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Dear Andrew

Internal Audit Reports

We have spoken on several occasions about the Treasury Committee's view that the FCA should share its internal audit reports with the Committee and that these reports should be published, subject to limited redactions in the public interest.

As you know, the FCA Board expressed real concern about the likely impact of disclosing internal audit reports. The Board's anxiety has been that an expectation that the content of internal audit reports will be shared externally or published will discourage candor and challenge in the interaction between Internal Audit and other parts of the organisation; and that this possible "chilling effect" could diminish the value of audit reports as a tool to ensure the regulator is operating efficiently and effectively.

It is because of the strength of these concerns, and the potential for wider impact on our effectiveness as a regulator, that my Board requested that they be raised with the Committee again so that the Committee could confirm their wish to pursue the request. I have now received an email from Chris Stanton, Clerk of the Committee, to confirm that the Committee discussed this subject again and remains of the view that there is merit in arrangements for greater transparency.

I agreed therefore that the FCA Board should discuss this again; and that I would emphasise to the FCA Board your conviction that the Committee wants the FCA to provide copies of the reports to the Committee and that these should be published (subject to appropriate redactions).

The FCA Board discussed this on Tuesday. The Board remains anxious about the potential harm that disclosure or publication of audit reports is likely to have. However, the Board recognises the importance of the role of the Treasury Committee as part of the arrangements for ensuring the FCA's accountability to Government and to Parliament. Further, the Board wishes to have a constructive relationship with the Treasury Committee, allowing for proper

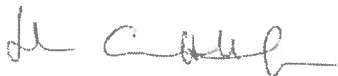
challenge and scrutiny, but also fostering trust in the FCA's commitment and ability to advance its statutory objectives.

The Board decided therefore that we should agree an arrangement similar to those we have canvassed previously. I propose that the FCA will provide to the Treasury Committee copies of the internal audit reports given to the FCA's Audit Committee one year after the reports have been provided to the Audit Committee. The content of the reports would be redacted to remove firm-specific data that we cannot disclose for legal reasons, and to remove other content where disclosure or publication would not be in the public interest. We would use the exemptions from disclosure under the Freedom of Information Act to inform what we might remove from the reports provided to the Committee. We could make details of any redactions, other than of firm-specific data, available to the Chairman on a confidential basis on request. Exceptionally, there might be a need to delay the provision of a report to the Committee, for example if the action recommended in an audit report had not been completed after one year and disclosure could somehow jeopardise that action. I also propose that this process is subject to a review in due course.

I should be grateful if you would let me know if you are content with this proposed approach.

I hope that you will be reassured by the FCA's commitment to resolving this issue and that we respect the Committee's entitlement to require the production to it of particular information. At the same time, I hope also that you will understand should the FCA seek to revisit this issue in the future given our continuing concern about the potential for harm to the effectiveness of our regulatory risk framework.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Griffith-Jones', written in a cursive style.

John Griffith-Jones
Chairman