23 June 2014

Dear Andrew,

Skilled Persons Reviews under s. 166 of the Financial Services and Markets Act 2000

I would be grateful if you could provide me with some information about the PRA’s use of its power to require a report by a skilled person under section 166 of the Financial Services and Markets Act 2000, as amended by the Financial Services Act 2012. This includes both the use of the PRA’s power to contract directly with Skilled Persons and also cases in which the regulated firm enters the contractual arrangements. I am particularly concerned with the costs that must be borne by firms—and consequently by their customers—when the PRA requires such a report.

Please could you let me know the following:

- The cost and date of each skilled person review required by the PRA.

- What is the process by which the decision is taken to require a report by a Skilled Person under section 166 of the Act?

- At what level of seniority is approval given for the decision?

- How do you decide whether the PRA will contract the Skilled Person or whether the regulated firm will do so?

- Does the PRA utilise the Internal Audit Departments (IAD) of regulated firms for reviewing and assessing matters of potential concern? In firms with a strong independent IAD, please explain the reasons why that IAD would not be commissioned to perform such work in preference to third party firms.
• What consideration does the PRA give to using other tools of regulation to mitigate potential risks, such as placing specific requirements on management and boards?

• The PRA’s policy on the use of skilled persons requires the regulator to have regard to the question of cost. What does this mean in practice?

• What steps do you take to ensure that the costs to firms are kept to a minimum?

• The minutes of the meeting of the Court of Directors of the Bank of England on 11 December 2013 record that “The PRA Board were certainly concerned, particularly about the ability of the PRA to undertake asset quality reviews. One approach was to commission more S166 reports outsourced to “skilled persons” to compensate”. To what extent are these reviews used to compensate for a lack of expertise at the PRA?

• To what extent is the use of s. 166 reviews helping to keep the costs of the PRA down?

• It appears to be the case that the significant majority of s.166 commissions are awarded to the ‘Big 4’ accounting firms. What is the PRA doing to promote competition and encourage smaller, specialist firms to compete for s.166 mandates?

• On both a case by case basis and in aggregate, how does the PRA judge the value for money from s.166 reviews?

• To what extent does the PRA coordinate with the FCA in the scoping of s.166 reviews in order to manage costs and efficiency?

• Will you publish the costs of reviews in which the PRA appoints the Skilled Person separately from those of cases in which the firm makes the appointment?

• What oversight does the Board have of the use of s. 166 reviews?
Please could you let me have a reply by Monday 7 July?

I will be placing this letter, and your reply, in the public domain. I am writing in similar terms to Martin Wheatley.

ANDREW TYRIE
CHAIRMAN OF THE TREASURY COMMITTEE