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RECENT DEVELOPMENTS UK

HM Treasury News

Help to Buy extended to include 'Islamic Mortgages'

The government's Help to Buy mortgage guarantee scheme can now also be used by providers of Home Purchase Plans, the Financial Secretary to the Treasury, Sajid Javid, announced on 11 February 2014. Home Purchase Plans ('HPPs') are a Sharia law compliant alternative to mortgages and are often known as 'Islamic Mortgages'.

The Help to Buy scheme has already helped thousands get on or move up the housing ladder, and the government remains committed to making the aspiration of home ownership a reality for as many households as possible.

In line with this, the government has been looking at how to open up access to the Help to Buy mortgage guarantee scheme, so that providers of HPPs can also benefit. From now the rules have been amended to enable banks that sell HPPs to purchase a government guarantee for them. Additionally, the Islamic Bank of Britain has stated its intention of participating to offer Home Purchase Plans under the scheme.

This will be particularly supportive to some Muslim homebuyers who have been unwilling to use a traditional Help to Buy mortgage because of their religious beliefs. However, the inclusion of HPPs in the Help to Buy scheme introduces more choice for all consumers and perspective homebuyers.

Sajid Javid said:

> 'I am delighted Home Purchase Plans will now be available under the Help to Buy scheme. This gives even more choice to hardworking families across the UK trying to fulfil their home owning aspirations.'

Under an HPP, a property's ownership is split between the customer and the bank. After buying a portion of the property with their initial deposit, the

purchaser of the property pays regular instalments to the bank, covering rent for the portion they do not own and an acquisition payment. In this way, a customer gradually buys the property from the bank and eventually becomes the sole owner.

In order to purchase the government guarantee, banks will have to satisfy the same stringent criteria for an HPP as for a normal mortgage. HPPs sold in the UK are also subject to regulation by the Financial Conduct Authority ('FCA'), in much the same way as mortgages.

HM Treasury 14.02.14

HM Revenue & Customs campaign targets offshore account holders in fresh clamp-down on tax evasion

As G20 ministers welcome a new global standard to automatic tax information exchange and call on the governments of financial centres to sign up to new international tax information sharing agreements, the Chancellor of the Exchequer, George Osborne, has launched a new campaign targeting taxpayers with money hidden in offshore accounts.

The UK has already entered into new information-sharing agreements with the Crown Dependencies and Overseas Territories which will provide HM Revenue & Customs ('HMRC') with access to more data than ever before on offshore accounts held by UK taxpayers.

The UK, following an agreement reached last year with France, Germany, Italy and Spain, will also move quickly to implement the new global standard on a multilateral basis. So far 42 countries and jurisdictions have joined this initiative which will lead to the rapid embedding of the new global standard and the removal of hiding places for tax evaders as HMRC uses new information to clamp down on tax evasion.

Any taxpayer who has declared all of their income has nothing to fear, but anyone who fails to do so will have to pay the tax itself as well as penalties of up to twice that sum, and could face imprisonment. The new HMRC campaign will run in national newspapers and weekly magazines from Monday 24 February 2014.

The launch of the campaign follows the G20 group of finance ministers' further demonstration of its shared commitment to tackling global tax avoidance and evasion through agreements made at the G20 meeting in Australia over the weekend.

Endorsing the Organisation for Economic Cooperation and Development's ('OECD's') new global standard for automatic exchange of tax information, unveiled at this weekend's meeting, the group called on all financial centres to match the G20's commitment to tackling tax evasion.

The G20 said that it will continue to focus on ensuring that developing countries benefit from automatic information sharing alongside developed economies.

The G20 finance ministers also restated their commitment to fighting profit shifting by multinational corporations to avoid paying tax. They said they look forward to progress in the OECD's base erosion and profit shifting ('BEPS') project to reform the global tax rules and tackle profit-shifting by multinational companies as set out in the agreed timetable.

HM Treasury 24.02.14

UK and Singapore agree to increase financial services cooperation

The UK and Singapore have agreed to set up a UK-Singapore Financial Dialogue, which will focus on deepening financial and economic cooperation between the two countries.

Making his first trip to Singapore, Chancellor of the Exchequer, George Osborne, and Singapore's Deputy Prime Minister, Minister for Finance and Chairman of the Monetary Authority of Singapore, Tharman Shanmugaratnam, agreed to the Dialogue at a meeting in Singapore on 24 February 2014.

London and Singapore are two of the world's leading international financial centres and play similar roles as financial hubs and major asset management centres for Europe and Asia respectively. They are also the largest and third largest foreign exchange centres in the world.

Led by HM Treasury for the UK and the Monetary Authority of Singapore, this Dialogue will form the basis for a regular and structured exchange of views on domestic and international financial issues.

Alongside the Dialogue, the Ministers also agreed to support the establishment of a new, private sector forum to boost the development of the offshore Renminbi ('RMB') market. The forum will be led by the private sector and focus on increasing cooperation between the UK and Singapore markets.

George Osborne said:

> 'I am delighted to be able to announce the new UK-Singapore Financial Dialogue. The UK and Singapore are both leading financial centres. Sharing our knowledge and expertise will open up new opportunities for both of our economies and help the UK succeed in the global race.
>
> London and Singapore are integral players in Renminbi markets outside of Greater China. Our financial firms and institutions are leading the way in promoting the use of Renminbi and I am pleased to support work to help develop it further.'

Tharman Shanmugaratnam said:

> 'The UK-Singapore Financial Dialogue reflects our common interests in promoting a stable and vibrant international financial system, and will help strengthen what is already a solid base of economic and financial cooperation. The new private sector forum will also help advance cooperation as we each play our role in developing the offshore RMB market.

> Outside of China and Hong Kong, London and Singapore are the leading centres for RMB trading and financing, and serve different investor bases and business communities. The two centres can cooperate to promote fungibility of the RMB globally, encourage innovation in RMB products and services and meet the growing appetite for RMB investment instruments.'

HM Treasury 25.02.14

World Bank Group member becomes first international institution to issue a RMB bond in London

The International Finance Corporation ('IFC') issued a RMB one billion bond in London on 4 March 2014. It is the first RMB bond to be issued in London by an international financial institution and will be listed on the London Stock Exchange.

The successful completion of the IFC bond further strengthens London's position as the Western centre of RMB trading. According to SWIFT data 62% of RMB payments outside of China take place in London and thanks to the government's agreement with the Chinese authorities, London firms are able to invest directly in Chinese stocks and shares in RMB – something that's not possible anywhere else in the West.

The government is determined to play a leading role increasing the use of RMB around the world. London will continue to lead the way in RMB market infrastructure. The UK was the first G7 country to agree to a RMB swap line with the People's Bank of China, giving London investors the confidence to expand their RMB activities. Building on this the Chancellor of the Exchequer, George Osborne, in a speech in Hong Kong, announced that the UK and Chinese governments are in active discussions about the appointment of a RMB clearing bank in London.

The IFC is part of the World Bank Group and provides advice and investment to help the private sector find solutions to development issues.

The Chancellor of the Exchequer, George Osborne, said:

> 'I'm delighted that the International Finance Corporation has become the first international financial institutional to issue an RMB bond in London.
>
> Nearly two thirds of all Renminbi activity outside of greater China takes place in London and IFC's decision to issue in London provides yet more evidence that the capital is the western hub for Renminbi.
>
> The government will continue to work very closely with the private sector, and the Chinese and Hong Kong authorities, to build a thriving RMB market in London.'

HM Treasury 04.03.14

LIBOR funds to support first Invictus Games in London

£1m from the LIBOR fund will be used to support a major new international sporting event for wounded, injured and sick Service personnel, the Chancellor of the Exchequer, George Osborne, announced on 6 March 2014.

This new event, called the Invictus Games, is being championed by Prince Harry through his role in the Royal Foundation. The Games will see more than 300 wounded, injured and sick Servicemen and women, serving and veteran, competing in athletics, archery, wheelchair basketball, road cycling, indoor rowing, wheelchair rugby, swimming and sitting volleyball.

Teams from the armed forces of 13 nations that have served alongside each other will be invited to the Invictus Games in London in September this year. The contribution from the LIBOR fund will be used to support the event and is being matched by funding from the Royal Foundation.

The LIBOR fund has been raised through fines imposed on banks for misdemeanours and attempted manipulation of financial markets. This latest allocation builds on £35m of LIBOR funding already given to military good causes in previous tranches, £60m to support Armed Forces personnel, their families and veterans and a further £10m per annum which has been earmarked from 2015 to support the Armed Forces Covenant.

HM Treasury 06.03.14

Budget extension of Help to Buy equity loan creates thousands of construction jobs

Budget 2014 announced the extension of the Help to Buy Equity Loan scheme until the end of the decade. The extension of the scheme is expected to help another 120,000 families in the UK to buy a new-build home by 2020.

As a result of the decision to extend the scheme, Barratt Developments has said (20 March 2014) they expect to create another 3,000 jobs. And the Home Builders Federation has estimated that 120,000 new homes would create 300,000 new jobs in total. This includes 180,000 new home-building jobs. The Chancellor visited an 800-home Barratt development in Nuneaton, which through the Help to Buy equity loan scheme has so far enabled almost 50 households to buy a new home.

HM Treasury 20.03.14

Government reduces its stake in Lloyds Banking Group to below 25%

As of 26 March 2014, the government has sold another part of its shares in Lloyds Banking Group. It has sold 24% of its remaining shares in the bank, at a price of 75.5p per share. This takes the government’s holding in the bank to less than a quarter.

The sale has secured further value for the taxpayer and will be used to pay down the national debt. It is part of the government’s long term economic plan to build a stronger and safer banking sector.

The Chancellor received advice from UK Financial Investments on 25 March 2014 that it would be appropriate to sell part of the government's shareholding in Lloyds. The Chancellor agreed with that advice and authorised the process to begin. The government has now sold 36% of its original stake in Lloyds, which now stands at 24.9%.

Chancellor of the Exchequer, George Osborne, said:

> 'I can confirm this morning that we have sold a further £4.2 billion of shares in Lloyds Banking Group at 75.5p a share, taking the taxpayer's stake down to below a quarter of the bank. This represents good value for the taxpayer and the money will again be used to reduce the national debt.
>
> This is another step in the government's long term economic plan to deliver a more secure and resilient economy. It is another step in repairing the banks, in reducing our national debt and in getting the taxpayer's money back.'

HM Treasury 26.03.14

Video games tax relief passes final hurdle

Generous tax relief for the UK video games sector has been given full approval by the European Commission. Chancellor George Osborne has welcomed the decision following an investigation into the relief by the Commission in order for it to receive state aid approval.

Announced at Budget 2012, the relief will provide support for the growing video games sector in the UK. There are currently around 500 games development studios in the UK, employing around 9,000 staff. In 2013 sales of video games in the UK totalled £2.19bn.

Commenting on the decision by the Commission, the Chancellor said:

> 'This is a key industry of the future and I want Britain to be one of its biggest centres. 95% of UK video games companies in the UK are SMEs.
>
> This relief is one of the most generous in the world and will help them to grow, creating new jobs for hardworking people.'

The generous new corporate tax relief will come into effect from 1 April 2014, and it is estimated that the relief will provide around £35m of support a year to the sector.

The relief enables companies to be eligible for a payable tax credit worth 25% of qualifying production costs, and builds on the successful model of the film tax relief which can be claimed on production expenditure in the UK, and the new High-End TV and animation tax reliefs.

In 2011–2012 the film tax relief provided more than £200m of support to around 200 films. Since its introduction in 2007, direct employment within the sector has almost doubled and 1,050 film productions have made 1,900 claims, for a total £1.1bn.

State aid approval has already been received for high-end television and animation, which were also announced at Budget 2012. This relief comes into effect from 1 April 2013.

HM Treasury 27.03.14

Chancellor launches consultation on measures to help small business lending

Speaking at the Federation of Small Businesses ('FSB') 40th anniversary conference, the Chancellor announced how proposals published on Friday 28 March aim to make it easier for SMEs to find alternative loan providers.

The consultation asks whether the government should legislate to require lenders to release information on SMEs they reject for finance, so that they can be identified and approached by alternate credit providers.

The ultimate aim is for new online platforms to be created so that lenders can find SMEs that are looking for a loan, but have been rejected first time around.

Over half of SMEs seeking finance for the first time get rejected, and research suggests most of them do not try again.

Big banks account for the vast majority of main SME banking relationships (over 80%), but innovative new forms of credit, such as peer-to-peer lending and crowd-funding platforms, are being created in the UK all the time.

The proposals will bridge the gap between SMEs not knowing other lending options could meet their needs, and alternative lenders not knowing these businesses need a loan.

Chancellor of the Exchequer, George Osborne, said:

> 'The success of small and medium sized business is key to the government's long term economic plan. That's why we are fully focused on making sure businesses can get the finance they need to grow and create jobs. This includes actively supporting innovative new forms of business lending.
>
> We're setting out new proposals that will help match up other lenders with small businesses that may have been turned down for a loan by a large bank. A big bank saying 'no' should not be the end of the line for a small business. Now, with our plan, it won't be.'

Business Secretary, Vince Cable, said:

> 'Too many businesses are put off looking for finance if they are turned down by their bank. By putting the onus on banks to refer these businesses to other sources of finance, we can help make sure the potential of the country's small businesses isn't lost. A better referrals system will be good for competition, and good for the economy.'

HM Treasury 28.03.14

Bank of England News

New agreement on London RMB clearing and settlement arrangements paves way for appointment of clearing bank

The Bank of England and the People's Bank of China ('PBoC') have agreed to sign a Memorandum of Understanding ('MoU') on RMB clearing and settlement in London. The MoU will be signed in London on 31 March 2014 and will set out the cooperation between the Bank and the PBoC relating to the operations of the RMB clearing and settlement service in London.

This decision further strengthens London's position as the Western centre of RMB trading. According to SWIFT data, 62% of RMB payments outside of China take place in London, and London asset managers are the only ones in the West able to invest directly in Chinese stocks and shares in RMB.

The highly sought-after RMB bond issued by the International Finance Corporation in London earlier this month was the first benchmark bond by an international financial institution, and demonstrated the interest from international investors in London's RMB markets.

Prime Minister David Cameron and President Xi discussed the co-operation between the two banks in a bilateral meeting in the margins of the Nuclear Security Summit in the Netherlands on 25 March 2014.

The UK was the first G7 country to agree a RMB swap line with the PBoC, and the agreement on clearing and settlement arrangements, the first outside Asia, is the logical next step to giving the international market in London the confidence to expand their RMB activities. A London clearing bank would complement the main clearing and settlement infrastructure in Hong Kong by supporting efficient transfer of funds within the Western time zone.

HM Treasury 28.03.14

Bank of England consults on bonus clawback

The Bank of England is consulting on proposals to require all firms authorised by the Prudential Regulation Authority ('PRA') to amend employment contracts to ensure bonus awards that have been vested can be clawed back from individuals where necessary. The Bank of England already has powers to require firms to stop payment of unvested bonuses, called malus; the proposals in the announced document would represent a further strengthening of the remuneration code.

The conditions in which vested remuneration would be clawed back under the proposals in the consultation paper are:

- there is reasonable evidence of employee misbehaviour or material error;
- the firm or the relevant business unit suffers a material downturn in its financial performance; or

- the firm or the relevant business unit suffers a material failure of risk management.

Consistent with the rules on malus, clawback should not be limited to employees directly culpable of malfeasance. For example, in cases involving a material failure of risk management or misconduct, firms should consider applying clawback to those employees who:

- could have been reasonably expected to be aware of the failure or misconduct at the time but failed to take adequate steps to promptly identify, assess, report, escalate or address it; or
- by virtue of their role or seniority could be deemed indirectly responsible or accountable for the failure or misconduct, including senior staff in charge of setting the firm's culture and strategy.

The proposed rules would come into force on 1 January 2015 and clawback could be applied to awards made before that date but which vest after that date, subject to a six-year time limit due to the statute of limitations for contracts.

The proposed requirements are subject to two months' consultation.

Later this year the PRA will consult on taking forward the recommendations in the report published by the Parliamentary Commission on Banking Standards.

Andrew Bailey, Deputy Governor for Prudential Regulation and CEO of the PRA, said:

> 'We have an objective to ensure the safety and soundness of the firms we regulate and we won't allow remuneration schemes to exist that encourage behaviour likely to jeopardise financial stability. The policy we are consulting on will ensure bonuses can be clawed back from individuals, where they have already been paid, if it becomes apparent they have put the stability of their firms at risk or engaged in inappropriate actions. This will provide a clear message to individuals of what is expected from them and the consequences of not acting properly.'

Bank of England 13.03.14

Bank of England launches strategic plan

The Bank of England launched its Strategic Plan, following a six-month exercise led by the Executive Committee of the Bank. The Plan, to be implemented over the next three years, provides an ambitious agenda to transform the institution to take full advantage of the Bank's expanded policy responsibilities. It will create a single, unified institution – One Bank – that will maximise its impact by working together across all its functions.

At the core of the Strategic Plan lies a shared vision for the Bank, embodied in a new mission statement: 'promoting the good of the people of the United Kingdom by maintaining monetary and financial stability'.

This statement reflects the Bank's two core objectives, but also recognises that monetary and financial stability are not ends in themselves, but necessary pre-conditions for delivering the public good. As such, the Bank's previous commitment to two core purposes has been recast into this single mission statement. It also respects the timeless public service mission of the Bank, which has been in place since its original 1694 charter.

'In short, we are creating a central bank for the 21st century that combines the finest aspects of our history and traditions with the best of the modern and new,' said Governor Mark Carney.

The Bank's Mission Statement and strategy will rely upon its commitment to a diverse and talented workforce, analytic excellence, outstanding execution and openness and accountability.

To implement this Strategic Plan, 15 core initiatives have been identified. These will be carried out in a responsible, well-governed approach that delivers substantial changes and benefits, within the Bank's existing budget.

Some of these initiatives involve the promotion of greater engagement by the Bank with external stakeholders: opening up the Bank's research agenda and key policy questions to external contributions; opening up data sets to the public; the creation of a Stakeholder Relations Group; and building public understanding and support for maintaining monetary and financial stability.

To support the delivery of the Strategic Plan, the court has approved changes to the organisational structure of the Bank, which will take effect on 1 June 2014. A series of senior-level staff appointments, effective 1 June 2014, were announced to staff earlier, on 18 March, in conjunction with the internal launch of the Strategic Plan.

These changes integrate functions to build One Bank, develop talent and diversity, and build new capabilities to support analytic excellence and outstanding execution, and promote openness and accountability. Some roles will move between areas of the Bank, and some staff will move to different roles at the same level. There will, however, be no job losses at any level as a result of this re-organisation. Overall, these changes will create new opportunities for staff to develop and progress within the Bank.

Notable changes are:

- *The creation of a new Deputy Governor-level position for Markets and Banking.* The role will be taken by Dr Nemat Shafik. As Deputy Governor for Markets and Banking, reporting directly to the Governor. Dr Shafik will be a member of the Monetary Policy Committee ('MPC') and will be appointed to the Board of the PRA. Once formalised, Dr Shafik will hold a seat on the Financial Policy Committee ('FPC'). Dr Shafik will be responsible for reshaping the Bank's operations and balance sheet, including ensuring robust risk management practices and helping to lead the design and execution of an eventual exit from quantitative easing by the MPC. She will also oversee

the implementation of reforms to the Bank's Sterling Monetary Framework, lead the Bank's work to build fair, efficient and effective financial markets, and review and strengthen the Bank's Markets and Banking areas, including a comprehensive review of the Bank's essential market intelligence function. Dr Shafik will also be jointly responsible for the Bank's international surveillance, analysis and engagement. She will be the Bank's G7 Deputy and take responsibility for international monetary issues and liaison with the International Monetary Fund ('IMF').

- *An expanded role for the Chief Economist to build the Bank's research, analysis and data capability.* The role will be taken by Andy Haldane. To build cross-Bank research, analysis and data capabilities, the Chief Economist's role will be expanded. For these cross-Bank issues, the Chief Economist will be responsible to the Governors as a whole. To allow for that, a new Monetary Analysis ('MA') Director position will be created, reporting to the Chief Economist, who will oversee the work of the MA divisions, consistent with the recommendations of the Stockton Review.
- *A new Financial Stability Strategy and Risk Directorate*. A focussed financial stability strategy and risk directorate will be created, under the leadership of an Executive Director for Financial Stability Strategy and Risk, bringing together several existing divisions from the Financial Stability Directorate and the PRA. The area will primarily serve the FPC, but also the MPC and PRA Board, and will be responsible for co-ordinating the new annual stress testing exercise. The Executive Director of FS-Strategy and Risk will be a member of FPC. The role will be taken by Spencer Dale.
- *An Executive Director for Specialist Supervision and Regulatory Operations in the PRA*. The role will be taken by Paul Fisher. This Executive Director ('ED') will report to the Deputy Governor for Prudential Regulation and will be responsible for Supervisory Oversight, Supervisory Support, the PRA Chief Operating Officer function and, through a Director of Specialist Supervision, the PRA Risk Specialists and both Banking and Insurance Prudential Supervision Support functions. Alongside the Executive Director of Insurance Supervision, the new ED will be a Deputy Head of the PRA. He will, in due course, become a member of the PRA Board. The appointment will create an enhanced senior leadership team for the PRA and reinforce the capability of senior management to engage with oversight and other functions that support institution-specific teams. Although the primary function of this area is to support microprudential supervision, the Director of Specialist Supervision will have a secondary reporting line to the ED for Financial Stability Risk and Strategy, indicating the important role this function will play in supporting stress testing and other FPC work.
- *A new Prudential Policy Directorate*. This will bring together relevant PRA and Financial Stability ('FS') policy divisions. The area will be led by a new Executive Director reporting jointly to Deputy Governor–FS and the Deputy Governor–PRA. The role will be taken by David Rule.

- *A new International Directorate*. This will be responsible for the Bank's surveillance and analysis of the international environment and for co-ordinating interactions with international bodies. Led by a new Director, the directorate will bring together functions currently dispersed across MA and FS, and will report jointly to DG Markets and Banking and DG Financial Stability, who will share responsibilities for international representation at Deputy level. It will have overall responsibility for co-ordinating the Bank's international and European strategy, and will ensure the Bank has a forward-looking and consistent approach to its international engagement and that its stance is co-ordinated across the wide range of international fora with which the Bank is now engaged. It will also produce the MPC's world economic forecasts, co-ordinating with the Director of Monetary Analysis, and will support the FPC's financial stability risk assessment.
- *Enhancement of the PRA line supervision team*. The model of judgement-led supervision employed in the PRA requires both expert line supervision and senior level engagement with firms. That capability will be reinforced: an Executive Director for International Banks Supervision will lead the supervision of branches and subsidiaries of overseas banks. The role will be taken by Megan Butler. An Executive Director for supervision of UK deposit takers will be created, and filled by Lyndon Nelson. He will be supported by Directors for Systemic UK banks and for Non-Systemic UK deposit takers.
- *A new Director, Banknotes and Chief Cashier, and a new Director for Supervision of Financial Market Infrastructures*. The role will be taken by Victoria Cleland. A new Director for Supervision of Financial Market Infrastructures, reporting to the Deputy Governor-FS, will give focussed senior leadership to these two core areas.
- *An independent evaluation unit to be established*. A new unit to support the Oversight Committee of the Bank's Court, led by a Director reporting to the Chairman of the Oversight Committee is to be established. Modelled on the Independent Evaluation Office of the IMF, this function will support the Oversight Committee in its oversight of the performance and processes of the Bank.

Bank of England 18.03.14

FCA News

FCA publishes its findings on transition management

Over £165bn of assets invested in pensions and other large funds are transferred between investment managers, markets and products every year – potentially affecting the returns enjoyed by millions of consumers on their investments – by 13 specialist transition management ('TM') providers. Following the FCA's first review of the sector, firms have today been advised to ensure that their controls, oversight and governance arrangements meet the FCA's requirements in all areas.

Clive Adamson, FCA director of supervision, said:

> 'Transition Management often flies below the radar, but done properly, helps to ensure that investors get the best returns on their assets. By taking a proactive look across the sector, we've acted to ensure that standards are high and the consequences of failing to meet our expectations are clear.'

The FCA's review found that firms broadly met its requirements; however the quality and effectiveness of controls, marketing materials, governance and transparency varied.

The FCA has provided specific feedback where needed, and will continue to monitor the conduct of TM providers. Where firms fall short of its requirements the FCA will not hesitate to take action; the FCA recently fined one TM provider, State Street, £22.9m for deliberately overcharging clients.

Often, the pension funds or other clients commissioning TM services are unfamiliar with the process. As a result, they may not be aware of potential conflicts of interest, or understand how the way the transaction is being carried out could affect the value of their assets.

FCA 10.02.14

FCA publishes report into mortgage lenders' arrears management and forbearance

In a review of lenders' approaches to mortgage arrears management, the FCA found firms had improved practices, placing greater emphasis on the need to treat customers fairly, but identified areas on which the industry should now focus.

To build on the progress so far, the FCA has challenged firms to do more to deliver consistently good outcomes for borrowers. The FCA reiterated the importance of firms making decisions that take account of the specific personal and financial circumstances of borrowers – and reminded firms to deal sensitively with borrowers who have particular vulnerabilities.

The FCA's review is published in the context of an extended period of historically low interest rates. The regulator has asked lenders to take action to identify customers susceptible to arrears if interest rates rise and have appropriate strategies to treat them fairly.

The FCA's report calls on firms to build on the progress made by:

- better supporting and empowering front line staff to help them make appropriate decisions; and
- providing greater flexibility in their practices to support more tailored outcomes in the best interests of borrowers.

The review of mortgage arrears management forms part of the FCA's wider strategy for improving standards in the mortgage market and reflects the FCA's new forward-looking, judgement-based approach to supervising firms.

At the end of April, the Mortgage Market Review ('MMR') comes into force. The MMR reforms aim to ensure that there is a sustainable mortgage market that works for consumers. The reforms are a common sense set of measures to help ensure borrowers can meet the repayments of the mortgage they want both now and in the future, taking into account the likelihood of future interest rate changes.

In May 2013, the FCA also published a review into interest only mortgages along with guidance, which sets out what the FCA expects firms to do to ensure the fair treatment of customers who are unable to repay the capital sum at the end of the mortgage term.

FCA 25.02.14

FCA publishes latest review of sales incentives at retail financial services firms

All the major retail banks have either replaced or made substantial changes to financial incentive schemes, which played such a major role in the mis-selling scandals of recent years, the FCA revealed on 4 March 2014. In its latest review of incentives schemes, the FCA found significant improvements at many firms of all sizes but identified a number of areas common across the industry where further work was needed.

The review found that around one in ten firms with sales teams had higher-risk incentive schemes and appeared not to be managing the risk properly. The FCA finalised its guidance on financial incentives in January 2013 and has since been working with the industry, with most large and medium sized firms committing to further improvements following the latest review.

The FCA has identified a number of areas on which firms should concentrate to better manage incentive schemes, in particular:

- checking for spikes or trends in the sales patterns of individuals to identify areas of increased risk;
- doing more to monitor poor behaviour in face-to-face sales conversations;
- managing the risks in discretionary incentive schemes and balanced scorecards, including the risk that discretion could be misused;
- monitoring non-advised sales to ensure staff who are incentivised to sell do not give personal recommendations;
- improving oversight of incentives used by appointed representatives; and
- recognising that remuneration that is effectively 100% variable pay based on sales, increases the risk of mis-selling and managing this risk.

The FCA has committed to further work on incentives for retail sales staff. In addition to the regulator's supervision teams maintaining their focus on this

issue as part of understanding how firms are changing their culture, further thematic work will be undertaken on firms' performance management approaches.

The progress that has been made, and the further changes required to build on it, will only be effective in reducing the risk of mis-selling if they are embedded for the long term, and part of wider cultural change that places consumers at the heart of firms' businesses. The FCA has also made clear firms should not simply replace bonus schemes with other performance management measures, which can put pressure on sales staff and are just as capable of causing poor sales practice.

FCA 04.03.14

Consumer credit countdown – Review into debt collection practices of payday lenders starts on day one of FCA regulation

Payday lenders and other high-cost short-term lenders will be the subject of an in-depth thematic review into the way they collect debts and manage borrowers in arrears and forbearance, the FCA announced on 12 March 2014.

The review will be one of the very first actions the FCA takes as regulator of consumer credit, which begins on 1 April 2014, and reinforces its commitment to protecting consumers – one of its statutory objectives. It is just one part of the FCA's comprehensive and forward-looking agenda for tackling poor practice in the high-cost short-term loan market.

This area is a priority because six out of ten complaints to the Office of Fair Trading ('OFT') are about how debts are collected, and more than a third of all payday loans are repaid late or not at all – that equates to around 3.5m loans each year. The new FCA rules should reduce that number, but for those that do fail to make repayments and are keen to get their finances back on track, there will now be a discussion about the different options available rather than piling on more pressure or simply calling in the debt collectors.

The review will look at how high-cost short-term lenders treat their customers when they are in difficulty. This will include how they communicate, how they propose to help people regain control of their debt, and how sympathetic they are to each borrower's individual situation. The FCA will also take a close look at the culture of each firm to see whether the focus is truly on the customer – as it should be – or simply oriented towards profit.

Beyond this review, as part of its regulation of the high-cost short-term lending sector, from 1 April 2014 the FCA will also:

- pay a visit to the biggest payday lenders in the UK to analyse their business models and culture;
- assess the financial promotions of payday and other high-cost short-term lenders and move quickly to ban any that are misleading and/or downplaying the risks of taking out a high-cost short-term loan;

- take on a number of investigations from the outgoing consumer credit regulator, the OFT, and consider whether it should begin its own for the worst performing firms;
- consult on a cap on the total cost of credit for all high-cost short-term lenders in the summer of 2014, to be implemented in early 2015;
- continue to engage with the industry to encourage them to create a real-time data sharing system; and
- maintain regular and ongoing discussions with both consumer and trade organisations to ensure regulation continues to protect consumers in a balanced way.

The FCA's new rules for payday lenders, confirmed in February, will mean the sector has to carry out proper affordability checks on borrowers before lending. They will also limit to two the number of times a loan can be rolled over, and the number of times a continuous payment authority can be used to dip into a borrower's account to seek repayment.

Around 50,000 consumer credit firms are expected to come under the FCA's remit on 1 April, of which around 200 will be payday lenders. These companies will initially have an interim permission but will have to seek full FCA authorisation to continue doing credit business longer term.

Payday lenders will be one of the groups that have to seek full FCA authorisation first and it is expected that a quarter will decide that they cannot meet the FCA's higher consumer protection standards and leave the market. Most of these firms will be the ones that cause the worst consumer detriment.

FCA 12.03.14

FCA consultation papers

Consultation paper CP14/3: Consumer Credit: Further amendments to DEPP and EG

This consultation paper forms part of the FCA's wider work in relation to the transfer of consumer credit regulation from the OFT to the FCA from 1 April 2014. The FCA proposes to amend its Decision Procedure and Penalties Manual ('DEPP') and the Enforcement Guide ('EG') to set out its decision-making processes and enforcement approach when using these powers.

Closing date is 14 March 2014.

FCA 28.02.14

Consultation paper CP14/5: Changes to regulatory reporting: Adviser and consultancy charging, Authorised Professional Firms (APFs) and Product Sales Data (PSD)

This consultation paper forms part of the FCA's ongoing review of reporting as part of its data strategy. This is consistent with the FCA's commitment to

ensuring the data it collects from firms is proportionate and traceable to a defined FCA need. The FCA proposes a number of changes to the data it collects from certain regulated firms through the Retail Mediation Activities Return ('RMAR') and annual questionnaire for Authorised Professional Firms ('APFs').

The FCA currently collects adviser charging and consultancy charging data from investment advice firms through Sections K and L of the RMAR. Based on feedback from firms, the FCA is looking to:

- provide greater clarity around the adviser charging data that firms should report through Section K of the RMAR;
- introduce changes to how the FCA collects this data with the aim of reducing the reporting obligation for firms; and
- retire Section L of the RMAR, which relates to consultancy charging.

The FCA is consulting to revise the reporting requirement and bring the annual questionnaire completed by APFs into GABRIEL as a new form. It is also consulting on a minor change to the submission of Product Sales Data ('PSD'), which the FCA hopes will improve clarity around the PSD reporting requirements.

FCA 07.03.14

EU AND INTERNATIONAL

European Central Bank launches public consultation on draft ECB Single Supervisory Mechanism Framework Regulation

The European Central Bank ('ECB') has published a draft of the ECB Single Supervisory Mechanism ('SSM') Framework Regulation for public consultation. The draft Framework Regulation lays the basis for the work of the SSM when it takes over as supervisor of euro area banks in November 2014. The consultation opened on 7 February for a four-week period until 7 March 2014.

The draft Framework Regulation describes the rules and procedures governing the following aspects:

- assessment of a bank's significance to determine whether it falls under the ECB's direct or indirect supervision;
- the ECB's oversight of the whole system;
- cooperation between the ECB and the National Competent Authorities ('NCAs') with a view to ensuring the smooth functioning of the SSM;
- the language regime for the various processes within the SSM;
- general principles for the conduct of supervisory procedures by the ECB;

- procedures relating to the SSM's micro-prudential and macro-prudential tasks;
- arrangements for close cooperation with countries whose currency is not the euro; and
- administrative penalties for breaches of the relevant law.

A consultation document, comprising the draft Framework Regulation and an explanatory report, and a Questions and Answers document, have been published on the ECB's website.

The ECB also held a public hearing on the consultation document on 19 February 2014 at its premises in Frankfurt am Main. The public hearing was broadcast live via the internet and a webcast can be found on the ECB's website.

Following the public consultation, the ECB will publish the comments received from the stakeholders along with an evaluation and summary of the responses. The Supervisory Board will then prepare the ECB SSM Framework Regulation for submission to the Governing Council for adoption. As required under the Regulation establishing the SSM, the final version of the ECB SSM Framework Regulation will be published by 4 May 2014.

ECB 07.02.14

International Organization of Securities Commissions Consults on Code of Conduct Fundamentals for Credit Rating Agencies

The International Organization of Securities Commissions ('IOSCO') published a consultation report on Code of Conduct Fundamentals for Credit Rating Agencies, which proposes significant revisions and updates to the current IOSCO code of conduct for credit rating agencies ('IOSCO CRA Code').

The IOSCO CRA Code is intended to offer a set of robust, practical measures as a guide to and a framework for CRAs with respect to protecting the integrity of the rating process, ensuring that issuers and users of credit ratings, including investors, are treated fairly, and safeguarding confidential material information provided to them by issuers.

The IOSCO CRA Code was first published in 2004 when few jurisdictions had laws governing activities of CRAs. It was later revised in 2008 after the outbreak of the global financial crisis to include significant disclosure provisions that addressed concerns regarding the quality of information that CRAs relied on, suggestions that CRAs were too slow to review existing ratings and make downgrades as appropriate, and the possible conflict of interest arising from CRAs advising issuers on how to design structured finance products.

IOSCO proposes to revise the IOSCO CRA Code to take into account the fact that CRAs are now supervised by regional and national authorities. The

goal is to create an updated IOSCO CRA Code that works in harmony with the CRA registration and oversight programs that many IOSCO members use.

IOSCO 10.02.14

Assessment of Basel III Capital Regulations in Australia concluded by the Basel Committee

The Basel Committee on Banking Supervision has published a report assessing the regulations that implement the Basel capital framework in Australia. This is the eighth in a series of reports on Basel Committee members' implementation of Basel III risk-based capital minimum standards. The reports are prepared under the Committee's Regulatory Consistency Assessment Programme ('RCAP'). The Basel Committee has already published on its website reports on Brazil, China, the European Union, Japan, Singapore, Switzerland and the United States.

To assess the compliance of Australia's domestic capital rules with the international Basel capital standards, the Committee's RCAP assessment team held discussions with senior officials and technical staff of the Australian Prudential Regulation Authority ('APRA'), senior representatives from selected Australian authorised deposit-taking institutions, two accounting/audit firms and a credit rating agency.

Australia's implementation of the Basel capital framework was found to be closely aligned with the Basel III standards: 12 out of 14 assessed components were found to be 'Compliant'. The two components that were graded 'Largely Compliant' were the 'Definition of Capital' and the 'Internal Ratings-Based Approach for credit risk', where some differences exist vis-à-vis the Basel framework. The overall framework of Australia's capital regulation was graded 'Compliant'.

The assessment team noted that some aspects of Australia's capital regulations, such as those related to the definition and measurement of capital, are more rigorous than required under the Basel Framework. APRA has also implemented some aspects of the Basel III Framework ahead of the internationally agreed timeline and has also decided not to opt for the extended transition period for Basel Framework implementation.

The report published today reflects the Committee's continuing efforts to promote adoption of its standards and to monitor its members' full and consistent compliance with the Basel Framework. The RCAP also helps member jurisdictions to identify deviations from the Basel Framework and it weighs the materiality of any deviations.

An assessment of the implementation of the Basel III capital standards in Canada, and follow-up assessments of the final Basel III rules in the EU and the United States are under way.

Bank for International Settlement 11.03.14

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