

The following Compliance articles are for the week ending 3 July 2009.

COMMENTARY

FSA RESTRUCTURES TO FACE NEW CHALLENGES

On 2 July, FSA announced the final stage of operational reforms with a new integrated operating structure designed to better align its internal operating model to its core activities of identifying and mitigating risk, supervision and enforcement.

The reorganisation also takes account of the changing role of the FSA in respect of international regulatory engagement, macro-prudential analysis and consumer financial education.

The changes will take effect from 1 October and will conclude the significant internal reforms the FSA has undertaken during the last two years, incorporating the lessons learned from the banking crisis, the Northern Rock internal review and the priorities outlined in the Turner Review.

Hector Sants, FSA chief executive, said: "This new structure completes the radical internal reforms that I initiated when I became CEO in July 2007. The new structure will underpin the radical changes we have made to our supervisory processes through the Supervisory Enhancement Programme (SEP). SEP was designed to deliver a significant increase in our supervisory resource and changes to the way we work, in particular for 'high impact' or systemically important firms. The programme is on track and will be completed by the end of this year."

The six specific benefits resulting from the organisation changes are:

1. Integration of retail and wholesale firm supervision into one Supervision business unit under managing director, Jon Pain, which will ensure long term consistency and flexibility to the implementation of the FSA's supervisory philosophy
2. Integration of risk identification, risk management and policy formulation into one Risk business unit under managing director, Sally Dewar. Grouping all the FSA's technical specialists in one group will ensure, at all times, the required focus on conduct and prudential risk
3. Expansion of the existing Financial Stability team to become a new, enhanced division under director David Strachan, focusing on macro-prudential issues and providing the central link for the FSA with the wider macro-prudential framework
4. Creation of a new International division, under director Verena Ross, which will enable the FSA to significantly increase our engagement with international for a
5. Integration of Enforcement and Financial Crime to form one division under director Margaret Cole, which will enable the FSA to better extract the synergies in this important area, to enhance delivery of its credible deterrence strategy
6. Financial Capability division will move from the existing Retail business unit to become a standalone division, under director Chris Pond and will report directly to Hector Sants. This will put the FSA in a better position to take forward the national roll-out of the Money Guidance service, as announced in the 2009 Budget

Hector Sants continued: "These changes will provide greater clarity, both internally and externally, as to the way we work and, in particular, reinforce our role as micro-prudential supervisor based on a model of integrated risk analysis and integrated supervision. I believe the actions we have taken since the crisis began have shown the effectiveness of this model. This reorganisation will ensure our changing working practices and the way we make our judgments are successfully institutionalised."

[Source: FSA Website](#)

FSA SPEECH ON MORTGAGE MARKET AND SECURED LENDING

On 1 July, Jon Pain addressed the Association of Finance Brokers on the subject of the Mortgage Market Review and regulation of secured lending.

He said: "Rapid growth of mortgage credit drove a house-price boom that turned to bust. New sources of funding were created that rapidly dried up when confidence disappeared. And confidence was undermined by lending to un-creditworthy customers, with a build-up of riskier practices, such as sub-prime lending, self-certified mortgages and new segments of the mortgage market, such as buy-to-let.

Our comprehensive Mortgage Market Review will look at the whole market, from lenders through to consumers' perspectives. We will take the time to fully understand what worked well for consumers and what didn't, and explore all of the available options for putting things right – setting out our views and proposals in a Discussion Paper to be published in the autumn.

The aims of our review are to have a mortgage market that is sustainable for all participants (consumers, intermediaries, lenders and investors) and to have a flexible market that works for consumers. As part of the review we will look at a number of issues:

- Responsible lending and funding issues
- Distribution and advice
- Extending the approved persons' regime
- Excessive charging and price regulation
- Disclosure and changing consumer behaviour
- Arrears and repossessions

As part of the review, we will consider whether FSA regulation should be extended to cover second charges. Because ensuring consumers are suitability protected – not over leveraged – might be better achieved if we had mortgage regulation covering first and second-charge mortgages on a consumer's home."

[Source: FSA Website](#)

REGULATING SALE AND RENT BACK SCHEMES GOES LIVE

The FSA interim regime for regulating sale and rent back schemes came into force on 1 July.

Firms that intend to carry on sake and rent back (SRB) activities from 1 July must apply for interim permission.

Firms must not undertake SRB activities without permission and the FSA have announced that they will closely monitor the market and take action where they find firms operating without permission.

[Source: FSA Website](#)

CHAIRMAN SAYS RADICAL CHANGES IN REGULATION ESSENTIAL

Lord Turner, chairman of the FSA, addressed the annual British Bankers' Association conference on 30 June and said that excellent supervision is a necessary but not sufficient condition for financial stability, warning that unless rules are changed radically, future crises will not be avoided.

He said that it is essential that we learn lessons and accept the need for radical change – change in the style of supervision, change in the regulations applied to banks, and changes in the banks themselves. He argued that strong capital and liquidity are central to the reform of banking regulation going forward.

Lord Turner said: "One clear need is to get better at identifying emerging systemic risks – and to create tools which can act against these risks at the macro level. But it is essential to recognise that however much we improve our ability to see bumps in the road ahead, that ability will remain highly imperfect. So the more fundamental change is to create a financial system with more shock absorbers: and the shock absorbers of the banking system are capital and liquidity."

Lord Turner went on to identify three interconnected issues where the FSA's own thinking had progressed since the publication of the Turner Review or where there are a number of possible solutions for further consideration.

He argued that their resolution will be key to the design of the new capital and liquidity rules needed at a national, European and global level:

- How to deal with banks which are too-big-to-fail
- How to deal with cross-border banks
- Narrow banks and investment banking: whether it is possible to achieve a legal separation

In conclusion, Lord Turner said: "The new, more intensive approach to supervision and the new regulations which we can and will impose can guard, to a significant extent, against the dangers of financial instability. But it is up to the banking industry itself to restore an appreciation of the positive role which banking can and must play and to create a culture focused on delivering necessary services to customers."

Source: FSA Website

LORD TURNER APPOINTED CHAIRMAN OF FSB STANDING COMMITTEE

The FSA chairman, Adair Turner, has been appointed chairman of the Financial Stability Board's Standing Committee for Supervisory and Regulatory Co-operation.

The Financial Stability Board (FSB) was re-established in April 2009 as the successor to the Financial Stability Forum (FSF). It brings together national authorities responsible for financial stability in significant international financial centres, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.

Lord Turner said: "The global nature of the financial crisis and the fact that so many banking groups operate across national borders make international co-operation a vital part of reforming regulation. We will work hard on this committee to define the regulations and supervisory approaches needed to address these global risks and identify priorities for regulatory policy needed to tackle them."

The Standing Committee for Supervisory and Regulatory Co-operation will address coordination issues that arise among supervisors and regulators.

It will also help with contingency planning for cross-border crisis management at major financial institutions and advise on crisis management issues more broadly.

[Source: FSA Website](#)

ABI REACTS TO DRAFT BILL

Responding to details of the draft Financial Services and Business Bill, Peter Vipond, the ABI's Director of Financial Regulation, said: "Enhancing the FSA's powers, so long as they are accountable, will be of real benefit especially the ability to act at short notice. It is equally important to make sure the powers are exercised in conjunction with those of the Bank of England. The promise to take action to retain the UK as a leading financial centre is a welcome pledge. This is a crucial juncture for the reputation of the UK and the expected future wave of regulation, if handled badly, could do the UK economy real harm. This pledge to retain competitiveness should also influence corporate and personal taxation and wider business policy."

[Source: ABI Website](#)

CONSUMER CONFIDENCE RISING

New ABI research shows consumer confidence is rising, but worries remain about pension's tax relief cuts. Consumer optimism about the economy is improving, according to the latest ABI Quarterly Savings and Protection survey.

The survey, of over 3,000 UK adults, was conducted in June 2009.

Dr Rebecca Driver, the ABI's Director of Research and Chief Economist, said: "Despite the downward revision to UK GDP growth for the first quarter of 2009, revealing the largest fall in 50 years, the good news is that, looking forward, the latest ABI survey shows signs of a marked improvement in consumer optimism.

36% of consumers now expect the economic outlook to improve, that's more than double the number last quarter, while those expecting further deterioration has roughly halved. This is underpinned by a reduction in uncertainty about job prospects and increased confidence in the housing market.

However, looking further ahead, there are signs that the imbalance between debt and savings is likely to be exacerbated. Only 20% of people expect to pay off their mortgage debt more quickly, compared to 25% in the previous quarter.

The cut in tax relief on pension contributions in the recent Budget has also made things worse, by increasing uncertainty and reducing confidence in the stability of the UK's pension system. Worryingly, less than 10% know that the cut only applies to those on incomes of over £150,000 and nearly one-third expect pension tax relief to be reduced for those on lower incomes in the future. That is why we have called on all political parties to guarantee no further erosion of the important principle of tax relief on pension contributions, this is vital to improve confidence in UK long-term savings."

[Source: ABI Website](#)

166% INCREASE IN COST OF TRADE CREDIT CLAIMS

Latest ABI figures show that trade credit insurance remains a vital lifeline to businesses that are hit by the effects of the recession. In Quarter 1, 2009:

- The total number of claims was 9,213, an increase of 48% from 6,225 in Q1 2008
- The total value of claims was £316m, an increase of 166% from £119m in Q1 2008

Nick Starling, the ABI's Director of General Insurance and Health, said: "The substantial increase in both the number of claims received by trade credit insurers and the cost of those claims shows that trade credit insurers are continuing to support businesses, especially small enterprises, through the recession.

Trade credit insurance claims are a good indicator of what is happening in the UK economy and how that is affecting UK businesses.

Clearly, the economic situation remains very tough, trade credit insurers will continue to support their customers through detailed risk assessments and paying claims when things do go wrong."

[Source: ABI Website](#)

CML RESPONDS TO CREDIT CONDITIONS SURVEY

Responding to the latest Credit Conditions Survey from the Bank of England, Council of Mortgage Lenders (CML) economist Paul Samter said: "The positive news is that there was a small increase in the availability of credit in the second quarter, and lenders expect this trend to continue in the next few months, with a modest expansion in access to mortgages at higher loan-to-value and loan-to-income ratios.

Unfortunately, not all lenders are in the same position. Some of the increase in capacity is due to commitments made by some large lenders signing up to the asset protection scheme.

There has been a significant loss of capacity across other parts of the industry, which is unlikely to return in the short term. While there are some encouraging signs, a rapid return to pre-credit crunch lending volumes and products remains extremely unlikely."

[Source: CML Website](#)

WALTER MERRICKS TO STEP DOWN

Walter Merricks, chief ombudsman at the Financial Ombudsman Service (FOS), announced today that he would be stepping down after ten years in the post which have seen him set up and run what has grown to become the world's largest ombudsman scheme.

Under his tenure as chief ombudsman, FOS has handled over five million consumer enquiries and resolved 750,000 disputes between consumers and financial businesses. Last year it dealt with a record 127,471 complaints, with an average staff complement of 865.

Announcing his plans to step down as chief ombudsman, Walter Merricks said: "It has been a privilege to lead this organisation and its excellent people but it is now time for me to move on. A strong independent service providing justice in the field of consumer financial disputes is needed now more than ever.

The ombudsman service has found a permanent place in the consumer-protection framework for financial services, and I am confident that the organisation will continue to be valued by financial firms and by consumers alike.

Our service is not just for consumers who find themselves in dispute. Research continues to show that more than half of UK consumers say the existence of the ombudsman gives them confidence in financial services."

[Source: FOS Website](#)

FOS NEWS 77 PUBLISHED

The essential reading for anyone involved in complaints has now been published with edition 77 of "Ombudsman News" hitting the streets on 1 July. Topics covered include:

- An article on consumer responsibilities by the Chief Ombudsman
- Financial disputes involving the internet
- Questions and Answers
- Recent complaints about Private Medical Insurance

Source: [FOS Website](#)

**Asset Management Conference - 17 September 2009****Outline**

The FSA's Annual Asset Management Conference is the key event at which firms, trade associations and the regulator discuss the major issues affecting the sector.

The 2009 Conference will focus exclusively on the draft Alternative Investment Fund Managers Directive published by the European Commission on 29 April 2009. The scope of the draft Directive currently extends beyond the hedge fund manager and private equity sectors to all non-harmonized (ie non-UCITS) funds sold in the European market.

Charlie McCreevy, Internal Market and Services Commission said: "It is essential that regulators have the information and tools necessary to conduct effective macro-prudential oversight. The crisis has also underscored the importance of robust risk and liquidity management systems and the need for reliable investor information as the basis for effective due diligence."

This full day conference will be chaired by Dan Waters Director of Retail Policy and Conduct Risk and Asset Management Sector Leader, FSA.

Who Should Attend?

We believe this subject will be of significant interest to all members of the asset management industry who will hear from key industry leaders on how the draft Directive is likely to change the regulatory landscape.

Registration is at 08.30 and conference close is scheduled for 17.10, followed by drinks and networking.

Format

The conference will run for a full day with presentations, panel sessions and opportunities for questions from delegates.

Location

The Brewery, Chiswell Street, London, EC1Y 4SD

To view programme and participating speakers to date and to book a place, please follow this link:-
http://www.fsa.gov.uk/pages/Doing/Events/pdf/asset_mgmt.pdf

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