

## A Framework for Impact Analysis

### Analysis and Evaluation in Regulation

The need for regulators to assess positive impacts and benefits associated with regulatory proposals against adverse impacts or costs is not a new or unreasonable expectation.

Regulators need to identify the factors that should be taken into account when formulating a particular policy or course of action and demonstrate how those factors have been taken into account. An open and transparent approach to policy-making helps the regulator to achieve and demonstrate greater accountability and corporate governance.

Impact analyses and policy evaluations provide an invaluable opportunity for regulators to display and improve their awareness and understanding of issues affecting regulated industries. This makes it easier for the regulator to formulate and implement regulatory policies, which deal consistently with these factors across the various regulated sectors.

### A Framework for the Financial Supervision Commission

The Financial Supervision Commission (“the Commission”) has put in place **an adaptive framework** for impact analysis to assist with the formulation of regulatory policies. This underpins informed appraisal by the Commission of impacts and opportunities arising from regulatory proposals and forms the basis of discussions of regulatory proposals in the Council of Ministers and Tynwald.

When developing policies, the Commission has to be mindful of a wide range of issues, such as international or market developments and standards, reputational issues and threats or opportunities posed to local businesses. The analytical framework is a useful tool for ensuring that all relevant factors are explored when making suggestions for policy change and deciding how any policy should be implemented.

The approach also creates more opportunities for the Commission to consider and explore impacts, costs and benefits, in partnership with the industry, as an integral part of future regulatory developments.

Whilst the approach aims to encourage consistency across all areas of policy thinking and development, the framework is **not** designed to replace ongoing policies and practice. The Commission considers it important to remain flexible and pragmatic when considering policy options and the extent to which impact analysis is required will always vary. Assessments need to be meaningful, proportionate and realistic. Accordingly, the cost and extent of any analysis required or carried out is always a factor to be considered at the onset.

## The Flexible Approach

No single analytical tool or methodology is used. The framework encourages the use of a variety of approaches, including cost benefit analyses, risk assessments, cost effective tests and impact assessments at different stages and levels of policy development, depending on the nature and depth of analysis required.

In view of this, the framework acts as a **guide** and **aide memoire** to help the Commission to record the various considerations and to map the various stages of policy development. It has also been designed to widen the scope for analysis and evaluation of different policy options at an early stage and to ensure that as many factors as possible are taken into account in that process.

The flexible process also presents an opportunity to evaluate, revisit and adapt the scope of analysis whilst or after implementation of a policy to ensure that the actual impacts (as opposed to the potential/expected impacts) are taken into account.

Finally, the framework aims to ensure that the Commission is transparent about the way in which it evaluates policy changes generally and the potential impacts considered in relation to specific initiatives.

## The Aide Memoire and Flow Chart

The attached Aide Memoire and Flowchart, together, outline the framework adopted by the Commission.

The [Flow Chart](#) maps out the process of analysis and the various levels of assessment. The [Aide Memoire](#), on the other hand, offers more detail and guidance on the various considerations applicable to each stage, determines the different levels of analysis and explains the types of impacts and factors taken into account when regulatory policies are considered.

# Assessing Impacts

## Summary Chart to assist with Policy Development and Consultations

### STAGE 1 - PRELIMINARY CONSIDERATION

Consider the issue at stake



IDENTIFY THE DRIVER/S



Consider the position in other jurisdictions

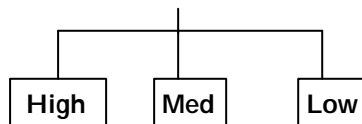


Involve/ flag issue with other departments/ parties etc. as necessary



### STAGE 2 - INITIAL ASSESSMENT OF THE ISSUE

Rate/estimate overall **gravity/urgency** etc. of the issue/s involved.



Establish and outline fundamental **objectives**



**Identify** any obvious and significant adverse impacts to **cancel out** any clearly non - viable options



### Stage 3 – IMPACT ANALYSIS

#### A: HIGH LEVEL ANALYSIS

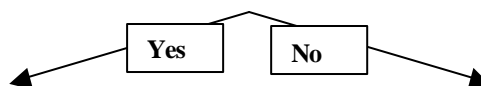
**ANALYSE THE IMPACTS RELATING TO EACH OPTION** *(if there is more than one option / proposal at this stage, consider each one separately):*



Identify a preferred course of action



Are the impacts likely to be significant? (Consult if necessary)



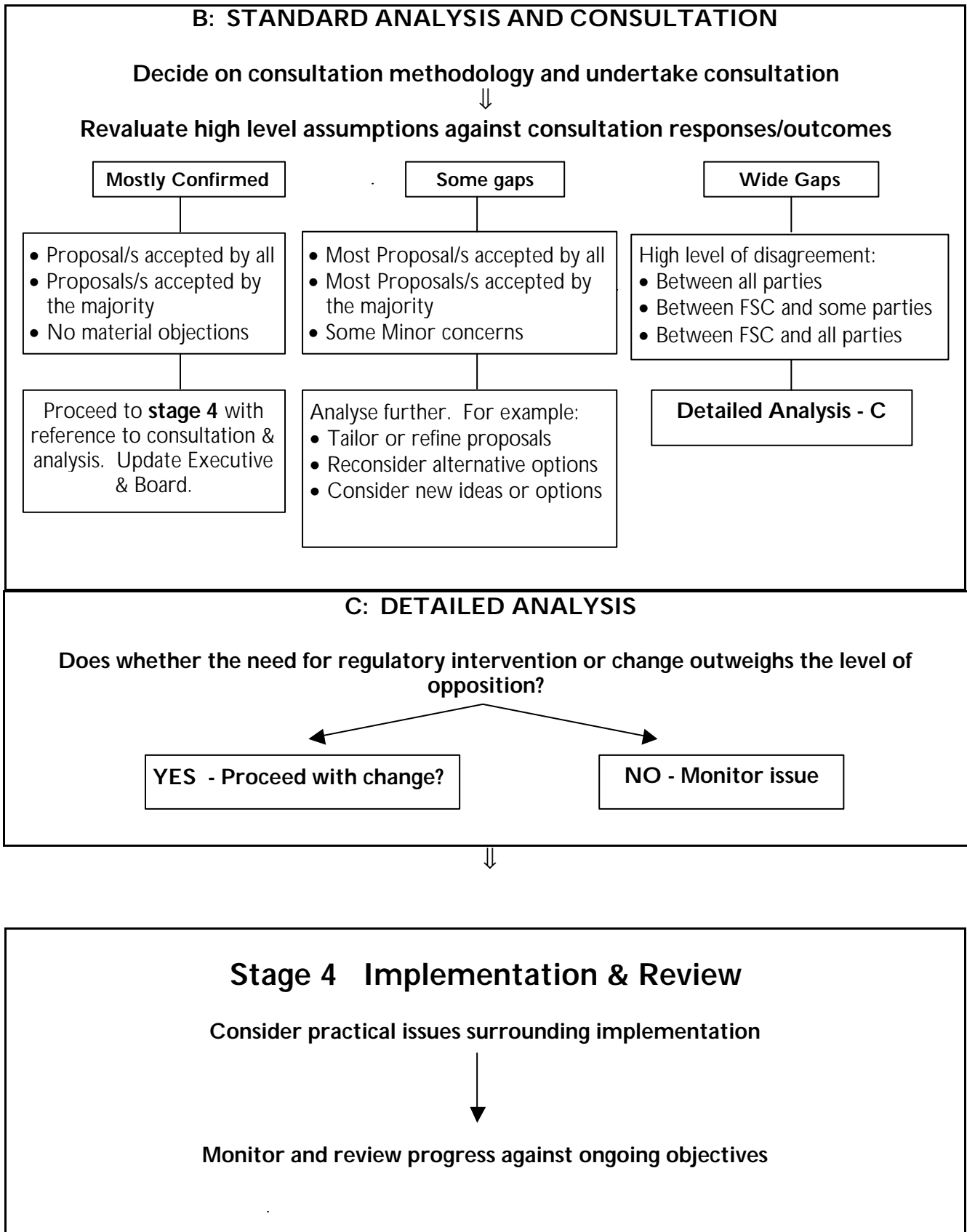
Move to Standard Analysis (B)

Progress to stage 4, via Executive & Board

Continued overleaf

## Assessing Impacts

### Summary Chart to assist with Policy Development and Consultations



**IMPACT ASSESSMENT**  
**AIDE MEMOIRE FOR INTRODUCING OR CHANGING POLICY**  
*(NOTES COMPLEMENT FLOW CHART)*

THIS IS A GUIDE - NOT A CHECKLIST

THERE MAY BE SECTIONS THAT ARE NOT RELEVANT TO SOME ANALYSES

**Stage 1**

**Preliminary Considerations**

**Consider the Issue at stake:**

- Is a change of policy required?
- Are there any feasible alternatives to having / changing a regulatory policy?
- Do we need to involve others / flag issues to others?
- What are the views of the Executive & Board on this issue.

**What are the drivers?:** For example:

- Meeting international standards?
- Responding to developments / innovation / events elsewhere?
- Being innovative?
- Housekeeping existing principles?
- Encouraging / supporting innovation within Industry?

**Consider the position in other jurisdictions.**

**Touch base, as necessary, with other Govt. Depts.** Identify, at an early stage, any opportunities that might be created – whether this be to facilitate innovation or encourage commercial development.

**Stage 2**

**Initial Assessment – Gravity / Urgency / Importance of the Issue**

- **Conduct a high-level consideration** of the gravity/urgency/importance of the issue/s. *(This can be based upon any knowledge or assumptions of the risks and issues and impacts.)*
  - **Establish where the issue fits in terms of the Commission's current priorities**
- Categorise** - For example: High/ Medium/Low - Importance / Urgency / Sensitivity

**Outline fundamental objectives of the policy.**

**Identify any obvious and unwanted adverse impacts** that might be associated with the different approaches available to address the issue in order to cancel out any **clearly non-viable** options. *(Based on the initial understanding of the various options that might be available to manage the issue / problem – including the option of doing nothing.)*

**IMPACT ASSESSMENT**  
**AIDE MEMOIRE FOR INTRODUCING OR CHANGING POLICY**  
(NOTES COMPLEMENT FLOW CHART)

**Stage 3**

**Conducting the Impact Analysis**

**A: High Level Analysis**

**Analyse each viable option or proposal**

(in the case of larger projects, there may be **a number of options** applicable to **separate issues** to be considered within the scope of the overall project).

**What are the expected adverse or positive impacts? For example:**

- Any costs or benefits (*quantitative or qualitative*) that could flow from the proposals (Consider the impact on all parties, including the Commission and other regulatory/Govt bodies or divisions/consumers/licenceholders/IOM PLC – e.g. IOM Finance, Treasury, DTI, Customs, Income Tax.....).
- Include possible unintended consequences.
- Include any effects on existing frameworks and requirements.
- Include any effects on the local market – e.g. on competition, quality of service or product on offer.
- Include an outlook on the effect regulation might have on opportunities for future commercial development.

**Identify a preferred course of action**

If it is considered that the impacts are not likely to be significant and there is no necessity to consult, it may be possible, at this stage, to issue proposal/s to the Executive and the Board, as appropriate, on this basis.

**Is further analysis required?**

Consider the scope and depth of analysis required, based upon such things as:

- the number of options to consider.
- the gravity, sensitivity or urgency of the problem.
- the objectives or adverse risks that need to be addressed /avoided.
- who could be affected and to what extent.
- the likely costs of the analysis itself (in terms of resource and delays, for example).
- any expert input that might be required at any stage (foreseeable).
- whether there is a **statutory requirement** to consult - **consultation mandatory**.

**If further analysis is required, move to Level B overleaf. If not, proceed to Stage 4.**

**IMPACT ASSESSMENT**  
**AIDE MEMOIRE FOR INTRODUCING OR CHANGING POLICY**  
*(NOTES COMPLEMENT FLOW CHART)*

**B: Standard analysis and Consultation**

**Purpose of Consultation**

Consult with all affected parties after having consulted the Executive and the Board to:

- Validate any assumptions we have made.
- Obtain more information to evaluate the costs, benefits and impacts further.
- Communicate the considerations and assumptions to interested and affected parties to invite feedback.

**Consultation Methodology**

What is the most appropriate and effective method(s) to consult? Consider the number of people affected, the sensitivity, urgency and scale of the proposal/s, the amount information required to assist the process of assessment:

- Formal consultation paper inviting written focussed reply.
- Informal but focussed communications or meetings.
- Formal forums for general discussion of issues.
- Questionnaires to gauge reaction or opinion – at onset or mid-consultation.
- An appropriate degree of empirical research (by staff or external providers).

**Re-evaluate the high-level analysis**

Once the feedback has been received or the data obtained, **re-evaluate the high-level analysis** and any assumptions we had made about the various options and the proposal/s consulted upon.

**What is the level of consensus?**

**Mostly Confirmed** - Where all parties more or less agree on the proposal/s, the rationale behind them and the detail, it may be possible to proceed on that basis.

**Some gaps** - Where there rationale for the proposal/s is generally accepted but there are differing views as regards the finer detail, **further consideration may be necessary**. This might take the form of:

- Tailoring or refining the fundamental proposals in partnership with affected parties.
- Considering whether features of the alternative proposals, previously considered might now be feasible.
- Co-operating with all affected parties to formulate new ideas or proposal on the finer detail.

**Wide gaps** - If an acceptable level of consensus has not been reached, it will be necessary to continue and deepen the analysis.

**IMPACT ASSESSMENT**  
**AIDE MEMOIRE FOR INTRODUCING OR CHANGING POLICY**  
*(NOTES COMPLEMENT FLOW CHART)*

***C: In depth analysis to prove the need for regulatory policy or change***

**Re-assess feasibility**

**NOTE:** Before deciding to embark on a detailed analysis, bear the following in mind:

- the need for Tynwald approval.
- the availability of resources within the Commission.
- the difficulties in obtaining and validating data relating impacts upon consumers or wider groups (which in many cases will not be local but global).
- the lack of control the FSC has over the impact of global developments upon the Island's finance sectors.
- the lack of availability of relevant, current and accurate economic data within the finance sector on various impacts.
- the realities of public sector resource allocation in a small Island.

**Detailed analysis**

Where the risks and objectives, identified in the initial stages, are still considered to be crucial, further analysis may be required to prove the need for the proposal/s to be progressed, despite the level of opposition.

In these circumstances, it would be necessary to conduct further in depth research and analysis to validate all views and objections to determine whether or not the actual risks underpinning the need for regulatory intervention are, in fact, serious enough to justify progressing the policy proposals, where appropriate and necessary, via the Legislature.

**This may involve:**

- A detailed qualitative and quantitative assessment and comparison of the costs and benefits associated with the various impacts that were identified or disputed.

*(this may involve those opposing the regulatory policy/intervention in collating and analysing data)*

- Expert **research/ validation** on the views of the regulator or the parties affected may be necessary – for example an expert legal, economic or accounting opinion.

**A conclusion should be drawn from this as to whether the costs or adverse impacts, both in the shorter and longer term, outweigh the positive impacts or benefits in economic or practical terms.**

**IMPACT ASSESSMENT**  
**AIDE MEMOIRE FOR INTRODUCING OR CHANGING POLICY**  
(NOTES COMPLEMENT FLOW CHART)

**Stage 4**

**Implementation and Review**

**Implementation**

It will be necessary to revisit and draw upon the risk assessments and impact analyses when thinking about how the policy or measure will be implemented. With these in mind, the most cost-effective way to put the policy into practice will need to be identified, *where there is scope for choice*.

This stage might require the following (or similar):

- Consider existing frameworks, processes, agendas or restrictions.
- Identify and suggest any new supervisory tools.
- Consider the more practical resource implications for the Commission (following on from the initial high-level analysis).
- Consider other internal or external events or developments surrounding implementation.

**Monitoring progress and review**

Some time after the measure has been implemented; it would be useful to revisit the analyses and assessments with a view to such things as:

- Assessing whether the perceived impacts have been realised.
- Clarifying or complementing the measure with written guidance or focussed seminars.
- Taking account of unforeseen impacts and ensuring these are managed.
- Referring to or taking guidance from the original considerations of impact for future policy development in the same area or other areas.
- Evaluating ongoing cost effectiveness.
- Keeping abreast of the risks identified and to assess and manage new risks in view of the original assessments.
- Reviewing how much it cost the Commission v. expected costs.
- Noting 'lessons' for future projects.

The timing of this will depend on the nature and scale of the regulatory measure and the sensitivity of the issues that had been identified pre-implementation. It may be dictated by further developments or problems associated with regulation of a particular activity or sector or indeed by the need to extend the regulation to other activities.

In the absence of these factors, however, a suggestion would be to review progress six to twelve months after the effective date.