

Strengthening accountability in banking and insurance: regulatory reference final rules

Financial Conduct Authority (FCA)

RPC rating: validated

Description of the measure

Under the Approved Persons Regime, if a firm considering appointing a person to perform a “controlled function” requests a reference from a current or former employer, the recipient of the request is required to provide all relevant information about that person. The FCA has put in place a set of measures, which came into force in March 2017, that:

- introduced a requirement to request regulatory references going back six years rather than five;
- introduced a requirement to update regulatory references if new material information comes to light;
- introduced a standard template for references;
- introduced a requirement to disclose disciplinary action relating to a Conduct Rule breach going back six years rather than five, and serious misconduct beyond that;
- clarified that a firm must not enter any arrangement or agreement that limits its ability to disclose relevant information; and
- limited the requirement to disclose all relevant information to six years (with the exception of serious misconduct).

Impacts of the measure

The assessment explains that the new requirement to disclose “all relevant information” will affect all financial services firms (approximately 55,000 firms). The other changes will only affect banks and insurers (approximately 2,000 firms). The assessment identifies costs to business in the following three areas.

1. **The costs of providing an additional year of regulatory references.** The FCA estimates that firms will have to administer an additional 2,100 references per annum, using the average churn rate for approved persons. Assuming, based on the linked cost benefit analysis, that a reference takes

one hour to complete for an HR manager/contractor at £57 per hour, the FCA calculates that this will impose costs on business of £120,000 per annum.

- 2. The requirement to update regulatory references.** While the FCA is unable to estimate precisely how many regulatory references would need to be updated, it argues, based on the linked cost benefit analysis, that references would need to be updated for no more than one per cent of approved persons. Based on this assumption, it estimates that around 700 references per annum will need to be updated, and that each update would take one hour of an HR manager/contractor's time. The FCA, therefore, calculates that this requirement will impose costs of £40,000 per annum on business.
- 3. The imposition of a standard template for references.** The FCA estimates that around 12,600 references per annum will be affected by this change, based on the average churn rate for approved persons. The FCA estimates that it will take an additional 15 minutes of an HR manager/contractor's time to fill in the template. It, therefore, calculates that the use of the template will impose total costs of £180,000 per annum on business.

The assessment sets out that the other requirements will not impose any additional costs on business.

The RPC verifies the estimated equivalent annual net direct cost to business (EANDCB) of £0.4 million. This is a qualifying regulatory provision that will score under the Business Impact Target.

Quality of submission

The FCA has provided sufficient evidence to support the estimate of the measure. The assessment would have benefited from a fuller discussion of the FCA's reasons for believing that its upper estimate of the number of regulatory references that will need to be updated. However based on evidence provided this appears reasonable.

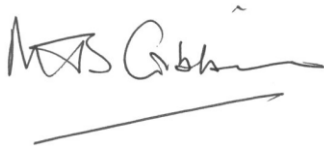
Regulator assessment

Classification	Qualifying regulatory provision
Equivalent annual net direct cost to business (EANDCB)	£0.4 million
Business net present value	-£3.6 million

RPC assessment

Opinion: EANDCB validation
Origin: Domestic
RPC reference number: RPC17-FCA-3775(1)
Date of implementation: March 2017

Classification	Qualifying regulatory provision
EANDCB – RPC validated ¹	£0.4 million
Business Impact Target (BIT) Score ¹	£2.0 million



Michael Gibbons CBE, Chairman

¹ For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000.
