12 Endeavour Square
London
E20 1JN

Tel: +44 (0)20 7066 1000
Fax: +44 (0)20 7066 1099
www.fca.org.uk

Dame Meg Hillier MP
Treasury Select Committee
House of Commons
London
SW1A 0AA

2 September 2026

Dear Dame Meg,

Our use of cost benefit analysis

In light of the debates on the Financial Services and Markets Bill in issues of accountability, scrutiny and proportionality, I hope this letter provides helpful context on our approach on cost benefit analysis (CBA). I am writing to explain how we use cost benefit analysis in developing policy, and the role of the independent CBA Panel. We recognise the importance that Parliament places on understanding the impact of our interventions and ensuring that our decisions are subject to robust independent scrutiny.

CBAs are central to our policymaking. They help us understand the likely effects of our proposals, assess trade-offs and make proportionate decisions. Publishing our analysis allows Parliament and other stakeholders to scrutinise our evidence and provide further information before we make final rules.

How the CBA Panel supports our work

The CBA Panel is an independent statutory panel of experts. It provides independent challenge and advice on our use of CBA, strengthening the quality of our analysis and supports accountability for our decisions.

The Panel plays an important role in our policymaking process. Between 1 April 2025 to 31 March 2026, the Panel reviewed 13 of the 32 CBAs we published. This is just over 40%, exceeding the approximately one-third referral rate anticipated when the Panel was established. A further four CBAs also benefited from early, non-statutory engagement with the Panel.

We must consult the Panel where the expected equivalent annual net direct cost to business exceeds £10 million or is below minus £10 million, unless an exemption applies. This threshold is aligned with those used by the Prudential Regulation Authority to their Panel, and the Government's Better Regulation Framework to determine whether an impact assessment is scrutinised by the independent Regulatory Policy Committee.

We normally provide a complete or near-complete draft for formal review. The Panel considers whether we have appropriately identified and assessed the likely costs and benefits. We publish a summary of its advice alongside the relevant consultation and explain how we responded. We may also seek the Panel's views earlier, while the analytical approach, assumptions and evidence are still developing.

The Panel also advises us on our Statement of Policy on CBA. More broadly, it keeps our performance of our CBA duties under review, makes recommendations and reports annually to HM Treasury and Parliament.

When we undertake CBA

The Financial Services and Markets Act 2000 generally requires us to publish a CBA when we consult on new or amended rules. A CBA assesses the expected costs and benefits and estimates them where reasonably possible. We do not publish a CBA if there is low or no increase in costs, or where a delay would prejudice consumers' interests.

While there is no statutory duty to carry out a CBA on guidance, we may publish a CBA for general guidance, for example where a novel element may be prescriptive or prohibitive and could impose significant costs. Thus, our consultation on guidance on the trading venue perimeter contained a CBA (CP22/18).

How CBA supports our decisions

CBA is not simply a calculation conducted at the end of the policy process. We use economic analysis throughout policy development to inform our decisions. It helps us define the harm, identify who may be affected and explain how an intervention is expected to work. We assess the likely costs, benefits, unintended effects and uncertainties. This helps us test whether a proposal is proportionate and whether its design could be improved.

This analysis can lead to changes in policy. When we introduced changes to the safeguarding regime for payments and e-money firms last year (PS25/12), we introduced a threshold of £100,000 relevant funds under which payments firms are not required to arrange a safeguarding audit. This change was informed by feedback to our CBA that indicated our cost estimates might have been unrealistically low. This demonstrates how the challenge and scrutiny provided can directly improve regulatory outcomes.

How CBA supports transparency

Transparency is central to how CBA supports effective scrutiny of FCA policymaking. We normally publish our CBA alongside the consultation, so that stakeholders can challenge our evidence, assumptions and estimates and provide further information before we make final rules. We also explain in our policy statements whether the original CBA still stands or how it has changed. If final rules differ significantly from those on which we consulted, we publish a further CBA unless an exemption applies.

Parliament has an important role in this process. Where a Committee of either House makes a representation on a consultation or its CBA, we consider that representation carefully and respond in writing. We also explain in the policy statement how we took the representation into account.

Continuing to improve our approach

Our approach does not end when rules are made. We also use ex post reviews to complement our ex-ante CBA analysis. In recent years, we have reviewed remedies on contingent charging, and general insurance pricing practices. We have also increasingly embedded review and evaluation into the policy cycle through monitoring, evidence assessments, post-implementation reviews (PIRs) and formal ex post evaluations. This helps us assess whether interventions are achieving their intended outcomes and informs future policy development.

We continue to strengthen our approach in response to evidence and independent challenge. This includes acting on the Panel's feedback by increasing early engagement and commissioning an external review of discount rates and appraisal periods. We have also published background market analysis to support our work on cryptoassets, improving transparency and supporting stakeholder scrutiny.

We also recognise the importance of this issue and are considering the Panel's recommendations and proportionate ways to improve our understanding of cumulative impacts.

Each CBA assesses the expected impact of the particular rules we propose. We also publish the aggregate annual equivalent net direct cost to business of measures in policy statements published during the year. This provides transparency about the net direct impact of those measures on business, but does not estimate the impact of the entire stock of regulation or interactions between requirements.

A comprehensive assessment would require extensive, regularly updated evidence from firms and involve difficult questions about attribution and overlapping requirements. Gathering that information could itself impose a significant burden. Nevertheless, we are clear that our CBAs should, as much as possible, take account of the existing regulatory landscape, to ensure that they capture regulatory impacts adequately. We continue to consider the

Panel's latest recommendations and how our framework can continue to evolve while remaining proportionate and practical to apply.

Yours sincerely,

Nikhil Rathi

Nikhil Rathi
Chief Executive