

## **Attitude Change**

**Published by Financial Adviser 10 April 2008**

A few weeks ago, I wrote in this column that the industry needs to watch out for a change in regulatory vigour in how the FSA responds to this difficult and uncertain economic climate.

We know the FSA is now looking at applying a much more hands-on supervisory approach to small firms with a large number of supervisory visits taking place over the next three years. However, since the announcement of that initiative, we have seen further economic turbulence, more businesses experiencing financial downturn and the much publicised FSA's findings into the review carried out by its internal audit division into the supervision of Northern Rock.

We have also seen a change in senior management at the FSA and we also have the TCF timeframe to worry about. All in all, the future is looking increasingly uncertain.

The banks and other large retail groups that fit into the high impact category are bracing themselves for the FSA's so-called dedicated supervisory enhancement programme and no doubt there will be a special focus placed on the financial risk models and liquidity issues facing those firms.

Senior management can also expect to be probed more vigorously as to their commercial decisions. You can bet the FSA is going to do all that is in its power to ensure that further supervision failings on the scale of Northern Rock are not going to happen again. However, with this new vigour will arrive a new regulatory attitude – which may not be what some firms are expecting or will in fact welcome.

When things go horribly wrong with a regulatory system, change is inevitable and the regulatory pressures are passed on to the regulated. The FSA may have passed off the Northern Rock failings as a lesson learned exercise for the regulator but the wake of this exercise will be far reaching and some commentators will be wondering when the FSA will demonstrate the right level of engagement with and supervisory oversight of the industry.

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