

# Service offering



Section 166 of FSMA (Financial Services and Markets Act 2000) gives the FSA the power to require firms to provide reports by skilled persons as one of its regulatory tools. The tool may be used for diagnostic, monitoring or preventive purposes.

The decision will normally be prompted by a specific requirement for information, analysis, expert advice, or by a decision to seek assurance in relation to a regulatory return. The number of section 166 reports ordered by the regulator has surged since the financial crisis and the trend is unlikely to slow. One hundred and forty were ordered in the financial year ending in April 2011. The cost of a report can be in excess of £1m and the cost of fixing the findings of the report much higher. Most reports were related to adequacy of systems and controls and corporate governance and senior management arrangements. The gravity of receiving this report should not be underestimated and the penalties for non-compliance are severe.

Once the report is issued and possible weaknesses are highlighted, firms face the challenge of providing a credible remediation plan and a timeframe for the transformation. An effective response is critical to reassure the regulator of the firm's capacity to address the issues raised.

## The Process

With experience of supporting clients implementing transformational Risk Mitigation Programmes (RMP), including managing the response to one of the largest, most wide ranging Section 166's issued by the FSA, our consultants are well placed to support firms who are facing regulatory scrutiny and intrusive oversight. We engage with both our clients and our client's supervisors to deliver an effective response to regulatory enforcement. We bring our expertise and experience to bear, providing:

**Situational analysis** – using a focused discovery approach our consultants work with clients to establish a clear understanding of the current situation, key regulatory points to be addressed, desired future state and an actionable gap analysis.

**Risk, Compliance and Controls Framework expertise** – understanding the complex and demanding nature of the current risk and compliance environment including the expectations of the regulator, we deliver a strategically

focused, risk based approach, through a proven framework which clients can deploy to **a)** meet the demands of the regulator and **b)** drive significant business value.



**Programme Management** – when under regulatory scrutiny delivering on the commitments made to the FSA is critical, both to reduce the potential for further regulatory action and to build credibility with stakeholders, the regulator and senior management. Our consultants have the experience and programme management tools to effectively deliver the change programme that a Section 166 will unquestionably demand.

# Steps to Success

We will engage with the firms' Board and senior management to shape each project within the S166 / Risk Mitigation Programme and then produce a detailed programme plan which will provide the delivery roadmap for programme execution and reporting to the board and the FSA.

Establishing programme governance, RAID Log and tracking tools provides the foundation for successful delivery, but we build on that with a bespoke programme and project delivery methodology to ensure absolute control over the goals and objectives.

We work with executive and senior management to initiate the programme and projects, building the team required and responding to the initial FSA challenges by providing essential subject matter expertise and experience.

We manage the entire global programme, spanning functions including Governance, Risk, Compliance, Operations and IT, typically reporting to a Board-level Steering Committee.



## Key Benefits

In a recent section 166 response, Lysis delivered the following key benefits:

- ✓ £100 million reduction in capital provision
- ✓ Global risk management framework
- ✓ Risk assessment, scenario planning and stress testing
- ✓ Risk management policies leading to the ICAAP
- ✓ Compliance framework and policies
- ✓ Governance, structure and operation of the Risk and Compliance functions
- ✓ Global governance structures, boards, committees and legal entities
- ✓ Senior management remuneration policy
- ✓ Group Policies, Delegated Authorities and escalation arrangements
- ✓ Board-level Management Information
- ✓ The role and effectiveness of NEDs
- ✓ Global and regional compliance policies
- ✓ Arrangements for Transaction Reporting and Market Abuse detection
- ✓ Design and implementation of a strategy planning framework

## PRAGMATIC CONSULTING

### Project Summary

#### INTRODUCTION

- A Section 166 report provides the highest level of intrusive regulatory scrutiny a firm is likely to experience.
- Responding to this is a crucial challenge and without experienced and specialist help, is likely to be very costly. Last year the highest cost of receiving a Section 166 was £4.4M with one firm receiving four successive Section 166 enforcements.

#### PROCESS

- Regulatory analysis and guidance
- Engagement and management of the relationship with the regulator
- Programme and project management
- Subject matter experts

#### BENEFITS

- Reduction in operating capital
- Successful delivery of all regulatory points
- Removal from the watch list and a return to a regular footing with the regulator
- New and comprehensive risk and control framework
- Risk event route-cause-analysis linked to risk and controls framework
- Improved operational framework and strategy execution
- Organisational culture shift with engagement of all levels of staff

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