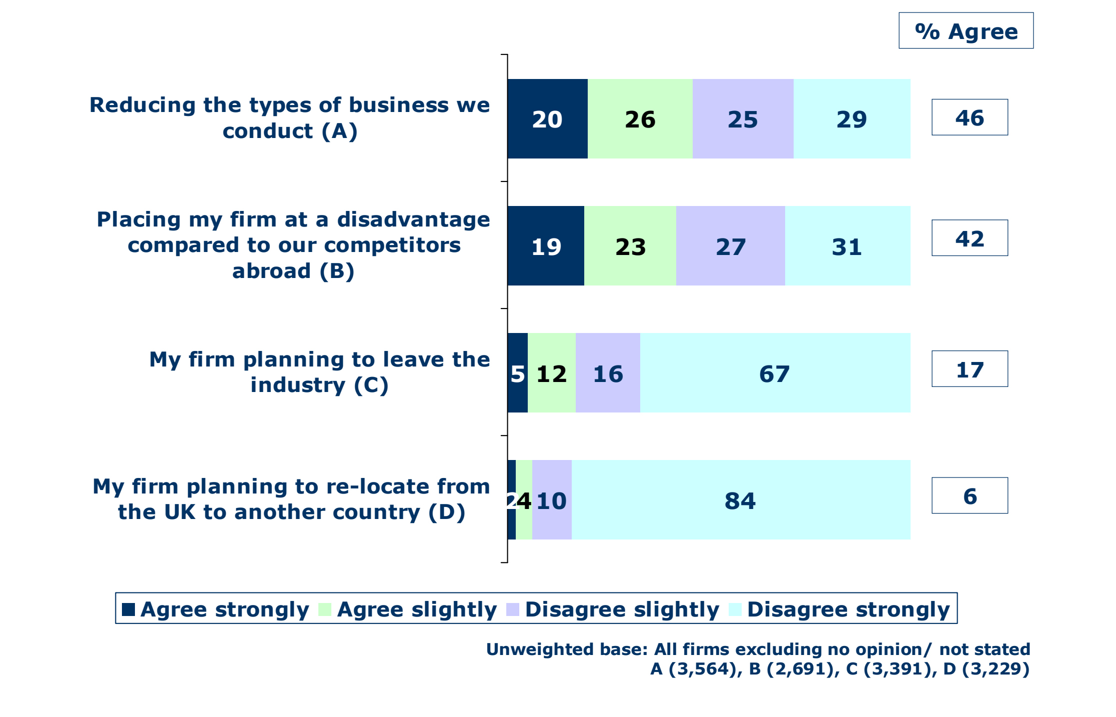
'For a relatively small firm you could just immerse yourself in compliance all day long and all night long and still never get to the end of the file.'

(Mortgage broker, non-relationship managed)

When asked to state the results of the costs of compliance on the firm, a large proportion of firms had no opinion or gave no answer (ranging from 15% to 41% of firms). These have therefore been excluded from the analysis and the figures presented are based only on those firms which gave an opinion.

Almost half of firms giving an opinion (46%) thought the costs of compliance had resulted in them choosing to reduce the types of business conducted by the firm. A fifth (19%) strongly agreed that their firm had been placed at a disadvantage compared with competitors abroad, and in total 42% agreed that this was the case.

Chart 6.5 The costs of compliance have resulted in ...



There was strong disagreement from the majority of firms (67%) with the statement '*the costs of compliance have resulted in my firm planning to leave the industry'*. One in six firms (17%), however, agreed and one in twenty (5%) agreed strongly that the costs of compliance would result in their firm leaving the industry. This represents a decrease from 2006 when a quarter of firms (26%) who gave an opinion agreed that the costs of compliance would result in their firm leaving the industry.

Again a large majority of firms (84%) strongly disagreed that their firm was planning to re-locate from the UK to another country as a result of the costs of compliance.

7 Overall satisfaction with the FSA

This chapter explores regulated firms' satisfaction with their relationship with the FSA across different types of firms, the ease of dealing with the FSA and whether they think their business relationship with the FSA has improved, stayed the same or deteriorated over the last two years.

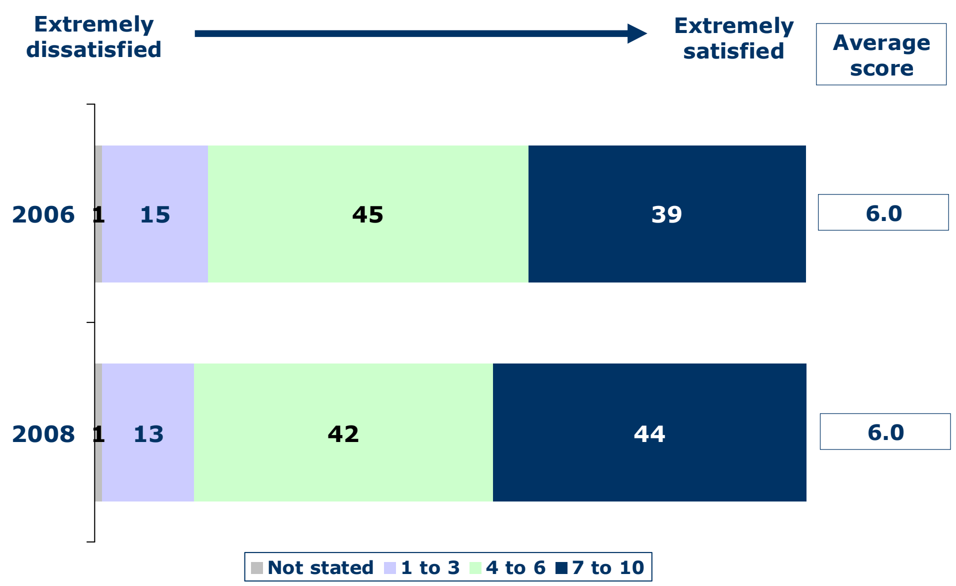
7.1 Firms' satisfaction with their relationship with the FSA

Firms were asked to rate on a scale of 1 (extremely dissatisfied) to 10 (extremely satisfied) how satisfied they were with their relationship with the FSA, taking into account all their dealings with the FSA.

Over four in ten firms (44%) were highly satisfied with their relationship with the FSA, giving a score between 7 and 10. A similar proportion of firms (42%) scored their relationship neutrally (4 to 6), while just over one in ten firms (13%) scored it poorly (1 to 3).

The 2008 distribution of firm's satisfaction scores follows a very similar pattern to the 2006 satisfaction scores (Chart 7.1). There has been no change since 2006 of the average rating given by firms of 6 out of 10. Despite this, the 2008 results do reflect both an increase in the proportion of firms scoring their relationship highly (39% and 44% respectively) and a decrease in the proportion scoring it poorly (15% and 13%).

Chart 7.1 Firms' overall satisfaction with their relationship with the FSA

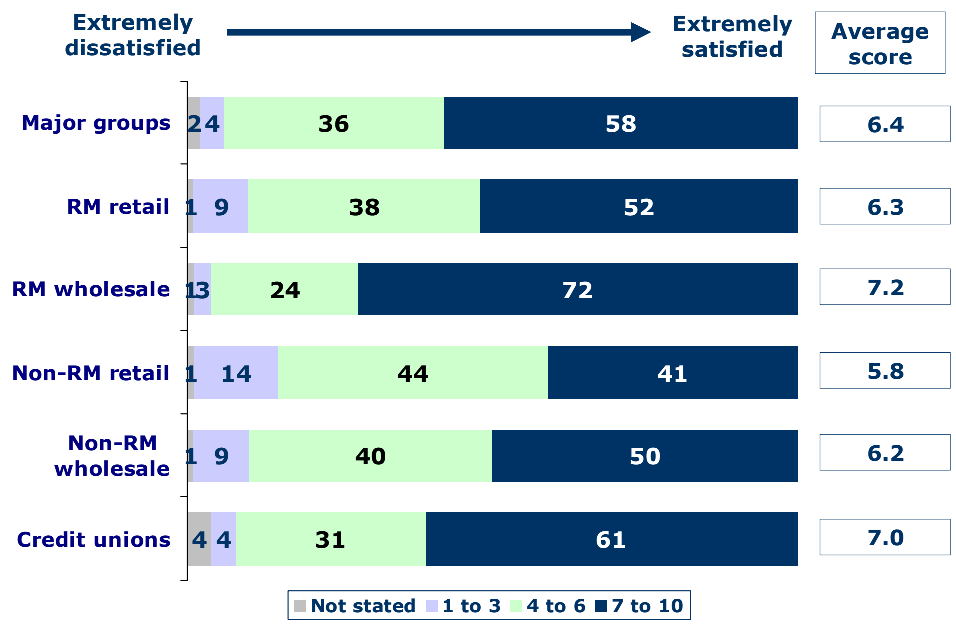


Unweighted base: 2006 (4,071), 2008 (4,459)

Firm's satisfaction with their relationship with the FSA varied according to type of firm. A pattern shown throughout the results was that relationship managed wholesale firms and credit unions were more likely to be highly satisfied (72% and 61% respectively) compared with non-relationship managed wholesale firms and non-relationship managed retail firms (50% and 41% respectively). Non-relationship managed retail firms were most likely to be dissatisfied with their relationship with the FSA compared with all other types of firms (14% and 8% respectively scoring 1 to 3).

Around six in ten major groups (58%) were highly satisfied with their relationship with the FSA. Around one in twenty major groups (4%) scored their relationship poorly. Compared with the 2006 survey this represents a drop in the proportion of major groups highly satisfied with their relationship (63% in 2006), while there has been little change in the proportion of firms scoring their relationship poorly (6% in 2006).

Chart 7.2 Firms' overall satisfaction with their relationship with the FSA, by type of firm (1)



Base: Major groups (47), RM retail (249), RM wholesale (383), Non-RM retail (2,564), Non-RM wholesale (937), Credit unions (267)

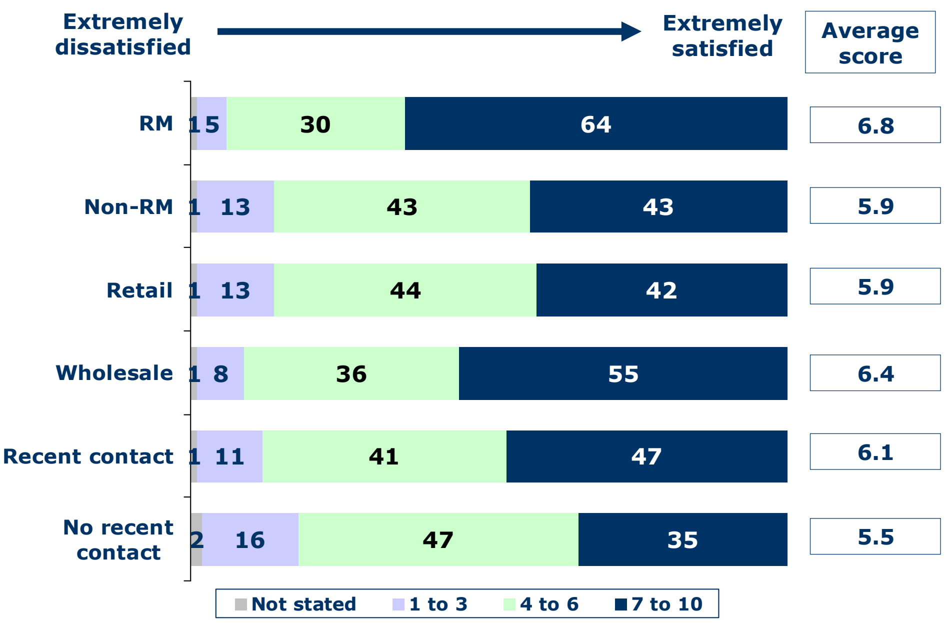
In line with the 2006 survey, wholesale firms were more likely to be highly satisfied with the relationship than retail firms (55% and 42% respectively).

As might be expected, firms with a designated relationship manager at the FSA were more satisfied than those without a relationship manager (64% and 43% highly satisfied). Similarly, relationship managed wholesale firms were more likely to be highly satisfied than relationship managed retail firms (72% and 52% respectively).

The proportion of firms highly satisfied with their relationship with the FSA decreased as the number of relationship managers seen in the last two years increased. Firms that had seen no change in their designated relationship manager over the last two years were more highly satisfied with their relationship with the FSA than firms that had seen two or more changes in relationship manager over this time period (71% and 56% respectively).

Firms which had had contact with the FSA in the last six months were also more satisfied than firms that had not had recent contact (47% and 35% highly satisfied).

Chart 7.3 Firms' overall satisfaction with their relationship with the FSA, by type of firm (2)



Unweighted bases: RM (680), Non-RM (3,768), Retail (3,080), Wholesale (1,321), Contact (3,566), No contact (893)

When discussing their overall satisfaction with the FSA in the qualitative research, it was clear that firms were positioned on a satisfaction continuum, with a number of factors underpinning their views. From the point of view of relationship managed firms, they were keen to point out that they held the FSA in high esteem, praising their strong regulatory stance. The continuing movement towards a risk-based model of regulation was also applauded. With regular contact with FSA staff, the relationship managed firms were generally highly satisfied with their relationship. However, this could be undermined by what they saw as a lack of balance between the FSA satisfactorily addressing risks in prudential capital and liquidity and their continued process-driven approach to regulation. To a large degree, the relationship managed firms thought that this was because some FSA staff had insufficient understanding of their firm's business, an issue that was thought to result from a high turnover of supervisory staff and inadequate staff training.

Relationship managed firms were able to see the positive aspects of FSA regulation, as well as areas that needed improvement. This perspective came about from frequent contact with the regulatory, either though a continuing supervisory dialogue or through ARROW (advanced risk response operating framework) visits.

> *'Overall I think the FSA are doing a good job. I don't think any firm like ours would unduly criticise them. But, as we've said, there are areas for improvement – better implementation of new initiatives, sort out how to implement principles based regulation, and more joined up communications that aren't scattered across so many media.'*
>
> (Insurance, relationship managed)

By contrast, non-relationship managed firms were either neutral or negative when considering their satisfaction with the FSA. The exceptions were credit unions and friendly societies, whose dealings with the FSA were more akin to those of relationship managed firms.

Non-relationship managed firms were much less likely to have had contact with the FSA and, where contact had occurred, this would have been primarily through the Small Firms Contact Centre. From their perspective, the FSA listened only to the 'big players' and applied their regulatory powers uniformly across the industry. Consequently, small firms were particularly concerned about what they saw as disproportionate regulation that arose because the FSA did not understand how their businesses operated. With an absence of dialogue between the FSA and non-relationship managed firms, there was a general feeling that the FSA did not understand the impact that the current regulatory regime had on their ability to continue to do profitable business. Small non-relationship managed firms felt unsupported and out of the communications loop. As a consequence, they felt that they had little to be satisfied about.

> *'They just don't seem to understand that all this compliance stuff is totally over the top for a small business like mine. It might be fine for the big guns but (a) I don't see it applies to me and (b) I can't afford to do all this. They need to talk to small businesses and see what is relevant for them. If they did I might be a bit happier with them.'*
>
> (Mortgage broker, non-relationship managed)

From the point of view of the qualitative research, the key issue for relationship managed firms was the development of a good working relationship with the FSA and being able to obtain high quality advice and guidance. Some of the relationship managed firms had experienced a number of changes in relationship manager over recent years. This made it difficult for the firms because it meant that they had to establish new relationships and it took considerable time for the new relationship manager to understand the firms' business. As one CEO said:

> *'Last visit I spent almost all my time explaining our business to them. This isn't a good use of our time. They should be asking me questions that look at where the risks lie, not simply trying to understand the business.'*
>
> (Bank, relationship managed)

In terms of sector, banks (excluding wholesale firms) were the most satisfied with their relationship with the FSA (67% scoring 7 to 10), representing a slight reduction in satisfaction from 2006 (70%) and a return to the level of the 2004 survey (67%). Other sectors that scored their relationship highly included general insurers (63%) and credit unions (61%). The proportion of credit unions highly satisfied shows no change from the 2006 survey (61% highly satisfied).

Primary general insurance intermediaries were more satisfied with their relationship than secondary general insurance intermediaries (46% and 32% respectively). There was no significant difference in satisfaction by size of firm.

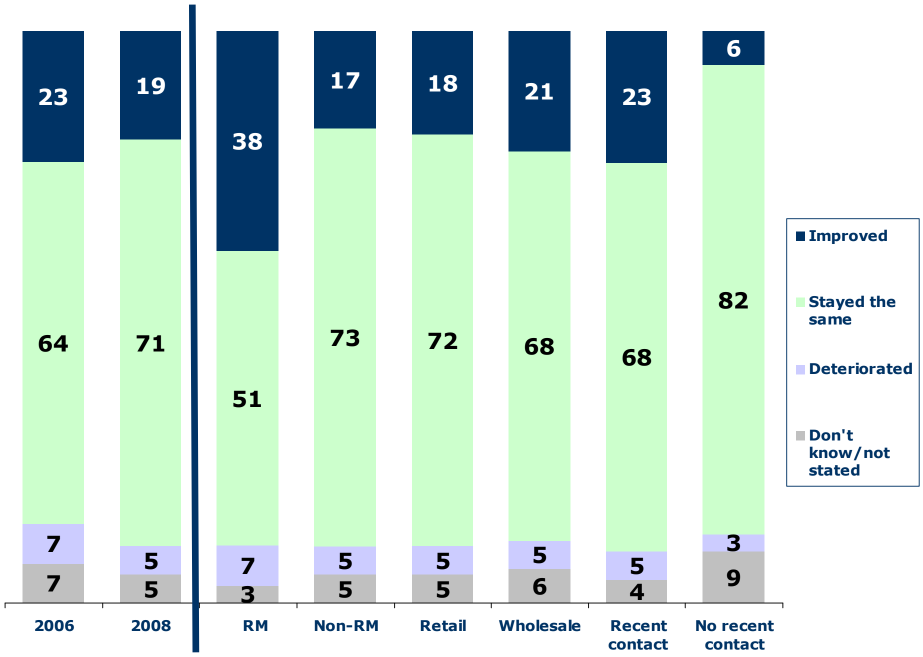
7.2 Change in firms' relationship with the FSA

Firms were then asked whether they felt their business relationship with the FSA had improved, stayed the same or deteriorated in the past two years (Chart 7.4).

The majority of firms (71%) said their relationship with the FSA had stayed the same over the past two years. Around two in ten firms (19%) said the relationship had improved, while only one in twenty (5%) felt it had deteriorated.

Since 2006 there has been a slight shift away from the extremes, with fewer firms reporting an improvement (23% to 19%) or deterioration (7% to 5%) in their relationship.

Chart 7.4 Change in relationship with FSA over the past two years



Unweighted bases: 2006 (4,071), 2008(4,202), RM (660), Non-RM (3,531), Retail (2,872), Wholesale (1,272), Contact (3,364), No contact (838)

From the qualitative research it was apparent that improving relationships were those that enjoyed stability and continuity of the supervision teams. Where there had been a change, particularly at relationship manager level, then the relationship was considered to have deteriorated.

> *'It's the same with any change of staff. There is always a learning period. But we have had two changes quite quickly and that has had a big effect on us because we don't feel as if we are anywhere near where we should be in terms of the level of our conversations with the FSA. It will improve with time but this lack of continuity isn't good for us.'*
>
> (Derivatives, relationship managed)

Twice as many relationship managed firms felt their relationship had improved as non-relationship managed firms (38% and 17% respectively). However, firms which had seen two or more changes in their designated relationship manager over the last two years were more likely than those who had seen no change in their relationship manager to say their relationship had deteriorated (13% and 5% respectively).

Firms with 20 or more full-time staff firms were more likely than very small firms with fewer than 20 full-time staff to say that their relationship had improved (25% and 17% respectively).

The qualitative research suggests that improving relationships are largely to do with establishing communications links between the FSA and the firm. Non-relationship managed firms may only rarely contact the FSA and, when they do, it is very unlikely that they deal with the same person. Where non-relationship managed firms had attended an FSA Roadshow, overall satisfaction with the FSA was increased and the firm felt that it had more of a relationship with the FSA as it had a named contact it could contact if it needed to in the future. Since Roadshows offer an opportunity for dialogue with the FSA, non-relationship managed firms felt that they provided more of an opportunity to explain to FSA staff some of the difficulties of applying regulations that were designed for much larger relationship managed firms.

> *'I have been to a number of Roadshows. They are really good – although sometimes the speakers are only one page ahead in their knowledge – but it gives you an opportunity to raise issues with the [FSA] staff which can be very helpful…yes, that's right, you do feel more as if you are part of a financial community.'*
>
> (Broker, non-relationship managed)

As with the overall satisfaction measure, firms that had had contact with the FSA in the last six months were more likely than those that had not had recent contact to say that their relationship had improved (23% and 6% respectively).

Around four in ten relationship managed retail firms and relationship managed wholesale firms (38%) and three in ten credit unions (30%) felt their relationship with the FSA had improved over the last two years. Non-relationship managed wholesale firms and non-relationship managed retail firms were the least likely to feel their relationship had improved (15% and 17% respectively).

The relationship between major groups and the FSA over the last two years appears to be rather varied with four in ten (38%) saying the relationship had improved, a similar proportion (42%) reporting no change and around one in eight (13%) reporting a deterioration.

While major groups and relationship managed firms were the most likely to say their relationship had improved (both 38%), this does represent a drop from the 2006 survey results when 68% of major groups felt their relationship had improved as did 41% of relationship managed firms).

There was no variation on this measure between retail and wholesale firms.

With the majority of firms stating their relationship has stayed the same over the last two years, it is important to see how satisfied this sub-group of firms are with their relationship with the FSA overall.

Of firms whose relationship had stayed the same, four in ten firms (40%) scored their satisfaction with their relationship with the FSA highly, around half (47%) scored it neutrally (4 to 6) and one in ten (11%) scored it poorly (1 to 3). In addition, of those firms who said their relationship had deteriorated, around two-thirds (67%) scored their relationship poorly, around three in ten (29%) scored it neutrally and a small minority (3%) highly. Of those firms whose relationship had improved, around three-quarters (74%) scored their satisfaction with their relationship highly, around a quarter (24%) neutrally and a small minority (3%) poorly.

7.3 Ease of dealing with the FSA

Ease of dealing with the FSA is one of the key factors driving overall satisfaction with the relationship. Firms were asked to rate the ease of dealing with the FSA on a scale of 1 (extremely dissatisfied) to 10 (extremely satisfied).

Overall, over four in ten firms (43%) were highly satisfied (score of 7 to 10) with the ease of dealing with the FSA, while the same proportion (43%) of firms scored their satisfaction neutrally (score of 4 to 6). One in ten (11%) were dissatisfied (score of 1 to 3).

Over half (53%) of major groups were highly satisfied with the ease of dealing with the FSA, while relationship managed wholesale firms showed the highest levels of satisfaction (66%). As with previous measures, relationship managed firms were more satisfied than others (61% and 42% respectively). Firms that had had contact with the FSA in the last six months were also more satisfied with the ease of dealing with the FSA than those that had not had contact (48% and 31% respectively).

Respondents were also asked if they felt their ease of dealing with the FSA had changed over the last two years. Overall, the majority (70%) of firms felt the ease of dealing had stayed the same, while around one-fifth (19%) felt it had improved and fewer than one in twenty (4%) felt it had deteriorated.

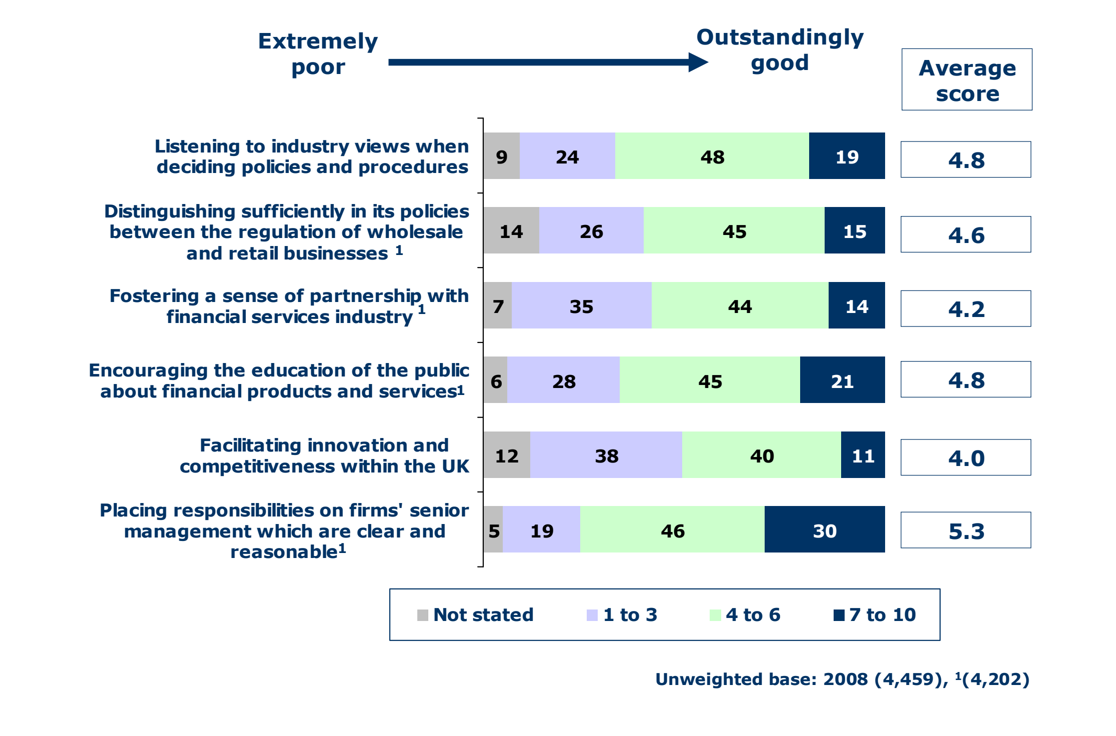
Interestingly, around half of major groups said their ease of dealing with the FSA had improved, despite showing lower levels of satisfaction with their relationship manager and with the Firm Contact Centre compared with other firms.

As with previous measures, contact with the FSA seems to affect perceptions in a positive way. Firms that had had contact with the FSA in the last six months were more likely to feel their ease of dealing with the FSA had improved, compared with those firms that had not had contact (23% and 7% respectively). Firms which were dissatisfied with their overall relationship with the FSA were also more likely than those which were very satisfied to say that the ease of dealing with the FSA had deteriorated (19% compared with 1%).

7.4 Perceptions of the working relationship with the FSA

Firms were asked a number of questions about their working relationship with the FSA (Chart 7.5). Firms were asked how effective they felt the FSA had been in certain areas over the last two years, including partnership between the financial services industry and the FSA, and the FSA's understanding of firms and their business. Firms scored the performance of the FSA from 1 (extremely poor) to 10 (outstandingly good).

Chart 7.5 Overall effectiveness of the FSA



Three in ten firms (30%) gave the FSA a high score for placing responsibilities on firms' senior management which are clear and reasonable. Overall, three-quarters of firms (76%) rated the FSA highly or gave a neutral rating for this performance area.

One in five firms gave a high score to the FSA for encouraging the education of the public about financial products and services (21%) or for listening to industry views when deciding policies and procedures (19%).

Firms were less satisfied with the performance of the FSA in distinguishing sufficiently in its policies between the regulation of wholesale and retail businesses, with one in seven firms (15%) giving a high score and a quarter (26%) giving a low score. A similar proportion of firms (14%) scored the performance of the FSA in fostering a sense of partnership with the financial services industry highly, with over one-third (35%) giving a low score.

The performance of the FSA in facilitating innovation and competitiveness within the UK was given the poorest ratings, with only around one in ten firms (11%) giving a high score.

When scoring the performance of the FSA across each statement, relationship managed firms were generally more positive compared with non-relationship managed firms, major groups and wholesale firms tended to be more positive compared with retail firms, and larger firms with 20 or more full-time staff were in general more positive than very small firms.

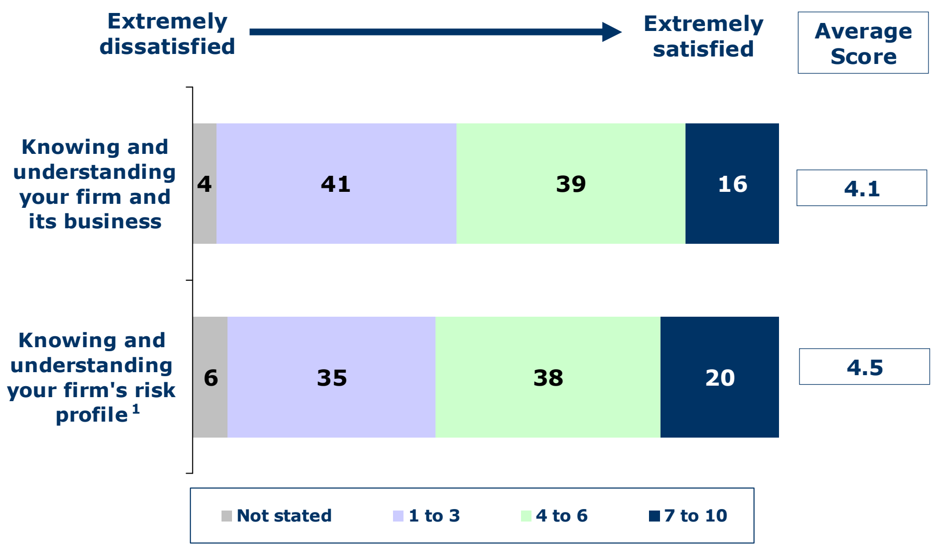
Firms that had been in contact with the FSA within the last six months tended to be more likely to give a high score than those firms that had not had any recent contact.

Firms that were very satisfied overall were more likely in every performance area to give the FSA a high score, than those who were satisfied or not satisfied.

Looking at Chart 7.6, overall only around one in six firms (16%) gave the FSA a high score for '*knowing and understanding your firm and its business*', with four in ten firms (39%) giving a neutral score and a similar proportion (41%) giving a low score.

This represents a decline in firms' satisfaction with the performance of the FSA in knowing and understanding their firm and their business compared with the 2006 survey findings. In 2006, one in eight firms (13%) gave a high score, four in ten firms (39%) gave a neutral score and just over two-fifths of firms (44%) gave a low score.

Chart 7.6 FSA understanding of your firm



Unweighted base: 2008 (4,459), [1](4,202)

Firms were slightly more positive about the performance of the FSA in knowing and understanding a firm's risk profile, with one in five firms (20%) firms scoring its performance high, around four in ten (38%) giving a neutral score and a third (35%) giving a low score.

Relationship managed firms were more likely to give a high score compared with non-relationship managed firms for knowing and understanding a firm and its business (40% and 14% respectively) and also for knowing and understanding a firm's risk profile (40% and 19% respectively).

Major groups and wholesale firms were more likely to score highly the performance of the FSA in understanding a firm and its business and understanding its risk profile compared with retail firms (understanding firm and its business: major groups 31%, wholesale 27%, retail 13%; and understanding risk profile: major groups 36%, wholesale 30%, retail 18%).

Firms with 20 or more full-time staff were more likely to give a high score compared with very small firms with fewer than 20 full-time staff for understanding a firm and its business (21% and 14% respectively) and also for understanding a firm's risk profile (24% and 20% respectively).

Firms that had recently been in contact with the FSA were more likely to give a high score compared with firms that had not had recent contact for understanding a firm and its business (17% and 11% respectively) and also for understanding a firm's risk profile (22% and 15% respectively).

Firms that were very satisfied overall with their relationship with the FSA were more likely than those that were dissatisfied with their relationship to score the performance of the FSA highly in understanding firms and their business (33% and 1% respectively) and understanding a firm's risk profile (39% and 2% respectively).

8 Key drivers of firms' rating of FSA performance against its statutory objectives and satisfaction with their relationship with the FSA

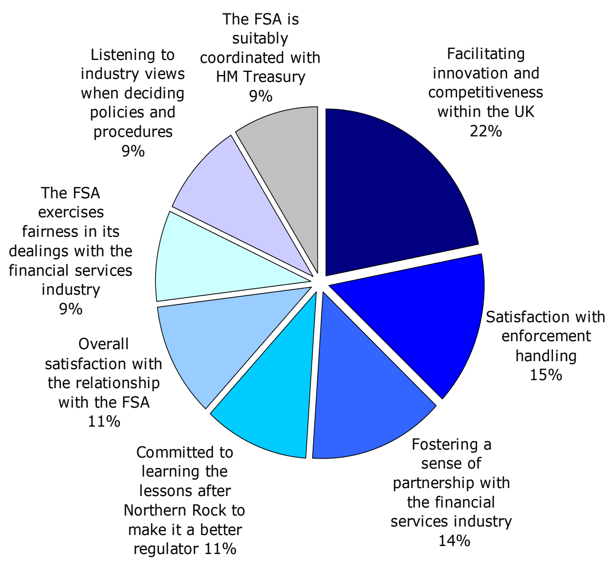
This chapter explores the key drivers of firms' rating of FSA performance against its statutory objectives and identifies those important aspects of the service on which the FSA can focus improvements in order to increase firms' ratings of the performance of the FSA against its statutory objectives.

In addition, this chapter explores the key drivers of firms' satisfaction with their relationship with the FSA and identifies those important aspects of the service on which the FSA can focus improvements in order to increase firms' satisfaction with their relationship among regulated firms.

8.1 Key drivers of firms' satisfaction with the performance of the FSA against its statutory objectives

As mentioned previously, the 2008 survey showed a sharp decline in firms' rating of the performance of the FSA in maintaining confidence in the UK financial system. Key driver analysis can help to pinpoint the issues that are driving this decline and identify areas that can be improved which will have a positive impact on this rating. Chart 8.1 shows the relative importance of the significant key drivers against each other in driving firms' satisfaction with FSA performance in maintaining confidence in the UK financial system.

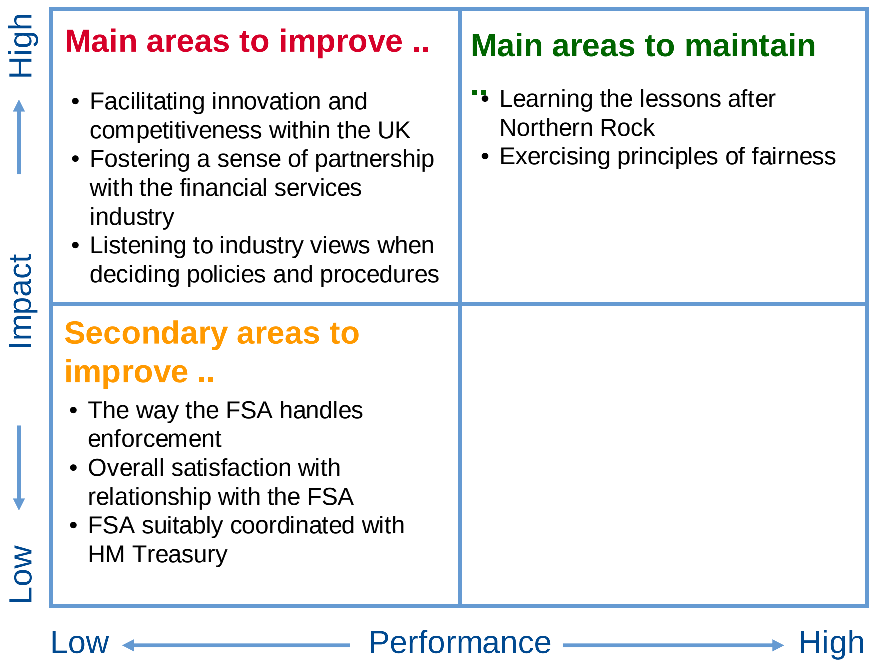
Chart 8.1 Relative importance of key drivers in determining overall firm satisfaction with the performance of the FSA in maintaining confidence in the UK financial system



The improvement matrix shown in Chart 8.2 illustrates the areas on which the FSA needs to focus in order to improve firms' rating of its performance in maintaining confidence in the UK financial system. From this model it can be seen that the main areas on which the FSA needs to focus improvements are facilitating innovation and competitiveness within the UK, fostering a sense of partnership with the financial services industry and listening to industry views when deciding policies and procedures.

Secondary areas for improvement are enforcement handling, overall satisfaction and ensuring that the FSA is coordinated with HM Treasury. Areas the FSA should continue to maintain are assuring firms that it is learning the lessons following Northern Rock and exercising the principles of fairness in dealings with the financial services industry.

Chart 8.2 Improvement matrix: improvement of performance ratings for maintaining confidence in the UK financial system



Ratings of the FSA's performance across the remaining three statutory objectives has remained unchanged since the 2006 survey and remain relatively low. A model exploring the drivers of firms' ratings of FSA performance across all four of its statutory objectives shows the same picture as for the single objective of maintaining confidence, with one notable exception. The emphasis on fostering a sense of partnership to help maintain confidence in the UK financial system has been replaced by a focus and understanding of a firm and its business.

8.2 Key drivers of satisfaction

Satisfaction with any service is driven not by one factor alone but by a range of factors which all combine to influence the overall view of the service provided. In the case of the FSA, firms' overall level of satisfaction with their relationship may well be influenced by the type of contact they have had with the FSA, by the frequency of contact, by their overall expectations of the FSA, by the overall business context in which they are operating or indeed by a range of other factors.

Therefore, in order to understand what aspects of the service drive overall satisfaction at a deeper level, a statistical technique known as key driver analysis can be used. Using satisfaction ratings for a number of different aspects of service, key driver analysis identifies which drivers affect firms' overall satisfaction and measures the relative importance of each issue in driving satisfaction. A more detailed explanation of key driver analysis can be found in Appendix 1.

8.3 Overall satisfaction measure and potential drivers of overall satisfaction

Overall satisfaction with the FSA was measured through firms' satisfaction rating when asked the following question:

'Taking into account all your firm's dealings with the FSA, how satisfied are you with the relationship?'

Correlation analysis was then run to look at various aspects of the service provided to identify the aspects of the service most closely correlated with, and thus having the greatest impact on, satisfaction.

8.4 Key drivers of firms' satisfaction with their relationship with the FSA

The initial key driver analysis identified that the main driver of overall firms' satisfaction with their relationship with the FSA was '*ease of dealing with the FSA'.*

While '*ease of dealing with the FSA'* is obviously fundamental in driving firms' satisfaction, when determining actionable elements of the service for the FSA to focus improvements upon, it is a rather broad and vague element for the FSA to attempt to improve. Inclusion of '*ease of dealing with the FSA*' obscures some other aspects of the service provided. Therefore, further analysis was conducted to identify the drivers of satisfaction with '*ease of dealing with the FSA*'. This highlighted almost identical drivers to the drivers of firms' overall satisfaction with their relationship with the FSA. As a result it can be assumed that the drivers of satisfaction for '*ease of dealing with the FSA*' mirror those drivers for firms' overall satisfaction with their relationship with the FSA.

Excluding '*ease of dealing with the FSA*' from analysis of the drivers of firms' satisfaction with their relationship with the FSA allows a number of additional drivers of satisfaction to emerge, while also allowing the relative importance of each driver in shaping firms' satisfaction with their relationship with the FSA to be more clearly indicated (with '*ease of dealing with the FSA*' no longer dominating).

As a result, Chart 8.3 provides a more accurate picture of the relative importance of the significant key drivers against each other for firms' satisfaction with their relationship with the FSA.

This shows that a wide variety of factors contribute towards driving firms' satisfaction with their relationship with the FSA, with a number of the drivers all having similar impacts on shaping satisfaction. The single biggest driver of satisfaction was firms' satisfaction with enforcement handling, followed by understanding firms and their business.

While there are a number of drivers of firms' satisfaction with their relationship with the FSA, it is possible to see that there are four central themes driving overall satisfaction, although there is some degree of overlap across these themes. These have been grouped on the chart accordingly:

- **Role as a regulator (blue section of pie chart)**

  This section relates to firms' satisfaction with the FSA as a regulator with regards to enforcement and ensuring the right degree of protection for consumers.

- **Supervision of firms (red section of pie chart)**

  This section relates to firms' satisfaction with the FSA in appropriately supervising firms according to size and type of firm and ensuring that it provides value for money against their regulatory fees.

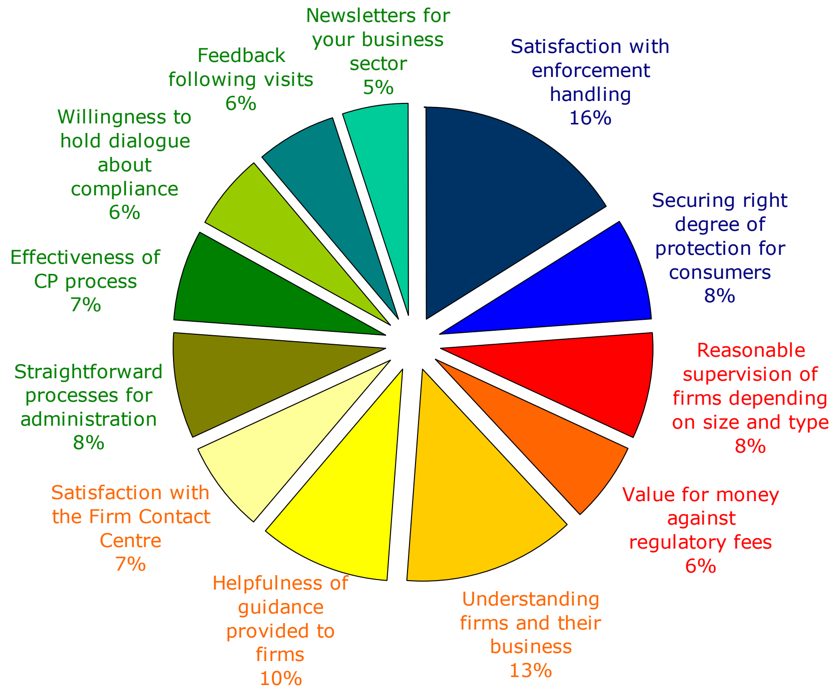
- **Relationship with the FSA (yellow section of pie chart)**

  This section relates to firms' satisfaction with how the FSA provides guidance and supervision in terms of understanding their firm and their business and how helpful the Firm Contact Centre and guidance are.

- **Communication (green section of pie chart)**

  This section relates to firms' satisfaction when communicating with the FSA (straightforward administration/willingness to hold dialogue) and with their communications (Consultation Paper process/feedback following visits/newsletters).

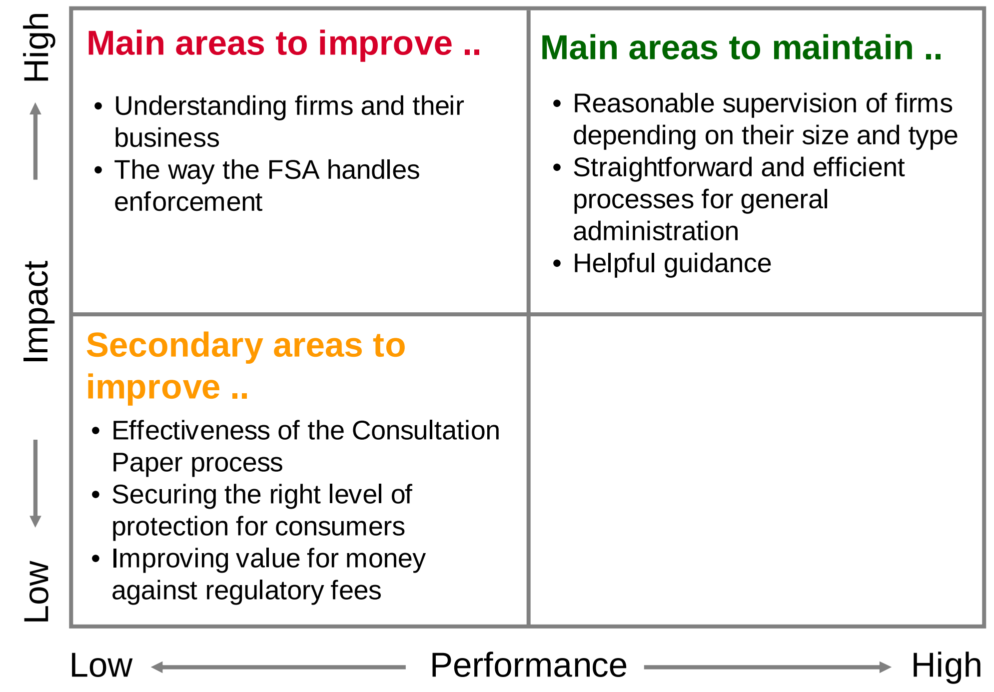
Chart 8.3 Relative importance of key drivers in determining overall firm satisfaction with their relationship with the FSA, excluding '*ease of dealing with the FSA*'



Although it is clearly desirable to understand which factors influence firms' satisfaction with their relationship with the FSA in order to target improvements that will improve satisfaction, it is crucial to know how the FSA is currently performing in these areas.

Plotting the individual importance of each aspect of the FSA against its relative performance (that is, proportion of firms satisfied) identifies the aspects of the service where improvement should be focused to increase the proportion of firms satisfied with their relationship with the FSA. This is highlighted in Chart 8.4.

Chart 8.4 Improvement matrix: overall



Primary areas for improvement

The upper left corner of the quadrant shows areas of FSA performance that firms believe to be of high importance but where the FSA is currently perceived by firms to be performing poorly. These are the critical areas for improvement. Improvement in these two areas of service will improve aspects of service that are important to firms and contribute to an increased satisfaction with their relationship with the FSA. The two aspects that the FSA should focus on primarily are understanding firms and their business and enforcement handling.

Areas for secondary improvement

The lower left corner of the quadrant shows aspects of the service that also receive poor satisfaction scores but have a lower relative importance to firms in driving satisfaction. These are securing the right level of protection for consumers and improving the effectiveness of the FSA Consultation Paper process.

While improving value for money against regulatory fees is highlighted as an area for secondary improvement, it must be noted that value for money is often an area of dissatisfaction within research, with people often wanting 'more for their money'. Therefore, while improvements should be sought in this area, it should be expected that firms will continue to be dissatisfied with this aspect as they will always want 'more for less'. In the current financial climate the industry recognises the importance of strong regulation (see Section 4.2) and in the light of the need of for financial stability are not currently overly focused on cost.

Areas for maintaining

The upper right corner of the quadrant shows areas where the FSA is performing well in areas of high importance to firms. These are aspects of the service that the FSA should continue to maintain and it is important that it continues to perform well in these areas. These include reasonable level of supervision of firms according to their size and type of business, keeping the process straightforward and efficient regarding general administration and continuing to provide helpful guidance to firms.

8.5 Drivers of satisfaction with understanding firms and their business and enforcement handling

Understanding a firm and its business and enforcement handling have been identified as the two main drivers of firms' satisfaction with their relationship with the FSA. To enable recommendations to be made as to how the FSA can make improvements to these aspects of the service, it is beneficial to see what drives satisfaction in these two areas.

This involved exploring the drivers of a firm's satisfaction for these aspects along with drawing out those issues that emerged from the report and qualitative findings that also appear to play a role in shaping firms' satisfaction.

Drivers of understanding firms and their business were found to be associated with:

- creating a greater sense of 'partnership' between the FSA and the financial services industry
- specifically understanding the risks firms face
- in the development of regulatory policy:
  - listening to industry views
  - understanding small firms and the implications regulatory change will have on them.

Obviously a factor in understanding a firm and its business also relates to the performance of the relationship manager for those firms that are relationship managed.

There are a number of different drivers associated with firms' satisfaction with the way the FSA handles enforcement. These can be grouped into two main groups:

- clarity of the rationale of enforcement
  - protection of consumers
  - reduction of financial crime
  - understood to be a credible deterrent to firms
- the communication and implementation of enforcement
  - ensuring enforcement follows a principles based approach
  - placing clear and reasonable responsibilities on senior management
  - fairness in dealings with the financial services industry.

Improvements focused on these aspects will increase firms' satisfaction with the way the FSA handles enforcement, which will consequently improve firms' overall satisfaction with their relationship with the FSA.

8.6 Drivers of overall satisfaction and areas for improvement among different firm types

As satisfaction varies between different types of firm, key driver analysis was also conducted for major groups and for firms with a relationship manager to explore whether the key areas of importance to these firms differ in comparison with those of firms on average.

8.6.1 Key drivers of overall satisfaction and areas for improvement: major groups

In comparison to the key drivers model for all firms, there are fewer key drivers of firms' satisfaction with their relationship with the FSA for major groups, with each driver having a greater relative importance in driving satisfaction (Chart 8.5). The key drivers of firms' satisfaction with their relationship with the FSA for major groups can also be grouped into the same themes as the key drivers for all firms:

- **Role as a regulator (blue section of pie chart)**

  For major groups, key drivers of firms relate to how well they perceive the FSA to be educating the public about financial products and services and ensuring a correct balance between consumer protection and its other objectives.

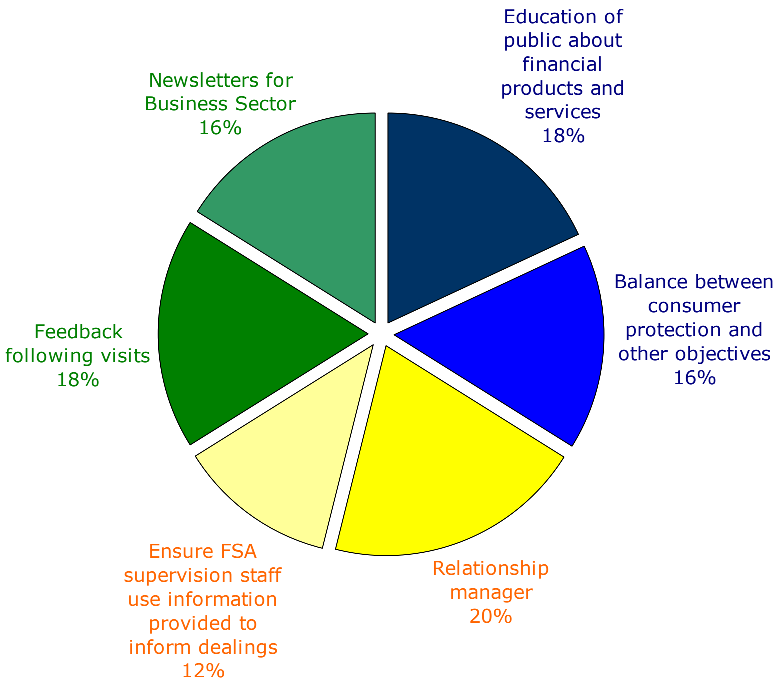
- **Relationship with FSA (yellow section of pie chart)**

  For major groups, key drivers of firms' satisfaction with their relationship with the FSA relate to satisfaction with their relationship manager and making sure that supervision staff use the information available to them when dealing with major groups to ensure they do not keep asking for information already provided.

- **Communication (green section of pie chart)**

  For major groups, key drivers of satisfaction mirror two of the key drivers for the overall model: feedback following visits and newsletters.

Chart 8.5 Relative importance of key drivers in determining overall firm satisfaction with their relationship with the FSA for major groups

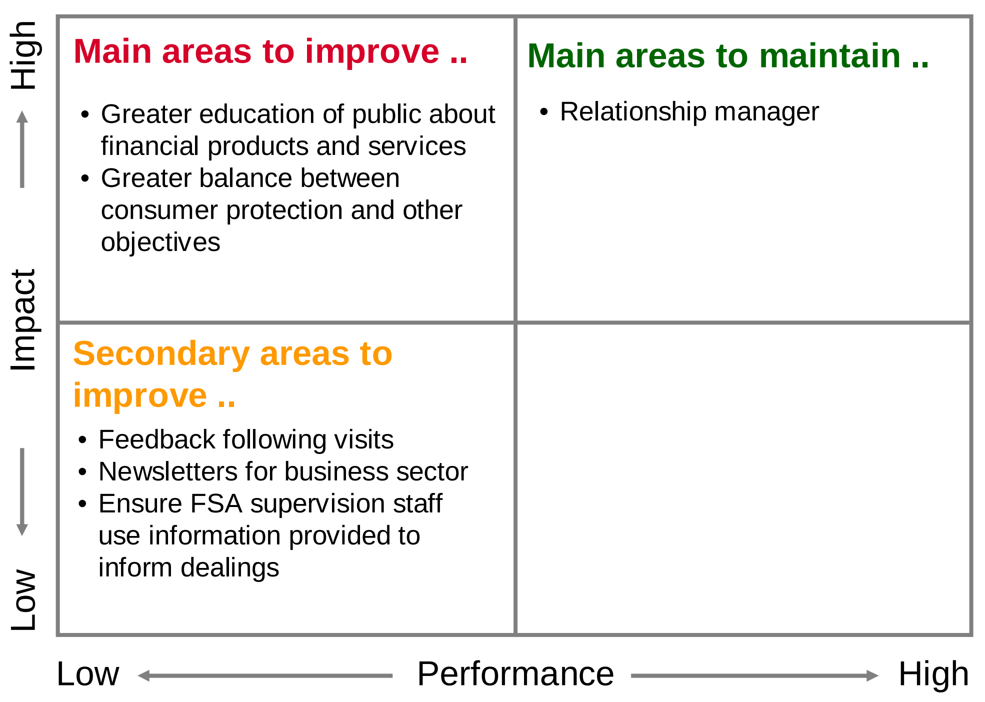


Looking at Chart 8.6, among major groups the priority areas for improvement were encouraging greater education of the public about financial products and services and also redressing the balance between consumer protection and its other objectives. This suggests that major groups possibly feel that the FSA should focus to a greater extent on the regulation of the industry rather than on consumer protection.

Secondary areas for improvements centre on communications with major groups, especially feedback following visits and improvements to the newsletters for business sectors. The FSA should also ensure that supervision staff use the information provided by major groups when dealing with them.

One area that the FSA should continue to maintain is the role of the relationship manager as this is an important driver of overall satisfaction and is an area that is currently performing well for major groups.

Chart 8.6 Improvement matrix: major groups



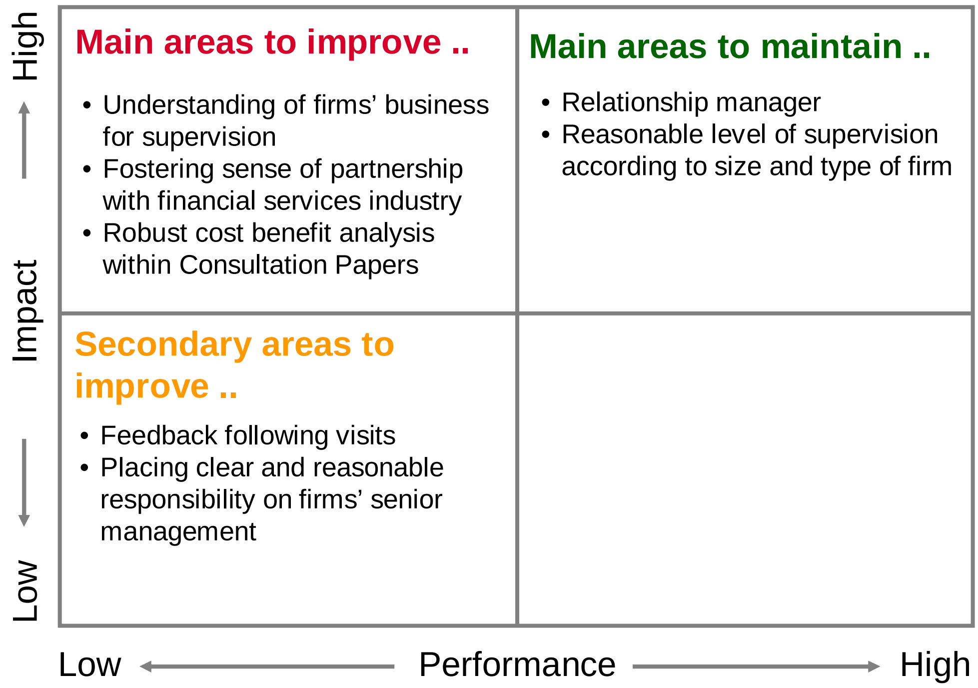
8.6.2 Key drivers of satisfaction and areas for improvement: relationship managed firms

Firms that have seen two changes in relationship manager are less likely to be satisfied with their relationship overall with the FSA than those firms that have kept the same relationship manager for the last two years. For those firms that have seen a change in relationship manager, it is therefore beneficial to see those areas where improvements can increase firms' satisfaction with their relationship with the FSA (Chart 8.7).

Improvement for firms that have had several changes of relationship manager should be focused upon ensuring that the FSA understands firms' business with regards to supervision and fostering a greater sense of partnership between the FSA and the financial services industry. These aspects of 'understanding' and 'partnership' are areas that could be expected to be poorly scored by firms that have had unstable relationships and, therefore, improvements with these aspects will have the greatest impact on increasing their overall satisfaction with the FSA. Improvements should also focus on cost benefit analysis of Consultation Papers to ensure that they are conduced in a robust manner.

Secondary areas for improvement centre on communication, with greater feedback from visits and clearer responsibilities on senior management that are also reasonable. Areas to maintain for firms that have seen several changes in relationship manager are, as could be expected, their relationship manager and a continued reasonable level of supervision according to the size and type of firm. It should be noted that, while firms that have seen several changes in their relationship manager were satisfied with their relationship manager, satisfaction levels were lower compared to those firms that had not seen a change in their relationship manager.

Chart 8.7 Improvement matrix: firms that have seen several changes in relationship manager

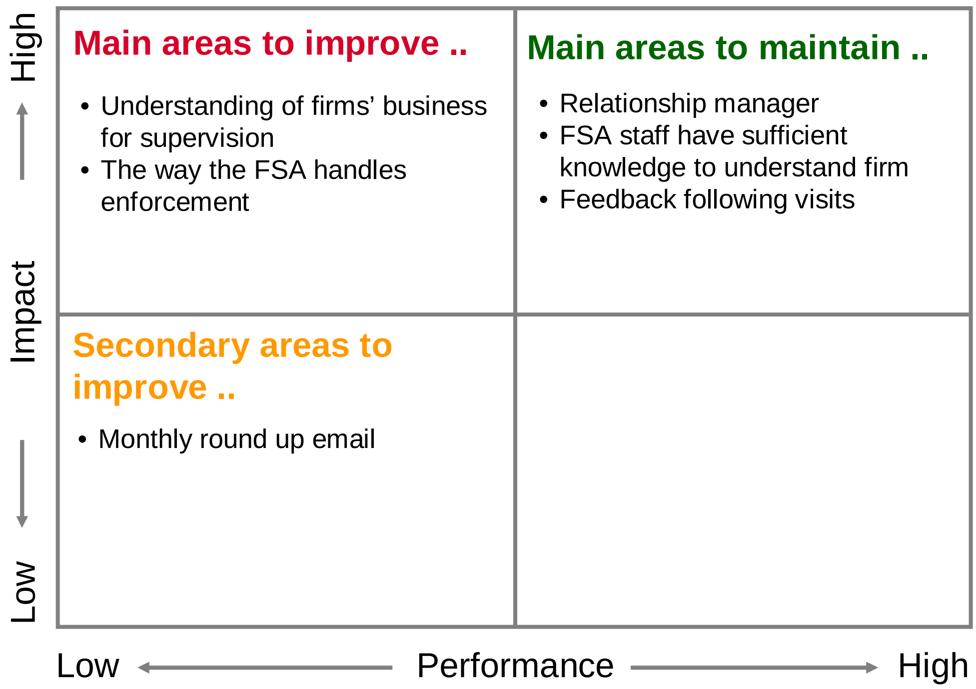


Firms that have had no change in relationship manager were highly satisfied with the performance of their relationship manager, the knowledge of FSA staff of their firm and feedback following visits. These are all areas in which the FSA should continue to maintain its performance for these firms.

Interestingly, for firms with no change in relationship manager, many of the concerns and areas flagged for improvement surrounding communication (partnership with the financial services industry, clear and reasonable communication and feedback) are no longer relevant (Chart 8.8). This might well reflect that, with the stability of a long-term relationship manager, these issues of communication have been resolved and firms are comfortable and confident with their relationship manager and all that it brings with it.

Interestingly, despite no change in relationship manager and high satisfaction with its performance, the FSA's understanding of firms' business always appears to be an area that requires improvement. With higher satisfaction with the other aspects of the service, the way that enforcement is handled by the FSA also becomes an area for improvement, along with round up emails being an area for secondary improvement.

Chart 8.8 Improvement matrix: firms that have seen no change in relationship manager



8.7 Turnover of relationship manager

There is clear evidence from the quantitative survey that the more relationship managers firms have seen in a two-year period the lower their satisfaction is likely to be with their relationship with the FSA. It is therefore reasonable to suggest that the most effective way of improving satisfaction would be to reduce the turnover of relationship managers. However, where turnover of staff is unavoidable, the key driver analysis shows that an improvement in a perception of the FSA's understanding of firms' business and fostering a sense of partnership with firms may help to improve satisfaction. These firms are also concerned with the robustness of cost benefit analysis presented in Consultation Papers, and thus improving this area could also result in increased levels of satisfaction.

9 Relationship with the FSA

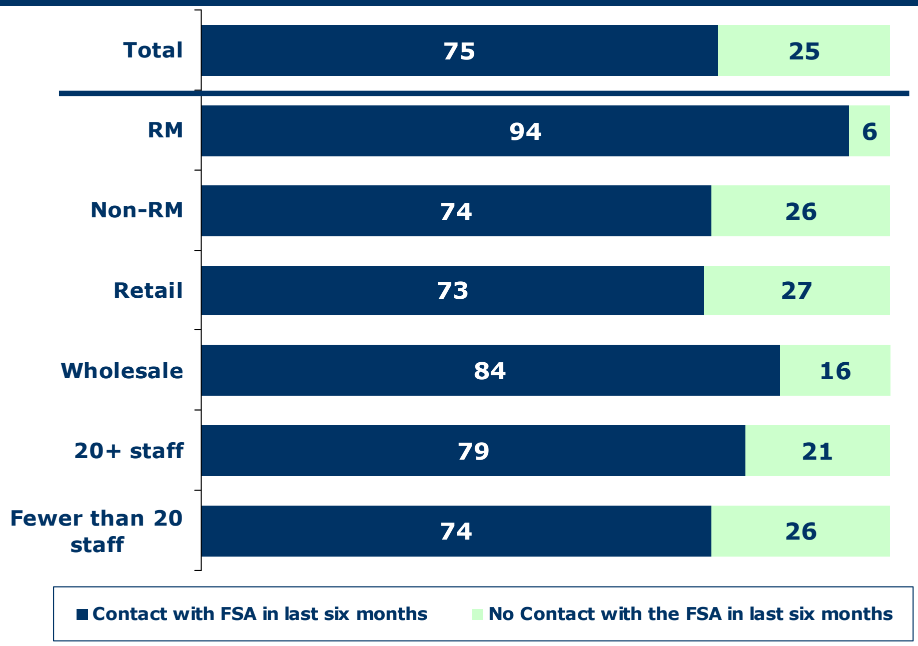
This chapter covers the relationship between regulated firms and the FSA. It looks at the frequency and nature of the contact that firms have with the FSA, including firms' experience of and satisfaction with their designated relationship manager and/or the Firm Contact Centre. It also explores satisfaction with the ease of dealing with the FSA (a key driver of overall satisfaction) and satisfaction with communications provided by the FSA such as newsletters and Consultation Papers (CP). The frequency of seeking guidance about FSA regulation and satisfaction with the guidance provided is also looked at.

9.1 Frequency and nature of contact with the FSA

A quarter of firms that took part in the survey reported having had no contact at all with the FSA for any reason in the last six months (firms were asked a number of times whether they had contacted or been contacted by the FSA about specific issues). The attitudes of these firms towards the FSA is still valid but can be assumed to be based on their perceptions of the FSA rather than on direct recent experience.

Overall, three-quarters of firms (75%) had had contact with the FSA in the last six months (Chart 9.1). Almost all major groups (96%) had done so, as had those with a designated relationship manager (94%). Wholesale firms were more likely to have had recent contact than retail firms (84% and 73% respectively), and firms with 20 or more full-time staff were more likely to have had contact than very small firms (79% and 74%).

Chart 9.1 Whether firms have had contact with the FSA in the last six months

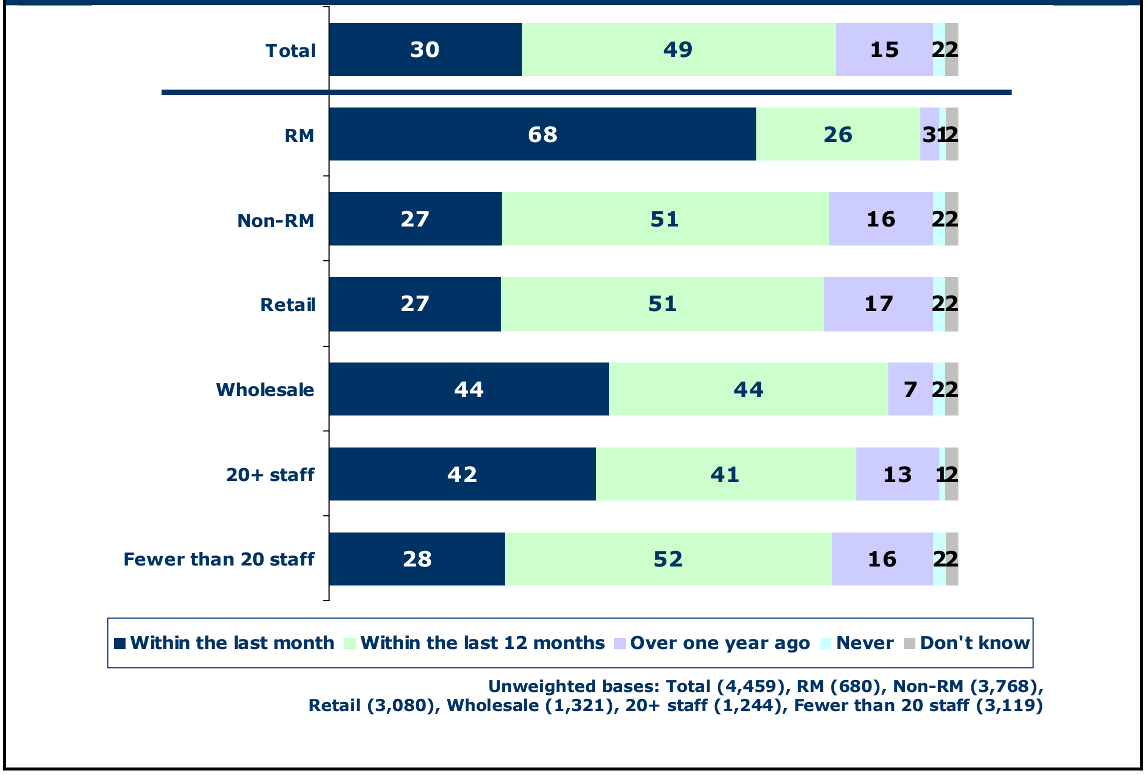


Unweighted bases: Total (4,459), RM (680), Non-RM (3,768), Retail (3,080), Wholesale (1,321), 20+ staff (1,244), fewer than 20 staff (3,119)

All firms were asked when they last *spoke* to someone at the FSA (Chart 9.2). Overall, three in ten firms (30%) had spoken to someone at the FSA within the last month and a further third (33%) within the last six months. Around one in six firms (16%) last did so six to twelve months ago, and a similar proportion (15%) had not spoken to anyone at the FSA for over a year.

The firms most likely to have spoken to someone in the last month were major groups (78%) and relationship managed firms (68%). Wholesale firms were more likely to have done this than retail firms, and firms with 20 or more full-time staff more likely than very small firms.

Chart 9.2 When firms last spoke to someone at the FSA



Firms were asked whether, since January 2007, they had experienced any of the following interventions from the FSA: a supervisory visit, an ARROW (advanced risk response operating framework) visit, a telephone interview about TCF, or a thematic review (see Table 9.1). They were also asked whether they had been in touch with the FSA's Firm Contact Centre in the same time period.

Over half of firms (54%) had contacted the Firm Contact Centre, while other forms of contact were much less common – 10% had had a thematic review, 8% had experienced a telephone interview about TCF, 7% had had a supervisory visit and 3% had had an ARROW visit. A third of firms (32%) had not experienced any of these things.

Table 9.1 Experiences with the FSA since January 2007

	Type of firm			Relationship status		
	Major groups	Retail	Wholesale	RM firms	Non-RM firms	**Total**
		%	%	%	%	%
Contacted the Firm Contact Centre	[22]	53	59	43	55	*54*
Thematic review	[60]	9	11	34	8	*10*
Telephone interview about TCF	[29]	9	3	9	8	*8*
Supervisory visit	[76]	6	10	35	5	*7*
ARROW visit	[54]	2	8	33	1	*3*
None of the above	[13]	33	27	17	33	*32*
Unweighted base	*[47]*	*2,872*	*1,272*	*660*	*3,531*	*4,202*
Weighted base	*[17]*	*3,395*	*719*	*316*	*3,815*	*4,202*

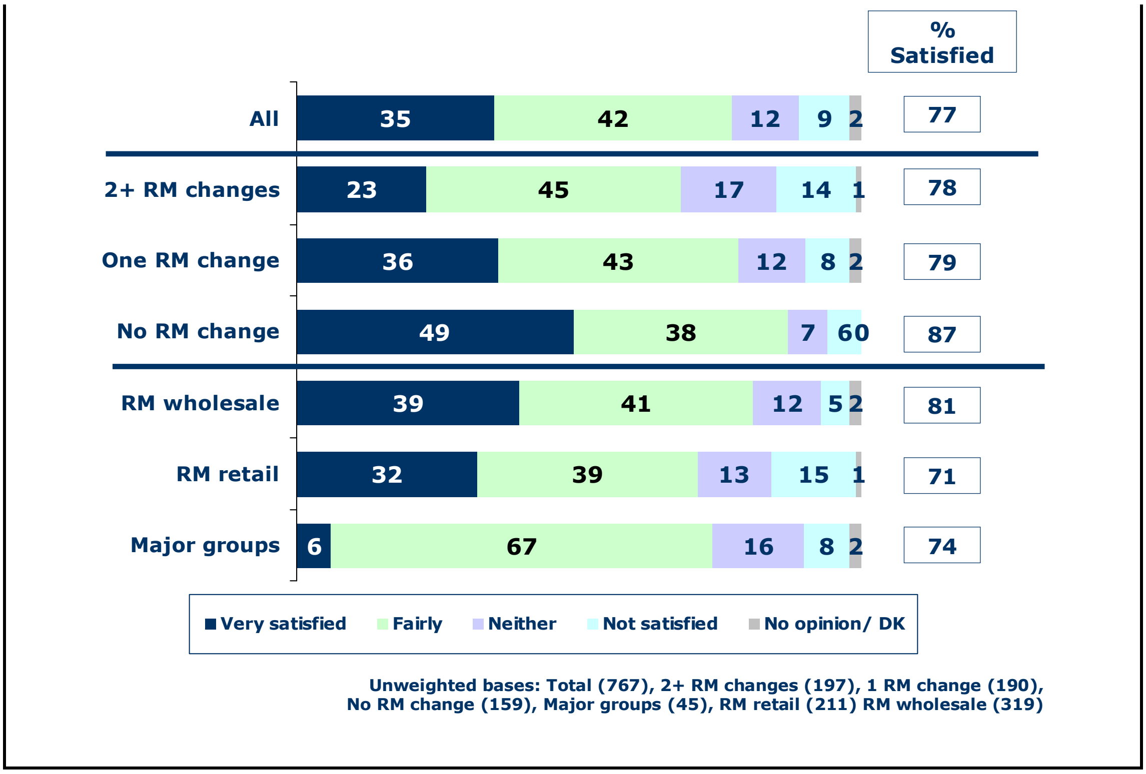
9.2 Designated relationship managers

Overall 7% of firms taking part in the survey had a designated relationship manager as defined by the FSA's database of firms. There was, however, some degree of confusion on this point. One in seven (16%) of those firms defined as relationship managed did not think this was the case. Furthermore, 5% of firms not defined as relationship managed thought they did in fact have a relationship manager.

Firms with a designated relationship manager (and that were aware they had a relationship manager) were asked how satisfied they were with their firm's dealings with that manager (Chart 9.3). Overall, over three-quarters of firms (77%) were satisfied, with over a third (35%) being very satisfied. Around one in ten of firms (9%), however, were dissatisfied with their relationship manager.

Relationship managed wholesale and relationship managed retail firms were much more likely than major groups to be *very* satisfied with their manager (39%, 32% and 6% respectively).

Chart 9.3 Satisfaction with designated relationship manager



Firms with a designated relationship manager were asked how often their manager had changed in the past two years. Only three in ten firms (28%) had kept the same manager over the past two years, with seven in ten seeing at least one change. A third of firms (33%) had had one change in their manager, while a further third (34%) had seen two or more changes.

Levels of satisfaction were, not surprisingly, highest among those whose relationship manager had not changed, with half of firms (49%) that had seen no change in manager being very satisfied with their relationship manager, compared with around a quarter of firms (23%) that had seen two or more changes. Satisfaction decreased as the number of times the manager had been changed increased.

Relationship managed firms in the qualitative research explained that a lack of continuity with the FSA relationship managers was a key issue for them. This was for four reasons. First, firms' business can be very complex and it can take a considerable amount of time for a new relationship manager to understand the business. Second, there was some concern that newly appointed relationship managers did not always have sufficient industry experience to understand the firms' business. Third, lack of continuity and lack of experience on the part of the relationship manager inevitably resulted in a greater administrative and time burden. Fourth, insufficient understanding of the business meant that the supervisory relationship tended to remain process-driven with less emphasis on a principles based approach.

> *'We had an ARROW visit recently. The CEO was interviewed by a totally inappropriate junior member of the supervisory staff. They didn't know what questions to ask – they asked detailed questions of someone who operates at a strategic level. When it came to us, two-thirds of the visit involved us telling them about the business. In the end, if we had any potential risks I don't think they would have uncovered them because the level of questioning was at the wrong level.'*
>
> (Insurance, relationship managed)

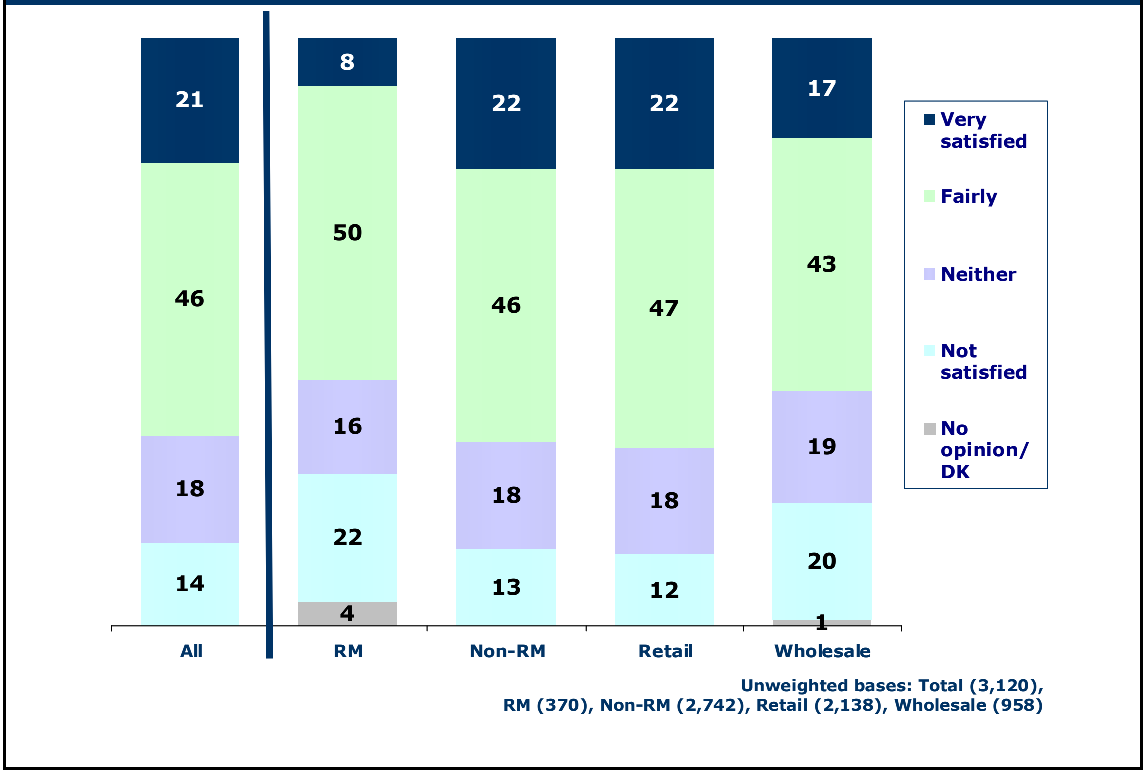
9.3 Firm Contact Centre

Firms were also asked whether they had contacted the FSA's Firm Contact Centre. Overall, seven in ten firms (71%) had done so.

As might be expected, firms that were not relationship managed were more likely to have contacted the Centre (72%) than firms with a relationship manager (55%). Firms with a relationship manager will tend to address any queries to them rather than the Contact Centre. Very small firms were more likely to have contacted the Centre than larger firms (72% and 66% respectively).

Among firms that had contacted the Centre there was a high level of satisfaction with the service provided (Chart 9.4). Over two-thirds of firms (68%) were satisfied with the service provided by the Contact Centre. One in seven firms (14%) were dissatisfied with the service provided, and dissatisfaction was higher among firms with a relationship manager (22%) and among those which had not contacted the Centre within the past two years (21%).

Chart 9.4 Satisfaction with Firm Contact Centre



Firms using the Contact Centre in the qualitative research had generally recognised an improvement in the quality of their dealings. Advisers were said to be friendly, helpful and quick to provide the advice required. Communications were said to be less script-based, which made the dialogue easier and friendlier, and gave a greater opportunity for the firm to ask questions. Firms were also pleased to note that advisers were much more helpful than in the past in that they would seek advice for the questions they were unable to answer.

However, there continued to be mixed views about the Contact Centre. It was often described as a 'two tier' system, with the first tier operating more of a script-based approach to dealing with enquiries and continually referring to the 'rule book' or the FSA website. The second tier was seen as having greater expertise, and was more discursive and less rule-book orientated. From the firms' point of view, the key difficulty was getting through to the second tier of expert advisers.

> *'Depends who you get. The [staff] that answer the phone seem to refer straight to the website which isn't much use as I can do that myself.'*
>
> (Derivatives, non-relationship managed)

'I always try to ask for a supervisor and that way I reckon on getting better advice – less of the rules and chapter and verse. A bit more of a discussion. Not that I use them often.'

(Financial adviser, non-relationship managed)

There was some commentary about the lack of consistency between the advice given by the Contact Centre and the firms' trade bodies. While it was difficult for the firms to know which was correct, they preferred to defer to the advice of their trade body. A need for consistency between the two was highlighted.

Relationship managed firms would sometimes use the Contact Centre for minor enquiries. They found an enormous contrast between the expansive discussion they would have with their relationship manager and the rule-book approach of the Contact Centre. For this reason they tended to view the Contact Centre in a negative light.

Very small firms with fewer than 20 full-time staff had a higher level of satisfaction (69%) than larger firms (61%) and retail firms were more satisfied than wholesale firms (69% and 60% respectively).

9.4 Communications

The FSA has a range of media that is used to communicate with regulated firms.

Firms were asked to rate the usefulness of these communications on a scale of 1 (extremely poor) to 10 (outstandingly good). The following ratings do not include those firms that do not receive or have never seen the communications.

Over half of firms (54%) that received feedback following a visit from the FSA rated this highly. Firms also gave high ratings for the monthly regulatory round up email and newsletters. Firms with 20 or more full-time staff were more positive than very small firms with fewer than 20 full-time staff about all the communications except for the monthly regulatory email which is specifically targeted at small firms. Half of very small firms (50%) that received the email rated it highly compared with 44% of larger firms that received it.

Although the monthly regulatory email is said to be targeted, the non-relationship managed firms participating in the qualitative research considered that it was insufficiently targeted and that it contained a great deal of inappropriate material. However, their major concern with this form of communication was that it was not 'eye-catching' enough and could easily be deleted as a consequence. In terms of content, small firms requested much more practical advice using case studies to demonstrate application of regulatory principles.

Table 9.2 Rating of FSA communications

	Score			
Communication	1 to 3	4 to 6	7 to 10	Do not receive / never seen / not stated
	%	%	%	**%**
Monthly regulatory round up email	10	42	49	**27**
Newsletters for business sector	13	44	43	**28**
'Dear CEO' letters	16	48	36	**47**
Feedback following visits	13	33	54	**69**
Annual report	23	53	24	**39**
The FSA Business Plan	23	53	24	**44**
ARROW reports	16	47	37	**73**

One method of communicating with the industry used by the FSA is the Consultation Paper (CP) process. Firms were asked how satisfied they were with this process on a scale of 1 (extremely dissatisfied) to 10 (extremely satisfied). Over one in five firms (21%) were very satisfied with the process (scoring 7 to 10), while over half (57%) gave a neutral satisfaction score (4 to 6) and 15% of firms were dissatisfied (scoring 1 to 3).

Overall, the industry welcomed the FSA consultations and were in favour of consultation. Indeed, the large firms in the qualitative research expected to be consulted, seeing this as part of the regulatory process. They were also positive about being listened to by the FSA.

However, larger relationship managed firms were very critical of the length and complexity of the consultation documents, describing them as 'over-complex' and written in a very dry and lengthy style. While they recognised that these were technical documents and that a minimum level of technical content was required, the overall view was that they were written more as legal documents than as a means of canvassing opinion.

Smaller non-relationship managed firms also welcomed the principle of consultation but felt that the targeting of the consultation documents needed refinement as they felt overwhelmed by the volume of material received. They too commented on the over-long presentation of material and thought that a more accessible style and presentation would increase participation.

'I seem to get inundated with stuff from the FSA … and the length of it. If you are one of the big firms then you might have time to read it, but I certainly don't.'

(Financial adviser, non-relationship managed)

There was a great degree of scepticism among firms about the cost benefit analysis carried out in CPs. Six in ten firms (59%) that were able to give an opinion disagreed that the cost benefit analyses were carried out robustly. Firms were slightly more positive about the reliance placed on market-led opinion, with half of firms (50%) which gave an opinion agreeing that the FSA places sensible reliance on market-led solutions.

While many of the smaller non-relationship managed firms were unable to comment on the cost benefit analyses, there was a general feeling among the larger relationship managed firms that the cost benefit analyses that were presented in consultation documents were poor. They were described as 'open to interpretation and sometimes downright wrong'.

'I don't trust them [cost benefit analyses] … I'm not an expert in this area but some of them seem to make very dubious assumptions. I've seen some that are just plain wrong.'

(Bank, relationship managed)

9.5 Seeking guidance from the FSA

Firms were asked whether they had sought guidance on rules or regulatory policy from the FSA. Over half of firms (55%) said they had done so at some point. Relationship managed firms were more likely to have sought guidance than others (78% and 54% respectively). Major groups and wholesale firms were also more likely to have sought guidance than retail firms (82%, 65% and 53% respectively), as were firms with 20 or more full-time staff compared with very small firms (64% and 54% respectively).

The majority of firms (86%) said that they had mainly sought guidance from the Firm Contact Centre, with around one in ten firms (11%) mainly seeking guidance from their designated relationship manager.

Firms that had sought guidance were then asked to rate the helpfulness of the guidance they received from the FSA on a scale of 1 (extremely poor) to 10 (extremely good). Nearly half of firms (47%) that had asked for guidance on rules and regulatory policy rated the guidance given highly (giving a score of 7 to 10). A third of firms (34%) scored the guidance given neutrally (score of 4 to 6), while one in five (19%) said that the guidance was poor (score of 1 to 3).

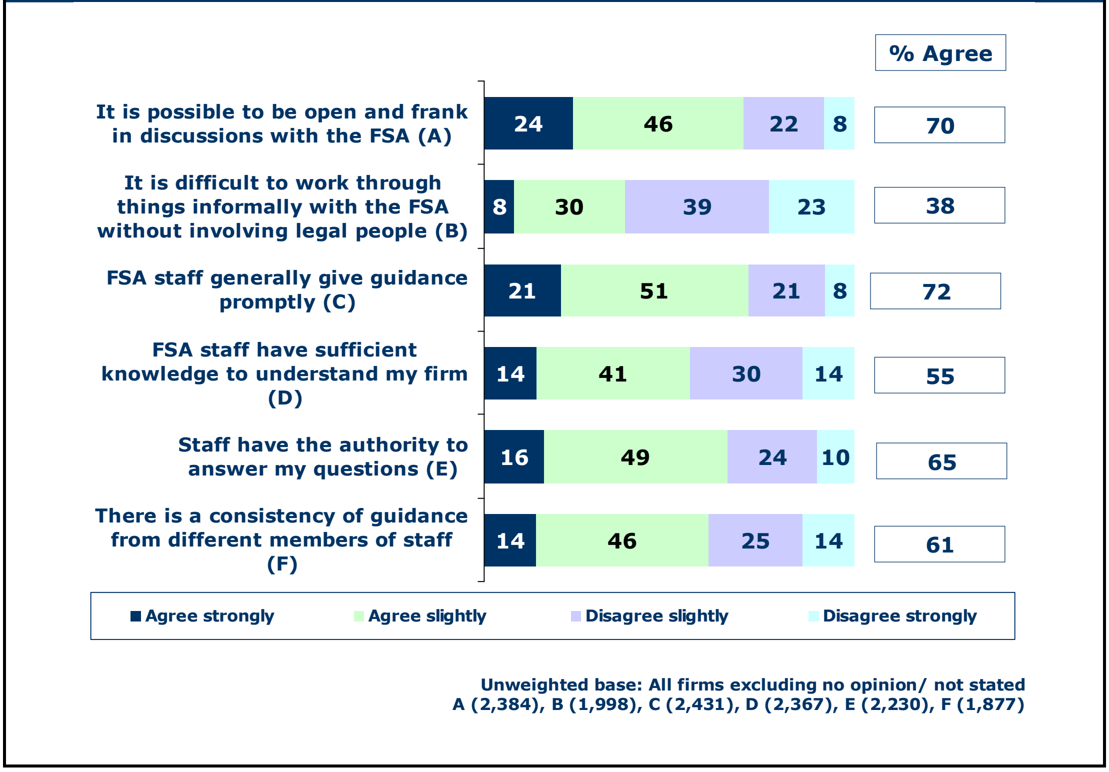
Relationship managed firms were generally pleased with the guidance they had received. However, there was a real sense that, although the FSA promotes a principles based approach to regulation, there is considerable variation in how this is practised. Experienced relationship managers were more likely to have moved to a principles based approach, while less experienced relationship managers tended to be more process-driven. This was particularly apparent when guidance was sought during, or following, an ARROW visit.

> *'The big downside has to be that a principle is by its very nature not a legalistic term. It is something that we can all have a different opinion on what it might be. Treating Customers Fairly is a good example. What each of us might mean by treating customers fairly [differs] What does fairness mean? And fairness is determined by so many different factors, your upbringing, the people that you mix with, things that you have read. All those factors will determine what we mean by fairness. And that is exactly the same for any other principle. What is adequate systems and control? What does the word "adequate" mean? So principles are supposed to be fluffy things because they are subjective, they have to be subjective and the way that the FSA used them in the past was perfectly adequate. They were saying these are the rules, the hard facts; these are the legalistic terms we must apply. What we are finding is that firms are getting different interpretations on them, or wriggling out because the FSA hadn't written a specific rule for it.'*
>
> (Retail bank, relationship managed)

Firms using the Contact Centre for guidance varied in their views about the guidance received. Those accessing the more expert advisers were generally more satisfied with the advice received, primarily because they were less likely to have been referred to the 'rule-book', which they would have to interpret themselves.

Firms were then presented with a number of statements in order to assess their attitudes towards approaching the FSA for guidance (Chart 9.5).

Chart 9.5 Attitudes towards approaching the FSA for guidance



There was a high level of agreement among firms (70%) that it was possible to be frank and open with the FSA in discussion, that staff gave guidance promptly (72%), that staff had the authority to answer questions (65%) and that there was consistency of guidance from different members of staff (61%). Firms were less likely to agree that staff had sufficient knowledge to understand their firm (55%) and, more positively, that it was difficult to work through things informally with the FSA (38%).

Very small firms with fewer than 20 full-time staff were less likely than larger firms to agree that it was possible to be frank and open with the FSA (69% compared with 76%).

The qualitative research echoed these findings. Relationship managers were more likely to understand a firm's business than a Contact Centre adviser. Similarly, the closer the relationship between firms and the FSA, the easier it was to have a full and frank discussion. By contrast, non-relationship managed firms, particularly the very small non-relationship managed firms, expressed some reluctance about discussing issues with the FSA in case they showed their ignorance of a subject and triggered a supervisory visit.

'You try and keep your head below the parapet really. There is no need for you to disturb them [FSA] really. Let them get on with what they want and I will get on with what I want to do … the last thing I need is them knocking on the door and coming trawling round my office checking whether I've used the pink paper or the yellow paper.'

(Mortgage broker, non-relationship managed)

9.6 Satisfaction with Industry Roadshows, the FSA website and the FSA Handbook

Firms were asked about how effective they thought the Roadshows were for sharing information with firms. They were also asked about their attitudes on the ease of finding information on the FSA website, the level of detail of the Handbook, how useful the Handbook is, the ease of using the Handbook and whether it has improved over the past two years.

9.6.1 Firms' attitudes towards the FSA Roadshows

Firms were asked whether they agreed or disagreed that industry training Roadshows and events are an effective means of disseminating information and developments.

A number of firms said they had no opinion or did not give a response when asked about Roadshows and events, possibly because they were not aware that they existed or because they had no experience of them. Therefore the analysis is based solely on those respondents who provided an answer.

Overall, three-quarters of firms who gave a response (76%) agreed that Roadshows and events are effective means for disseminating information and developments, with one in five firms (21%) in strong agreement and over half of firms (55%) agreeing slightly. A quarter of firms (24%) disagreed with the statement that Roadshows and events are effective.

Relationship managed firms were more likely to agree that Roadshows and events are effective compared with non-Relationship managed firms (83% and 75% respectively).

Wholesale firms were more likely to agree that Roadshows and events are effective compared with retail firms (81% and 75% respectively).

The greatest support for the Roadshows events was shown from major groups and relationship managed wholesale firms, with 92% and 84% agreeing respectively.

9.6.2 Firms' attitudes towards the FSA website

Firms were asked whether they agreed or disagreed that it is easy to find the information they need on the FSA website.

Firms' attitudes towards how easy it is to find the information they need on the FSA website was mixed. Four in ten firms (41%) agreed that it is easy to find the information they need, with one in ten (9%) agreeing strongly and a third (32%) agreeing slightly. In contrast, around half of firms (49%) disagreed that it is easy to find information on the FSA website, with about a quarter of firms disagreeing slightly (26%) and another quarter (24%) disagreeing strongly. One in ten firms (10%) had no opinion or did not give an answer.

Relationship managed firms were more likely to agree that it was easy to find the information they need on the FSA website compared to non-relationship managed firms (48% and 40% respectively).

Firms that had had contact with the FSA in the last six months were also more likely to agree that it was easy to find the information they needed compared to those firms that had not had contact (43% and 35% respectively).

Retail firms were more likely to disagree that it was easy to find the information they need on the FSA website compared with wholesale firms (50% and 45% respectively).

Very small firms with fewer than 20 full-time staff were also were more likely to disagree that it was easy to find the information they need on the FSA website compared with larger firms (50% and 46% respectively).

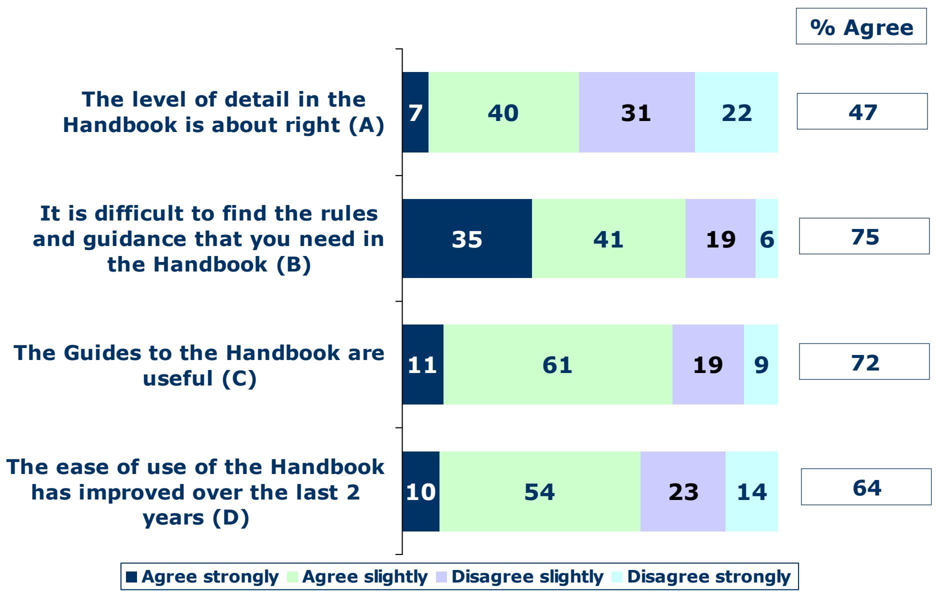
Firms which were either highly satisfied (scoring their overall relationship between 7 and 10) or satisfied (scoring their relationship between 4 and 6) were more likely to agree that it was easy to find information compared with those firms which were dissatisfied (scoring their relationship between 1 and 3) (55%, 34% and 16% respectively).

9.6.3 Firms' attitudes towards the FSA Handbook

Firms were asked about their attitudes towards the level of detail in the Handbook, how useful the Handbook is, how difficult it is to find the rules and guidance that they require and whether the ease of the Handbook has improved over the past two years (Chart 9.6).

A number of firms had no opinion or did not give an answer to the questions about the handbook, possibly as they were not aware of it or had not used it. Therefore the analysis in this section is based only on those respondents who provided an answer.

Chart 9.6 Firms' attitudes towards the FSA Handbook



Unweighted base: All firms excluding no opinion/ not stated
A (3,700), B (4,023), C (3,524), D (3,266)

Firms' attitudes towards the level of detail in the Handbook were mixed, with just under half of firms who gave an opinion (47%) agreeing the level of the detail was about right, while just over half (53%) disagreed.

Firms were less positive about the ease of using the Handbook, with three quarters (75%) agreeing that it is difficult to find the rules and guidance that they needed. With the majority of firms finding the Handbook difficult, it is positive that just under three-quarters of firms (72%) agreed that the Guides to the FSA Handbook are useful. In addition, two-thirds of firms (64%) agreed that the ease of using the Handbook has improved over the past two years.

Relationship managed firms were more positive about each aspect of the Handbook compared to non-relationship managed firms.

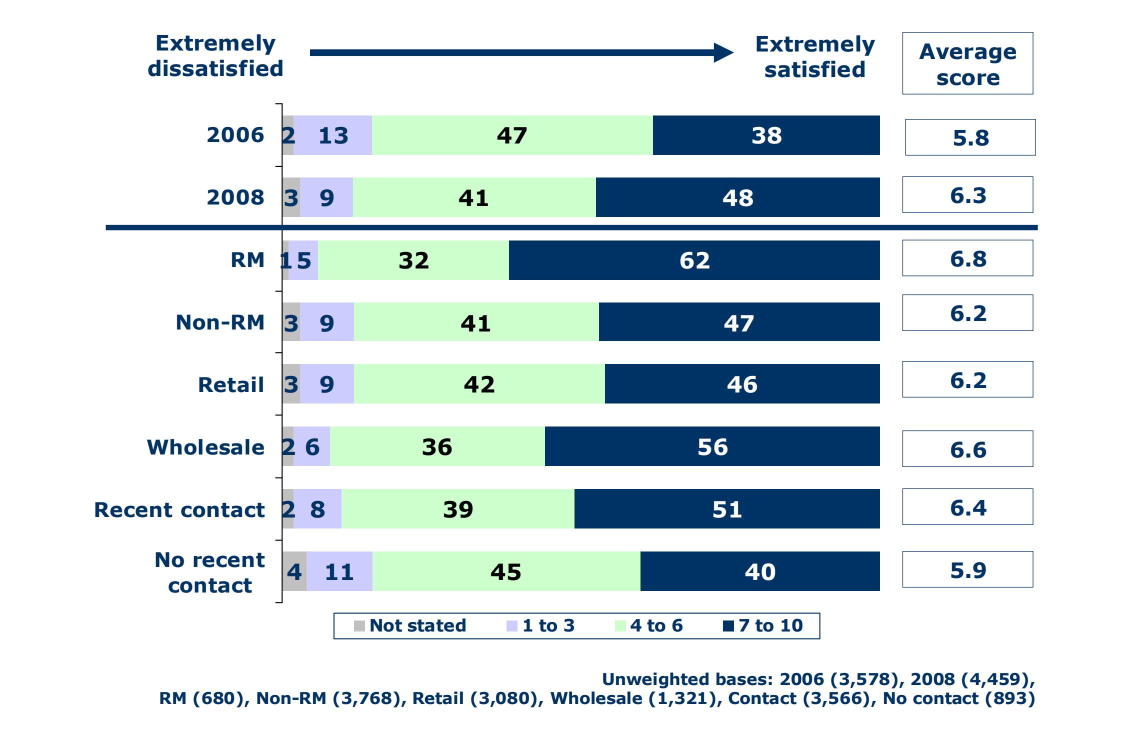
10 Attitudes towards supervision

This chapter explores experience of, and satisfaction with, FSA supervision.

10.1 Overall satisfaction with supervision

Firms were asked how satisfied they were with the FSA's supervision of their firm. The chart below details overall responses from all firms.

Chart 10.1 Overall satisfaction with supervision



Around half of firms (48%) gave a generally positive satisfaction rating to supervision, showing an increase in firms' satisfaction with supervision since 2006. Relationship managed firms tended to be more positive than those firms which were not relationship managed, with 62% giving a positive rating compared with 47% of those firms without a relationship manager.

As discussed earlier, views about the quality of supervision were influenced by a number of factors, including the nature of the relationship with the relationship manager, turnover of supervisory staff, quality of advice and guidance given and the extent to which the regulatory approach was principles based or rules based.

The majority of firms (59%) had never had a supervisory visit and, where they had, these tended to be over three years ago.

Even fewer firms had experienced a thematic review, with one in five (19%) firms having experienced one (a slight increase from 16% in 2006). As was the case in 2006, major groups were the most likely to have experienced a thematic review, with around nine in ten (87%) having done so in the 2008 survey.

Firms with 20 or more full-time staff were much more likely than very small firms with fewer than 20 full-time staff to have had a supervisory visit (47% and 29% respectively) or to have participated in a thematic review (35% and 15% respectively).

Those firms which had experienced either a supervisory visit or taken part in a thematic review tended to be more satisfied with the FSA's supervision of their firm than those who had not.

Firms were asked whether any FSA supervision visit (or thematic review) had been undertaken in a '*suitably informed, collaborative and proportionate'* manner. As in 2006, around a fifth of all firms (22%) reported that it had – however, most did not respond to this question (unsurprisingly given the low levels of incidence of both supervisory visits and thematic reviews).

Based only on those answering, over eight in ten firms (82%) agreed that FSA supervision had been undertaken in a '*suitably informed, collaborative and proportionate'* manner.

10.2 The flexibility of the FSA in applying rules

Regulated firms were asked about the FSA's flexibility in applying the rules for:

- the Conduct of Business Standards
- Prudential Standards.

Results for these questions are shown in Table 10.1.

Table 10.1 Description of the FSA in applying rules

	Conduct of Business Standards	Prudential Standards
	%	%
Highly/fairly flexible	5	3
About right	37	32
Highly/fairly rigid	22	20
No experience/don't know/ not stated	36	45
Unweighted base	*4,202*	*4,202*
Weighted base	*4,142*	*4,142*

Large numbers of firms were unable to answer these questions owing to not having experience of either the Conduct of Business Standards or Prudential Standards. However, where firms did respond, very few firms considered the FSA to be flexible on either. Again, this reflects the limited movement from a rule based approach to regulation to one of principles.

Around four in ten firms (37%) considered the FSA's application of the rules for the Conduct of Business Standards to be about right and one in five (22%) described the FSA's position as highly or fairly rigid. Major groups and relationship managed retail firms in particular, were inclined to see the FSA as rigid in this area (38% and 38% respectively).

A similar picture can be seen for the application of the rules for Prudential Standards. While a small minority (3%) felt that the FSA was flexible, one in five firms (20%) described the FSA as highly or fairly rigid and a third (32%) felt that the FSA's approach was about right. However, almost half (45%) did not offer an opinion.

Major groups and relationship managed retail firms were again more likely to describe the FSA as rigid (38% and 38% respectively) compared with only 6% of credit unions and 16% of non-relationship managed wholesale firms.

Respondents were also asked whether the FSA had got the priority about right in its focus on Conduct of Business or Prudential Standards. Once more, many firms (49%) were unable to answer this question. However, where firms were able to respond, they were much more likely to agree that FSA had got the priority about right – 39% agreed compared with only 12% who disagreed.

10.3 Supervision

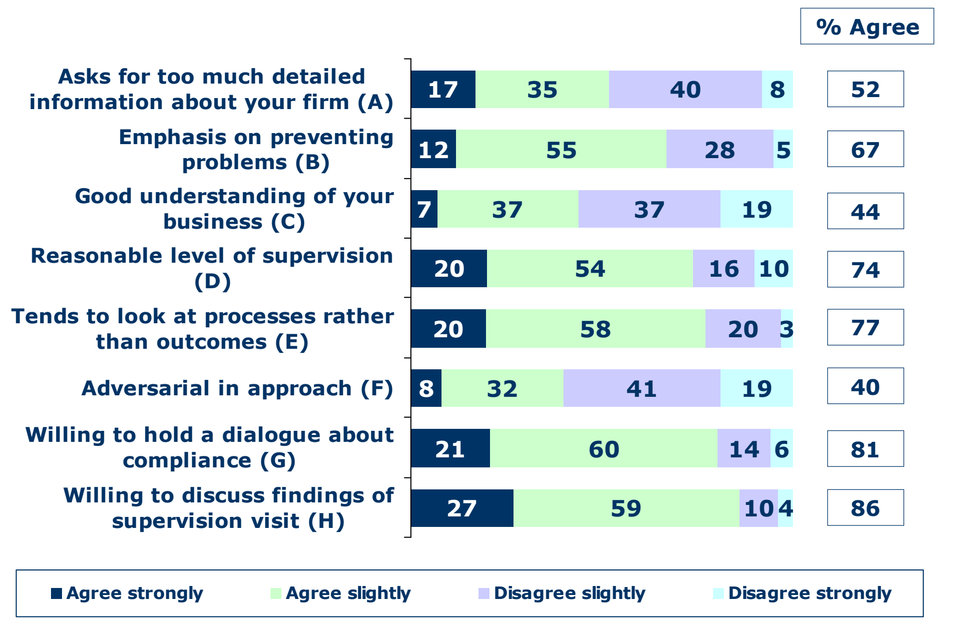
All firms were asked their opinions about the way their firm is supervised by the FSA (Chart 10.2). A large number of firms had no opinion or gave no answer to these questions and have therefore been excluded from the following analysis. Of those firms that gave an opinion, encouragingly, three-quarters of firms (74%) felt that the level of supervision is reasonable for a firm of their size and type, an increase from the 67% who agreed with this in 2006.

The FSA is also perceived as working in partnership with businesses more than it was in 2006. For example, whereas 71% agreed in 2006 that the FSA was willing to hold a dialogue about compliance issues, this has now increased to 81% of firms in 2008. In addition, around two-thirds (67%) now agree that the FSA's emphasis is on preventing problems.

Almost four in ten firms (44%) felt that the FSA has a good understanding of their business (an increase from 36% in 2006). From the point of view of firms in the qualitative study, this is a key failing of the FSA. The lack of business understanding has three key implications. First, it means that the firm's staff time is taken up with explaining the business to the regulator rather than focusing on regulation. Second, it means that the regulator is less likely to understand the risks that are inherent in the business, resulting in inadequate regulation. Third, it means that firms are less likely to take risks, with risk-taking being part of natural business development.

Almost eight in ten (77%) agreed that the FSA still looks at processes rather than outcomes in the area of supervision – although high, this is still lower than the 82% who felt this in 2006.

Chart 10.2 Ratings of FSA supervision

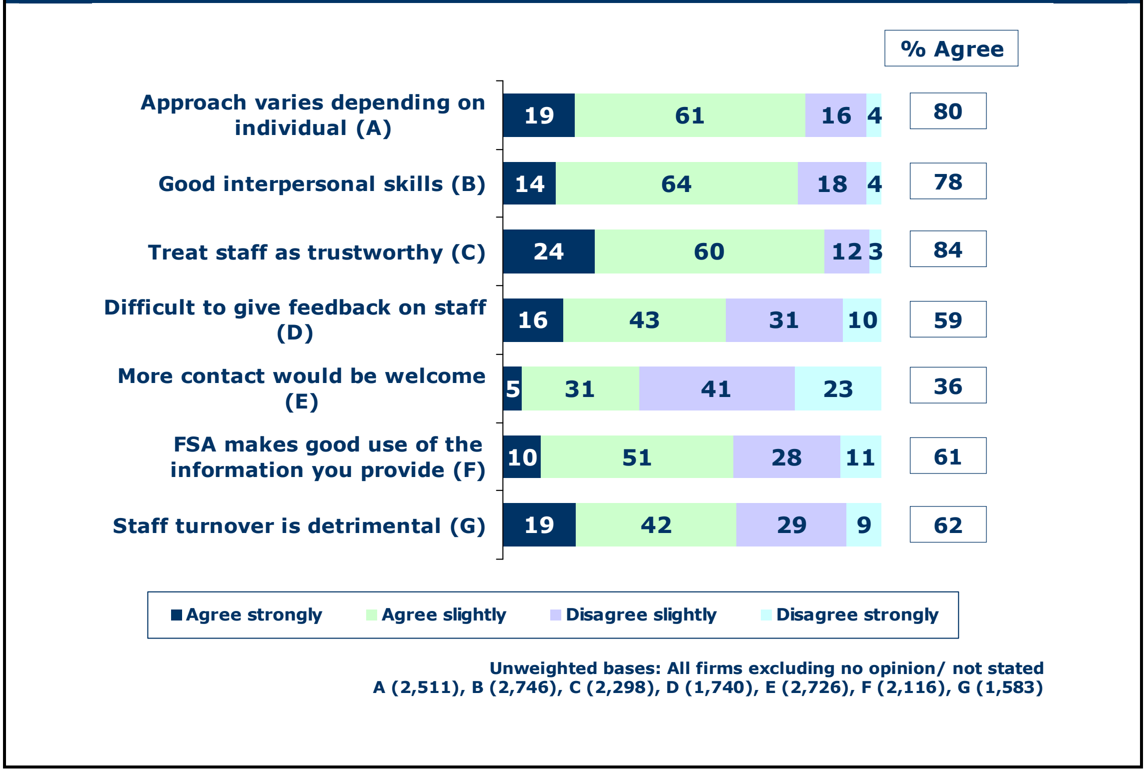


Unweighted bases: All firms excluding no opinion/ not stated
A (3,779), B (3,489), C (3,827), D (3,746), E (3,165), F (2,968), G (2,986), H (1,588)

Relationship managed firms were much more positive about all the aspects of supervision than those firms which were not relationship managed. They were more likely to see the FSA as a partner, with 89% agreeing that the FSA is willing to hold a dialogue with them about enforcement issues compared with 80% of firms without a relationship manager.

Respondents were also asked to rate the FSA staff who handle supervision (Chart 10.3). Many firms were unable to answer these questions, as most firms have not had any direct experience of supervision from the FSA. As a result, the chart is based only on those able to answer.

Chart 10.3 Ratings of supervision staff (1)



In general, the perceptions of supervision are positive. The exception is in the areas of consistency of approach and staff continuity. There was a widespread perception, as evidenced by the qualitative research, that turnover is detrimental to a firm's regulatory relationship with the FSA.

Turning first to the issue of consistency, eight in ten firms (80%) agreed that the approach to supervision varies by individual. While this is high, it represents an improvement since 2006 when 85% of firms agreed with this statement.

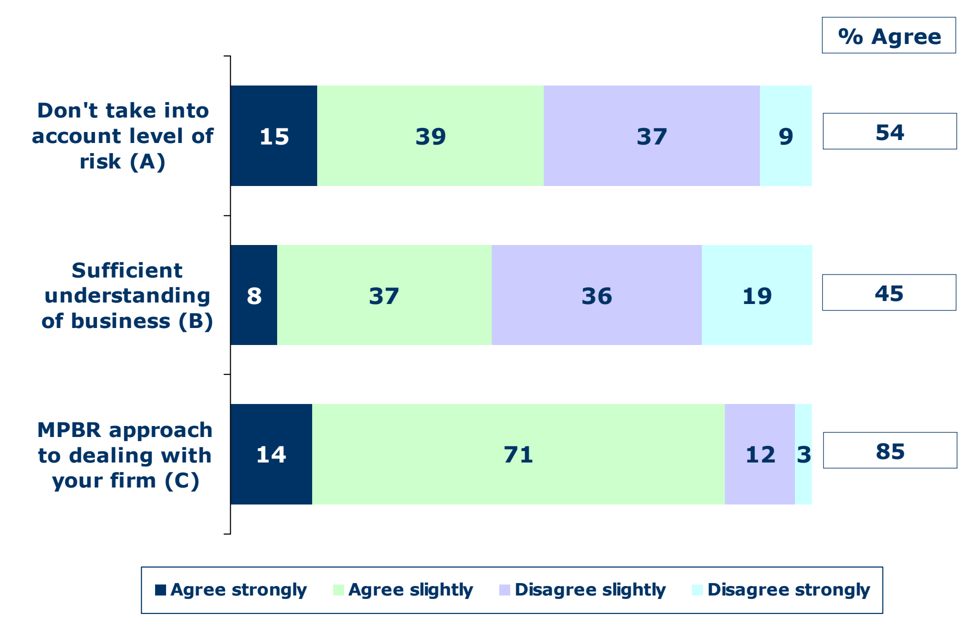
Major groups were most likely to feel that there was inconsistency in supervision (92% agreed that the approach varied by individual). Small firms and those firms not relationship managed were least likely to answer; around half were not able to offer an opinion (48% and 50% were not able to give an opinion respectively), whereas 86% of relationship managed firms felt qualified to answer.

As discussed earlier, the lack of a stable supervisory team was a key concern for the relationship managed firms. A stable relationship was more likely to result in MPBR being implemented, greater focus on the risks in the business and greater consistency of advice and guidance. The converse meant that firms found the relationship more difficult to negotiate and more time consuming and it engendered concerns about retrospective regulation being applied.

Firms were asked whether they agreed or disagreed that the turnover of FSA supervision staff was detrimental to their firm's regulatory relationship. As in 2006, around two-thirds of firms did not answer this question. In 2008, of those who answered, six in ten firms (62%) agreed that staff turnover at the FSA damaged their firm's regulatory relationship compared with 38% who did not. This is an improvement on the 75% who believed that staff turnover was detrimental in 2006. Firms with 20 or more full-time staff, relationship managed firms, major groups and relationship managed retail firms were most likely to believe that staff turnover negatively impacted on their firm's regulatory relationship.

Chart 10.4 shows the responses on the broader issues related to the supervisory relationship between firms and the FSA.

Chart 10.4 Ratings of supervision staff (2)



Unweighted bases: All firms excluding no opinion/ not stated
A (2,440), B (2,702), C (2,098)

Firms were generally likely to believe that the FSA had adopted a MPBR approach in its supervisory dealings, as over eight out of ten firms (85%) agreed with this compared to only 15% who disagreed. This is an increase from 2006 when 78% of firms thought this. Around six in ten firms with fewer than 20 full-time staff (57%) and firms without a relationship manager (59%) were unable to answer this question.

Industry opinion is more divided when it comes to the areas of assessing risk and commercial understanding.

Over half of firms (54%) believed the FSA does not take the level of risk arising from the business into account when supervising firms. Although still high, this is an improvement from 2006 when 60% felt that staff did not take risk into account. The qualitative research suggested that the reason for this is because FSA staff are likely to have insufficient knowledge of the financial service industry, a factor that is compounded by the high turnover of staff in some supervisory teams and movement from the FSA to the financial services industry.

> *'Why would they need a fairly large graduate programme if people weren't leaving, and people aren't leaving to join another regulator, they are going out to the industry, so the Regulator is basically training the Compliance Departments of the big firms.'*
>
> (Financial adviser, non-relationship managed)

Relationship managed firms, wholesale firms and firms with 20 or more full-time staff were the most likely to feel that risk was taken into account.

Just over four in ten firms (45%) agreed that the FSA had sufficient commercial understanding of their business to make appropriate judgements about it. This compares with 41% who agreed in 2006. Relationship managed firms were more positive compared with non-relationship managed firms (58% and 43% respectively agreed with the statement).

The relationship managed firms were concerned about the lack of business knowledge among FSA staff. They recognised that there had been secondments between the financial services industry and the FSA and that these had worked very well. Equally, they realised that the salary differential meant that FSA staff would be attracted to the industry. It was suggested that the FSA and the industry might try 'partner arrangements' more frequently, such that industry staff could be seconded to the FSA on an advisory basis and vice versa.

11 Attitudes towards the Retail Distribution Review

This chapter explores firm's attitudes towards the Retail Distribution Review (RDR).

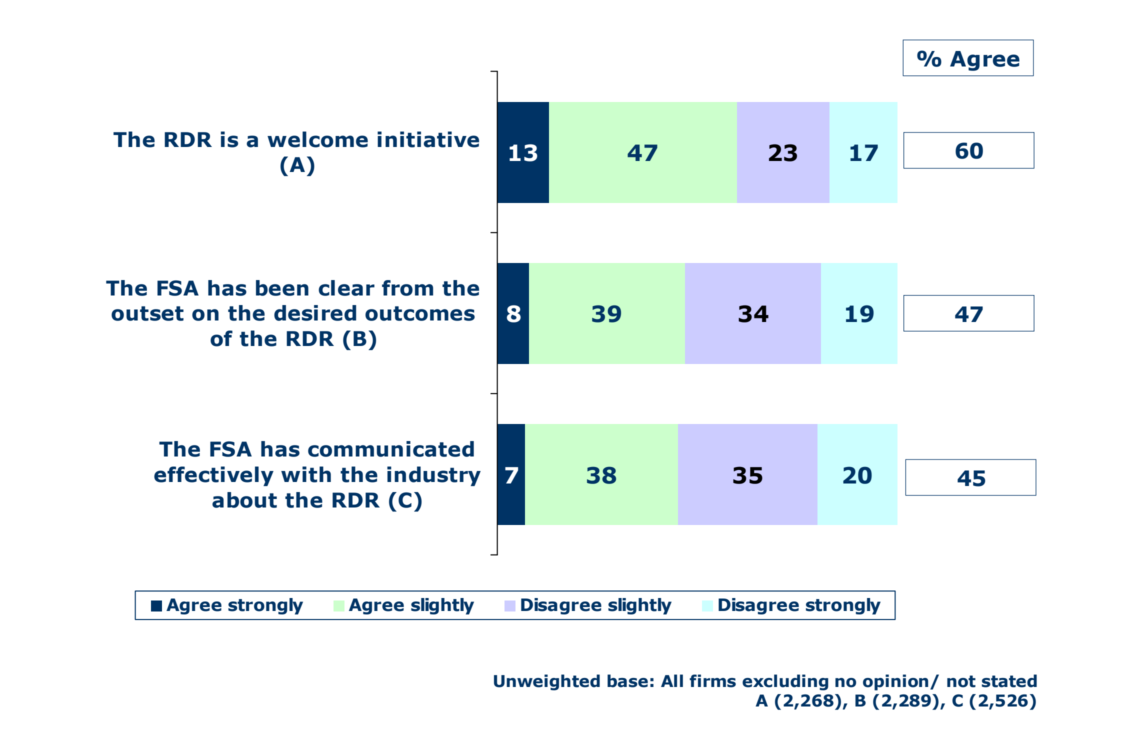
Many of the issues around these areas are pertinent to only certain types of firms, and thus a high proportion of firms had no opinion or did not give an answer regarding these issues. Therefore the analysis in this chapter is based only on those respondents who provided an answer.

11.1 The Retail Distribution Review

Firms were asked to what extent they agreed or disagreed with three statements about the RDR. This included whether they thought the RDR is a welcome initiative, whether the FSA had been clear about the desired outcomes of the RDR and whether the FSA has effectively communicated with the industry about the RDR (Chart 11.1).

Overall, the majority of firms showed general support for the RDR but they were less likely to agree that the FSA had been clear about the desired outcomes or that it had communicated effectively with the industry. The qualitative research showed that there was a degree of dissatisfaction among regulated firms around how new initiatives are introduced and communicated to the industry. In common with the communication of MPBR and TCF, firms thought that RDR had been another case where FSA communications had lacked clarity and precision.

Chart 11.1 Firms' attitudes towards the RDR



Of those firms who gave a response, six in ten (60%) agreed that the RDR is a welcome initiative while four in ten firms (40%) disagreed. Just under half of firms (47%) agreed that the FSA has been clear from the outset on the desired outcomes of the RDR, while a similar proportion (45%) agreed that the FSA has communicated effectively with the industry about the RDR.

The RDR mostly affects retail firms and it is perhaps not unexpected that retail firms were less likely than wholesale firms to welcome the initiative (59% and 75% respectively, as shown in Table 11.1). Despite also being affected, major groups were more positive with seven in ten (71%) agreeing that the RDR is a welcome initiative.

Despite the RDR being most relevant to them, retail firms were less likely than wholesale firms to agree that the FSA had been clear from the outset on the desired outcomes of the RDR (46% compared with 60%) or that the FSA had communicated effectively about the RDR (45% compared with 53%).

Table 11.1 Firms' attitudes towards the RDR, by firm type

	Type of firm		
	Major groups	Retail	Wholesale
	%	%	%
The RDR is a welcome initiative			
Agree	[71]	59	75
Disagree	[29]	41	25
Weighted base	*[13]*	*2,348*	*171*
Unweighted base	*[34]*	*1,922*	*307*
The FSA had been clear from the outset on the desired outcomes of the RDR			
Agree	[51]	46	60
Disagree	[49]	54	40
Weighted base	*[13]*	*2,358*	*178*
Unweighted base	*[35]*	*1,931*	*316*
The FSA has communicated effectively with the industry about the RDR			
Agree	[32]	45	53
Disagree	[68]	55	47
Weighted base	*[13]*	*2,606*	*205*
Unweighted base	*[35]*	*2,117*	*366*

The RDR particularly affects those firms specifically involved in the selling and distributing of retail investment products, such as home finance brokers and financial advisers. Mirroring the trend of retail and major groups, home finance brokers and financial advisers were more likely to disagree that the RDR is a welcome initiative compared with firms overall (52% and 45% compared with 40% respectively). Financial advisers were also more likely to disagree that the FSA had been clear about the desired outcomes compared with firms overall (63% and 53%). Looking only at retail and major groups, those firms which are relationship managed were more likely to agree that the RDR was a welcome initiative than those firms which were not relationship managed (69% compared with 59%) and firms with 20 or more full-time staff were more likely to agree than very small firms (65% compared with 58%).

12 Attitudes towards EU and international issues

This chapter explores firms' attitudes towards EU and International issues and the Markets in Financial Instruments Directive (MiFID).

Many of the issues around these areas are pertinent to only certain types of firms, and thus a high proportion of firms had no opinion or did not give an answer regarding these issues. Therefore the analysis in this chapter is based only on those respondents who provided an answer.

12.1 EU issues

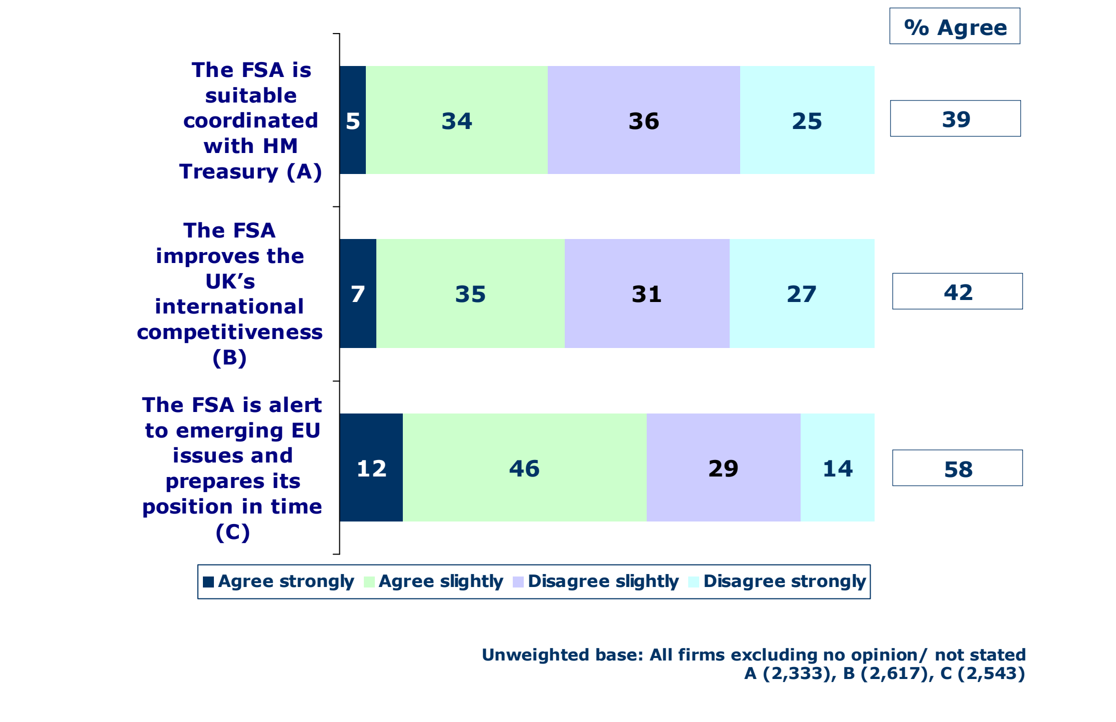
Regulated firms were asked for their perceptions about whether they felt the FSA is coordinated with HM Treasury, whether the FSA is alert to emerging EU issues and whether the FSA improves the UK's international competitiveness (Chart 12.1).

Of those firms who gave a response, four in ten firms (39%) agreed that the FSA is suitably coordinated with HM treasury, while a similar proportion (42%) agreed that the FSA improves the UK's international competitiveness. Firms were more positive about the FSA being alert to emerging EU issues and preparing its position in time, with six in ten firms (58%) in agreement with the statement.

Compared with the 2006 survey there has been a reduction in the proportion of firms that agree the FSA is suitable coordinated with HM Treasury (falling from 49% in 2006 to 39% in 2008). This fall may well be related to the context in which the research was conducted, at a time of turmoil in the global and UK financial markets. There has also been a slight decrease in the proportion of firms which agreed that the FSA is alert to emerging EU issues (decreasing from 62% of firms in 2006 to 58% in 2008).

Firms in the qualitative research – mainly the larger relationship managed retail firms and non-relationship managed financial advisers and brokers – were generally of the opinion that the FSA plays a significant role in the development of EU initiatives. They welcomed this as it was thought to be one of the FSA's main achievements – an international standing in the financial services community.

Chart 12.1 Firms' attitudes towards EU and international issues



Wholesale firms were more likely to agree that the FSA is suitably coordinated with HM Treasury compared with retail firms (45% and 37% respectively). Wholesale firms and also major groups were more likely to agree that the FSA is alert to emerging EU issues compared with retail firms (77%, 74% and 52% respectively). In contrast major groups and retail firms were more likely to disagree that the FSA improves the UK's international competitiveness than wholesale firms (67%, 65% and 35% respectively).

Relationship managed firms were more likely to agree with each of the three statements compared with non-relationship managed firms. Firms with 20 or more full-time staff were also more likely to agree with each of the three statements compared with very small firms.

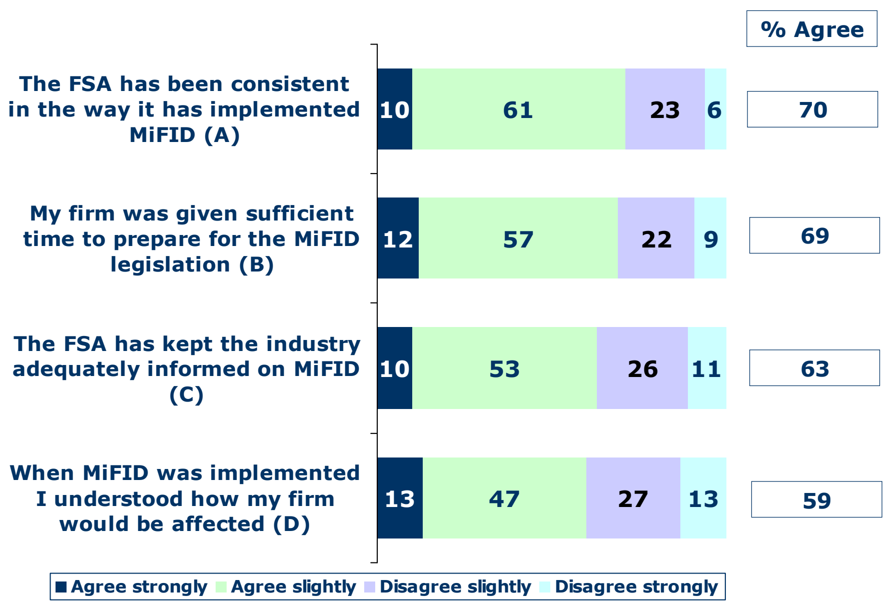
As could be expected, firms that scored the FSA's performance against its statutory objective of 'maintaining confidence in the UK financial system' poorly or disagreed that the FSA is committed to learning the lessons following Northern Rock were much more likely to disagree with each of the statements compared with those firms that scored the FSA's performance highly or agreed the FSA was committed to learning the lessons following Northern Rock.

12.2 Markets in Financial Instruments Directive (MiFID)

Firms were asked to give their opinion regarding a number of issues about the Markets in Financial Instruments Directive (MiFID). These covered firms' attitudes towards how MiFID was implemented, clarity and content of communication about MiFID and the length of time firms had to prepare for MiFID legislation (Chart 12.2). Implementation time, from the perspective of the firms in the qualitative research, was considered to be 'tight' but, at the same time, firms were highly complimentary about the FSA being the fastest to implement the Directive.

Of firms who gave a response, seven in ten (70%) agreed that the FSA was consistent in the way it implemented MiFID, with a similar proportion (69%) agreeing their firm was given sufficient time to prepare for the MiFID legislation. Firms were less likely to agree that that the FSA has kept the industry adequately informed on MiFID (63%) or to agree that when MiFID was implemented they understood how their firm would be affected (59%). From the qualitative research it was observed that the industry felt some lack of clarity about how MiFID applied to both the retail and the wholesale sectors, with wholesale firms failing to see the point of the Directive regarding their business.

Chart 12.2 Firms' attitudes towards MiFID



Unweighted base: All firms excluding no opinion/ not stated
A (2,075), B (2,329), C (2,467), D (2,518)

Major groups and wholesale firms were more likely to agree with each of the statements about MiFID compared with retail firms, with the exception of being given sufficient time to prepare.

Relationship managed firms were more likely to agree with each statement regarding MiFID compared with non-relationship managed firms and larger firms with 20 or more full-time staff were also more likely to agree with each statement compared with very small firms.

13 Attitudes of very small firms

In previous Practitioner Panel surveys, small firms have tended to be more negative than large firms about their relationship with the FSA. This chapter looks specifically at the attitudes towards some of the 2008 key results of 'very small firms' with fewer than 20 full-time staff, compared with larger firms with 20 or more full-time staff.

13.1 Overview

The majority of very small firms were unaware of the Small Firms Strategy undertaken by the FSA. The general perception held by them was that they were regulated in the same way as larger firms, but without the same level of support and guidance. As a result, the regulation appeared disproportionate and the FSA was even seen as inherently inimical to the interests of very small firms.

The overall picture is that very small firms were less satisfied with the FSA than their larger counterparts, with these firms holding the view that the FSA does not show understanding of them in developing regulatory policy and does not recognise the impact of regulation on them. Perceptions of very small firms on these measures have actually worsened since 2006.

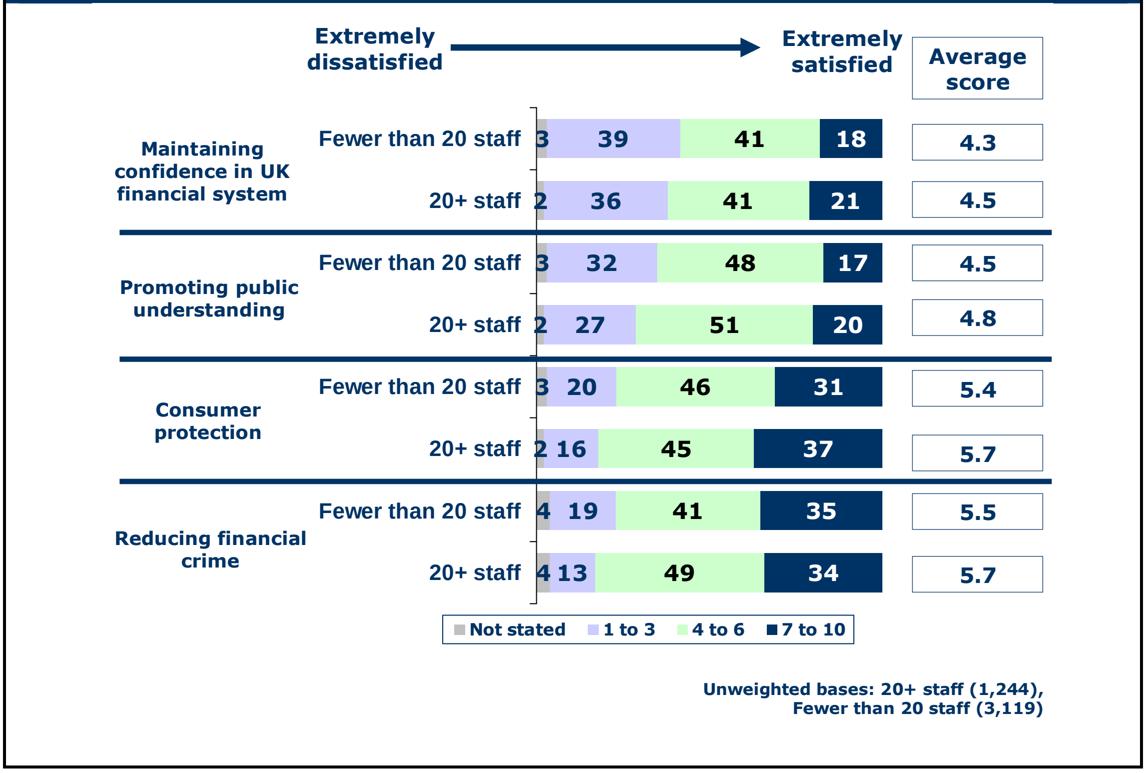
However, with the exception of 'maintaining confidence in the UK financial system', there *has* been an improvement in very small firms' perceptions of the FSA's performance against its objectives.

Very small firms with fewer than 20 full-time staff were more positive than in 2006 about their overall relationship with the FSA (44% were highly satisfied in 2008 compared with 38% in 2006). Regulation was still more likely to be seen as a burden by very small firms compared to their larger counterparts; however, again there has been a significant improvement in perceptions of the regulatory system among very small firms since 2006.

13.2 Statutory objectives

There were differences between firms with fewer than 20 full-time staff and firms with 20 or more full-time staff in terms of their rating of the FSA's performance against its four statutory objectives, as shown in Chart 13.1.

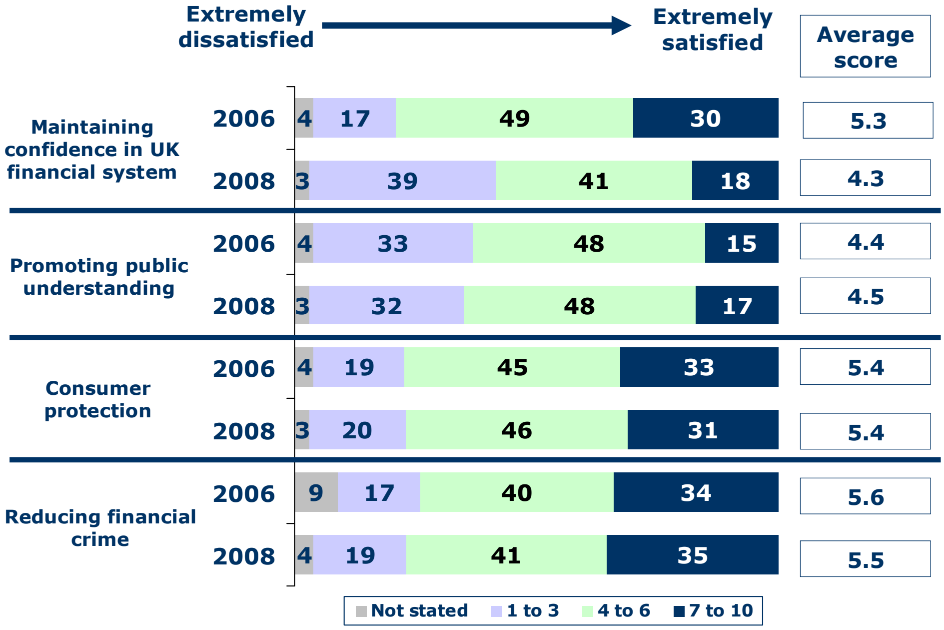
Chart 13.1 FSA performance against statutory objectives



As might be expected, firms with fewer than 20 full-time staff were generally more dissatisfied with the FSA's performance than firms with 20 or more full-time staff.

Following the same trend as the overall results, very small firms were also much less satisfied with the performance of the FSA in maintaining confidence in the UK financial system than they were in 2006 (Chart 13.2). Four out of ten very small firms (39%) scored the performance of the FSA in maintaining confidence poorly – twice as many as the proportion who gave a poor rating in 2006 (17%). Across the remaining three objectives, very small firms showed similar levels of satisfaction with the FSA's performance as they did two years ago.

Chart 13.2 FSA performance against statutory objectives

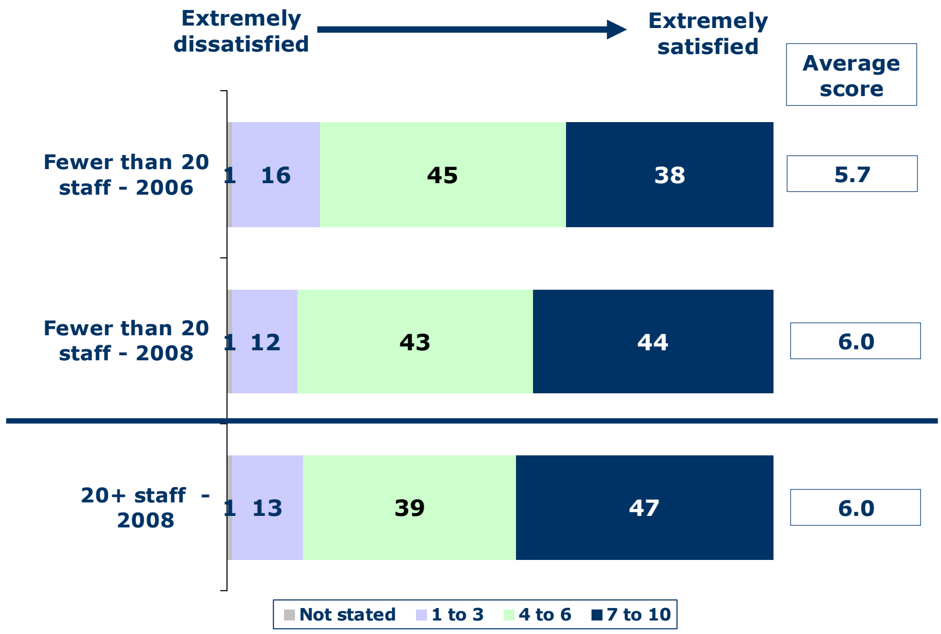


Unweighted bases: Fewer than 20 staff - 2006 (2,847), Fewer than 20 staff - 2008 (3,119)

13.3 Relationship with the FSA

While very small firms with fewer than 20 full-time staff tended to be less satisfied than larger firms with their relationship with the FSA, there has been an improvement in perceptions of the relationship compared with 2006 (Chart 13.3).

Chart 13.3 Overall rating of relationship with the FSA



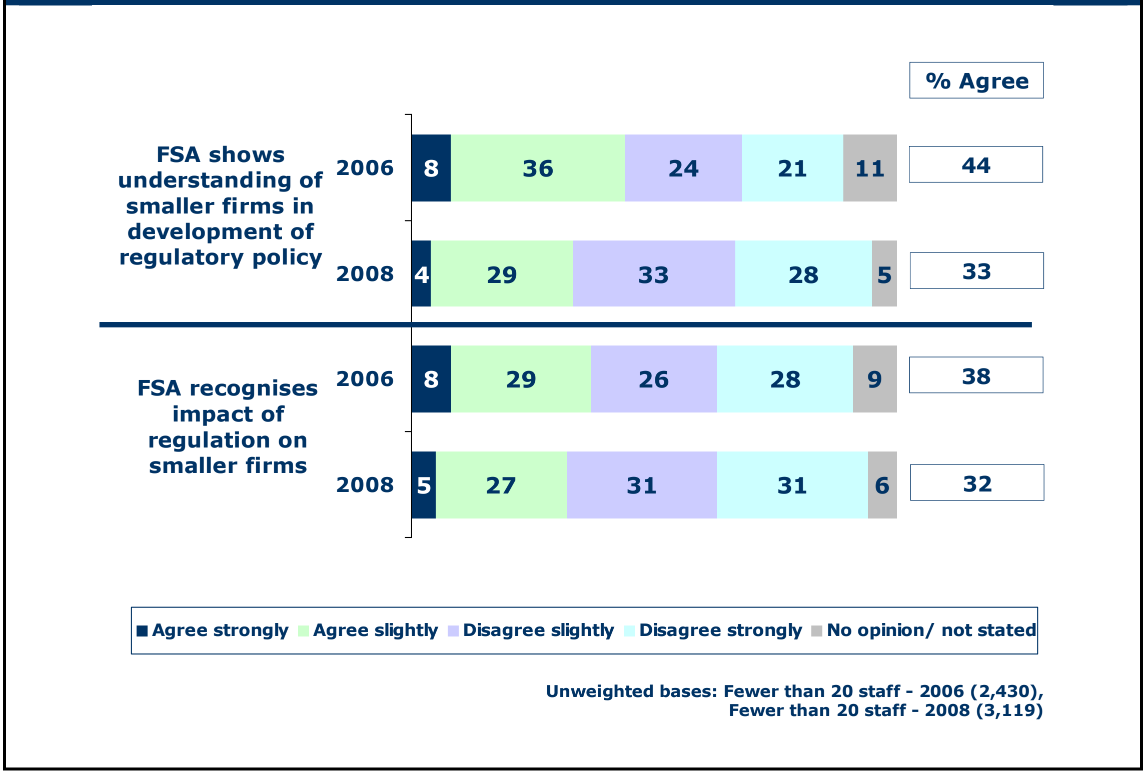
Unweighted bases: Fewer than 20 staff - 2006 (2,847), Fewer than 20 - 2008 (3,119), 20+ staff – 2008 (1,244)

Larger firms with 20 or more full-time staff were more likely to say that their business relationship with the FSA had improved over the past two years compared with very small firms (25% and 17% respectively).

13.4 Small Firms Strategy

Firms were asked the extent to which they agreed or disagreed with a number of statements about the FSA's efforts to understand and accommodate the needs of small firms (Chart 13.4).

Chart 13.4 Small Firms Strategy



There was still a concern among very small firms with fewer than 20 full-time staff that the FSA did not accommodate their needs when developing policy or considering the impact of regulation. Indeed, very small firms in 2008 were more likely than very small firms in 2008 to *disagree* that the FSA showed understanding of small firms (61% and 44% respectively) or recognised the impact of regulation on them and sought to accommodate them (63% and 54% respectively).

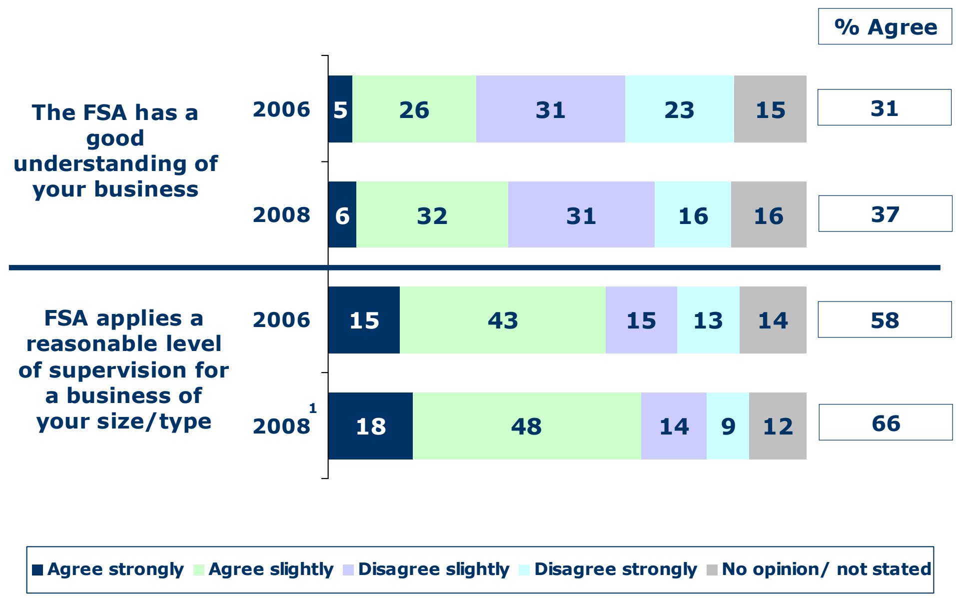
13.5 Regulation and compliance

The majority of firms with fewer than 20 full-time staff (84%) believed that strong regulation was for the benefit of the industry – although somewhat less so than large firms (90%). This is an increase from 78% in 2006. However, firms with fewer than 20 full-time staff were much more likely to perceive regulation as a burden; 44% agreed strongly that the current regulatory system placed too great a burden on the industry compared with 27% of firms with 20 or more full-time staff. Although still high, this is an improvement on the 56% that agreed strongly in 2006.

13.6 Supervision

In terms of FSA supervision, very small firms with fewer than 20 full-time staff were more likely to consider that the FSA understood their business and applied a level of supervision appropriate to the size and type of the business than they had been in 2006 (Chart 13.5).

Chart 13.5 Supervision



Unweighted bases: Fewer than 20 staff - 2006 (2,430), Fewer than 20 staff - 2008 (3,119), [1] (2,909)

Very small firms with fewer than 20 full-time staff were more likely to consider the FSA to be adversarial in its approach to supervision compared with larger firms (26% and 21% respectively). This again is an improvement from 2006 when 30% of firms with fewer than 20 full-time staff agreed with this.

Very small firms with fewer than 20 full-time staff were more likely to agree that the costs of compliance were harmful to their firm compared with larger firms (63% and 45% respectively). In addition, over four in ten very small firms (42%) said the costs of compliance had resulted in them reducing the types of business they conducted, compared with 31% of larger firms.

This also represents an improvement on 2006 when 72% of firms with fewer than 20 full-time staff considered the costs of compliance harmful to their firm and 50% claimed that they had been forced to reduce the type of business they conducted as a result.

14 Key issues for the FSA

The final questions of the 2008 survey allowed firms to express in their own words where they felt the FSA needed to focus its efforts.

Responses to these questions have been grouped by the common themes that emerged.

14.1 Most important issues for FSA to address

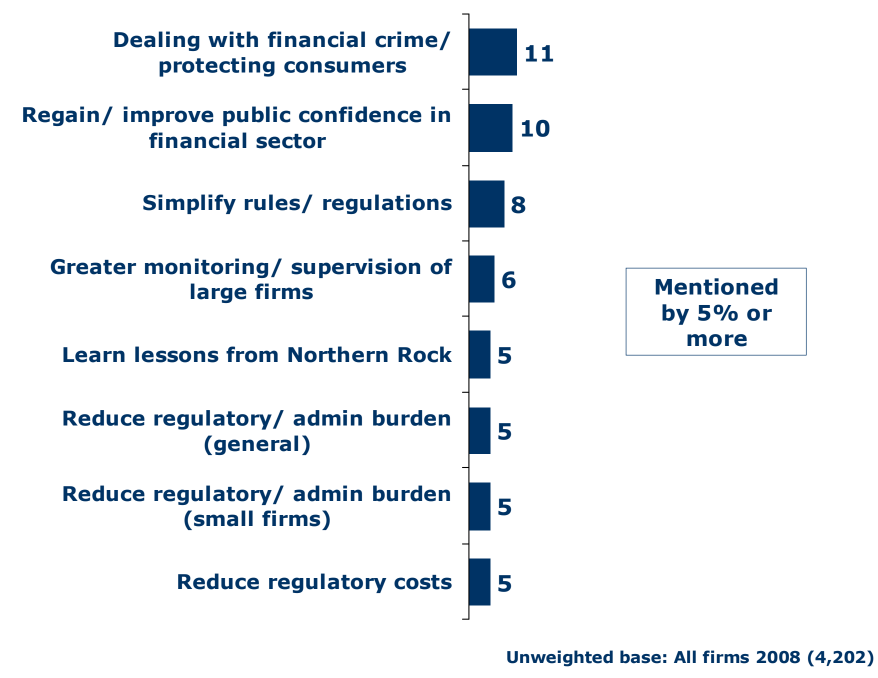
The first question related to the issues that firms felt the FSA needed to prioritise:

'In your opinion, what do you feel are the most important issues for the FSA to address as the regulator for the financial services industry?'

Almost all respondents were able to answer this question, with only 4% unable to suggest any issues for the FSA to address.

The most frequently mentioned issues (mentioned by at least 5% of firms) are shown in Chart 14.1.

Chart 14.1 Key issues for the FSA to address



Dealing with financial crime and protecting consumers was mentioned as the most important issue by around one in ten firms. This category covered all references by respondents to preventing fraud, market abuse and money laundering, and also to dealing with fraudulent or unscrupulous operators ('cowboy outfits'). It also included any references to protecting consumers from such operators.

Another frequently mentioned issue, again by around one in ten firms, was restoring public confidence in the financial sector – a particularly relevant issue in the light of events at the time of the survey.

This issue was most likely to concern major groups – a quarter of these firms (26%) mentioned public confidence compared with 10% overall. It was also more likely to be an issue for relationship managed retail firms (16%).

Simplifying the current regulatory system was cited as the key issue for the FSA to address by 8% of firms. This covered any mention of clearer or more concise guidelines, as well as any mentions of improvements to the FSA Handbook or website. This was more of an issue for small firms, particularly home finance brokers.

A wide variety of other issues were mentioned in response to this question, the most common being the need for greater monitoring of large firms, learning the lessons from Northern Rock, reducing the regulatory burden on firms and reducing regulatory costs.

Issues mentioned by fewer than 5% of firms are listed in Table 14.1 below.

Table 14.1 Additional issues mentioned by firms

	%
More understanding of risk for firms and regulation required	4
Implementation of TCF	4
Education of public on financial products/ matters	4
Improve quality of FSA regulatory staff	4
Reduce cost burden on small firms	3
Consistent approach to MPBR	2
Implementation of RDR	2
Greater regulation of banks	2
Ensure stability in financial sector	2
Clear and concise communication with firms	2
Do not treat all firms the same	2
Ensure/improve quality of advice	2
Improve understanding of my industry	2
Regulation of irresponsible lending	2
Unweighted base	*4,202*
Weighted base	*4,142*

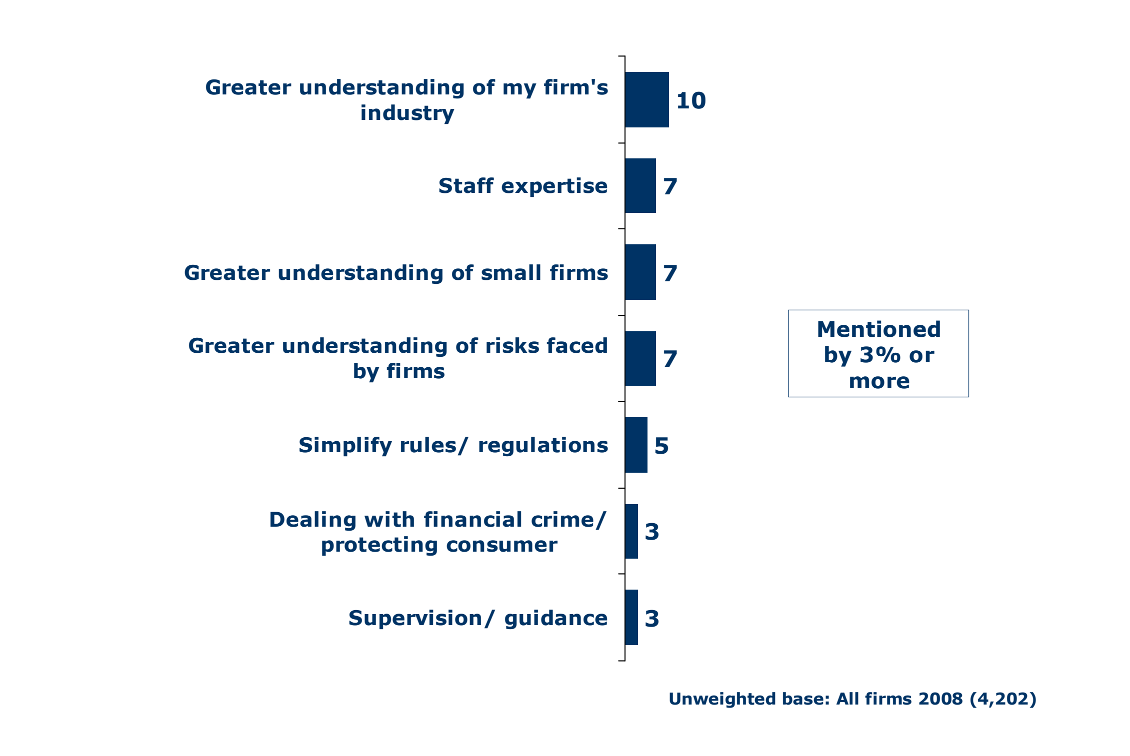
14.2 Most important areas of expertise for FSA to develop

The second open-ended question firms were asked was:

'What are the most important areas of expertise for the FSA to develop over the next two years as the regulator for the financial services industry?'

Around half of firms (51%) did not provide an answer for this question. The areas most frequently mentioned (by at least 3% of firms) are shown in Chart 14.2.

Chart 14.2 Most important areas of expertise for the FSA to develop



The general theme which emerged from this question related to the FSA developing a greater understanding of firms – the industry they operated in, the risks they faced, and the specific needs of smaller businesses.

Wholesale firms (13%) and major groups (18%) were more likely to want the FSA to focus on understanding their industry, as were relationship managed firms (15%) – especially relationship managed wholesale firms (18%).

Another frequently mentioned issue was that of staff expertise. This category included all comments related to staff experience, skills, training and qualifications. This was a particular issue for major groups (26%) and relationship managed retail firms (16%). Firms with a relationship manager were also more likely to mention staff expertise (14%) compared with 7% of firms without a relationship manager.

Understanding small firms was, as might be expected, particularly an issue for very small firms with fewer than 20 full-time staff (8%), non-relationship managed retail firms (9%) and firms without a relationship manager (8%). By sector, financial advisers were most likely to mention this (13%) followed by home finance brokers (9%).

The development of a greater understanding in the FSA of the risks faced by firms was mentioned especially by major groups (24%). It was also more of a concern for wholesale firms (11%) compared with 6% of retail firms and those with a relationship manager (12%) compared with 6% of firms without a relationship manager.

A wide variety of other issues were mentioned in response to this question, including the simplification of regulation, dealing with financial crime and protecting consumers, and the provision of effective supervision and guidance.

Other issues mentioned by around 2% of firms are listed below:

- prevent another Northern Rock incident
- focus on educating public/consumers in financial products/services
- implementation of TCF
- promote confidence in the FSA
- ensure greater regulation of banks
- clear communication of FSA regulation
- ensure regulation in line with international/EU regulation.

15 Practitioner Panels

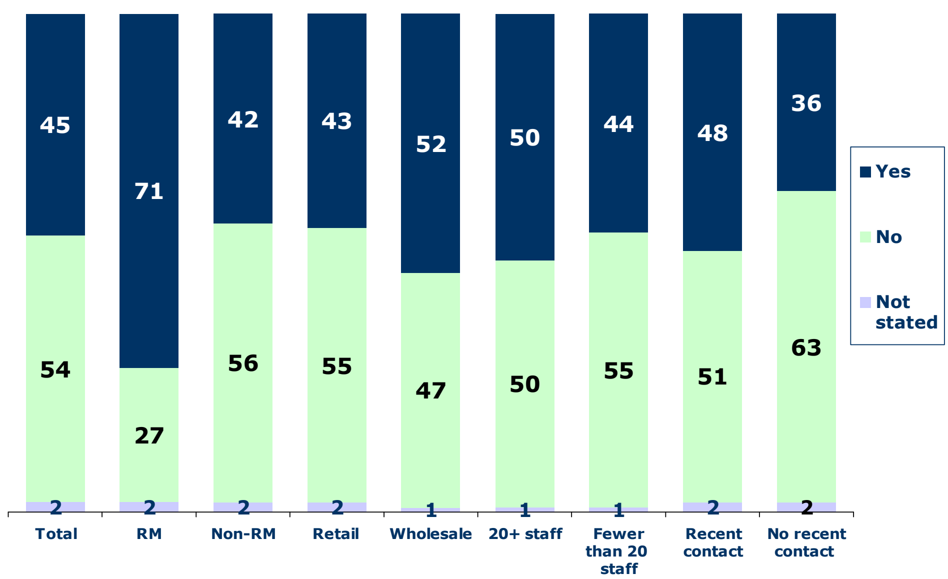
This chapter explores firms' awareness of the Financial Services Practitioner Panel and the Smaller Business Practitioner Panel. It also explores firms' views and attitudes about the role of the Panels, such as the influence of the Panels on the FSA and their relationship with the financial services industry.

15.1 Awareness of the Practitioner Panel and the Smaller Business Practitioner Panel

Firms were asked whether they had ever seen or heard anything about the Practitioner Panel prior to receiving the letter about this survey (Chart 15.1). Overall, just under half (45%) of firms had heard of the Practitioner Panel.

Major groups were most likely to have heard of the Practitioner Panel, with three-quarters (74%) aware of it. More wholesale firms than retail firms had heard of the Panel (52% compared with 43%). Awareness of the Panel was also higher among relationship managed firms, as seven in ten (71%) had heard of the Panel, compared with 42% of non-relationship managed firms. Large firms were more likely than small firms to have heard of the Panel (50% and 44% respectively). Firms that had been in contact with the FSA in the last six months also had higher levels of awareness compared with firms that had not had contact (48% and 36% respectively).

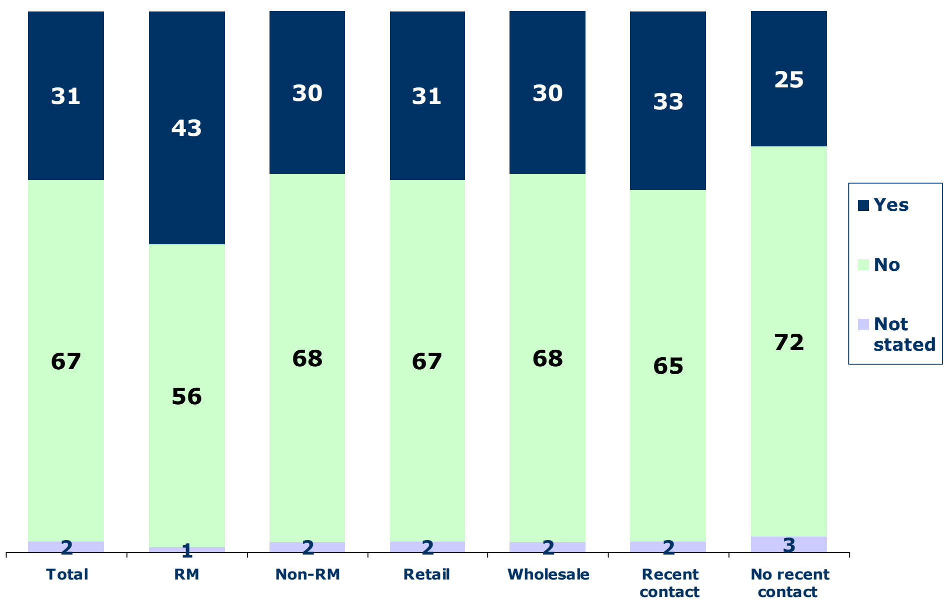
Chart 15.1 Firms' awareness of the Practitioner Panel



Unweighted bases: Total (4,202), RM (660), Non-RM (3,531), Retail (2,872), Wholesale (1,272), 20+ staff (1,198), Fewer than 20 staff (2,909), Contact (3,364), No contact (838)

Fewer firms were aware of the Smaller Businesses Practitioner Panel, as less than one-third (31%) had seen or heard something about it (Chart 15.2). Similar trends to awareness of the Practitioner Panel were shown; with relationship managed firms were more likely to be aware of the Smaller Businesses Practitioner Panel compared with non relationship managed firms (43% and 30% respectively). Of relationship managed firms, retail firms (50%) were more likely than wholesale (39%) to have heard of this Panel. Similarly, those firms that had been in contact with the FSA within the last six months were again more likely to be aware of the Panel than those that had not been in contact (33% compared with 25%). Large and small firms were about equally as likely to have heard of the Smaller Business Practitioner Panel (30% and 32% respectively).

Chart 15.2 Firms' awareness of the Smaller Businesses Practitioner Panel



Unweighted bases: Total (4,202), RM (660), Non-RM (3531), Retail (2,872), Wholesale (1,272), Contact (3,364), No contact (838)

15.2 Attitudes towards the Practitioner Panels

Firms were asked whether they agreed or disagreed with a number of statements about the Practitioner Panels (Chart 15.3). A large proportion of firms gave no opinion or no answer to these questions, presumably because over half of firms had not heard of the Practitioner Panel or the Smaller Businesses Practitioner Panel. Therefore the analysis in this chapter is based only on those firms which provided an answer.

Of those firms which gave a response, the large majority (89%) agreed that '*the Panels have an important role to play on behalf of your type of business*'. Retail firms were more likely to strongly agree compared with wholesale firms (35% and 23% respectively).

Nine in ten firms (89%) agreed that '*the Panels are helping the FSA to understand industry views*'. A quarter of retail firms (23%) and wholesale firms (22%) strongly agreed with the statement.

Firms were asked whether they agreed that '*the Panels are independent of the FSA*'. Again, the majority of firms (85%) agreed. Three in ten retail firms (31%) and wholesale firms (30%) strongly agreed with the statement.

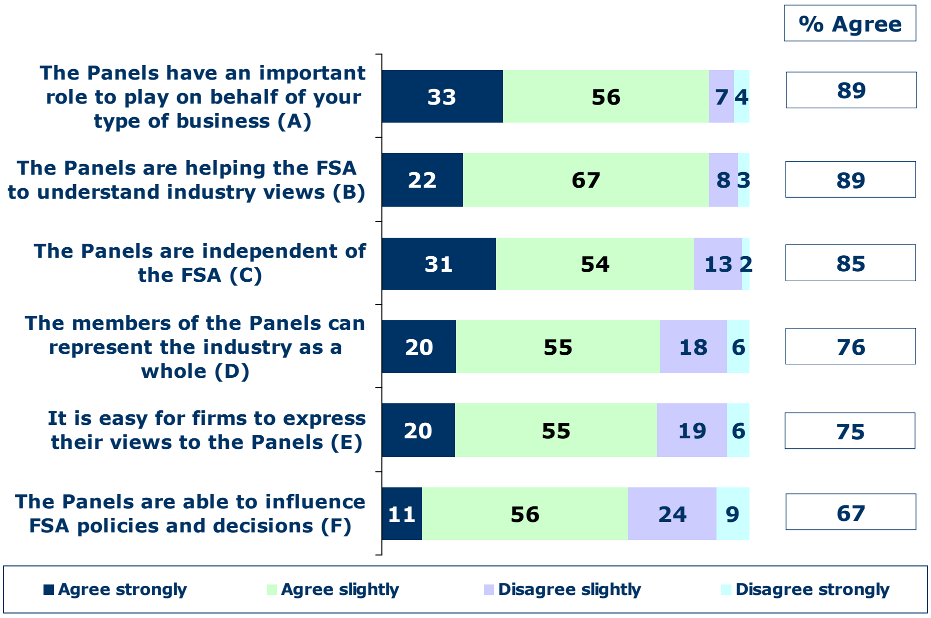
There was lower overall agreement that '*the members of the Panels can represent the industry as a whole*'. Three-quarters of firms (76%) agreed that this was the case. Around a fifth (21%) of retail firms and wholesale firms (19%) strongly agreed with the statement.

Three-quarters of firms (75%) agreed that '*it is easy for firms to express their views to the Panels*'. Around a fifth of retail firms (20%) and wholesale firms (19%) also strongly agreed with this statement.

Two-thirds of firms (67%) agreed that '*the Panels are able to influence FSA policies and decisions*'. A higher percentage of wholesale firms agreed with the statement than retail firms (77% compared with 65% respectively).

Although less than half of firms were not aware of the Practitioner Panels, those which did express an opinion were generally positive about the role and influence of the Panels. Firms were in strongest agreement with '*the Panels have an important role to play on behalf of your type of business*' and '*the Panels are helping the FSA to understand industry views*'. Firms were less likely to agree that '*the Panels are able to influence FSA policies and decisions*' but the figure in agreement was still quite high at two-thirds (67%).

Chart 15.3 Firms' attitudes towards the Panels



Unweighted base: All firms excluding no opinion/ not stated
A (2,641), B (2,436), C (2,208), D (2,292), E (2,099), F (2,044)

Appendices

Appendix 1 Qualitative and Quantitative Technical report

The technical report provides details of the methodological approach to the research for the qualitative and the quantitative elements.

A1.1 Qualitative research aims

The overall aims of the qualitative research were fourfold:

- To provide a top-level assessment from Chief executives and Heads of Compliance of their perceptions of the performance and areas of priority for the FSA;
- To provide industry wide views of the operational efficiency of the FSA in their dealings with firms;
- To provide the FSA Practitioner Panel with information about the effect of the FSA on the industry (regulatory burden, cost, innovation and competitiveness);and
- To provide information that could be used by the FSA Practitioner Panel in guiding the FSA on how it should set its priorities and guide the delivery of its operations.

This aspect of the research was both developmental and substantive in role. As a piece of developmental research, the interviews were designed to provide insight into the key issues, or 'hot topics', for the industry that should be included in the subsequent quantitative survey. Through the use of in-depth interview techniques the research also had a substantive role by amplifying the quantitative information and explaining how and why issues arising were important to the industry.

A1.2 Design

The qualitative research began with five interviews with members of the FSA Practitioner Panel and senior staff of the FSA, designed to provide the landscape for the project against which the research materials could be designed. Findings from these interviews are not reported here as they served only to delineate the scope and focus of the research programme.

A total of 42 face-to-face depth interviews were conducted with a wide spectrum of the financial services industry, as detailed in Table 1A.

Table 1A Breakdown of face-to-face depth interviews

Retail		Wholesale		Mortgage & General Insurance	
Major Financial Groups (retail focus)	2	Investment Managers	2	Mortgage Brokers & Advisers	4
Insurance Companies (life and investment)	2	Securities & Derivatives	2	General Insurance - primary	2
FAs	5	Major Financial Groups (wholesale focus)	2	General Insurance - secondary	2
Investment Managers	2	Banks (wholesale focus)	2		
Banks	2	Lloyds Market	2		
Accountants	3				
Law Society	3				
Building Society	2				
Friendly Society	3				
Credit Unions	2				
Total	26	Total	8	Total	8
Total	**42**				

In addition, three mini group discussions (comprising a total of 18 participants) were undertaken with practitioners representing small FAs and Mortgage advisers/arrangers.

All of the practitioners included in the qualitative study represented either a Head of Compliance or CEO function.

Interviews were one hour in length while the mini group discussions were 90 minutes in length.

A1.3 Recruitment

The sample was derived from the FSA TARDIS database, which is a comprehensive listing of all regulated firms.

The recruitment process began with an introductory letter sent to a sample of potential respondents. The letter outlined the study aims, indicated key areas of questioning and guaranteed confidentiality and anonymity. Allowing a couple of days for delivery the potential respondent was then telephoned by one of our senior recruiters. Respondents were screened to ensure their responsibilities enabled them to fully discuss FSA performance, with recruiters then arranging a mutually convenient time for interview. The recruitment of individuals to take part in the study was managed by BMRB's specialist field and recruitment unit.

A1.4 Fieldwork

The interviews were conducted by experienced researchers using a topic guide to structure the interview. The interviews were digitally recorded and transcribed for future analysis.

Five of the interviews were independently observed as a means of ensuring that the fieldwork was undertaken in a neutral manner.

A1.5 Analysis of the qualitative material

BMRB uses a content analysis method known as 'Matrix Mapping', which is designed for the analysis of qualitative material. 'Matrix-Mapping' begins with a familiarisation stage. Based on the coverage of the topic guide, the researchers' experiences of conducting the fieldwork and their preliminary review of the data, a thematic framework or matrix, is constructed. The material from the transcripts is then summarised into this thematic framework. Following this, the researcher reviews the material and identifies features within the data: mapping the range and nature of issues, creating typologies, finding associations, and providing explanations. By organising the material in this way, the researcher can identify common themes that emerge from the interviews as well as looking at similarities and differences that occur between different groups of firms taking part in the research.

The key issues, and the features that underpin them, have been used to amplify the survey findings and help explain why practitioners hold a particular set of beliefs and views. Verbatim quotes have been used to illustrate and illuminate the findings in the report.

A2.1 Overview of Quantitative Survey Method

The quantitative survey interviewed a representative sample of 4,459 regulated firms in Great Britain about their views of the Financial Services Authority (FSA) and its regulatory framework. The survey achieved an effective response rate of 46 per cent. In line with the 2004 and 2006 the survey was administered using a postal self-completion questionnaire, with fieldwork conducted between July and September 2008.

A2.2 Sample Selection

The sample for the quantitative survey was also obtained from the FSA's Tardis database.

There were a number of duplicate firms in the TARDIS database, particularly where firms had more than one type of operation. Prior to sample selection a comprehensive check for duplicate records was conducted with all duplicate records removed from the final sample.

Once all duplicates had been removed 20,472 firms remained, from which the sample was selected for the survey. A census of all firms was taken with the exception of firms that were financial advisers, general insurance intermediataries or home finance brokers, where a sample was selected. Within each of these categories the sample was stratified (according to size and location) and then a certain number of firms selected, ensuring the selected firms were representative of the overall sample populations provided. In total 9,913 firms were selected for the survey and were sent a questionnaire. Table 2A details the selected sample by type of firm.

Table 2A Universal and issued sample with final response rates, by type of firm

Primary category	Universe	Issued sample
Advising and Arranging Intermediary (exc. FA & Stockbroker)	565	565
Advising only Intermediary (exc. FA)	90	90
Arranging only Intermediary (exc. Stockbroker)	121	121
Authorised Professional Firm	476	476
Bank (other than Wholesale only)	229	229
Building Society	56	56
Corporate Finance Firm	439	439
Credit Union	525	525
Discretionary Investment Manager	1,210	1,210
Financial Adviser (FA)	5,248	1,684
General Insurance Intermediary	6,956	2,058
General Insurer	301	301
Home Finance Broker	3,097	1,000
Home Finance Provider	98	98
Life Insurer	196	196
Lloyd's Managing Agent	50	50
Personal Pension Operator	50	50
Stockbroker	149	149
Venture Capital Firm	228	228
Other	388	388
Total	**20,472**	**9,913**

A2.3 Questionnaire development and design

A number of new questions were added to the 2008 questionnaire following the findings from the qualitative research. It was therefore necessary to test the new questions added to the questionnaire to ensure that the new questions were understood correctly by firms completing the questionnaire. The questions were tested through cognitive interviewing, with participants from the qualitative research re-contacted to see if they would be willing to participate in the cognitive testing of the main questionnaire. A number of volunteers from the Practitioner Panel and the Small Business Practitioner Panel also assisted with the cognitive testing of the questionnaire. After the cognitive testing a number of small changes were made to the questionnaire prior to the final questionnaires being sent out. The cognitive piloting took place from the 12th May to the 23rd May 2008.

The questionnaire (Appendix B) consisted of three main sections:

Section A: Industry Regulation

This section collected firms' attitudes towards the performance of the FSA against its statutory objectives; regulation; TCF initiative; effectiveness of the FSA; FSA developments; EU and International issues; communications from the FSA and how the FSA handles enforcement.

Section B: Experience of the FSA as a Regulated firm

This section collected information on firms' overall satisfaction with the FSA; experience of dealing with the FSA; view of guidance received from the FSA; view of the way the FSA supervises firms and costs and efficiency in relation to your business.

Section C: Your type of Business and the Practitioner Panel

This section collected detailed information of the firm; firms' views on the Financial Services Practitioner Panel and the most important issues for the FSA to address.

A2.4 Advance Letter, reminder letters and Survey website

An advance letter (Appendix C) explaining the purpose of the research was sent to selected firms prior to the main questionnaire being sent. The letter was despatched on Practitioner Panel headed notepaper to legitimise the study and encourage response.

To also help encourage response a website was created for firms to access: http://www.thepanelregulatorysurvey.co.uk. The website was mentioned in the advanced, main and reminder letters, and also the questionnaire, with firms encouraged to access the site if they wanted more detailed information on the survey. The website also contained some extracts from previous Practitioner Panel surveys so firms could understand the nature of the survey and how the results would be used. Respondents were also able to request a copy of the letter and questionnaire and contact BMRB via the website if they had any further queries.

A2.5 Telephone Survey

To boost response a short telephone survey was conducted with firms that had not returned their paper questionnaire towards the end of fieldwork.

The survey was conducted using Computer Assisted Telephone Interviewing (CATI). The telephone survey used a shortened version of the main postal questionnaire. The telephone survey took place from 1st September until the 8th of September 2008. Overall 257 firms completed the telephone survey.

A2.6 Fieldwork

The survey fieldwork was conducted between July and September 2008. During fieldwork firms that had not returned a questionnaire were sent a reminder letter encouraging them to complete and return their questionnaire. In total three separate reminder packs were sent to firms that had not returned their questionnaire.

A2.7 Response Rate

The Overall Response rate achieved was 46%. This compares with 40% in 2006, 48% in 2004, 42% in 2002 and 58% in 1999. The response rate was calculated by dividing the number of effective completed surveys by the effective sample size (total number of questionnaires mailed out minus deadwood (firms that had ceased trading or had moved address)). Table 3A details the response rate overall and Table 4A shows the response rates achieved according to type of firm.

Table 3A Overall response rate

Outcome	Count
Total completed surveys	**4,459**
Completed paper surveys	4,202
Completed telephone surveys	257
Un-scannable returned paper surveys	3
Refusals (including blank surveys returned)	196
Business closed / moved	43
Duplicate	23
Address unknown / Returned by Post office	167
Total returned questionnaires	**4,891**
Response Rate	**46.1%**

Table 4A Response rate by type of firm

Firm type	Issued	Achieved	Response rate
Major groups	77	47	61.8%
Relationship managed retail firms	535	249	47.6%
Relationship managed wholesale firms	815	383	49.4%
Non relationship managed retail firms	5,507	2,564	47.4%
Non relationship managed wholesale firms	2,467	937	38.3%
Credit unions	503	267	55.9%
Total[1]	**9,913**	**4,459**	**46.1%**

A2.8 Data scan checks and preparation

All returned paper questionnaires were scanned and a number of edit checks were conducted on the scanned data. This ensured that where firms had multi-coded questions the scan image was checked to ensure the correct code was assigned in the data.

All verbatim answers at open-ended questions were inspected by coders. This resulted in some additional codes being added to the code frames of some questions.

A2.9 Weighting

The aim of weighting is to compensate for differences in the probability of selection of each firm and to ensure that the survey estimates are representative of the universal population of regulated firms (after duplicates have been removed).

The weights were derived in two stages. First, a design weight was applied to compensate for differences in the probability of selection. The design weight applied was simply the inverse of the selection fraction.

Where a census of all firms was conducted firms a weight of '1' was applied. For firms that required selection (financial adviser, general insurance intermediary and home finance broker) the design weight was calculated and applied based on a firm's probability of selection. This took into account the varying chance of selection within size bands.

So for example, from a population of 2,955 home finance brokers (sized 0-3) 858 firms were selected, resulting in a design weight of 3.44 applied to all 858 home finance brokers (size 0-3) in the achieved sample (2955/858=3.44). This ensures that the views of home finance brokers (size 0-3) are representative of the universal population of regulated home finance brokers in survey estimates.

[1] Please note the total includes additional firms that are not included in the other groups.

Ten questionnaires were returned where the barcode had been removed. These firms had the mean design weight applied to them.

The second stage in the weighting process was to apply a non-response weight. The achieved sample profile was compared against the universal sample profile according to supervisor division and primary category. This indicated where particular types of firm were under represented in the achieved sample compared to the universe population. The application of a non-response weight to the data ensures that views of firms are representative of the universal population and corrects for particular types of firms that are less likely to have responded.

Table 5A below compares the universal sample population profile (unweighted) with the achieved sample population profile (with the final weight applied) by firm type. With the final weight applied the achieved sample very closely matches the universal population.

Table 5A Universal and achieved sample profiles

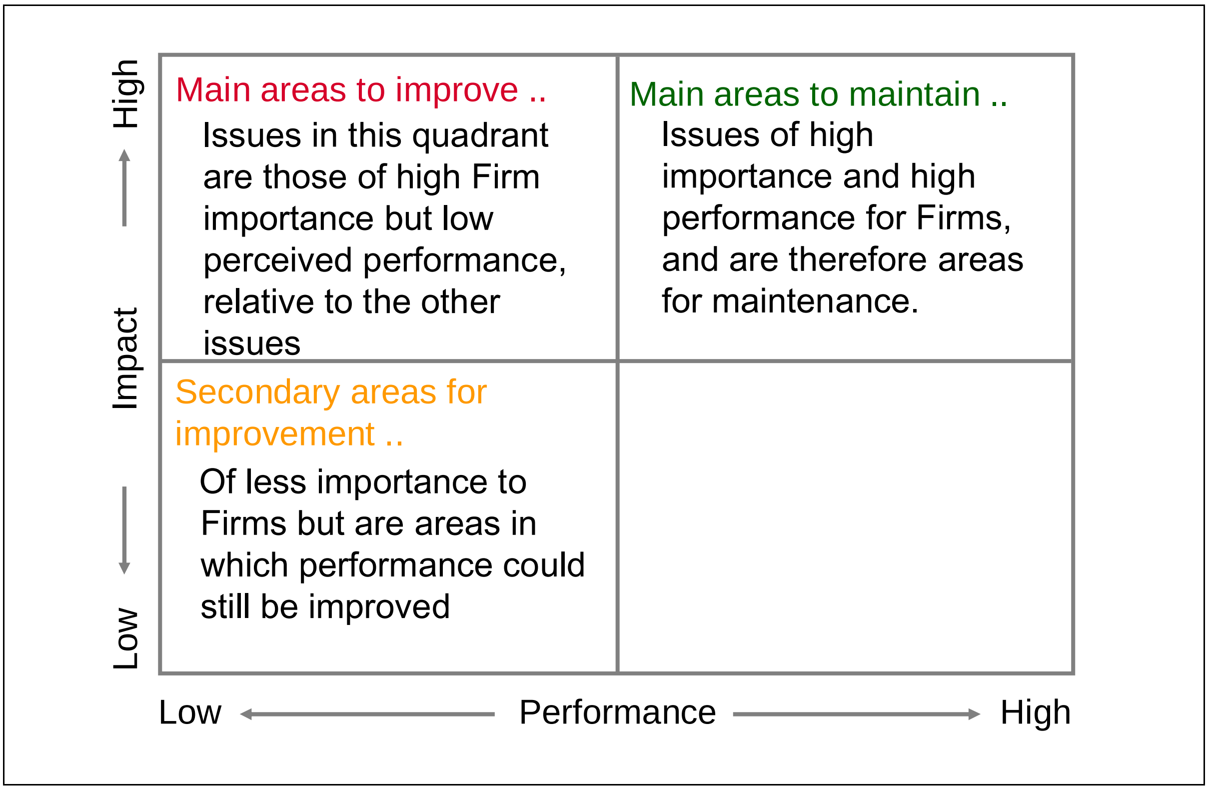
Firm type	Universal Population (unweighted)	Achieved population (final weight applied)
	%	%
Major groups	0.38	0.38
Relationship managed retail firms	2.77	2.77
Relationship managed wholesale firms	4.14	4.16
Non relationship managed retail firms	77.49	77.40
Non relationship managed wholesale firms	12.58	12.58
Credit unions	2.46	2.46
Other	0.18	0.25
Total	100	100

A2.10 Key driver analysis

Key driver analysis is carried out using multivariate analysis of the satisfaction ratings. This analysis produces a list of issues together with an indication of their relative importance to firms in terms of satisfaction.

In order to give a visual representation of this information, the data can be plotted in a quadrant diagram, with relative importance in driving satisfaction on the vertical axis and performance on the horizontal axis (Chart 1A). This plot is then divided into four with lines at the median importance and performance scores. The key area in this diagram is the quadrant to the top left – issues in this quadrant are those of high importance but low perceived performance, relative to the other issues. These should be the main focus for improvement in order to improve satisfaction levels in the future. Those in the bottom left are issues of relatively low performance, but also lower importance, and are therefore issues for secondary importance. The top right quadrant contains issues of high importance, but also of higher performance relative to other issues and these are issues that need to be maintained in order to keep satisfaction levels high.

Chart 1A Quadrant diagram for key driver analysis



Appendix B Postal Questionnaire

THE FINANCIAL SERVICES PRACTITIONER PANEL

The Fifth survey of the FSA's regulatory performance 2008

The Financial Services Practitioner Panel would like to know your views about the FSA's regulatory performance. This survey is conducted every two years by the Panel and provides an excellent means for the industry to feedback their views to the FSA. The purpose of this survey is to gain the view of each firm or group regulated by the FSA.

We very much appreciate you taking the time to complete this questionnaire.

Who should complete the questionnaire?

The questionnaire should be completed by the most senior person in your firm or group (Chief Executive or equivalent). If, however, there are other senior people within your firm who are responsible for dealing with certain issues with the FSA, for example compliance, you may wish to receive input from them for the relevant sections.

Section A – Industry Regulation covers broader aspects about the FSA from an industry wide perspective and regulation of the financial services industry in general.
Section B – Your experience of the FSA as a regulated firm covers your firm's relationship with the FSA.
Section C –Your type of business and the Practitioner Panel covers opinions about the Practitioner Panel and some factual information about your type of business.

If you feel you (or anyone else in your firm) do not have the experience to answer any question or section please leave the question blank or put a cross in the 'no opinion' box as appropriate. Partially completed questionnaires are still important for us to have.

Completing the questionnaire

We estimate the questionnaire should take about 30 minutes to complete.

For each question, please put a cross ☒ in the box next to the answer which is closest to your view about that issue. For some questions you are able to cross more than one box and this will be indicated in the instructions for that question. If you have made a mistake in your answer please completely fill the box to show the mistake ■ and then cross the correct answer.

Please use a black ball point pen to complete the questionnaire.

Returning your questionnaire

Please return your completed questionnaire to BMRB in the pre-paid envelope provided **in the next two weeks** if possible, or by the **8th August** at the latest.

Questions

If you have any questions about the survey please call **Anthony Allen** at BMRB on **020 8433 4061** or email **anthony.allen@bmrb.co.uk.** Alternatively, visit the survey website at **www.thepanelregulatorysurvey.co.uk**.

Section A - Industry Regulation

How you feel the FSA has performed against its statutory objectives

Q1 **Using a scale of 1 to 10, (where 1 means you think the FSA's performance has been *extremely poor* and 10 means you think their performance has been *outstandingly good)*, please state how you think the FSA have performed in the following areas <u>over the last two years.</u>**

Please cross one box in each line ☒

	Extremely poor 1	2	3	4	5	6	7	8	9	Outstandingly good 10
Maintaining confidence in the UK financial system	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Promoting public understanding of the financial system	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Securing the right degree of protection for consumers	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Helping to reduce financial crime	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Your attitudes towards regulation

Q2 **How much do you agree or disagree that…**

Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
Strong regulation is for the benefit of the financial services industry as a whole	☐	☐	☐	☐	☐
The current regulatory system places too great a burden on financial services firms	☐	☐	☐	☐	☐
The FSA focuses on consumer protection to the detriment of its other objectives	☐	☐	☐	☐	☐
The FSA exercises the principle of fairness in its dealings with the financial services industry	☐	☐	☐	☐	☐
The level of regulation on the industry is detrimental to consumers' interests	☐	☐	☐	☐	☐
The shift towards principle rather than rule based regulation is a welcome approach	☐	☐	☐	☐	☐
The FSA provides sufficient guidance for my firm to feel confident we are appropriately applying the principles	☐	☐	☐	☐	☐
I am concerned that more principles based regulation (MPBR) may leave my firm more open in the future to retrospective regulation	☐	☐	☐	☐	☐
The FSA's Firm Contact Centre refers to rules rather than principles or outcomes	☐	☐	☐	☐	☐

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
My firm will benefit from the FSA's focus on principles	☐	☐	☐	☐	☐
The FSA has made it clear how MPBR will work in practice	☐	☐	☐	☐	☐
Thematic work is an effective way to investigate issues across the market	☐	☐	☐	☐	☐
Mystery shopping is an appropriate way of exploring the relationship between firms and their customers	☐	☐	☐	☐	☐
The FSA is committed to learning the lessons following Northern Rock to make it a better regulator	☐	☐	☐	☐	☐

Your attitudes towards the Treating Customers Fairly initiative (TCF)

Q3 How much do you agree or disagree that…

Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
My firm supports the Treating Customers Fairly (TCF) initiative	☐	☐	☐	☐	☐
The FSA has provided a clear explanation how firms should implement the TCF initiative	☐	☐	☐	☐	☐
I understand what management information or measures are required to demonstrate compliance with TCF	☐	☐	☐	☐	☐
The benefits of TCF outweigh the cost to my firm	☐	☐	☐	☐	☐

Q4 Have you had any communication with the FSA about TCF within the last six months?

Please cross all that apply ☒

Yes, I contacted the FSA about TCF	☐
Yes, the FSA have contacted my firm/sent information about TCF	☐
No	☐
Don't know	☐

Your views of the overall effectiveness of the FSA

Q5 **Using a scale of 1 to 10, (where 1 means you think the FSA's performance has been *extremely poor* and 10 means you think their performance has been *outstandingly good*), how would you rate the overall effectiveness of the FSA in the following areas <u>over the last two years</u>?**

If you really cannot give an opinion on a particular aspect, just leave that line blank.

Please cross one box in each line ☒

	Extremely poor 1	2	3	4	5	6	7	8	9	Outstandingly good 10
Listening to industry views when deciding policies and procedures	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Distinguishing sufficiently in its policies between the regulation of wholesale and retail businesses	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Giving value for money against your regulatory fees	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Fostering a sense of partnership with the financial services industry	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Knowing and understanding your firm and its business	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Knowing and understanding your firm's risk profile	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Facilitating innovation and competitiveness within the UK	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Placing responsibilities on firms' senior management which are clear and reasonable	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Encouraging the education of the public about financial products and services	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

FSA developments

Q6 **To what extent do you agree or disagree with the following…?**

Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The FSA shows understanding of smaller firms in the development of regulatory policy and operation	☐	☐	☐	☐	☐
The FSA recognises the impact of regulation on smaller firms and seeks to accommodate them	☐	☐	☐	☐	☐
The Retail Mediation Activities Return (RMAR) places a disproportionate burden on firms	☐	☐	☐	☐	☐
The FSA has a balanced approach in the pace of regulatory change	☐	☐	☐	☐	☐

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The Retail Distribution Review (RDR) is a welcome initiative	☐	☐	☐	☐	☐
The FSA has been clear from the outset on the desired outcomes of the RDR	☐	☐	☐	☐	☐
The FSA has communicated effectively with the industry about the RDR	☐	☐	☐	☐	☐
FSA industry training road shows and events are an effective means of disseminating information and developments	☐	☐	☐	☐	☐
It's easy to find the information you need on the FSA website	☐	☐	☐	☐	☐

EU and international issues

Q7 **Thinking of European and international issues, how much do you agree or disagree that …**

Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The FSA is suitably co-ordinated with HM Treasury	☐	☐	☐	☐	☐
The FSA is alert to emerging EU issues and prepares its position in time	☐	☐	☐	☐	☐
The FSA improves the UK's international competitiveness	☐	☐	☐	☐	☐
Now thinking about the Markets in Financial Instruments Directive (MiFID)…					
The FSA has been consistent in the way it has implemented MiFID	☐	☐	☐	☐	☐
The FSA kept the industry adequately informed on MiFID	☐	☐	☐	☐	☐
My firm was given sufficient time to prepare for the MiFID legislation	☐	☐	☐	☐	☐
When MiFID was implemented I understood how my firm would be affected	☐	☐	☐	☐	☐

Communications from the FSA

Q8 **Overall how satisfied are you with the effectiveness of the FSA's Consultation Paper (CP) process?**

Please cross one box only ☒

Extremely dissatisfied 1	2	3	4	5	6	7	8	9	Extremely satisfied 10
☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Q9 **How much do you agree or disagree that…**

Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
Cost benefit analyses within consultation papers have been carried out robustly	☐	☐	☐	☐	☐
The FSA places sensible reliance on market led solutions	☐	☐	☐	☐	☐

Q10 **How would you rate the usefulness of the following FSA communications?**

If you really cannot give an opinion on a particular aspect, just leave that line blank.

Please cross one box in each line ☒

	Extremely poor 1	2	3	4	5	6	7	8	9	Outstandingly good 10	Do not receive/ never seen
Annual Report	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
The FSA Business Plan	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Newsletters for your business sector	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
"Dear CEO" letters	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ARROW reports on your firm	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Feedback following visits	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Monthly Regulatory Round Up email	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Your views of the way the FSA handles enforcement

Q11 Based on your experience, or what you have seen or heard, how satisfied are you with the way the FSA handles enforcement?

Please cross one box only ☒

Extremely dissatisfied 1	2	3	4	5	6	7	8	9	Extremely satisfied 10
☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Q12 How much do you agree or disagree that ….

Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The FSA's enforcement procedure is understood by the industry to be a credible deterrent	☐	☐	☐	☐	☐
The FSA's enforcement procedure is being used in a way that serves to better protect the consumer	☐	☐	☐	☐	☐
In its enforcement, FSA has followed a principles based approach	☐	☐	☐	☐	☐

Section B – Your Experience of the FSA as a Regulated Firm

Your overall satisfaction with the FSA

Q13 Taking into account all your firm's dealings with the FSA, how satisfied are you with the relationship?

Please cross one box only ☒

Extremely dissatisfied 1	2	3	4	5	6	7	8	9	Extremely satisfied 10
☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Q14 In the last two years would you say your business relationship with the FSA has…

Please cross one box only ☒

- Improved ☐
- Stayed the same ☐
- Deteriorated ☐
- Don't know ☐

Your experience of dealing with the FSA

Q15 When did you last speak to someone at the FSA?
Please cross one box only ☒

Within the last week	☐	1-2 years ago	☐
Within the last month	☐	Longer than 2 years	☐
Within the last 6 months	☐	Never	☐
6-12 months ago	☐	Don't know	☐

Q16 Since January 2007 have you done or experienced any of the following?
Please cross all that apply ☒

Had a supervisory visit	☐	Had a telephone interview about TCF	☐
Contacted the Firm contact centre	☐	Had a thematic review	☐
Had an ARROW visit	☐	None of the above	☐

Q17 Overall, how would you rate the ease of dealing with the FSA?
Please cross one box only ☒

Extremely dissatisfied 1	2	3	4	5	6	7	8	9	Extremely satisfied 10
☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Q18 In the last two years would you say your ease of dealing with the FSA has…
Please cross one box only ☒

Improved ☐ Stayed the same ☐ Deteriorated ☐ Don't know ☐

Q19 Regarding <u>general administration</u>, to what extent do you agree or disagree that the FSA…
Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
Operates straightforward and efficient processes for dealing with authorisation and approval issues	☐	☐	☐	☐	☐
Has sufficiently skilled staff to deal with day-to-day issues	☐	☐	☐	☐	☐

+ + +

Q20 Does your firm have a Designated Relationship Manager at the FSA?

Please cross one box only ☒

Yes	☐	→ GO TO Q21
No	☐	→ GO TO Q23
Don't know	☐	

Q21 How satisfied are you with your firm's dealings with your Designated Relationship Manager?

Please cross one box only ☒

Very satisfied	Fairly Satisfied	Neither Satisfied nor dissatisfied	Not very satisfied	Not at all satisfied	No opinion	Don't know
☐	☐	☐	☐	☐	☐	☐

Q22 How often has your Designated Relationship Manager at the FSA changed in the past two years?

Please cross one box only ☒

Has not changed	☐	Three times	☐
Once	☐	Four or more times	☐
Twice	☐	Don't know	☐

Q23 Has your firm had dealings with the FSA's Firm Contact Centre?

Please cross one box only ☒

Yes	☐	→ GO TO Q24
No	☐	→ GO TO Q26
Don't know	☐	

Q24 How satisfied are you with the service provided by the FSA's Firm Contact Centre?

Please cross one box only ☒

Very satisfied	Fairly Satisfied	Neither Satisfied nor dissatisfied	Not very satisfied	Not at all satisfied	No opinion	Don't know
☐	☐	☐	☐	☐	☐	☐

Q25 When did you last contact the FSA's Firm Contact Centre?

Please cross one box only ☒

Within the last week	☐	1-2 years ago	☐
Within the last month	☐	Longer than 2 years	☐
Within the last 6 months	☐	Never	☐
6-12 months ago	☐	Don't know	☐

+ +

Your view of the guidance you receive from the FSA

Q26 Have you ever had any experience of seeking guidance on rules or regulatory policy from the FSA?
Please cross one box only ☒

Yes	☐	→ GO TO Q27
No	☐	→ GO TO Q31

Q27 When did you last seek guidance on rules or regulatory policy from the FSA?
Please cross one box only ☒

Within the last week	☐	1-2 years ago	☐
Within the last month	☐	Longer than 2 years	☐
Within the last 6 months	☐	Never	☐
6-12 months ago	☐	Don't know	☐

Q28 Overall, how would you rate the helpfulness of the guidance you received from the FSA?
Please cross one box only ☒

Extremely poor 1	2	3	4	5	6	7	8	9	Extremely good 10
☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Q29 Have you sought guidance <u>mainly</u> from...
Please cross one box only ☒

Designated Relationship Manager	☐
Firm Contact Centre	☐

Q30 Thinking specifically about approaching the FSA for guidance, how much do you agree or disagree that…
Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
It is possible to be open and frank in discussions with the FSA	☐	☐	☐	☐	☐
It is difficult to work through things informally with the FSA without involving legal people	☐	☐	☐	☐	☐
FSA staff generally give guidance promptly	☐	☐	☐	☐	☐
FSA staff have sufficient knowledge to understand my firm	☐	☐	☐	☐	☐
Staff have the authority to answer my questions	☐	☐	☐	☐	☐
There is consistency of guidance from different members of staff	☐	☐	☐	☐	☐

Q31 Thinking about the FSA Handbook of rules and guidance, how much do you agree or disagree…
Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The level of detail in the Handbook is about right	☐	☐	☐	☐	☐
It is difficult to find the rules and guidance that you need in the Handbook	☐	☐	☐	☐	☐
The Guides to the Handbook are useful	☐	☐	☐	☐	☐
The ease of use of the Handbook has improved over the last 2 years	☐	☐	☐	☐	☐

Your view of the way the FSA supervises your firm

Q32 Overall, how satisfied are you with the FSA's supervision of your firm?
Please cross one box only ☒

Extremely dissatisfied 1	2	3	4	5	6	7	8	9	Extremely satisfied 10
☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Q33 When did your firm have its last supervisory visit by the FSA?
Please cross one box only ☒

Less than six months ago ☐
More than 6 months, but less than 1 year ago ☐
More than 1 year, up to 2 years ☐
More than 2 years, up to 3 years ☐
More than 3 years ago ☐
Never ☐
Don't know ☐

Q34 Has your firm ever participated in an FSA thematic review?
Please cross one box only ☒

Yes ☐
No ☐
Don't know ☐

Q35 Do you feel that any FSA supervision visit (or thematic review) you have experienced over the last two years was undertaken in a suitably informed, collaborative and proportionate manner?
Please cross one box only ☒

Yes ☐
No ☐
Don't know ☐

Q36 How would you describe the FSA in applying the rules for…?
Please cross one box only ☒

	Highly flexible	Fairly flexible	About right	Fairly rigid	Highly rigid	No experience	Don't know
The Conduct of Business Standards	☐	☐	☐	☐	☐	☐	☐
Prudential Standards	☐	☐	☐	☐	☐	☐	☐

Q37 Has the FSA got the priority about right in its focus on conduct of business or prudential supervision of firms?
Please cross one box only ☒

Yes	☐
No	☐
Don't know	☐

Q38 How much do you agree or disagree that, in supervising your firm, the FSA…
Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
Asks for too much detailed information about your firm	☐	☐	☐	☐	☐
Places emphasis on preventing problems rather than enforcement	☐	☐	☐	☐	☐
Has a good understanding of your business	☐	☐	☐	☐	☐
Applies a reasonable level of supervision for a business of your size and type	☐	☐	☐	☐	☐
Tends to look at processes rather than outcomes	☐	☐	☐	☐	☐
Is adversarial in approach	☐	☐	☐	☐	☐
Is willing to hold a dialogue with you about compliance issues	☐	☐	☐	☐	☐
Is willing to discuss the findings of any supervision visit of your firm	☐	☐	☐	☐	☐

+ + +

Q39 When considering the FSA staff who handle your supervision, how much do you agree or disagree with each of the following?

Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
Their approach varies depending on the individual	☐	☐	☐	☐	☐
They have good interpersonal skills	☐	☐	☐	☐	☐
They don't really take into account the level of risk arising from your business	☐	☐	☐	☐	☐
They treat your staff as trustworthy	☐	☐	☐	☐	☐
It is difficult to give feedback to the FSA on their supervisory staff	☐	☐	☐	☐	☐
They have sufficient commercial understanding of your business to make appropriate judgements	☐	☐	☐	☐	☐
More contact from the FSA would be welcome	☐	☐	☐	☐	☐
The FSA makes good use of the information you provide to inform its dealings with you	☐	☐	☐	☐	☐
The FSA has adopted a more principles based approach in its dealings with your firm	☐	☐	☐	☐	☐
The turnover of FSA supervision staff is detrimental to your firm's regulatory relationship	☐	☐	☐	☐	☐

Costs and efficiency in relation to your business

Q40 Given the size and nature of your business and its level of risk, how do you feel about the total current costs of compliance for your firm (taking both fees and internal & external costs into account)?

Please cross one box only ☒

- They are excessive ☐
- They are high, but not excessive ☐
- They are reasonable ☐
- Don't know ☐

Q41 What would you estimate are the total internal and external identifiable current costs of compliance for your firm as a percentage of total costs?

Please cross one box only ☒

Less than 2%	☐	15% - less than 20%	☐
2% - less than 5%	☐	20% - less than 25%	☐
5% - less than 10%	☐	25% or more	☐
10% - less than 15%	☐	Don't know	☐

+ +

Q42 **How much do you agree or disagree that…**
Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The overall costs of compliance will continue to rise for the foreseeable future	☐	☐	☐	☐	☐
The costs of compliance are harmful to my firm	☐	☐	☐	☐	☐
The costs of compliance have resulted in…					
(a) Reducing the types of business we conduct	☐	☐	☐	☐	☐
(b) Placing my firm at a disadvantage compared to our competitors based abroad	☐	☐	☐	☐	☐
(c) My firm planning to leave the industry	☐	☐	☐	☐	☐
(d) My firm planning to re-locate from the UK to another country	☐	☐	☐	☐	☐

Section C –Your Type of Business and the Practitioner Panel

Your type of business

Q43 **How many full time staff (or equivalent) are employed by your firm in the UK?**
Please cross one box only ☒

0-9	☐	100-499	☐
10-19	☐	500-999	☐
20-49	☐	1000 or more	☐
50-99	☐		

Q44 **How many customer facing staff or advisers does your firm have?**
Please cross one box only ☒

0-9	☐	100-499	☐
10-19	☐	500-999	☐
20-49	☐	1000 or more	☐
50-99	☐		

Q45 **How would you describe the type of business you conduct?**
Please cross one box only ☒

All retail	☐
Mainly retail	☐
Part retail, part wholesale	☐
Mainly wholesale	☐
All wholesale	☐

Q46 **And where are your customers located?**
Please cross one box only ☒

Only in the UK	☐
Partly in the UK, partly overseas	☐
Only overseas	☐

Q47 **This questionnaire may have been completed by one or more individuals. Who has completed this questionnaire?**
Please cross each box which applies ☒

Chief Executive/MD	☐	Partner/Principal in firm	☐
Group/Head of Compliance (responsible for 2 or more regulated areas or authorised activities)	☐	Financial Director	☐
Senior/Principal Compliance officer (responsible for single area or regulated activities)	☐	Other	☐

The Financial Services Practitioner Panel

Q48 **Had you seen or heard anything about the Practitioner Panel before you received the letter about this survey?**

Yes	☐
No	☐

Q49 **Had you seen or heard anything about the Smaller Businesses Practitioner Panel before you received this survey?**

Yes	☐
No	☐

Q50 **How much do you agree or disagree that…**
Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The Panels have an important role to play on behalf of your type of business	☐	☐	☐	☐	☐
The Panels are independent of the FSA	☐	☐	☐	☐	☐
The members of the Panels can represent the industry as a whole	☐	☐	☐	☐	☐
The Panels are helping the FSA to understand industry views	☐	☐	☐	☐	☐
The Panels are able to influence FSA policies and decisions	☐	☐	☐	☐	☐
It is easy for firms to express their views to the Panels	☐	☐	☐	☐	☐

Q51 **In your opinion, what do you feel are the most important issues for the FSA to address as the regulator for the financial services industry?**

Q52 **What are the most important areas of expertise for the FSA to develop over the next two years as the regulator for the financial services industry?**

Q53 **Finally, would you be happy for a member of the BMRB research team to contact you about the answers you have given in this survey?**

Yes – happy to be contacted ☐

No – please do not contact me ☐

Thank you for taking the time to complete the questionnaire. Please return it to BMRB in the reply-paid envelope provided.

If the reply-paid envelope has been mislaid, please call 01926 826201 for a replacement or simply return the questionnaire to BMRB at the following address:-

BMRB
Kantar Operations
Harrison Way
Spa Park
Leamington Spa CV31 3HQ

Appendix C Advanced letter

THE FINANCIAL SERVICES PRACTITIONER PANEL

C/O Independent Panels
Secretariat
25 The North Colonnade
Canary Wharf
London
E14 5HS

June 2008

Dear

Financial Services Practitioner Panel: Survey of Regulated Firms

The Financial Services Practitioner Panel represents the interests of the Financial Services industry in the UK regulatory framework. The Panel was established in November 1998, comprising senior figures from regulated firms, to provide a high level body available for consultation on policy by the FSA and able to communicate to the FSA the views and concerns of firms.

Since 1999 the Panel has conducted a biennial survey of regulated firms to measure industry views and opinions on the performance of the FSA. The 2008 survey will be the fifth survey in the series and we would greatly appreciate your help in this important initiative. The survey is an authoritative way that regulated practitioners have of feeding back their collective views to the FSA and it greatly assists the panel in guiding the FSA on how it should set its priorities and deliver its operations.

What happens now?
We have appointed an independent research company, BMRB, to carry out this survey on our behalf. Within the next two weeks you will receive a questionnaire in the post from BMRB. The survey covers your relationship with the FSA as a regulated firm and plays an important role in the Practitioner Panel's discussions with the FSA. The results will be published towards the end of the year.

As the purpose of the survey is to gain the view of each regulated firm or group, the questionnaire should be completed by the most senior person within your firm (for example the CEO or MD). If there are other senior persons who are responsible for any aspects (e.g. compliance) the relevant sections of the questionnaire can also be completed by those people where appropriate.

Confidentiality
We estimate that the survey should take around 30 minutes to complete. All the information provided by your firm will be totally confidential and no identifiable information about your individual firm will be passed to the Practitioner Panel or to the FSA.

Why should my firm take part?
The Practitioner Panel needs the results of this research to ensure that it reflects the views and concerns of a wide range of regulated firms in its communications with the FSA. As such it is essential that all firms who are invited to participate do so, in order that the research is able to represent the entire industry.

The survey outcomes are taken very seriously by the FSA, and there are many examples of where results from the survey have had a tangible influence, directly and indirectly, on the shape and administration of FSA regulation.

Please do help us by taking part. If you would like any further information about the survey, or have any queries, then please contact **Anthony Allen** at BMRB (020 8433 4061, anthony.allen@bmrb.co.uk) or Chris Cherlin, the Independent Panel Secretariat (020 7066 9534, chris.cherlin@fsa.gov.uk) who will be happy to help.

If further information is needed on the wider work of the Panel, this is available at: www.fs-pp.org.uk

Yours sincerely

Nick Prettejohn
Chairman
Practitioner Panel

Fifth Survey of the FSA's regulatory performance