

## **Enforcing Rules**

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The saying "When the going gets tough, the tough get going" is becoming increasingly prevalent from the recent rhetoric of the FSA. Whatever your views are on whether the markets are in a state of correction or in serious decline, nobody sensible would deny that the industry is facing difficult and challenging times ahead and there is uncertainty as to what the future holds.

The FSA is still reeling from the after shock of the Northern Rock events and as Hector Sants has told us, "financial market conditions have been transformed from benign to difficult, creating challenges for the industry, firms and the regulator". However, the industry needs to watch out for a change in regulatory vigour in how the FSA responds to this difficult and uncertain economic climate. At the recent FSA Retail Firms Conference, Mr Sants gave a clear indication of how the recent market turbulence and the problems at Northern Rock are shaping the FSA's views on managing risk in the retail sector. The regulatory philosophy has not changed and neither have the priorities but the urgency to achieve those goals and the demands within the regulator may have become more intense and heightened.

Mr Sants has already acknowledged that the FSA's supervision of Northern Rock was not of sufficient intensity and rigour, particularly with regard to challenging the company's board and executive in respect of their risk management practices and their understanding of the risks posed by their business model. The FSA has commissioned its own internal review of its role but it is acknowledged that the report, to be published this month, will show that the supervision of the company did not meet the expected standards.

Mr Sants stated that the FSA will continue to prioritise "credible deterrence" in its enforcement strategy and that it is likely there will be more enforcement cases where principles have been breached. It is determined to ensure a belief that those who deliberately seek to evade responsibilities have a strong likelihood of being caught.

*Philip Ryley is a solicitor and Head of Financial Services & Markets for Michelmores LLP.*