



A round-up of policy events and news

Covering period June 2010

Vol. IV Issue 7

Top stories

Retail Distribution Review – Latest Consultation Paper: This FSA has published its latest Consultation Paper (CP10/14) on the RDR. The majority of the content was developed with significant input from the FSA's Professional Standards Advisory Group, of which the CII is a member. Final policy proposals outlined by the FSA in CP10/14 include:

- The FSA to carry out supervision and enforcement of the new professional standards;
- Firms to be required to ensure that all advisors under their employment hold a Statement of Professional Standing (SPS);
- Bodies wanting to issue SPSs will have to meet certain criteria to become an accredited body;
- Advisers will have to undertake 35 hours of CPD a year – 21 of which will have to be “structured learning”; and
- The final list of appropriate qualifications. Qualification gap filling will be necessary in most cases and this will need to be completed by December 2012.

The consultation will close on 24 September and the FSA will use responses to finalise its rules, which it will publish in a Policy Statement in December 2010. [Click here](#) for the consultation paper.

A short summary of the latest developments is available to members. [Click here](#)

Budget 2010: In his first Budget as Chancellor, George Osborne announced the Coalition Government's plans for cutting the country's budget deficit and encouraging economic growth. He announced that lower spending rather than higher taxes would be the cornerstone of his plan to improve public finances. Headline announcements included:

- The Chancellor will rely on lower spending rather than higher taxes to improve public finances (80:20 split).
- VAT will be increased to 20% from January 2011.
- Capital Gains Tax rates will increase to 28% for higher tax rate payers (immediately). Those on low and medium incomes will continue to pay the rate of 18%.
- The earnings link will be restored for basic state pensions from April 2011.
- The public sector wage freeze will be extended for a year. However those earning less than £21,000 will be exempt.
- Government departments will face a 25% cut in their budgets over the life of this parliament.

For the Treasury's Budget website [click here](#).

The CII has produced a briefing on the Budget for members. For more [click here](#). (Login required)

Future of UK financial regulation: The Chancellor of the Exchequer, George Osborne, has announced the Government's plans for a radical overhaul of the UK's financial regulatory landscape. The FSA will be abolished, seeing the end of the current tripartite system. This will result in an enhanced role for the Bank of England. The transfer of FSA powers and responsibilities will be completed by 2012.

A "twin peaks" approach is to be adopted which distinguishes prudential supervision from conduct of business regulation.

Systemic/Prudential Supervision: The Bank of England will have responsibility for supervising firms' prudential requirements and systemic risk functions. The new regulatory landscape will include:

- Financial Policy Committee (FPC): this new independent grouping will operate alongside the existing Monetary Policy Committee, and will be responsible for monitoring and limiting systemic risks to the financial system.
- Prudential Regulatory Authority (PRA): the new prudential regulator will act as a subsidiary of the Bank of England. It will carry out the prudential regulation of financial firms, including banks, building societies and insurance companies. Hector Sants will be Chief Executive.

Conduct of Business Regulation:

- The second "peak" of regulation covers conduct of business regulation including consumer protection. It will be delivered by a new body called the Consumer Protection and Markets Agency (CPMA) which will regulate *all firms*, both retail and wholesale.
- The CPMA will be responsible for Conduct of Business Rules and take over responsibility from the FSA for the Financial Ombudsman Service, the Financial Services Compensation Scheme and the newly created Consumer Financial Education Body.
- It will also take forward the Retail Distribution Review.

A consultation on the proposed changes to the regulation of financial services will be published in July.

For the full speech [click here](#).

The CII has produced a briefing on the future of UK financial regulation. For more [click here](#). (Login required)

Westminster & Whitehall News

Announcements:

Spending Review Framework: The Chancellor George Osborne has published the Coalition Government's Spending Review framework. The framework sets out the process and guiding principles that will underpin the Government's approach to setting spending limits. The Spending Review will set spending limits for every Government department for the period 2011-12 to 2014-15. The outcome of the exercise will be made public on Wednesday 20 October. [Click here](#)

Speeches:

The UK's approach to European, global and domestic financial regulation – speech by Mark Hoban: Mark Hoban, Financial Secretary to the Treasury, has given a speech entitled "The UK's approach to European, Global and Domestic Financial Regulation". Mr Hoban discussed the UK's approach to the reform of financial regulation at home and abroad, explaining how reforms in the UK are linked to those being debated in the EU and the G20. Some of the points made include:

- the urgent need of genuine, rigorous stress testing to answer questions around solvency in severe market conditions;
- the need for transparency for all market participants, which in the case of banks means much more detailed and granular public disclosures of risk positions, business models, capital structures, funding profiles and sources and remuneration practices;

- all cross-border financial institutions will have internationally-consistent recovery and resolution plans drawn up by the end of 2010;
- in addition to the Special Resolution Regime established by the Banking Act 2009, the Government will be consulting further on a special administration regime for investment banks and insurers. Together, these tools will allow for the orderly failure of any financial institution, the hope being that a similar approach can be adopted by other EU Member States;
- macro prudential regulation, and oversight powers of micro decisions, will be given to the Bank of England in order to enable better monitoring of sectors and markets as a whole;

[Click here](#)

Financial Secretary on the UK's Approach to Financial Regulation: Mark Hoban, Financial Secretary has pledged commitment to the creation of EIOPA (the European supervisory agency for insurance) in 2011, and to ensuring it has appropriate rule-making capacity. Mr Hoban maintained the Government will urge the Commission to be ambitious when setting out their proposals next month to raise standards in Europe to those which UK consumers currently enjoy. [Click here](#)

Government launches pensions strategy: The Secretary of State for Work and Pensions Iain Duncan Smith has given a speech entitled "*Reinvigorating Pensions*" in which he set out the Coalition Government's pensions strategy. He reiterated the phasing out of the default retirement age, promised a review in to the date at which the state pension age starts to rise to 66 (the plan is to introduce this in 2016) and signalled support for private pensions auto-enrolment. [Click here](#)

Business Secretary announces action to end excessive regulation: The Business Secretary, Vince Cable, has announced an action plan to bring an end to the excessive regulation which he believes is stifling business growth. Amongst other things the action plan will:

- create a new Reducing Regulation Committee, to be chaired by the Business Secretary, designed to enforce a new approach to new laws and regulations, making sure that their costs are being properly addressed across the whole British economy; and
- introduce a new "one-in, one-out" approach, designed to ensure that new regulatory burdens on business are only brought in when reductions can be made to existing regulation.

[Click here](#)

Regulatory News

FSA Mortgage Market Review - arrears and approved persons: The FSA has set out, in a Policy Statement (PS10/9), draft rules on how mortgage advisers and those who arrange non-advised sales will be required to hold 'Approved Persons' status. Under the new regime advisers will need to demonstrate they are "*fit and proper*". The FSA has also defined the standards firms must follow in relation to arrears handling and provided details of the full sale and rent back regime. [Click here](#)

FSA outlines plans for mortgage market: Lesley Titcomb, FSA Director of Small Firms and Contact Centre, has given a speech highlighting what the FSA is doing as part of its Mortgage Market Review. She emphasized the need for the market to go back to basics, i.e. back to responsible lending and back to people borrowing what they can afford to pay. Topics covered included: arrears and approved persons; early repayment charges; prudential reform and non-banks; conduct of business; and extending the FSA's scope. The FSA intends to publish a consultation paper on distribution and advice, covering selling standards, intermediary affordability assessments and professionalism, towards the end of 2010. [Click here](#)

FSA Annual Report: The FSA has published its Annual Report 2009/10. In the Chief Executive's report, Hector Sants discusses the work the FSA has done in the past year against its statutory objectives. The main areas considered in the report include:

- *Financial stability and supervision of firms.* This section of the report covers the FSA's prudential supervision, the main element of which consists of stress tests, both of capital and liquidity, as well as a capability to review a firm's risk and reporting framework. Other elements of the FSA's process in the area of supervision include: (i) ARROW assessments; (ii) increased scrutiny of candidates for Significant Influence Functions (SIFs); (iii) market interventions; and (iv) supervisory investigations as part of the FSA's credible deterrence agenda.
- *Delivering market confidence – maintaining confidence in financial markets.* This section of the report describes other aspects of the FSA's work over the past year concentrating on prudential regulation of firms, improving markets' transparency and reducing financial crime and market abuse.
- *Delivering consumer protection and education – securing the appropriate degree of protection for consumers.* This section deals with topics such as treating customers fairly (TCF), the FSA's Retail Distribution Review (RDR) and the FSA consumer education programme.
- *Appendices/enforcement activity.* These include a detailed appendix on enforcement activity in the period 2009/10; complaints against the FSA during 2009/10; and the FSA and competition matters.

Follow the links for the: [Annual Report](#); related [webpage](#); and [one-minute guide](#).

FSA confirms annual funding requirement for 2010/11: The FSA has published a policy statement on fee-raising arrangements and regulatory fees and levies for 2010/11. Amongst other things, the paper provides a summary of the FSA's fee-raising arrangements and feedback on the FSA's 2010/11 fees policy proposals, fee rates and the FOS levy. The FSA's annual funding requirement for 2010/11 is £454.7m, up from £413.8m in 2009/10. The increased cost of intensive supervision will be levied on those firms whose size and impact require the most regulation from the FSA. [Click here](#)

Do regulators have a role to play in judging culture and ethics? – speech by Hector Sants: Hector Sants, the FSA's Chief Executive, has given a speech on the role of regulators in judging culture and ethics. He believes that greater intervention is required from regulators to ensure decisions are made by firms that deliver the outcomes society expects. Mr Sants explained that regulators should concentrate on what an unacceptable culture looks like and outlined the mechanisms by which regulators could intervene to ensure firms have the right cultures. [Click here](#)

Financial Promotions Industry Update: financial promotions using new media: The FSA has published a Financial Promotions Industry Update dealing with financial promotions using new media. The Update follows a review into the media channels which firms use to communicate financial promotions to customers and notes the increasing use of "new media" such as social networking websites, forums, blogs and i-phone applications to promote financial products. [Click here](#)

FSA introduces temporary rule to give recent PPI complainants more time to refer complaints to the Financial Ombudsman Service: The Financial Services Authority (FSA) has announced a temporary rule to give customers who recently made a complaint about their purchase of a Payment Protection Insurance (PPI) policy more time in which to refer their complaint to the Financial Ombudsman Service (Ombudsman). The temporary rule, which suspends the existing six month time limit for referring complaints to the Ombudsman, will come into effect from today and run for five months, until 27 October 2010. The rule applies to recent PPI complainants who have already been sent a final response from a firm between the dates of 28 November 2009 and 28 April 2010 inclusive.

Pensions Regulator publishes guidance materials to help trustees monitor employer support: Guidance for trustees on assessing, monitoring and taking action in relation to their employer covenant has been published by The Pensions Regulator. In addition guidance for trustees on monitoring employer support has been published for consultation, and is complemented by an online e-learning module and a short guide tailored for employers. [Click here](#)

FRC issues new Corporate Governance Code: The Financial Reporting Council introduced changes to the UK Corporate Governance Code to help company boards become more effective and more accountable to their shareholders. Changes include a clearer statement of the board's responsibilities relating to risk, a greater emphasis on the importance of getting the right mix of skills and experience on

the board, and a recommendation that all directors of FTSE 350 companies be put up for re-election every year. [Click here](#)

Financial reporting council publishes its annual report and budget plan: The Financial Reporting Council (FRC) has published its Annual Report for 2009/10 [Annual Report](#). It has also published its finalised Plan and Budget for 2010/11 on its website at [2010/11 plan](#). In addition the FRC has introduced its new mission statement, "to promote high quality corporate governance and reporting to foster investment".

Industry News

FOS' case studies on PPI: The Financial Ombudsman Service (FOS) has published case studies on payment protection insurance (PPI). The eight case studies concern advised and non-advised sales relating to monthly-premium PPI and single-premium PPI. The case studies indicate the approach that the FOS takes when assessing complaints in this area. [Click here](#).

"Financial services getting more unfair" say consumers: The Financial Services Consumer Panel has published new research revealing a perceived decline in fairness in financial services. Financial services compared poorly to the retail sector in the research, with consumers considering financial services to be less fair and being insufficiently competitive and accessible. Particularly unfair were complex products, such as some insurance products. [Click here](#)

Financial Services Consumer Panel issues ten point plan: The Financial Services Consumer Panel (FSCP) issued a ten point plan highlighting the ten priorities for the future of financial services. Six of the points are aimed at achieving outcomes for consumers from the industry, whilst the remaining four are targeted at regulators. The points aimed at the industry include the following:

- **ensuring that products are simple and "do what they say on the tin".** This involves good product innovation and effective distribution of products to provide real choice and competition for customers; and
- **treating customers fairly.** Examples of such fair treatment include transparent and proportionate pricing, treating customers in financial difficulty helpfully and sympathetically, and ending complex product innovation that obscures risk.

The points for regulators include:

- **achieving effective redress** by ensuring that firms understand their regulatory obligations to handle complaints fairly, and enabling effective cooperation to resolve systemic complaints quickly; and
- **facilitating timely and appropriate compensation for customers** by increasing the limits of compensation and making these limits easier to understand, separating the authorisation of each retail brand to make risk clearer to customers, and ensuring that firms compensate customers promptly.

[Click here](#)

European & International News

CEA urges G-20 to recognise differences between insurers and banks: The European insurance and reinsurance federation (CEA) has called in a [letter](#) on the G-20 to take full account of the specific characteristics of insurance when designing regulatory initiatives to respond to the global financial crisis. The CEA highlights the fundamental differences between insurance and banking and making recommendations for the effective regulation of insurers in its report "[Insurance: a unique sector - Why insurers differ from banks](#)".

European Council conclusions on regulating financial services: The European Council has published its conclusions on a number of issues including the regulation of financial services and:

- calls on the Council of the European Union and the European Parliament to adopt (without delay) the legislative proposals on financial supervision, to ensure that the European Systemic Risk Board and the three European Supervisory Authorities can start working from the beginning of next year;
- calls for agreement on the legislative proposal on alternative investment fund managers before the summer, as well as for the examination of the European Commission's proposal on the enhancement of the EU's supervision of credit rating agencies;
- agrees that Member States should introduce a system of taxes and levies on financial institutions to ensure fair burden-sharing, as well as to set incentives to contain systemic risk. As a result, it invites the Council of the European Union and the Commission to take this work forward and report back in October 2010; and
- will advocate the introduction of a global financial transactions tax at the G20 Toronto Summit.

Copies of the [conclusions](#) and related [press release](#) are available.

Tying and other potentially unfair commercial practices: In January 2010 the European Commission published an externally contracted report entitled "*Study on tying and other potentially unfair commercial practices in the retail financial service sector*" and invited comments. The Commission has now published a summary of the 55 responses received to this consultation. Key points in the summary include:

- different categories of stakeholders stressed the important role of financial education as a means of avoiding consumer detriment;
- a number of stakeholders considered that the provision of adequate information, such as clear details on the prices and characteristics of each of the products offered in the package, was important; and
- some respondents, mostly from the industry categories, referred to the fact that some products need to be sold together, either because it is technically impossible to split them or because it would be otherwise too expensive for the consumer.

Copies of the [summary of responses](#) and [responses authorised for publication](#) are available.

European Commission publishes draft call for advice from CEIOPS on third country equivalence under Solvency II: The European Commission has written to the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) with a draft call for advice in relation to the next phase of the Solvency II equivalence workstream. In its draft call for advice, the Commission requests that CEIOPS provide final advice on which third country supervisory regimes should be included in the first wave of equivalence assessments. Once the final advice has been received from CEIOPS, the Commission will, in consultation with other stakeholders, make a final decision on those third country supervisory regimes that will be included in the first wave of assessments by mid November 2010. [Click here](#)

CEIOPS Catastrophe Task Force Report: The Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) has published the report of its Catastrophe Task Force, the joint task force between the industry and CEIOPS. This has provided CEIOPS with input and guidance on the calibration and application of non-life and health catastrophe standardised scenarios for the standard formula Solvency Capital Requirement. The standardised scenarios will be tested during the QIS5 exercise. [Click here](#)

European Commission – Green Paper on corporate governance in financial institutions: The European Commission has published a Green Paper inviting views by 1 September 2010 on a range of options to strengthen corporate governance in EU financial institutions. The green paper focuses on:

- the functioning, composition and skills of boards of directors;

- strengthening risk management-related functions;
- expanding the role of external auditors;
- strengthening the role of supervisory authorities in the governance of financial institutions, and
- the place and role of shareholders.

Many of the Green Paper's options have already been examined from a UK perspective over the last year - in particular by Sir David Walker's "*Review of corporate governance in UK banks and other financial industry entities*". However, in some respects the green paper goes much further than UK best practice. [Click here](#)

Consultations

FSA consults on changes to existing training and competence regime: The Financial Services Authority (FSA) has today published proposals to strengthen its requirements on competence for individuals carrying out retail activities, while placing more emphasis on standards of ethical behaviour. Reflecting the FSA's increased focus on competence, the proposals will introduce a 30 month deadline for individuals to complete all modules of a qualification required for their role. The proposals will also remove some transitional provisions which allow individuals to operate without formal qualifications, due to the arrangements under their previous regulator. They are designed to increase standards of professionalism across the industry, complementing the Retail Distribution Review plans and rules that are currently in place for investment advice. *Closing date: 6 September.* [Click here](#)

FSA - Tracing employers' liability insurers: The FSA has published a consultation paper (CP) entitled "*Tracing employers' liability insurers*". The CP sets out the FSA's proposals to introduce rules to improve consumer protection in relation to tracing providers of Employers' Liability (EL) insurance policies. This consultation is of interest to past and present UK employees who may need to trace details of Employers' Liability (EL) insurance, as well as insurers and Lloyd's members. *Closing date: 14 September.* [Click here](#)

Appointments

FSA changes

The FSA has appointed **Tom Boardman** to the role of **life insurance senior advisor**. Mr Boardman has more than 35 years experience in the financial services sector, most recently as director of retirement strategy and innovation at Prudential.

Lesley Titcomb has been appointed the **FSA's acting Chief Operating Officer**, with immediate effect. As a result she will be relinquishing her Sector Leader and Small Firms and Contact Division responsibilities.

The FSA has also announced that **Sally Dewar, Board member and managing director of Risk**, and **Jon Pain, managing director of Supervision and an FSA Board member**, have decided to leave the organisation in 2011.

Other appointments

Andrew Tyrie MP (Conservative, Chichester) has been chosen to be the new **chairman** of the **Treasury Select Committee**. He takes over from John McFall who stood down at the last election.

Important dates

Summer Recess dates – House rises Thursday 29th July and returns Monday 6th September. This is a shorter than usual summer recess given the amount of legislation the Government intends to put through Parliament.

Insight

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This update has been produced by the CII Group's Policy and Public Affairs team.