

The following Compliance articles are for the week ending 12 June 2009.

COMMENTARY

THE INDUSTRY AWAITS THE CONSULTATIVE PAPER ON RDR

Thursday 25 June, many of us will have pencilled in the target publication date for the much awaited Consultative Paper on the Retail Distribution Review (RDR). Yet have you started to think of what this means for your firm?

Many firms just skim through these papers and rely on industry comment as a basis on which to form their views. However, in this case it's not enough and a degree of pro-activity is required and required now.

Various industry sources have predicted the percentage by which the level of Financial Advisers will reduce as a result of the RDR varies from 30 – 40%. But which 40% will it be in your firm and are you in control of who stays and who goes – and if you aren't, shouldn't you be? The key is to establish who you want to retain and how you can guide and develop them through to successful completion of the Level 4 qualification.

LORD TURNER ADDRESSES ABI CONFERENCE

On 9 June, Lord Turner, Chairman of the FSA, addressed the Annual ABI Conference in London.

After stating that it was welcome to address a sector of the industry that, unlike banking, had not been responsible for ruining his chances of a restful weekend, Lord Turner stated that there was no need to a regulatory revolution in the insurance sector.

This was due to two causes:

1. The insurance sector had undergone significant change in 2004 when major changes had occurred to the capital regime of insurance companies. These changes helped to put companies in a stronger position even in the current economic climate
2. Insurance companies are not banks and the way in which risks crystallise and their timescales differ widely

But while there was no need for a revolution, four significant changes would be needed.

These changes were:

1. Due to the increased public focus on the overall effectiveness with which the financial services industry serves the real economy and consumers:
 - The nature of that concern has shifted over the last few years from retail financial services to banking and from conduct of business issues to concerns about financial stability
 - In the ten years before the crisis broke in 2007, most of the pressure on the FSA related to whether they were sufficiently focused on consumer issues in the retail distribution of financial services such as whether they were dealing effectively with the mis-selling of particular products

- But popular concerns about the financial services industry are not now going to be entirely focused on the investment banking activities and prudential concerns which have dominated the last year
 - The FSA has a big job to do in reassuring people that they have a grip on all the issues involved. Having been criticised for focusing in the past too much on conduct and consumer protection to the exclusion of prudential soundness, the FSA needs to make sure they don't end up in five years' time, being criticised for the inverse fault
2. In response to loss of confidence, more intensive supervisory approaches are unavoidable. The recent problems may have been primarily in the banking industry and that is where the most significant changes are needed, but in an era of heightened public expectations that the FSA will identify and prevent major problems from recurring, the FSA needs to reinforce their capability across all high impact firms and respond to people's expectations that FSA will be more forceful in pursuing enforcement against reckless or abusive practices which cause customers harm. "There can be no return to light touch regulation and supervision, to supervision on the cheap. That era is over."
 3. Increased focus on the role of institutional investors, including insurance companies and pensions funds, in corporate governance:
 - It was the banking system which blew up: but it was the institutional investors, some of whom are ABI members, who owned much of the banking system
 - There are major issues about whether in addition to applying greater regulatory oversight FSA can increase the effectiveness with which institutional investors exercise their ownership rights and responsibilities
 - The outcome of the Walker Review on corporate governance will have implications for the banks, the FSA and for institutional investors
 4. The crisis has provoked major and important debates about the future structure of regulatory responsibility, the future division of responsibilities, in the UK and across Europe.

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Lord Turner concluded by stating: "I started by referring to the banking crisis, but also by recognising that insurance is different, and I will end on that point. We need to recognise that the sheer scale of the financial crisis will create demands for the FSA to be more vigilant and at times more intrusive than before across all sectors; and that there will be changes in European and international approaches which will affect all sectors; and we need in macro prudential analysis to understand the complex and changing inter-linkages between all the different sectors of the financial industry.

But we also need to recognise the important differences between different sectors, with revolution in those sectors where it is needed, more gradual change and adjustment where revolution is not required. The FSA will strive to get that balance right."

Source: FSA Website

BORROWERS SWITCH BACK TO FIXED RATES

On 11 June the Council of Mortgage Lenders (CML) announced that take up of fixed-rate products increased further as the interest rate cycle has now reached its floor. In April, 69% of borrowers took out fixed rate mortgages with an average rate of 4.83%, the highest share since June 2008.

There was a modest improvement in the number of loans for house purchase. However, activity is still very low by historical standards with 35,600 house purchase loans in April, compared to an average of 88,000 loans in April over the last seven years.

The number of loans for re-mortgage continued to decline as low reversion rates and stricter credit criteria for the best deals make refinancing less attractive. There were 31,000 re-mortgage loans in April, 22% down on March and 65% down on April last year. Gross mortgage lending in April was £10.5 billion, down from £11.5 billion in March.

There were 22,100 loans to home movers worth £3.1 billion, compared with 30,600 loans worth £5 billion in April last year. Lending criteria continued to edge down with a typical home mover putting down a 33% deposit and borrowing 2.63 times their income, compared with 30% and 2.69 times in March.

There were 13,500 loans to first-time buyers worth £1.4 billion, compared with 18,800 loans worth £2.4 billion in April 2008. The average first-time buyer had a 25% deposit (unchanged since February) and borrowed 2.96 times their income (2.99 in March).

The slowing rate of decline in these measures and the recent introduction of a number of higher loan-to-value products may indicate an easing in criteria in coming month's advances.

The cost of servicing new mortgages fell again in April, with first-time buyers typically committing 15% of income to pay their mortgage interest, the lowest proportion since May 2004. Home movers typically spent 11.3% of income on mortgage interest payments, the lowest proportion since November 2003.

CML head of research, Bob Pannell said: "With the interest rate cycle now at its floor, an increasing proportion of borrowers are taking out fixed rates, including for longer term periods of 5-10 years. With expectations for rates to remain low in the near future, shorter term fixed-rate deals are less appealing than attractively priced variable rate deals. There are tentative signs of house purchase lending stabilizing, but we need to see considerably higher transaction levels to underpin house prices."

Source: CML Website

Dates and Deadlines

30 June	EC VAT Date
	Intrastat
	UK VAT Date
	VAT Date
	VAT Return Date
	CT61 Date
	Company Accounts Filing Date
	Corporation Tax Return Date

1 July Corporation Tax Payment
2009 Budget announcement
Lloyd's Members and Corporation Tax

5 July Non-Residential Landlords Date
PAYE Payment

Source: www.horsfield-smith.co.uk

George Bylett
Corporate Governance Assurance Services Ltd
www.cgas.co.uk

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