Financial Conduct Authority

Regulator Assessment: Qualifying Regulatory Provisions

Title of proposal: TR15/9: Embedding the Mortgage Market Review: Advice and Distribution.

Lead regulator: FCA

Date of assessment: 21 September 2016

Commencement date: Thematic review commenced July 2014 with publication

of our findings in July 2015.

Origin: Domestic

The Mortgage Market Review (MMR) was domestic, but developed with an eye to the expected form of the Mortgage Credit Directive (MCD). The MMR requirements did not originally come from the EU, although many of our Handbook rules as they now stand implement MCD requirements.

Does this include implementation of a Cutting Red Tape review? No

Which areas of the UK will be affected? Whole of UK

Brief outline of proposed new or amended regulatory activity

Changes to the FCA's Mortgage Conduct of Business rules (MCOB) came into force on 26 April 2014 following the Mortgage Market Review (MMR). Our rules aim to deliver a mortgage market which works well for consumers and is suitable for all participants. Thematic Review 15/9 was to assess how firms had embedded the MMR advice and distribution rules.

The thematic report considers customers' experience of receiving advice and the extent to which firms are recommending mortgages which are suitable for customers' individual needs and circumstances. We reported our findings on the impact on customer outcomes based on our observations from consumer research, mystery shopping, file reviews and firm visits.

The review highlighted where improvements were required to meet the standards expected of our rules and did not set any new expectations. We highlighted areas where firms' interpretation of the rules led to unintended consequences and we also highlighted examples of what we observed in 'better performing firms'. We also highlighted behaviour we considered to be in breach of our rules in some instances.

Which type of business will be affected? How many are estimated to be affected?

Any firm offering mortgage advice including mortgage lenders, mortgage intermediaries and equity release advisers. This is approximately 6,000 firms.

Price base year	Implementation date	Duration of policy (years)	Business Net Present Value	Net cost to business (EANDCB)	BIT score
2016	July 2015	10	0	0	0

Please set out the impact to business clearly with a breakdown of costs and benefits

Likely costs to firms

The thematic review did not set any new expectations but reminded firms of existing requirements. If firms incurred costs it would have been in relation to non-compliance with existing rules. As compliance with existing regulatory requirements is assumed as part of the Enterprise Act, any costs incurred by firms to bring themselves to a compliant standard have not been considered as this would in effect be double-counting the costs of implementing the original rules. As a result we have assessed the costs as zero.

Firms that were non-compliant with pre-existing rules may have faced costs from additional staff training; changes to processes and procedures; system changes (in limited circumstances for process improvements or development of Management Information, etc.); and changes to oversight processes. The main costs to implement the rule changes would and should have been made ahead of the rules being implemented in April 2014, for which a cost-benefit analysis was produced.

Likely benefits to firms

The review could have led to benefits for previously compliant firms. We have not attempted to estimate these.
- Clarity for firms may allow them to improve process efficiencies for example, reducing duplication and repetition. This may result in a better experience for the customer and subsequently less complaints, better customer retention and potential savings on costs/loss of business.
- In addition, improved process may also free advisers' resource to help more customers with potential for positive cost savings and/or increased business for firms. - Some firms had already identified issues and were still embedding and improving new processes therefore publishing our findings is likely to assist firms in this process.
- Improvement in areas where not meeting standards avoids potential regulatory action or reputational damage.

[For information - we reported in PS/16 Mortgage Market Review: Feedback on CP11/31 and final rules that we expected total ongoing compliance costs of the MMR proposals to range between £49m and £172m a year and total one-off costs to be between £42m and £67m.]

Please provide any additional information (if required) that may assist the RPC to validate the BIT Score.