

Jane Blackburn  
Prudential Standards Division  
Financial Services Authority  
25 The North Colonnade  
Canary Wharf  
London  
E14 5HS

29 August 2002

Dear Jane

## Individual Capital Adequacy Standards – CP136

I am responding on behalf of the Consumer Panel to CP136.

As you know from your appearance at the March meeting of the Panel's Working Group B, we are uneasy about a proposal that places responsibility for the determination of appropriate levels of capital in the hands of the firms themselves. Although we appreciate that the intention of the proposals is to provide greater consumer protection and, in particular, to encourage firms to improve risk monitoring and measuring methods, we are concerned about the potential for some firms to get their Internal Capital Assessment (ICA) wrong. Moreover, where firms do get their ICA wrong, we feel that there is a risk that the FSA will fail to pick up on this, especially in the case of firms which - under the ARROW framework - command a low level of FSA resources.

Against this background, we would like to suggest that more stringent (than would normally be the case) monitoring of levels of capital should be undertaken by the FSA in the early stages of the new regime. We feel that there is a need for line regulators to satisfy themselves that firms are carrying out Internal Capital Assessments properly and that those institutions with similar risk profiles are indeed holding similar levels of capital. We suggest that, only through maintaining reasonably close contact with firms, will the FSA be in a position to determine whether levels of capital are appropriate.

Yours sincerely,



**Colin Brown**  
Chairman

Cc John Tiner  
Andrew Whittaker  
Clive Briault

FS Consumer Panel can be contacted  
c/o Consumer Panel Secretariat at the FSA  
Tel: 020 7676 0720 Fax: 0207 676 9711

Email: [enquiries@fs-cp.org.uk](mailto:enquiries@fs-cp.org.uk)  
Website: <http://www.fs-cp.org.uk>