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## Executive summary

### Background

1. In October 2007, the Chief Executive of the FSA asked Internal Audit to carry out a lessons learned review of the supervision of Northern Rock plc during the period 1 January 2005 to 9 August 2007. The Terms of Reference are in Appendix 1. They were published as part of the submission to the Treasury Select Committee (TSC) of 11 December 2007. A commitment was made to publish the conclusions of this review in March 2008.
2. From early August 2007, conditions in credit markets deteriorated and Northern Rock experienced increasing difficulty in securing wholesale market funding. From 9 August, the FSA took part in daily discussions with the other Tripartite authorities to discuss the latest market conditions. The significance of 9 August, therefore, is that it was the start of what can be termed ‘the crisis period’. The scope of this review excludes the crisis period.
3. The extent of the market disruption that occurred in the crisis period – to wholesale funding markets, including securitisation markets – was generally not foreseen by commentators. It was the crystallisation of a low probability, high impact risk. It prompted the need for Northern Rock to seek emergency liquidity assistance from the Bank of England; ultimately, it prompted the run on Northern Rock’s retail deposits. The FSA, while recognising that primary responsibility for Northern Rock lay with the firm’s senior management, initiated this review: to examine the supervisory approach for Northern Rock; to identify the lessons which the FSA should draw; and to recommend changes that those lessons suggested for its risk assessment and risk mitigation practices in general.

### Approach

4. We have carried out a detailed review of the supervision of Northern Rock for the period in question. This has included researching what information was available on the firm at the time, both within the FSA and externally. We have made a number of findings and assessed their significance to form an overall view of whether the FSA’s supervisory strategy for Northern Rock was in line with its risk profile. The conclusion is, therefore, based on the evidence and our judgement of it.
5. In order to assess whether the supervision of Northern Rock was an outlier, we have reviewed, as comparators, the FSA’s approach to a sample of five other firms<sup>1</sup>, rated in accordance with the FSA’s ARROW risk framework as high impact. The sample firms were supervised in different departments, spanning the FSA’s Wholesale and Retail Business Units, and provided examples of risk assessment under both ARROW I and revised ARROW II methodologies.

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<sup>1</sup> This report uses the terms ‘firm’ and ‘firms’ as shorthand, referring sometimes to the relevant legal entity itself and sometimes to the group of which it is part.

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6. As part of our review work we interviewed 65 FSA staff and former staff. We also reviewed 129 files (lever arch or equivalent) and a similar number of electronic files.
  7. In line with the Terms of Reference, our high level recommendations and recommended actions are designed to apply to the supervision of all high impact firms, although we recognise that many are more generally applicable. Where the proposed scope of an action is more limited, we specify that it is designed for high impact *deposit-takers* and high impact *investment firms*.
  8. We set out our conclusions from this review in two parts. The first conclusion is in paragraph 27 and covers whether the prevailing framework for assessing risk was appropriately applied in relation to Northern Rock, so that the FSA's supervisory strategy, including the supervisory period and level of resourcing, was in line with the firm's risk profile. The second conclusion relates to our review of the other elements of the Terms of Reference. This is set out in paragraph 43.

### **Key points arising from the supervision of Northern Rock**

#### *Context*

9. In this section we summarise the key aspects of the supervision of Northern Rock which have contributed to our findings and our opinion of whether the prevailing framework for assessing risk was appropriately applied in relation to Northern Rock, so that the FSA's supervisory strategy, including the supervisory period and level of resourcing, was in line with the firm's risk profile.
10. In April 2004, the FSA effected a major re-organisation, the principal outcome of which was to create separate Business Units for the supervision of retail and wholesale firms. As part of this re-organisation, responsibility for the supervision of Northern Rock was transferred to Major Retail Groups Division (MRGD). There were subsequent re-organisations within MRGD, in June 2006 and February 2007.
11. From the start of our review period to June 2006, Northern Rock was supervised in a department whose primary responsibility was for insurance groups. Between June 2006 and February 2007, Northern Rock was supervised by a team which had responsibility for one other group – an insurance group. From February 2007 to the end of the review period, it was supervised with deposit-taking peers. As a consequence of these moves, Northern Rock was the responsibility of three heads of department (HoDs) during the period of the review, although the last of these had responsibility for Northern Rock in practice for only three months. There was, however, continuity of manager and lead associate on the team responsible for supervising Northern Rock throughout the review period.
12. Supervision of Northern Rock took place against a background of significant activity, on top of normal pressures, in relation to many of MRGD's firms – including significant one-off events such as takeovers (for example Banco Santander of Abbey), bids (for example by Barclays and RBS for ABN Amro) and demutualisation (Standard Life) as well as enforcement investigations. In addition, the continuing moves to implement

changes to the capital adequacy framework stemming from reform of the Basel accord created a heavy workload.

*Period up to ARROW risk assessment Panel on 20 February 2006*

13. The supervisory approach adopted for Northern Rock flowed from the formal risk assessment, which was endorsed at the ARROW Panel of 20 February 2006.
14. We have reviewed the pack of material that was submitted to the Panel. It complied with the prevailing ARROW I standards<sup>2</sup>. It included an overview of the firm's strategy and business, its principal activities, capital and liquidity positions, and nature of funding, as well as a summary of management and of the control environment. We were unable to assess the content of the analysis alongside what key Northern Rock executives and the external auditors had contributed during the discovery work because, contrary to ARROW I and ARROW II standard practice, formal records of key meetings were not prepared.
15. Under ARROW I there was no requirement on supervisory teams to include any developed financial analysis in the material provided to ARROW Panels, and for the Northern Rock Panel none was provided either for the firm itself or in relation to its peers. That type of analysis might have thrown into relief key aspects of Northern Rock's business model. Comparison would have shown Northern Rock, relative to its peers, as having a high public target for asset growth (15-25% year-on-year) and for profit growth; a low net interest margin; a low cost:income ratio; and relatively high reliance on wholesale funding and securitisation.

*The input of the ARROW Panel*

16. The ARROW Panel agreed the supervisory team's proposal not to issue a Risk Mitigation Programme (RMP). It also recommended lengthening the supervisory period (the period between formal ARROW risk assessments) to 36 months, from the 24 months proposed by the team. 36 months was the upper limit within ARROW I methodology. These decisions were against a backdrop of the FSA's publicly stated objective that 'we should create incentives for firms to do the right thing in return for a regulatory dividend – that is less regulatory intervention'<sup>3</sup> where the FSA judged that their behaviour (including in their regulatory relationship) and the quality of their management, merited it.
17. Following the Panel, the draft ARROW letter to Northern Rock, laying out the FSA's conclusions from the risk assessment, was amended to highlight the issues that would be addressed in its Close and Continuous (C&C) supervision. These included: the viability

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<sup>2</sup> ARROW II was gradually rolled out from March 2006, with transition of firms' risk assessments to the new Interim Risk Manager (IRM) system being aligned with supervisors' training in ARROW II. The Northern Rock assessment was transferred in November 2006 to IRM. From then on, IRM became the vehicle for capturing the firm's risk profile.

<sup>3</sup> From 'Better regulation: objective or oxymoron' speech by the FSA's then Chief Executive, at the Securities and Investment Institute Annual Conference, 9 May 2006.

of the firm's strategy in the prevailing market conditions, and the firm's capacity to deliver its strategic objectives whilst ensuring that its credit risk profile remained consistent with its risk appetite; that its access to funding, particularly through securitisation, was maintained; the adequacy of its stress-testing; on-going developments of the firm's risk management framework, particularly with respect to Basel; the operational risks arising from its rapid pace of growth; and the mitigation of the internal and external risks associated with the impending retirement of the Finance Director. We infer that these risks were drawn out as a result of the Panel's input.

18. The Panel's assessment of Northern Rock, in terms of the ARROW risk framework, as 'low-probability' was key to many elements of the subsequent supervision of the firm.

*Period after the ARROW Panel*

19. The decision not to issue an RMP elevated the importance of C&C supervision for Northern Rock. However, the supervisory team set out to us an incomplete understanding of C&C: they did not evidence that they understood that it entailed the regular re-assessment of the firm's business risk profile and control risks as new issues arose.
20. After the ARROW Panel, there was only one 'set' of C&C meetings with the firm in the period under review. These took place on 30 April 2007. We found agendas for five of those meetings, but there was a typed record for only part of one of them, so it was not possible to assess what was discussed.
21. We know that during 2006-07 considerable supervisory effort on Northern Rock was expended on Basel work, including ten visits, but risk indicators arising from that work (for example of management stretch, Northern Rock's reliance on specialists and weaknesses in risk management) do not appear to have been factored into the FSA's on-going supervisory assessment nor strategy for the firm.
22. In addition to the rapid growth of Northern Rock's lending book, a number of other business risks emerged during 2006-07. They did not, either individually or in aggregate, lead the supervisory team to create an RMP, which is a mechanism, shared with the firm, designed to highlight, pursue and track risk issues using a common framework. None of the issues was recorded in Interim Risk Manager (IRM), the FSA's database from which internal management information (MI) is generated and which triggers escalation of concerns, including to the Firms and Markets Committee. No change in the firm's ARROW risk scores was recorded in IRM. And none of the risks identified by the FSA for possible sub-sectoral work was imported into Northern Rock's profile on IRM.
23. These findings, taken together, indicate that the supervisory team did not adequately identify and pursue risks arising in the firm as a whole and in relation to its business model and control framework.
24. Our findings also show a level of engagement and oversight by supervisory line management below the standard we would expect for a high impact firm. This placed undue reliance on the associates.

25. There was also insufficient engagement by the HoDs responsible for Northern Rock. This was due, in part, to a lack of continuity (as noted above, there were three HoDs in the review period, albeit one was responsible, in practice, for only three months). They also had other significant demands on their time during the period, including covering gaps arising due to manager turnover. On average, they met one of their firms every week, although none met Northern Rock in the period reviewed. They were not proactive in ensuring there was a robust process that meant they built up a complete picture of issues, or (in the absence of a requirement) in holding a periodic comprehensive stocktake of each firm in their portfolios.

### **Conclusions from the review of the supervision of Northern Rock**

26. From our analysis, we believe that:

- the ARROW Panel would have had a fuller insight into the firm if it had received from the supervisory team, or probed in the meeting for, a more comprehensive analysis of the risks inherent in the business model at the time; but we consider the firm's planned growth should have led to an RMP being agreed;
- it was understandable that the ARROW Panel reached a view that Northern Rock was low-probability risk, based on the material provided to it;
- the Panel process resulted in a number of the key risks – among them the viability of the firm's strategy, including its need to maintain its access to funding, particularly through securitisation – being drawn out for the supervisory team to pursue;
- those risks were not effectively pursued by the supervisory team in line with Northern Rock's increasing business risk profile and control framework;
- the lack of formal risk re-assessment, of recording of issues in IRM and of escalation of the risks which emerged during the supervisory period meant that there was no trigger to re-assess the level of supervisory resource nor to increase FSA management scrutiny;
- the situation was compounded by the level of engagement and oversight by supervisory line management which was lower than expected for a high impact firm; and
- there were neither the challenge mechanisms nor MI at divisional level to trigger a periodic review of the firm.

27. In relation to the requirement on this review set out in paragraph 8 above, we conclude that **we cannot provide assurance that the prevailing framework for assessing risk was appropriately applied in relation to Northern Rock, so that the supervisory strategy was in line with the firm's risk profile.**

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## Other elements of the Terms of Reference

28. The Terms of Reference also required us to examine a number of main elements in the FSA's approach: its risk framework; its coverage of stress testing, liquidity and firms' governance and management competence; intelligence and information flows within the FSA; and its supervisory resources. The report sets out our findings, conclusions and recommended actions in relation to each. These draw on our work on the sample of high impact firms.
29. We conclude that the ARROW risk framework provides the appropriate underpinning to support effective risk-based supervision. Where we observed framework shortcomings, they were largely in ARROW I. However, we have identified a number of areas in which the framework was not used effectively, or as intended, and – in some cases – was not being used as local senior management thought. So in this area, our recommended actions are largely aimed at securing more effective and rigorous use of the existing framework, and monitoring of that use, rather than creating, say, 'ARROW III'.
30. The FSA's focus on stress testing was developing through the period under review. Considerable emphasis was placed on stress testing as part of the Basel changes, and in particular in the Pillar 2 Internal Capital Adequacy Assessment Process. We recommend more work to challenge firms on the vulnerabilities of their business and strategic plans, in line with the 'Comprehensive Approach' set out in the FSA's 2005 Discussion Paper<sup>4</sup>.
31. Our understanding is that, during the review period, the FSA's approach to liquidity reflected a presumption that, in the event of a crisis like that experienced in August 2007, general market liquidity provided by the Bank of England would be increased and, *in extremis*, liquidity would be provided for systemically important institutions. For the retail firms in our sample, the combination of the FSA's liquidity risk identification, including that by the relevant sector teams, and on-going supervision were not sufficiently effective as mitigants for the level of risk. And monitoring of compliance with the qualitative Handbook material introduced in December 2004 was variable within our sample of firms. This was recognised in 2007 with thematic work on liquidity and securitisation which, for Northern Rock, highlighted a number of weaknesses.
32. In relation to supervisors' assessment of firms' governance and management, we found generally good engagement with our sample firms over governance. However, where uncertainties arose about management, they were not always effectively escalated within the FSA or raised with the firm.
33. We recommend actions to address weaknesses in flows of intelligence and information, arising for information available both internally and externally. These weaknesses included inconsistent and at times poor use of publicly available data; inconsistent implementation of the ARROW sub-sector issue mechanism; and absence of arrangements to filter priorities from the FSA's Financial Risk Outlook through to supervisors. Finally, we found no area which considered itself responsible for in-depth peer-firm analysis including the identification of outlying firms. Most of our

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<sup>4</sup> DP05/2 'Stress testing' (December 2005).

recommended actions here are to bring about a *structure* to enhance the use of available intelligence and two-way information flow. We recognise, however, that part of the answer is *cultural* and we reflect this in Recommended Action 4.7. We have given particular thought to encouraging a style of supervision which is peer-group focused.

34. Our findings on supervisory resources were mixed, based primarily on those associated with the sample of firms within this review. All those we asked highlighted the complexity of the supervisor's role, given the nature and volume of issues that arise for high impact firms. And many recognised that, partly because of turnover, the FSA is short of expertise in some fundamental areas, notably prudential banking experience and financial data analysis.
35. The FSA has, in recent years, been pursuing a resourcing strategy of 'fewer, better staff'. To that end, divisions with high impact firms have put in place plans to improve quality (for example the introduction of a new manager grade 'E' within the regulatory 'job family') as well as to achieve a consequential reduction in numbers. MRGD's headcount, for example, has reduced by some 20 staff over the past four years, notwithstanding the need to deal with substantial FSA priorities such as Basel and the Treating Customers Fairly initiative, in addition to day to day firm risk assessment and mitigation work.
36. Our concern is that some of the fundamentals of work on assessing risks in firms (notably some of the core elements related to prudential supervision, such as liquidity) have been squeezed out as a result of prioritisation decisions and resourcing capacity issues. As the likelihood of a less benign market environment increased, the need to focus on these elements became all the more critical.
37. We have observed instances where FSA management oversight has been insufficient to identify that some of the key elements of the risk framework were not being used as intended. This oversight should occur at various levels. The supervisory manager should provide the first line of challenge to the team. This was weakened in some of the peer firms as a result of staff turnover.
38. The second line of challenge should come from HoDs. The processes which the HoDs used to check the individual firms in their portfolios relied mainly on 'signals' or alerts being raised by the supervisory manager or the team. If signals did not arise in relation to a particular firm, and we have been told that they did not in Northern Rock's case, there was no effective mechanism to alert HoDs to issues within their firms. Nor were the HoDs proactive in ensuring there was a robust process allowing them a complete picture of issues and in holding a periodic comprehensive stocktake of each firm in their portfolios.
39. A third level of challenge applies at the level of director and above. Here we observed some lack of reliable MI and of formal resource planning to assess and monitor what was happening in practice.
40. More generally, we recommend that more management time should be spent on assessing and engaging with internal supervisory judgements and decisions, as well as on assessing and challenging firms in particular areas. We believe this will be most effective if accompanied by an approach to supervision which has a stronger basis of comparing

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firms with their peers, having a fundamental understanding of the business model drivers, and identifying outlying firms or other firms with particular risks and what those risk factors imply.

41. One of the themes emerging from the review has been the apparent ease with which individual members of staff have been able not to comply with established processes (for example recording key meetings, document filing, updating IRM and importing sub-sector issues). Moreover, our rate of progress in carrying out this review was hampered by the poor quality of record-keeping.

### Conclusions from other elements of the Terms of Reference

42. As specified in the Terms of Reference, we used the sample of peer firms to provide comparison with the supervision of Northern Rock. In so doing we carefully considered the implications and the significance of individual findings. It is clear that some shortcomings have more weight than others. So, for example, we believe the turnover of HoDs was of greater significance than some of the other findings. Some combinations of shortcomings are also more significant than others. Our overall assessment for Northern Rock of whether the prevailing framework for assessing risk was appropriately applied, so that its supervisory strategy was in line with the firm's risk profile, rests not so much on the number of individual findings, but on the effect of the combination of those shortcomings. Particularly significant in our view was the combined effect of: the maximum supervisory period (36 months); the failure to update IRM; the absence of an RMP; the turnover in HoDs and their insufficient engagement with the firm; and the long intervals between Close and Continuous meetings.
43. Some of the findings from the supervision of Northern Rock were mirrored in our review of the sample firms. However, the supervision of Northern Rock revealed the most significant combination of shortcomings. **Our overall conclusion is that the supervision of Northern Rock was at the extreme end of the spectrum of the supervisory practices we observed.**
44. Most of the key shortcomings do not lend themselves to quantitative comparison. However, where meaningful data are available, we have looked at a wider sample of high impact firms over the review period in order to assess whether they support our conclusion that the supervision of Northern Rock was at the extreme end of the spectrum of the supervisory practices we observed. These data are set out in the table below, which was provided to us by the Retail Management Services Unit, and covers the high impact firms in MRGD and in Wholesale Investment Banks Department.

*Northern Rock is in the highlighted box in each population*

**Supervisory Period** - data taken from IRM

Firms with regulatory periods of:		
18-24 months	24	63%
25-30	10	26%
36 months	4	11%

(As at 1 August 2007, high impact firms only: MRGD-26 and WIBD-12)

**Turnover of HoDs experienced by MRGD firms**

Number of HoDs (1 Jan 05 – 9 Aug 07)	1 HoD	2 HoDs	3 HoDs
Number of high impact firms	18	6	2
	69%	23%	8%

**C&C meetings** - estimates made by staff based on various sources for high impact firms

	1 Jan - 9 Aug 2007	2006	2005	Period Total
Average for WIBD firms	13	24	18	55
Average for MRGD firms	22	29	23	74
Average for MRGD excl 5 largest banks	17	22	19	58
Average for 5 largest retail banks	43	59	41	143
Northern Rock	7*	1	0	8

\* Out of which five meetings were held on one day and two were by telephone

**Risk mitigation programmes (RMP)** - data taken from IRM

Number of firms with RMP	37
Number of firms without RMP	1

45. The table indicates that, in the number of C&C meetings, Northern Rock was an outlier. On HoD continuity, there was only one other firm which was supervised by three HoDs. Regarding the length of supervisory periods, only four firms fell into the 36 months category. And Northern Rock was the only firm without an RMP. Taking these indicators together, this wider comparison supports our conclusion that the supervision of Northern Rock was at the extreme end of the spectrum.

**Recommendations from this review**

46. The report makes seven high level recommendations, with associated recommended actions, arising from our findings in relation to all the elements of the Terms of Reference. They go further than addressing the principal weaknesses found in the supervision of Northern Rock and reflect examples of good practice we found. They are designed to enhance the FSA's supervision of high impact firms generally. The high level recommendations are:

- FSA senior management to have increased engagement with high impact firms;
- FSA to increase the rigour of its day to day supervision;

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- FSA to increase its focus on prudential supervision, including liquidity and stress testing;
  - FSA to improve its use of information and intelligence in its supervision;
  - FSA to improve the quality and resourcing of its financial and sectoral analysis;
  - FSA to strengthen supervisory resources; and
  - FSA senior management to increase the level of oversight of firms' supervision.
47. In framing the recommendations, we have taken certain aspects of the FSA's existing structure as given. These include the split between predominantly wholesale and retail firms. So, while there may be some good reasons for supervising, for example, the high impact overseas investment banks alongside those that are part of major UK groups, our recommended actions seek rather to engender more peer group emphasis than structural re-organisation.
48. In the paragraphs that follow, we highlight the recommended actions that we consider to be the most important:
- For high impact firms, there should be an on-going supervisory assessment of all appropriate core ARROW risk areas, including capital. Capital and liquidity should have specific focus for high impact deposit-takers and investment firms and should not, in future, be de-prioritised below a certain level (Recommended Action 3.1). To monitor this:
  - HoDs responsible for supervising high impact firms should formally review the supervision of each firm every six months. This review should act as a 'checkpoint' about the FSA's view of the firm, and take stock of the changes since the last formal ARROW risk assessment and last HoD review. It should cover both progress against the C&C schedule and MI relating to RMP actions. If the firm does not have an RMP, this review should assess whether that remains appropriate. It should be used as an opportunity to review the quality of MI received from the firm and to assess its continuing appropriateness, in particular as a complement to the standard regulatory returns. And the review should also be used as a means of assessing manager performance and engagement. As a result, formal ARROW risk assessments should become more of a stocktake, given more frequent challenge and escalation of issues as part of on-going supervision (Recommended Action 7.1).
  - For high impact firms, ARROW Panels must consider all relevant core risk areas. For high impact deposit-takers and investment firms, the Panel should particularly probe on capital and liquidity. Panel packs for high impact firms should include more substantive, in-depth comparative financial analysis, the parameters of which would change with market conditions. This analysis should always cover the business model of the firm in question and its peers (Recommended Action 5.1).

- Supervisors should perform an annual review of the business/strategic plans for each high impact firm. This should take into account the stress testing carried out by the firm, the assumed management actions, and the firm's view of the likeliest scenarios that could threaten its viability. Supervisors should assess the robustness of the firm's plans to maintain adequate financial (capital and liquidity) and other resources. This review should encompass a discussion with the firm, chaired at HoD level or above. Issues arising should feed into the supervisory programme (Recommended Action 1.2).
- A strategy should be developed to ensure that the priority risks identified in the Financial Risk Outlook (FRO) are effectively 'operationalised', through firm and thematic work that addresses the risks, and through strategic consideration of the balance and allocation of resources across the organisation when the FSA changes its view of which risks are highest priority (Recommended Action 4.1).
- There should be a clear assignment of the responsibility for peer analysis of firms and for identifying those that are outliers in an aspect of their business or business model. We recommend recruiting additional staff for the development of sub-sector resource, who would be located in the most relevant supervisory department. This resource should have responsibility for identifying outlier firms in its sub-sector. Adoption of the sub-sector resource model could also be used to address a number of other intelligence issues identified in this review (Recommended Action 5.2).

49. To support the above:

- As a key tool, we recommend that Interim Risk Manager (IRM) should be updated to reflect issues as they emerge. Principles for updating IRM should be established that are consistent across all supervisory divisions – both in terms of the type of information included and the frequency of update (Recommended Action 2.4).

50. We have taken account of the on-going work to develop liquidity policy, including the Discussion Paper published in December 2007<sup>5</sup>. We have a number of recommendations designed to assist this work. Underlying these:

- The FSA should as a priority develop clear timetables for the implementation of changes to the qualitative and quantitative Handbook material on liquidity. Changes to the qualitative material are likely to build on existing material, and so should permit early implementation (Recommended Action 3.5).

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<sup>5</sup> DP07/7 'Review of the liquidity requirements for banks and building societies' (December 2007).

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51. We make findings on both the quality and quantity of supervisory resources, of which key are:
- A bottom-up approach was used for the FSA's annual plan for 2008/09. This should be developed for future years and a 'zero-based budget' constructed for areas dealing with high impact firms. This should allow senior management to monitor the balance of resource planned against key supervisory activities/priorities for each firm, with subsequent regular MI to check the position (Recommended Action 6.1).
  - The current training arrangements should be significantly enhanced to ensure that staff receive training appropriate for their roles, and that the roles they are assigned match their skills and experience and the training they have received and assimilated. Resource planning in the divisions should take account of this (Recommended Action 6.6).
52. However, resourcing is an area that needs further work. We recommend that a bottom-up assessment is made of both the skills-sets and the number of staff needed to implement the recommendations of this review in addition to the current business-as-usual work and other agreed priorities.

### **Overall conclusions and implications of the recommendations**

53. We are aware that implementing the recommendations of this review will require additional resourcing and the executive team will have to decide on relative priorities in the light of FSA's total budget.
54. Much of this report's package of recommendations implies more systematic implementation of frameworks that are already in place, e.g. ARROW II or stress testing, and more formal methods to enable Managing Directors, Directors and HoDs to inform themselves of progress being made in their areas. Whilst we fully support FSA's risk-based approach, that is not inconsistent with having minimum acceptable standards for high impact firms. We believe that the package, when implemented, will support the FSA's move to More Principles Based Regulation.

### **Next steps**

55. We consider that the responsibility for implementing the recommendations in this report lies with the Chief Executive. A project will need to be established with a detailed implementation plan and timetable.