

The following Compliance articles are for the week ending 13 February 2009.

FSA – Financial Risk Outlook

On 9 February, the FSA published their Financial Risk Outlook (FRO) outlining the main risks facing firms, consumers and the regulatory system in the economic downturn, in particular the challenges created by banking sector and real economy deleveraging.

These challenges include banks adjusting their business models to operate successfully in difficult conditions in financial markets and in the real economy. This year's FRO is divided into three sections:

1. **Financial and economic crisis** sets out an integrated view of the macroeconomic, financial and regulatory developments which lie behind the crisis. It outlines issues relating to the regulation of banks and bank-like institutions, which will be covered by the Turner Review and an FSA discussion paper due to be published in March
2. **Economic outlook** describes a central economic scenario drawn from various forecasts, focusing in particular on how deleveraging is likely to affect firms, markets, consumers and the FSA. Three alternative scenarios explore the ways in which the economy and financial sector could plausibly evolve over the medium and long term to highlight the substantial uncertainties that face both firms and consumers
3. **Outlook for financial sectors and consumers** identifies the risks and implications of the financial and economic environment for firms, market participants and consumers

By publishing this document, the FSA seeks to raise awareness of the key issues facing it and the regulated industry and to place the actions and decisions the FSA makes in context. The FRO's conclusions are a key element in the FSA's priority-setting arrangements, which will be set out in its Business Plan due to be published on 12 February 2009.

Source: [FSA Website](#)

FSA – Outcome of Consultation on Rights Issue Review

On 10 February, the FSA published the outcome of consultation to implement one specific recommendation of the Rights Issue Review Group (RIRG). RIRG's report to the Chancellor of the Exchequer was published on 24 November 2008, recommending changes to UK company law, market practices and to the FSA's regulatory requirements.

The one specific recommendation was the proposal for reducing the Listing Rules' requirement for the minimum duration of rights issue subscription periods. There are two ways in which companies can undertake rights issues. The share offer can be made under the requirements of the Companies Acts; and this is sometimes called a 'statutory rights issue'. Alternatively, if the company's shareholders have dis-applied statutory pre-emption rights, it can conduct what is termed a 'non-statutory rights issue'. Most rights issues by listed companies in practice are undertaken on the non-statutory basis because it confers certain practical flexibilities over the statutory rights issue.

The FSA consulted on whether the requirement in the Listing Rules for a 21 day minimum rights issue subscription period should be reduced to a minimum of either 14 calendar days or ten business days. This would allow shorter subscription periods for non-statutory rights issues.

After taking into account all the comments the FSA received, the FSA have decided to reduce the Listing Rules' minimum rights issue subscription period to ten business days. This is a minimum duration and issuers and their advisers are free to conduct their rights issues over a longer period as they see fit. The rule changes will come into effect on 10 February 2009.

The FSA will consult at a later date on two other issues coming out of the RIRG report: compensatory open offers; and a small change to document vetting fees in relation to equity shelf registration.

Source: [FSA Website](#)

FSA – Regulatory Fees and Levies

Each year the FSA consult on:

- Proposed policy changes to the fee and levy regimes
- Annual Funding Requirement (AFR) and its allocation between fee-blocks
- Fee rates for the forthcoming financial year
- Financial Services Compensation Scheme (FSCS) management expenses levy limit
- Financial Ombudsman Service (FOS) general levy for the forthcoming financial year

The FSA split the annual consultation into two phases. In October they consult on any proposed changes to the underlying policy for FSA fees or FOS and FSCS levies.

In October 2008 they published CP 08/18 and this February they consulted on other proposed changes. Publication of this paper coincides with the FSA publishing their Business Plan, and the FSCS and FOS publishing their budgets for 2009/10.

Fee-payers will be invoiced from March 2009 for on-account payments and other firms will be invoiced from June onwards, on the basis of the new fees, levies and policy changes.

Source: [FSA Website](#)

FSA – 2009/2010 Business Plan

On 12 February the FSA published its Business Plan for 2009/10. The plan sets out the FSA's programme of work for the year ahead to address the risks highlighted by the Financial Risk Outlook, published on 9 February. The Business Plan outlines the FSA's priorities and specific initiatives for the year ahead, which reflect the continuing difficulties and challenges facing the financial services industry.

It is acknowledged that this will be a very difficult year for financial markets and their users. Accordingly, the FSA will focus on ensuring firms are soundly run and in particular that they adjust their business models to ensure they can remain well capitalised and securely funded.

In carrying out its consumer mandate, the FSA will concentrate its resources on helping people cope with the economic downturn and maintaining pressure on firms to treat customers fairly.

As well as addressing these current risks, the FSA will play a full role in modernising the global regulatory framework. This will involve taking forward the agenda that will be laid out in an FSA Discussion Paper in March (presumably the Turner report, due to be published on 18 March). Finally, and crucially, the FSA will complete the planned programme of improvements to its supervisory processes.

Hector Sants, Chief Executive of the FSA, said: "The financial services industry is facing unprecedented challenges, which look set to continue in 2009. The FSA has a central part to play in addressing these challenges and providing leadership on the future shape of regulation. We will be focused on ensuring firms are soundly run in these difficult times and consumers are protected. We will need additional financial resources to meet these demanding priorities for the coming year. This will mean higher fees for regulated firms, although we have been careful to ensure, as far as possible, that firms requiring the most regulatory work and engagement pay proportionately. There will be no increase in fees for the smallest firms, and many of them will actually experience a fee reduction."

The FSA's budget of £415m for 2009/10 reflects the cost of taking these priorities forward. To fund its proposed plan of work, the FSA will need to increase the amount it raises from firms (the Annual Funding Requirement) by £117m. The largest component of this increase, approximately £70m, is due to the cost of embedding and delivering higher quality supervision, especially of higher impact firms. To support the enhancement of its supervisory process, the FSA will also be investing an additional £12m in technology and property infrastructure.

However, as in previous years, proposed fees reflect the amount of resource that the FSA plans to dedicate to different types of firms in the coming year – whereas the largest firms in areas needing most regulatory attention and supervisory activity will be subject to higher fees, over 10,000 small firms will pay lower fees than last year.

Source: [FSA Website](#)

ABI – Corporate Governance in UK Banking

Responding on 9 February to the launch of a review, to be chaired by Sir David Walker, to improve corporate governance of UK banks, Peter Montagnon, the ABI's Director of Investment Affairs, said: "This Review seems to be a sensible way forward, as it does not just focus on remuneration, but looks at the wider issues. The ABI is already examining how institutional shareholders can be more effective. It helps that the terms of reference put all the issues, including remuneration, in their proper context."

Source: [ABI Website](#)

ABI – Future of European Financial Services

The ABI (Association of British Insurers) has launched a three-stage plan to help restore confidence and trust in European financial services. A report outlining the ABI's priorities for Europe, published on 12 February, also highlights key principles for a global recovery.

The launch came as the ABI Board met in Brussels, and had discussions with senior European officials and MEPs.

The UK insurance industry is the largest in Europe, total European insurers generate premium income of €1,110bn, employ over one million people and invest more than €7,200bn in the European economy.

The report, "The Insurance Industry: Rebuilding Confidence in Europe", proposes three steps to help build trust in European capital markets:

1. Short term: Better use of the information exchange offered by Colleges of supervisors
2. Medium term: More resources for Level Three committees, which bring together European regulators in specific financial sectors
3. Long term: A debate over the feasibility of a single prudential supervisor, to overcome the current lack of trust between European regulators

The report also includes principles to underpin any new legislation or proposed solutions to reform financial supervision. These include:

- The need for better, targeted regulation rather than simply adding to existing rules
- The importance of consumer needs, which should be fundamental to any proposed changes
- Risk and principles-based regulation (as opposed to "light-touch" regulation) is key
- The need for a global response and the dangers of protectionism

Source: [ABI Website](#)

CML – Mortgage Landscape Re-shaped in 2008

New data from the Council of Mortgage Lenders (CML) published on 12 February graphically illustrates the sharp decline in mortgage lending activity over the past year. There were 516,000 house purchase loans in 2008, a decline of 49% from 2007 and the lowest level of activity since 1974. There were 32,000 house purchase loans in December, a decline of 5% from November and the lowest level since monthly records began in 2002.

Source: [CML Website](#)

The update has been checked for regulatory accuracy but it is not intended to provide a basis of knowledge upon which advice can be given. Views expressed by contributors are not necessarily those of CGAS and we accept no responsibility for any loss occasioned to any person acting or refraining from action as a result of the material included in this email.

George Bylett

Corporate Governance Assurance Services Ltd

www.cgas.co.uk