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Butterworths Financial Regulation Service

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RECENT DEVELOPMENTS UK

HM Treasury News

Draft tax legislation published in Finance Bill 2014

The government has published draft tax legislation which will implement policies published at Budget 2013 and Autumn Statement 2013. The government has also published responses to related policy consultations which took place over the summer.

Finance Bill 2014 will contain key measures to make the UK more competitive for businesses, including:

- a new onshore oil and gas tax relief, which will support investment in the UK's emerging onshore shale gas industry by applying a halved rate of tax to initial profits from projects;
- changes that will make the government's long-standing film tax relief more attractive and easier to use; and
- abolishing stamp duty and stamp duty reserve tax on growth market shares.

It also contains measures to support hardworking families with the cost of living, including:

- increasing the personal allowance to £10,000 for 2014/15, making a typical basic rate taxpayer £112 better off and taking 260,000 low earners out of income tax altogether; and
- a new transferable tax allowance for married couples and civil partners that will benefit around 4.1m couples in 2015.

The Bill will also legislate for next steps in the government's drive to tackle tax avoidance and aggressive tax planning.

David Gauke, Exchequer Secretary to the Treasury, said:

> 'The government is committed to making the UK more competitive for business, supporting hardworking families with the cost of living and cracking down on aggressive tax avoidance.
>
> The package of measures in the legislation published today delivers action that builds on our efforts to create a tax system that supports growth and fairness. And by consulting on the draft legislation in this way we are delivering on our promise to make the system more certain and stable for taxpayers and businesses.'

For the fourth year in a row, draft legislation has been published as part of the government's commitment to a more transparent, efficient and simpler tax system. The consultation on draft legislation will run until 4 February 2014, with final details being confirmed in Budget 2014, and finally introduced in Finance Bill 2014.

HM Treasury 10.12.13

London Inter Bank Offered Rate fines fund a further 24 armed forces charities and good causes

The government has announced that more causes and charities supporting the armed forces community are to benefit from the £35m Armed Forces covenant London Inter Bank Offered Rate ('LIBOR') fund.

Over £12m will be shared between 24 Armed Forces charities and good causes in the third tranche of allocations from the LIBOR fines pot.

This latest announcement means that the £35m fund has been used to support 96 Armed Forces charities and good causes.

The Chancellor of the Exchequer, George Osborne, said:

> 'I am delighted to be able to announce more money for those who are supporting our brave armed forces, veterans and their families. It is right that money paid in fines by people who demonstrated the worst of the values in our society is now being used to help and support those who demonstrate the very best.'

These selected causes and charities are:

- Veterans First Point ('V1P') will receive £2,560,586 to establish a number of mental health support centres in Scotland for veterans. This is the largest single award in this tranche.
- Houses for Heroes Scotland will use £1,940,000 to build low-rent houses in Scotland for wounded service personnel and their families.
- Change Step to receive £995,918 to develop and fund a support wellbeing network for veterans in Wales for the next two years.
- Alabaré Christian Care and Support will use £976,269 to provide re-settlement and employment for homeless veterans in Wales.

- AF&V Launchpad will receive £907,632 to provide accommodation to veterans in Liverpool and help them secure employment.
- Defence Medical Welfare Service, an independent organisation, will use £896,296 to provide forces personnel across the UK with additional hospital welfare and psychosocial support.
- The Royal Navy Service Family Accommodation to receive £800,000 for upgrades to 15 play parks across Royal Navy estates.
- Combat Stress will use £575,268 to provide a 24-hour helpline for veterans providing welfare advice, support and guidance.
- The Queen Alexandra Hospital Home, which provides residential and respite care for ex-servicemen and women, had three successful bids worth a total of £484,717 which will enable them to upgrade a number of facilities including the kitchen facilities and improving accessibility to improve the lives of disabled veterans.
- CAIS will receive £434,659 to support families and carers of veterans in North Wales.
- The RAF Benevolent Fund will use £381,968 to upgrade 40 bathrooms for guest rooms at Princess Marina House which provides recuperative breaks to serving or ex-serving members of the RAF, their partners and adult dependants.
- Scottish Veterans' Residences will use a £233,488 award to provide temporary supported accommodation for veterans in Glasgow, which will help with the transition to civilian life.
- The Calvert Trust are receiving £183,312 to provide adventure holidays for disabled personnel and their families.
- Seaforth Counselling will use £141,112 to set up a counselling service for naval and marine personnel and their families, across the UK.
- The Bridge for Heroes will use £103,920 to provide face-to-face mental health support to serving personnel, veterans and their families in Norfolk.
- The HMS Neptune Welfare Fund will receive £102,000 to refurbish a holiday cottage in Scotland to ensure that the facility can be used by injured servicemen and their families.
- Dame Agnes Weston's Royal Sailors' Rest will use £92,215 to expand the welfare support they offer to Naval and Royal Marine families across the UK.
- The Rothiemurchus Lodge will receive £65,000 to upgrade various parts of the lodge in Scotland and increase its attractiveness to service personnel and their families.
- The Spinal Injuries Association is to receive £59,550 to provide further welfare and wellbeing support, via visits, telephone and email, to veterans across England.

- The Hasler Company will use £50,000 to provide respite breaks across the UK for service families.
- The China Fleet Trust to receive £50,000 to upgrade holiday apartments in Cornwall to better suit wounded and disabled personnel, veterans and their families.
- The UDR&R Irish Aftercare Service will use £50,000 to set up a welfare support network and advisory service for veterans and their dependants in Northern Ireland.

HM Treasury 15.12.13

Banking Reform Act becomes law

The government's Banking Reform Bill has received Royal Assent, now becoming an Act of Parliament.

The Banking Reform Act 2013 is a key part of the government's plan to create a banking system that supports the economy, consumers and small businesses.

It implements the recommendations of the Independent Commission on Banking, set up by the government in 2010 to consider structural reform of the banking sector.

It also implements key recommendations of the Parliamentary Commission on Banking Standards, which was asked by the government to urgently review professional standards and culture in the banking industry following revelations of attempted LIBOR manipulation last year.

The government's reforms are based on almost three years of consultation on the future of the UK's financial sector and represents the biggest ever overhaul of Britain's banking system.

Since 2010, the government has acted to transform the banking industry through four key areas of reform:

- supervision: the government has put the Bank of England back at the centre of the supervisory regime, with new powers to identify and address systemic risks as they emerge, ensuring safe banks that will not bring down the economy in the future;
- structure: the government has brought forward new laws to separate the branch on the high street from the trading floor in the City to protect taxpayers when mistakes are made;
- culture: the government is imposing higher standards of conduct on the banking industry by introducing a criminal sanction for reckless misconduct that leads to bank failure, and a more stringent approval regime for senior bankers; and
- competition: the government is acting to empower consumers by giving them greater choice, which should incentivise innovation and competition within the banking sector.

HM Treasury 18.12.13

Financial services super-complainants confirmed by government

The government has confirmed the names of the first consumer representative bodies to be given 'super-complainant' status for the financial services sector.

The four bodies will have the power to present complaints to the Financial Conduct Authority ('FCA') if they believe there are features of a financial services market that are, or could be, significantly damaging the interests of consumers. For the first time business groups are being included.

The procedure for super-complaints to the FCA was brought in by the Financial Services Act 2012 to strengthen the voice of consumers of financial services.

Once a super-complainant has made a complaint to the FCA, the FCA must respond within 90 days.

The organisations given super-complainant status are:

- Which?
- Consumer Council Northern Ireland
- Citizens Advice
- The Federation of Small Businesses

Super-complainants are better placed to judge whether markets for financial services in the UK are failing consumers, who individually may lack sufficient information to judge this.

This new process will therefore strengthen the voice of consumers of financial services in the UK. In the past, super-complaints about financial services could only be made to the Office of Fair Trading ('OFT'), which does not have the same powers as the FCA in relation to financial services.

Now the FCA, after receiving a super-complaint could, if appropriate, use its own powers to tackle any underlying issues identified as a result of a super-complaint.

For example, if the FCA agrees with the super-complainant that there is a significant problem, it could restrict financial services businesses from carrying out certain activities, make new rules to require firms to do things differently, take enforcement action, or launch a consumer redress scheme to put things right for consumers who have suffered detriment. The FCA might do this on the basis of the evidence presented, or may need to carry out its own investigation first.

Previous examples of super-complaints in action

Card surcharges

Which? brought a super-complaint about card surcharges in 2011. A surcharge is an additional fee added on to the cost of the transaction. The super-complaint identified three features it thought resulted in consumer detriment in the passenger transport sector. These were:

- lack of transparency – surcharges are often only revealed towards the end of a lengthy transaction process and so it can be difficult to compare prices across competing retailers;
- lack of a reasonable, practical alternative to avoid the fee; and
- surcharges often appear to exceed reasonable estimates of retailers' costs of processing payments.

Cash ISAs

Consumer Focus brought a super-complaint to the OFT in 2010 which included concerns that:

- transferring cash ISAs was taking too long and there were arbitrary rules preventing transfers into some of the most attractive accounts;
- interest rates were not sufficiently transparent; and
- consumers were being attracted by temporary bonus rates that subsequently fell substantially.

Payment protection insurance ('*PPI*')

Citizens Advice made a super-complaint to the OFT in 2005 arguing that:

- consumers pay an excessively high price for PPI;
- the protection consumers buy is partial, with many policies unreasonably excluding common causes of credit default;
- consumers are frequently mis-sold PPI, with evidence of high pressure and unfair sales tactics; and
- the administration of PPI claims can be slow and unfair, and can leave consumers facing additional charges or serious debt enforcement action.

HM Treasury 19.12.13

New fund on London Stock Exchange gives investors access to Chinese stock markets

A landmark agreement between two UK and Chinese firms means that from 9 January 2014, for the first time, investors will be able to invest in Chinese Stock markets in Renminbi through the London Stock Exchange ('LSE').

Hong Kong-based CSOP Asset Management, a subsidiary of China Southern Fund Management Co Ltd, and London-based Source will launch the first Renminbi qualified foreign institutional investor ('RQFII') exchange traded fund ('ETF') listed London.

This fund, which will be available to retail and institutional investors across Europe, will take advantage of CSOP's Hong Kong's RQFII licence to allow investors to invest directly in the top 50 companies in mainland China.

The Hong Kong and UK RQFII schemes allow financial institutions to use offshore RMB to invest in the Chinese mainland securities markets (stocks, bonds (including inter-bank) and money market instruments). China's capital controls ordinarily restrict such cross-border activity.

The launch follows the Chancellor, George Osborne and Financial Secretary to the Treasury, Sajid Javid's visits to Hong Kong and China earlier this year to build new ties between the UK and the Chinese and Hong Kong asset management industries and build on the existing synergies:

- 62% of all RMB trading outside of China takes place in the UK; and
- the UK was awarded the first RQFII quota outside of greater China – the quota is worth RMB 80bn.

Already a world leading asset management centre, London has a lot to offer investors. But the government is determined to make sure it doesn't stand still. So at December's Autumn Statement the Chancellor announced that the government will abolish stamp duty and stamp duty reserve tax on purchases of shares in exchange traded funds that are domiciled in the UK, opening the door for UK exchange traded funds to launch in London for the first time.

HM Treasury 09.01.14

Appointment of external advisors for UK government Sukuk

HM Treasury has appointed HSBC and Linklaters LLP as external advisors to assist it in its work to develop a government Sukuk, or Islamic bond.

HSBC will provide expert financial advice on structuring the Sukuk to ensure that it conforms with principles of Islamic finance. It will also assist HM Treasury and the UK Debt Management Office in making the necessary preparations for issuance.

Linklaters LLP will provide commercial legal advice in relation to the capital markets, tax, regulatory and real estate implications of issuing a sovereign Sukuk for the first time.

It is anticipated that issuance will take place during 2014–15 by way of a syndicated offering. The government anticipates recruiting additional syndicate members closer to the time.

The appointment of these advisors is related to the Prime Minister's announcement at the World Islamic Economic Forum on 29 October 2013 that HM Treasury was working on the practicalities of issuing a bond-like Sukuk worth around £200m.

The appointment of advisors follows an open competition launched in December 2013, the details of which are contained on the government's Contracts Finder website.

The firms appointed are market leaders in the area of Islamic finance and have significant expertise in Sukuk issuance. The government believes that their appointment represents value for money for the taxpayer. In line with the government's transparency agenda the Treasury will publish the contracts.

HM Treasury 31.01.14

ICE Benchmark Administration Ltd administrating LIBOR

On 3 February 2014 ICE Benchmark Administration Ltd took responsibility for administrating LIBOR.

This is a key milestone in the process to restore the reputation of this crucial global benchmark which has been administered by the British Bankers Association ('BBA') up until now.

The transfer of the administration of LIBOR to ICE Benchmark Administration represents the implementation of one of the key recommendations of the Wheatley Review, set up by the government following the allegations of LIBOR manipulation in July 2012. The Wheatley Review recommended that the Hogg Tendering Advisory Committee for LIBOR be mandated by HM Treasury and the FCA to oversee a selection process for a new administrator of LIBOR and make a recommendation to the BBA based on that process.

On 9 July 2013, following a tender process, the Committee concluded that NYSE Euronext Rate Administration Ltd was best placed to achieve an orderly transition to an effective new regime for LIBOR and restore its international credibility.

On 13 November 2013, the Intercontinental Exchange ('ICE') Group announced the successful completion of its acquisition of NYSE Euronext. As a result of this acquisition, NYSE Euronext Rate Administration Ltd was renamed ICE Benchmark Administration Ltd. The appointment of a new administrator is a major step forward in the reform of LIBOR.

HM Treasury 03.02.14

Bank of England News

New Bank of England banknotes to be printed on polymer

The Bank of England is today announcing that the next £5 and £10 banknotes will be printed on polymer, a thin flexible plastic film, rather than on the cotton paper used for notes currently in issue.

The new polymer notes will retain the familiar look of Bank of England banknotes, including the portrait of Her Majesty the Queen and a historical character. The first polymer note will be the £5 note featuring Sir Winston Churchill and will be issued in 2016. It will be followed around a year later by a polymer £10 note featuring Jane Austen.

The decision follows a three-year research programme by the Bank looking at the materials on which banknotes are printed and which concluded that there were compelling reasons to move to printing on polymer. In particular, the research indicated that:

- Polymer banknotes are resistant to dirt and moisture so stay cleaner for longer than paper banknotes.
- Polymer banknotes are secure. They incorporate advanced security features making them difficult to counterfeit and further enhancing the strong security of Bank of England banknotes.
- Polymer banknotes are more durable. They last at least 2.5 times longer than paper banknotes so will take much longer to become 'tatty', improving the quality of banknotes in circulation.

In addition, polymer banknotes are more environmentally friendly and, because they last longer are, over time, cheaper than paper banknotes. Being thin and flexible they fit into wallets and purses as easily as paper banknotes.

Despite these benefits, the Bank announced in September that it would print notes on polymer only if persuaded that the public would continue to have confidence in, and be comfortable with, notes printed on polymer. A programme of public consultation was therefore a vital part of the assessment of the merits of polymer notes.

The response to that consultation was overwhelmingly supportive of polymer notes. Over the course of two months, the Bank hosted events across the UK to give the public the opportunity to learn more about polymer banknotes, to handle the notes and to provide feedback. Nearly 13,000 individuals gave feedback during the public consultation programme. 87% of those who responded were in favour of polymer, only 6% were opposed and 7% were neutral.

Support for polymer was broadly consistent across geographic regions, demographics and socio-economic groups. The most notable difference in feedback was that people who had the opportunity to see and handle the notes were 20% more likely to support polymer than those responding on the internet.

Further detail on the public consultation programme can be found on the Bank's website http://www.bankofengland.co.uk/banknotes/polymer/Page/pcp.aspx.

In parallel with the public consultation, the Bank engaged with a wide range of stakeholders in the cash industry. A new polymer note would require greater change to cash handling practices than a new paper note so the Bank will continue its dialogue with the industry and work collaboratively towards a smooth introduction of the first polymer note. The Bank will host an Industry Forum in February 2014 to initiate this work.

The new polymer notes will be slightly smaller than their existing paper equivalents, but the current practice of note size increasing with note denomination will be maintained. Bank of England notes are currently large compared with their international counterparts, making the largest denomination notes harder to fit into cash handling technology and less convenient for everyday use. Smaller notes will also reduce printing and storage costs.

The contract for printing the Bank of England's notes from April 2015 is currently being tendered. Notes will continue to be printed at the Bank's printing works in Debden, Essex. The Bank expects to enter a contract with Innovia Security to supply the polymer material for the new-style £5 and £10 notes, in which case Innovia would establish a polymer production plant in Wigton, Cumbria, in 2016.

Bank of England 18.12.13

Launch of new Indexed Long-Term Repo operations

The Bank of England is launching new regular market-wide Indexed Long-Term Repo ('ILTR') operations. This is the next step in the Bank's new approach to providing liquidity insurance designed to increase the availability and flexibility of liquidity insurance, as announced by the Governor in October.

The Bank's current ILTR operations will be replaced by new ILTR auctions that provide more liquidity at cheaper rates, longer maturities and against a wider range of collateral than previously available. An important innovation in the design of the ILTR auctions is that they are responsive to market conditions, with the amount of liquidity available rising automatically if there is greater demand, in contrast to fixed-size or full allotment auctions used previously.

The first ILTR operation under the revised format is scheduled for 11 February 2014. Demand for liquidity in the ILTR will depend on market conditions. Currently the sterling system has abundant liquidity in aggregate, reflecting in large part the impact of the 'quantitative easing' programme mandated by the Monetary Policy Committee, so initial usage may be limited. As the Governor said in his October speech, 'we are building a liquidity framework for the markets of tomorrow'.

Further details on the approach are provided in 'Market Notice: Indexed Long-Term Repo operations and Contingent Term Repo Facility' (available at http://bankofengland.co.uk/markets/Documents.marketnotice140116.pdf) and an updated edition of the Bank's 'Red Book', which provides a comprehensive description of the SMF (available at http://www.bankofengland.co.uk/markets/Documents/money/publications/redbook.pdf).

Bank of England 16.01.14

Bank of England announces Houblon £50 banknote to be withdrawn on 30 April 2014

The Bank of England announced today that the £50 banknote carrying the portrait of Sir John Houblon, the first Governor of the Bank of England, will be withdrawn from circulation on 30 April. From that time, only the £50 note featuring Matthew Boulton and James Watt, which was introduced in November 2011, will hold legal tender status.

Members of the public who have Houblon £50 notes can continue to use them up to and including 30 April.

After 30 April, general retailers are unlikely to accept the Houblon notes as payment. However, most banks and building societies will continue to accept them for deposit to customer accounts. Agreeing to exchange the notes after 30 April is at the discretion of individual institutions. Barclays, NatWest, RBS, Ulster Bank and the Post Office have all agreed to exchange Houblon £50 notes for members of the public – up to the value of £200 – until 30 October 2014.

The Bank of England will continue to exchange Houblon £50 notes after 30 April, as it would for any other Bank of England note which no longer has legal tender status.

Bank of England 16.01.14

Prudential Regulation Authority News

Co-operative Bank enforcement investigation

The Prudential Regulation Authority ('PRA') confirms it is undertaking an enforcement investigation in relation to the Co-operative Bank and as part of that investigation will consider the role of former senior managers. No further information will be provided on the investigation until the legal process has concluded and an outcome has been reached.

The Treasury has previously indicated that the independent review announced by the Chancellor will not start until it is clear that it will not prejudice any actions that the regulators may take. The PRA will work with the Treasury to ensure that the enforcement investigation and the independent review are sequenced appropriately.

PRA 06.01.14

Financial Conduct Authority News

FCA publishes finalised guidance on inducements for product providers and advisory firms

In finalised guidance on inducements published 16 January 2014, the FCA makes it clear that financial advisers and product providers share the responsibility of managing potential conflicts of interests when receiving and making payments under service and distribution agreements.

The guidance follows a review that found payments were still being made that could result in advisory firms favouring one product provider over another, undermining the aims of the Retail Distribution Review ('RDR'). The FCA has been clear that firms have to comply with the spirit of the RDR, which aimed to increase transparency and professional standards in the investment advice industry.

Following consultation, the final inducements' guidance states that payments from product providers to advisory firms should be based on reasonable reimbursement for the costs incurred by advisory firms. Furthermore, any such payments should always enhance the quality of service provided to customers. The regulator has provided additional examples of good and poor practice, and guiding principles to further help industry.

Clive Adamson, director of supervision at the FCA, says of the guidance:

> 'The rules on inducements and conflicts of interest are not new. However our review made it clear there were certain practices that did not stand up to scrutiny. In the guidance published today we are helping firms better understand our expectations. Now it is for firms to make sure any payments are legitimate, are in consumers' interest and that potential conflicts are well managed.'

The original review was published in September and found a number of practices that gave cause for concern. They included:

- the fact that some payments by product providers to advisory firms appeared to be linked to securing sales of their products; and
- financial arrangements in place with product providers that potentially incentivised advisory firms to promote a specific provider's product to their advisers.

Further, the FCA also identified that certain joint ventures, where a new investment proposition is jointly designed by providers and advisory firms, could create conflicts of interest and potentially lead to biased advice.

The FCA has published its finalised guidance together with a summary of the feedback received to the guidance consultation, to help firms better understand its expectations. The FCA expects firms to review, and, if necessary, revise their existing agreements in light of the finalised guidance, and to do so within three months of its publication.

FCA 16.01.14

Card Protection Plan Ltd redress scheme opens – customers have until end of August 2014 to claim

Seven million people who bought Card Protection and/or Identity Protection products from Card Protection Plan Ltd ('CPP') or from their bank or card provider can start claiming compensation from mid-February, the FCA announced.

Clive Adamson, director of supervision, said:

> 'If you believe you were mis-sold one of these protection products, fill out and return the claim form to make sure you get your money back. Don't put it off till the last minute.

> The FCA has worked closely with CPP, the banks and card providers to set up this consumer redress scheme. This is an important example of firms voluntarily coming together to meet our expectation that consumers get a fair deal.'

Claims forms will be sent to eligible customers during February 2014, and must be returned by 30 August 2014, with the first compensation payments expected to be made from late March 2014. The total redress bill could be up to £1.3bn.

Redress per person will depend on the length of time the customer had the product. Card Protection cost about £30 a year, while Identity Protection cost about £80 a year. This consumer redress scheme covers sales and renewals of these CPP products since January 2005.

In line with the FCA objective to provide an appropriate degree of protection for consumers, the FCA has updated its website to explain what customers should expect and what they need to do.

(1) Claim forms will be sent to customers by post during February 2014. Customers who had both products will receive two forms.

(2) Customers do not need to use the services of a claims management company or law firm to complete the claim form.

(3) Customers should complete all sections of the original claim form, sign and date it and return it in the envelope provided by CPP. Photocopies of the scheme claim forms and scheme claims sent in the form of letters will not be accepted

(4) Current policyholders should think carefully about whether they want to keep the benefits and the protection that their policy provides. Anyone who makes a claim will have their existing policy cancelled.

(5) Customers who either voted against this consumer redress scheme, or did not vote at all, will still receive a form and are entitled to claim compensation.

(6) If customers think that they have a card protection and/or identity protection policy, and have not been contacted by the end of February, they should call the dedicated customer helpline on 0800 083 4393 (outside the UK dial +44 1144 520 800).

1.3m policyholders voted after they received voting forms late last year, 98% of whom voted in favour of it. The High Court approved the scheme on 14 January 2014 and it became effective on 31 January 2014. No scheme claims will be considered after 30 August 2014.

In November 2012, CPP was fined £10.5m for widespread mis-selling of its Card Protection and Identity Protection policies and ordered to pay consumer redress. Since then the FCA has been working closely with CPP and 13 banks and card issuers on a proposal that offers the best outcome for the largest number of customers. This resulted in the proposed consumer redress scheme being announced in August 2013. Policyholders were then contacted and asked to vote on whether to adopt a scheme of arrangement under the Companies Act 2006 as the redress vehicle.

FCA 03.02.14

FCA consultation papers

Consultation paper CP14/1: Financial Services Compensation Scheme – management expenses levy limit 2014/15

Under the Financial Services and Markets Act 2000 ('FSMA 2000'), the FCA and the PRA must set a limit on the total management expenses levied, that gives the Financial Services Compensation Scheme ('FSCS') adequate resources to perform its functions efficiently and economically and provide a responsive and well-understood compensation service for financial services consumers.

This joint FCA and PRA consultation paper outlines the proposed management expenses levy limit ('MELL') for the FSCS for 2014/5.

The MELL proposed for 2014/15 is £80m, consisting of:

- FSCS management expenses of £74.7m: this is the minimum amount that will be levied for 2014/15; and
- a contingency reserve of £5.3m: this allows the FSCS to levy additional funds without formal consultation by the FCA and PRA, to meet contingencies that were not expected when the annual levy was raised. This would most probably be at relatively short notice, and would not be levied unless required by the FSCS.

Comments on the proposed MELL should be sent by 17 February 2014.

Consultation paper CP14/2: Proposed amendments to the Listing Rules in relation to sponsor competence and other amendments to the Listing Rules and Prospectus Rules

This consultation paper sets out the FCA's proposals to amend the Listing Rules and Guidance on sponsor competence as well as seeking market views on joint sponsor arrangements.

The FCA requires premium listed companies ('issuers') to appoint sponsors on major transactions. Sponsors provide expert guidance and carry out independent checks to ensure issuers comply with key parts of the FCA's listing rules.

The proposals include:

- requiring sponsors to have relevant experience within the last three years;
- setting out minimum requirements on skills, knowledge and expertise for staff; and

- accepting applications from sponsors who wish to specialise in a particular sector, helping to encourage new entrants and greater competition.

The FCA is also seeking views on the use of 'joint sponsors' – where issuers appoint multiple sponsors to advise on a transaction; and technical changes to existing rules on circulars.

There are also two other proposals that the FCA are consulting on in this paper:

- the proposal to remove a Listing Rule requirement for a premium listed issuer to have to prepare a 28-day circular; and
- the creation of new Prospectus Rules making it clear that an applicant is responsible for submitting a compliant and factually accurate prospectus.

The consultation closes on 30 April 2014 and forms part of a suite of changes to the listing rules to enhance overall market integrity.

FCA fines and bans

Christopher Willford

The FCA has fined Christopher Willford, the former finance director of Bradford & Bingley ('B&B'), £30,000 for failing to provide the board with up-to-date information about B&B's financial position, including profits, mortgage arrears and re-possessions, ahead of its 2008 rights issue.

12.12.13

Porta Verde Financial Services Ltd

Porta Verde Financial Services Ltd has been fined £25,000 by the FCA after two of its appointed representatives mis-sold insurance, often to elderly and vulnerable customers, between October 2010 and June 2012.

13.12.13

David John Hobbs

The Upper Tribunal (Tax and Chancery Chamber) has directed the FCA to ban former derivatives trader David John Hobbs from performing any role in regulated financial services. The Tribunal found that, in putting forward a false defence to the FCA during the course of its investigation, and in maintaining that defence in evidence before the Tribunal, Mr Hobbs had exhibited a lack of integrity such that he is not a fit and proper person.

19.12.13

Standard Bank plc

The FCA has fined Standard Bank plc ('Standard Bank') £7,640,400 for failings relating to its anti-money laundering ('AML') policies and procedures over corporate customers connected to politically exposed persons ('PEPs').

Standard Bank failed to comply with reg 20(1) of the Money Laundering Regulations 2007, SI 2007/2157, because it failed to take reasonable care to ensure that all aspects of its AML policies were applied appropriately and consistently to its corporate customers connected to PEPs.

23.01.14

State Street UK

State Street UK has been fined £22,885,000 by the FCA. State Street UK's Transitions Management business had developed and executed a deliberate strategy to charge clients substantial mark-ups on certain transitions, in addition to the agreed management fee or commission. These mark-ups had not been agreed by the clients and were concealed from them.

31.01.14

EU AND INTERNATIONAL

New Euro Retail Payments Board will Reinforce Market Governance

The European Central Bank ('ECB') announced the creation of the Euro Retail Payments Board ('ERPB'). This new entity, which replaces the Single Euro Payments Area ('SEPA') Council, will help foster the development of an integrated, innovative and competitive market for retail payments in euro in the European Union.

The ERPB's composition and mandate will be broader than those of its predecessor. Seven representatives from the demand side (e g consumers, retailers and corporations) and seven from the supply side (banks and payment and e-money institutions) will sit on the Board (compared with five each on the SEPA Council). They will be joined by five representatives from the euro area national central banks and one representative from the non-euro area EU national central banks (all on a rotating basis). The ERPB is to be chaired by the ECB. The European Commission is invited to join as an observer.

'Retail payments are the backbone of the real economy,' said Benoît Cœuré, member of the ECB's Executive Board. 'The integration of the European retail payments market is a natural consequence of the monetary union. It facilitates everyday life for European citizens and also trade, financial integration and market competitiveness in the European Union.'

The ERPB's work will consist mainly of identifying strategic issues and work priorities (including business practices, requirements and standards) and ensuring they are addressed. It starts its work as the payments sector prepares for the deadline for full migration to SEPA credit transfers and SEPA direct debits in the euro area.

However, migration will not address all issues in the retail payments sector. Further integration efforts are needed in a number of areas, including card payments and innovation. The success of the ERPB will be determined by participants' contributions to the Board's work and their voluntary commitment to follow and uphold its common positions, guidance and statements. The ECB, which will provide secretarial support to the ERPB, is committed to undertaking all the necessary actions and to providing the resources needed to ensure its success.

European Central Bank 19.12.13

New ECB Guide will Help Assess Security of Internet Payments

The Governing Council of the ECB endorsed the 'Assessment guide for the security of internet payments', prepared by the European Forum on the Security of Retail Payments. The Guide intends to facilitate harmonised, efficient and comparable assessments conducted by the relevant supervisory or oversight authorities within the European Union and European Economic Area.

It outlines assessment questions for all aspects covered in the 'Recommendations for the security of internet payments' that were approved by the Governing Council in January 2013. These include governance, risk management and mitigation, customer information and due diligence, the initiation, monitoring and authorisation of payments, protection of sensitive payment data, and customer awareness and education. The European Forum on the Security of Retail Payments has given special attention to providing further clarification with regard to the evaluation of strong customer authentication and the protection of sensitive payment data.

The Guide will support governance authorities of payment schemes, as well as internet payment service providers, in implementing the recommendations by 1 February 2015.

The European Forum on the Security of Retail Payments is a voluntary cooperative initiative between relevant European authorities, in particular supervisors of payment service providers and overseers. It aims to promote knowledge and understanding of issues related to the security of electronic retail payment services and instruments.

European Central Bank 04.02.14

Structural Measures to Improve the Resilience of EU Credit Institutions

The proposed Regulation on structural measures to improve the resilience of EU credit institutions aims at further strengthening the stability and resilience of the EU banking system. The proposal completes the financial regulatory reforms undertaken over the last few years by setting out rules on structural changes for 'too-big-to-fail banks' ('TBTF'). A bank is considered TBTF when the consequences of its failure are believed to be detrimental for the financial system as a whole. In order to prevent this risk from materialising, the proposal would impose a ban on speculative activities (proprietary trading, ie trading using own money as opposed to on behalf of customers) and caters for the potential separation of other risky trading activities carried out by these banks. The proposal builds on the recommendations made by the High Level Expert Group chaired by the Governor of the Bank of Finland, Mr Erkki Liikanen ('Liikanen Group' – see IP/12/1048 and background section of this MEMO).

The proposal would reduce the implicit subsidies that the EU TBTF banks enjoy today for some of their risky trading activities. The proposed measures may lead to higher funding costs for these trading activities within the banks concerned. There may also be operational costs related to the separation of some trading activities in a specific legal entity. However, banks would have time to deal with this transfer of existing trading activities as the proposal would be phased in over time.

This reform would focus on EU TBTF banks. It would not affect the vast majority of EU banks providing traditional financing activities to retail customers, small and medium enterprises or larger companies. Overall, the public benefits expected from this reform far outweigh the private costs by increasing the financial stability and resilience of the EU banking and financial system as a whole.

European Commission 29.01.14

Revisions to the Basel Securitisation Framework Issued by the Basel Committee

The Basel Committee on Banking Supervision has issued a second consultative paper on revisions to the Basel securitisation framework. The paper comprises a detailed set of proposals, including draft standards text, for a comprehensive revision of the treatment of securitisation within the risk-based capital framework. This initiative forms part of the Committee's broader agenda to reform regulatory standards for banks in response to lessons learned from the global financial crisis.

In developing these proposals, the Committee has carefully taken into account the comments received on the first consultative document, as well as the results of the related quantitative impact study ('QIS'). Revisions have also been informed by the Committee's desire to strike an appropriate balance between risk sensitivity, simplicity and comparability.

Relative to the first consultation, the major changes in this consultative document apply to the hierarchy of approaches, and the calibration of capital requirements.

For the hierarchy, the Committee has proposed a simple framework akin to that used for credit risk:

- Where banks have the capacity and supervisory approval to do so, they may use an internal ratings-based approach to determine the capital requirement based on the risk of the underlying pool of exposures, including expected losses. The internal ratings-based approach is risk-sensitive, yet relatively easy to use and supervise.

- If this internal ratings-based approach cannot be used for a particular securitisation exposure, an external ratings-based approach may be used (assuming that the use of ratings is permitted within the relevant jurisdiction). Unlike the existing securitisation approach, however, capital requirements need not be based on external ratings if they are available; furthermore, some jurisdictions may not wish to use this approach at all.
- Finally, if neither of these approaches can be used, a standardised approach would be applied. This is based on the underlying capital requirement that would apply under the standardised approach for credit risk, and other risk drivers.

In reviewing the calibration of the approaches, the Committee has revised some of the modelling assumptions behind the original calibration proposed in the first consultative document. These changes result in greater consistency with the underlying credit risk framework. They would lead to meaningful reductions in capital requirements vis-à-vis the initial proposals, yet would remain more stringent than under the existing framework. The Committee also proposes to set a 15% risk-weight floor for all approaches, instead of the 20% floor originally proposed.

Any comments on all aspects on the proposals should be sent by Friday 21 March 2014.

BIS 19.12.13

Consultative Paper on Revised Good Practice Principles for Supervisory Colleges Issued by the Basel Committee

The Basel Committee on Banking Supervision has issued a consultative document on revised good practice principles for supervisory colleges.

The original *Goode practice principles on supervisory colleges* were published in October 2010, and included a commitment to review the principles to take stock of any key lessons learned from their use. This consultative document updates the principles following a review of practical challenges in their implementation and possible areas of additional best practices. The perspectives of home and host supervisors, as well as internationally active banks, were taken into account during this process.

The Committee seeks to ensure that the principles remain fit for purpose and that they describe how high quality colleges typically function. The key changes include the following:

- Principle 1 now places greater emphasis on collaboration and information-sharing on an ongoing basis.
- Principle 2 provides greater clarity on the expectation to strike a balance between core college effectiveness and host involvement.

- Principles 3 includes the expectation that home and host supervisors will put in place appropriate mechanisms and sufficient resources for effective and timely information exchange.
- Principle 6 encourages home and host supervisors to agree on the types of feedback provided to banks and ensure consistency in how such feedback is provided.
- Principle 7 differentiates between banks that have established crisis management groups ('CMGs'), e g systemically important banks, and banks that do not have a CMG. For the former, guidance is provided on possible communication and coordination between the college and CMG on crisis preparedness.
- Alignment across the principles in terms of how macroprudential information is shared and utilised.

Any comments on all aspects on the proposals should be sent by Friday 18 April 2014.

BIS 23.01.14

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