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Butterworths Financial Regulation Service

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RECENT DEVELOPMENTS UK

HM Treasury News

Extra borrowing powers for councils to build 10,000 affordable homes

New borrowing powers will enable councils to build up to 10,000 affordable homes, Communities Secretary Eric Pickles and Chief Secretary to the Treasury Danny Alexander announced on 7 April 2014.

From 7 April 2014 councils can bid for a share of £300m of extra borrowing, which will be made available through an increase in their housing revenue account borrowing cap, and invested in new affordable housing over two years from 2015. Ministers also confirmed that the rules about council land sales would change, so more surplus and redundant land and property can be released to build homes for local communities.

Councils applying for extra borrowing powers will need to demonstrate maximum value for money, by including funds from disposal of surplus assets, particularly high-value vacant stock, and by bringing forward their own land for new affordable housing.

Ministers also confirmed that councils will have more flexibility to sell their land for new development. Starting on 7 April 2014, councils can now sell their vacant land at below market value to a broad range of organisations if it is then used to build affordable housing.

The extra funding and flexibilities will enable councils to complement the government's affordable housing programme, which is on track to deliver 170,000 homes by 2015, and a further 165,000 between 2015 and 2018.

Communities Secretary Eric Pickles said:

> 'We have untied the hands of councils so they can take more responsibility for housing in their area. Councils have built more homes in the

last 3 years than under the whole of the last government – 170,000 affordable homes have been delivered since 2010, and house building is now at its highest level since 2007.

But there is still more to do. Today we are offering extra borrowing powers so councils can build more homes. We are also making it easier for councils to sell surplus and redundant property for new affordable housing, and they should consider what land they can release for the benefit of their local community.'

Chief Secretary to the Treasury Danny Alexander said:

'The government recently launched a review into the role local authorities can play in supporting new housing supply, led by Councillor Keith House and Natalie Elphicke.

However, I am also determined that we do even more to empower local communities to deliver more good quality housing now. This additional borrowing flexibility, together with funding from the sales of high value social homes and other forms of local investment will deliver 10,000 new affordable housing over the next few years – supporting the construction sector and providing new homes.'

HM Treasury 07.04.14

Video games tax relief passes final hurdle

Generous tax reliefs for the UK video games sector have 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 has 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 of £1.1bn.

State aid approval has already been received for high-end television and animation, which was also announced at Budget 2012. These reliefs come into effect from 1 April 2013.

HM Treasury 07.04.14

Government to introduce new criminal offence for tax evaders

The government will consult on plans to introduce a new strict liability criminal offence for individuals who hide their money offshore.

Under the plans announced by the Chancellor, HM Revenue & Customs ('HMRC') would no longer need to prove that individuals who have undeclared income offshore intended to evade tax, in order for a criminal conviction to be handed down.

At present, HMRC has to demonstrate that even when someone failed to declare offshore income, that the individual intended to evade tax. This change will mean HMRC only has to demonstrate the income was taxable and undeclared meaning it will be easier to secure successful prosecutions of offshore tax evaders.

As well as introducing the new criminal offence, the government will consult on a range of options building on the existing penalties faced by those hiding their money in offshore accounts – currently up to 200% of the tax owed – to make sure they act as a clear and effective deterrent.

The consultation will look at whether the existing penalty limit should be raised further, how penalties could be increased if individuals try to move money around in a bid to avoid detection and extending the penalty regime to include inheritance tax.

The announcement comes as the government publishes an update to its offshore evasion strategy, *No Safe Havens*.

It will also publicise that HMRC is ready and able to financially reward whistle-blowers for significant information that helps uncover offshore hidden untaxed assets.

Chancellor of the Exchequer, George Osborne, said:

> 'The government has taken significant steps to clamp down on those hiding their money offshore. HMRC has brought in over £1.5billion over the last two years and, through our leadership at the G8, we have taken significant steps towards greater transparency and tax information sharing.

> But there can be no let up and we will continue to pursue offshore tax evaders. Those who continue to believe they can hide wealth offshore should know that there is no safe haven and that serious consequences await them.'

The UK put tax and transparency at the heart of its G8 Presidency. The government has since signed automatic tax information sharing agreements with the Overseas Territories and Crown Dependencies to automatically share tax information.

The UK has also – along with the France, Spain, Italy and Germany – led the way in pushing for a multi-lateral information sharing pilot. Forty four jurisdictions have now signed up to this pilot and the timetable for implementation was set out on 19 March 2014.

Draft legislation to implement the new Organisation for Economic Co-operation and Development ('OECD') standard in automatic tax information exchange will be published in due course.

HM Treasury 14.04.14

£5bn Export Refinancing Facility launched to boost UK exports

The Export Refinancing Facility ('ERF') will enable UK-based exporters to offer competitive long-term financing to overseas buyers who require loans in excess of £50m to purchase UK capital goods and services.

The ERF is targeted at project sponsors in emerging markets who need long-term loans to finance investment-related capital goods and services for high value opportunities such as large-scale construction or infrastructure development projects. It allows overseas buyers to access the highly competitive funding of the debt capital markets to refinance export finance loans after their initial funding by the banks.

The ERF will support UK bids for these projects which typically involve lengthy contract negotiations. It is the first time this financing approach is being used for civil project finance by an export credit agency.

Under the new facility, UK Export Finance ('UKEF') will guarantee repayment of bonds issued by the buyer to refinance the initial loan. This will allow the bonds to be competitively priced at a fixed rate, which takes account of the UK's credit rating. Should the borrower be unable to refinance the loan, UK Export Finance will become the lender until alternative funding is found.

Trade Minister Lord Livingston said:

> 'Increasing UK exports and giving UK exporters the support they need is key to our long-term economic plan to promote sustainable growth. The Export Refinancing Facility will help British firms succeed overseas by lowering the cost of finance for buyers who choose UK companies for their major projects.'

Richard Adam, Group Finance Director at construction company Carillion Plc, said:

> 'In an increasingly competitive market, we are pleased to see UKEF launching this new innovative product that complements their current toolkit and enables us to offer it to potential overseas project sponsors in the future.'

Irene Graham, Executive Director of Business Finance at the British Bankers' Association, said:

> 'The BBA's export finance banking specialists have worked closely with UKEF and HM Treasury on the development of this facility and are pleased it is now launched. Competitive pricing of UKEF-backed loans is key to UK exporters winning long-term export contracts, and we are supportive of a flexible ERF scheme that can further support long-term projects and finance options at competitive rates.'

The new ERF is part of wider UKEF plans to expand the ways in which it supports UK exports. Another example of this is the enhanced £3bn Direct Lending Facility ('DLF'), also announced by the Chancellor of the Exchequer in April's Budget.

The DLF will see UKEF lend directly to overseas buyers at the lowest interest rates allowed by international agreements. This facility, which complements the ERF, is expected to become operational by the end of June 2014. Given the announced relaxation of eligible loan sizes, the DLF should be more attractive to a wider range of companies including mid-sized businesses, for whom UKEF will be introducing specialised export finance advisers in the UK in 2014.

David Godfrey, CEO of UKEF, said:

> 'We are being more targeted and innovative in our support of UK exporters. In particular, we are building closer partnerships with banks and professional advisers to ensure UK exporters have the full range of support available for export success.'

Professional services firm KPMG has worked with UKEF on the department's contribution to the UK's growth and enterprise agenda. Jeremy Barker, KPMG's director of corporate finance said:

> 'KPMG has been working with UK Export Finance to improve UK competitiveness in overseas markets. We believe the launch of the ERF, along with other UKEF developments announced in the Budget, will put the UK in the frame for major overseas projects.'

Jon Coleman, Chairman of the British Exporters Association, said:

> 'BExA welcomes the launch of the Export Refinancing Facility. This will help to ensure the availability of long term financing to support exports of capital and semi capital goods exports and overseas projects.'

HM Treasury 30.04.14

Government to take direct action to recover tax and tax credit debts

The government is consulting on proposals to recover tax and tax credit debts from businesses and individuals that are able but are actively refusing to pay what they owe.

Announced at Budget 2014, Direct Recovery of Debts ('DRD') will provide HMRC with the ability to recover cash directly from the bank accounts, building society accounts and ISA accounts of debtors who owe the taxpayer £1,000 or more.

DRD will help to level the playing field, ensuring the honest, hardworking majority are not disadvantaged by the minority that dodge their responsibilities.

HMRC estimates this will apply to around 17,000 cases a year, with the average debt of those affected being £5,800. Around half of these cases will involve debtors with more than £20,000 in their bank and building society accounts.

To ensure HMRC only targets those refusing to pay, safeguards will be in place to provide certainty to taxpayers. These include:

- HMRC only taking action on those who have established debts and have passed the timetable for appeals;
- only targeting debtors who have repeatedly ignored attempts to make contact. Typically they will have been contacted on up to nine separate occasions (a minimum of four) before HMRC takes action;
- only targeting those with tax and tax credit debts over £1,000;
- always leaving a minimum of £5,000 in the debtor's accounts; and
- putting a hold on debtors' accounts and giving them 14 days to contact HMRC and arrange payment of the debt, before any money is taken.

Exchequer Secretary to the Treasury, David Gauke, said:

> 'The government's long term economic plan is to reduce the deficit so that we deal with our debts. It is therefore important that people pay the tax they owe, on time. Although the vast majority do this, there is still a minority that chooses not to pay, despite being able.
>
> Providing HMRC with the powers to directly recover tax debts will reduce the debt owed to HMRC in the most effective way so that the government can continue to fund vital public services.'

HMRC provides help to those who may find it difficult to comply, through Time to Pay arrangements. Having supported compliant taxpayers and provided help to those who find it difficult to comply, it is only fair to promptly pursue those who choose not to pay on time.

Making this change will align the UK with other countries whose tax authorities use similar powers.

The government is seeking views from all interested parties and HMRC will be actively engaging with stakeholders on safeguards and other operational aspects. The consultation will be open until 29 July 2014.

HM Treasury 06.05.14

New Director General of public spending and finance appointed

Julian Kelly has been appointed as the new Director General of public spending and finance in the Treasury, the Chancellor and Chief Secretary have announced.

The new role, created following the Review of Financial Management in Government, merges the role of Head of Public Spending with Head of the Government Finance Profession for the first time.

Julian Kelly, a qualified accountant, will be promoted from his current role as Director of Public Spending in HM Treasury, where he led the work on the Spending Round 2013.

He has previously worked in the private sector at HSBC and in a number of senior roles in the public sector, including as Finance Director in HM Treasury and the Border Agency.

The creation of this new role was a recommendation of the Financial Management Review, launched at Spending Round 2013, led by Sharon White, second Permanent Secretary to the Treasury, and Richard Douglas, Head of the Government Finance Profession, with Lord Sainsbury the expert external adviser. It was published in December 2013.

One of the report's key recommendations was to combine the existing role of Head of the Government Finance Profession with that of the Treasury's Director General of Public Spending, which was accepted by the government.

This new role, reporting to Sharon White, will also have a formal management relationship with all the heads of finance across departments.

These changes will strengthen financial leadership across government and the new post will also be able to drive reforms to financial management.

HM Treasury 13.05.14

Independent review of Money Advice Service launched

The Money Advice Service ('MAS') is a body set up by the government to provide consumers with financial education and advice. The government committed to review MAS before the end of this Parliament, and has confirmed that an independent reviewer will be appointed to carry this out.

The review will be led by Christine Farnish CBE, who has previously served as Chief Executive Officer of the National Association of Pension Funds and

as Chairman of Consumer Futures, and will report to the Economic Secretary to the Treasury by the end of 2014.

The review will:

- make an assessment of the need for consumer education and advice, including how this may evolve as, for example, individuals have greater freedom over their retirement options, and the role that MAS should play in the wider consumer education and advice landscape;
- assess how effectively and efficiently MAS is meeting this need through its current approach and delivery models; and
- recommend any changes to MAS's approach and delivery models that would enable it to better meet this need.

Economic Secretary to the Treasury, Andrea Leadsom said:

> 'I am delighted to announce that Christine Farnish has agreed to lead the independent review of the Money Advice Service. She brings with her a wealth of knowledge and understanding of consumer needs, along with experience in industry and a strong operational track record.
>
> A key part of the government's long term economic plan is ensuring consumers have access to high-quality financial education and advice.'

Christine Farnish said:

> 'An Independent Review of the Money Advice Service is timely in view of the considerable public interest and debate around the service, the new regulatory framework and the government's recent announcement on pensions. I will be taking a thorough look at MAS, including what it does and how effective it has been in meeting consumer need to date, and I will recommend any changes that would better enable it to meet this need.
>
> I will report to Ministers by Christmas and look forward to hearing from all stakeholders with an interest in helping ensure consumers are more savvy about managing their money and getting a better deal from financial services markets. I will be publishing a call for evidence very shortly.'

Christine Farnish chaired Consumer Focus from 2010 until its transfer to the Citizens Advice Service in March 2014, and also chaired the Family and Parenting Institute. Prior to that she was a Managing Director at Barclays, Chief Executive Officer at the National Association of Pension Funds, Consumer Director at the Financial Services Authority and at Oftel, and held a number of senior roles in local government.

Christine's early career was at the Countryside Commission. She has also served on the boards of the Office of Fair Trading ('OFT'), the Advertising Standards Authority, ING Direct and Papworth NHS Trust. She is currently Chair of the P2PFA, a Civil Service Commissioner and a non-executive director on the boards of ABTA, Ofwat and BSUH.

HM Treasury 30.05.14

Bank of England News

Bank of England withdraws Houblon £50 banknote

The £50 banknote carrying the portrait of Sir John Houblon, the first Governor of the Bank of England, was withdrawn from circulation on 30 April 2014. This withdrawal was first announced on 16 January 2014.

From 1 May 2014, only the £50 note featuring Matthew Boulton and James Watt, introduced in November 2011, will hold legal tender status. From 1 May 2014, 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. Barclays, NatWest, RBS, Ulster Bank and the Post Office have also 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, as it would for any other Bank of England note which no longer has legal tender status.

Bank of England 29.04.14

Bank of England/European Central Bank discussion paper on securitisation and Bank of England discussion paper on credit data

The Bank has published two discussion papers, one in conjunction with the European Central Bank on the securitisation market, and the second on improving the availability of credit data. Both of the discussion papers – in different, though complementary ways – aim to explore ways in which the Bank can improve the diversity and robustness of credit supply in practice, in line with the Financial Policy Committee's medium-term priority to improve the diversity and robustness of market-based finance and credit in the UK.

The financial crisis led to a severe tightening in credit conditions for all borrowers. The impact on businesses was particularly severe with lending to non-financial corporate borrowers 14% lower than its pre-crisis peak. Lending to businesses is highly concentrated, with the four largest banks holding a small and medium enterprise ('SME') banking market share of around 80%. Had the market been more diverse, other lenders may have been able to fill the void left by the large banks when they decreased their lending.

The securitisation discussion paper explains how a well-functioning securitisation market can deliver a variety of benefits to issuers and investors, whilst also supporting the provision of credit through indirect channels. Securitisation can support greater funding diversification, free up capital to allow banks to extend new credit to the real economy, and provide non-bank investors, such as insurance companies and pension funds, with access to a broader pool of assets.

Despite these benefits, present levels of activity in securitisation markets in the EU are low. This may reflect a range of impediments considered by the

discussion paper, including: stigma attached to the market following the prominent role that complicated securitisation structures and poorly underwritten loans played in contributing to the financial crisis; regulatory treatment that can be perceived as conservative relative to other assets and as contributing to uncertainty; a lack of standardisation across the EU, as well as a lack of data on how to assess the performance of some asset-backed securities.

In order to remove these impediments and realise the benefits of securitisation, the discussion paper considers a range of options that authorities could support to revitalise the securitisation market. These include developing high-level principles for 'qualifying securitisations' and harmonising securitisation standards across the EU.

Reform of the market relies on a number of steps. First, the product needs to be simple and transparent to investors. Second, banks need to have incentives to encourage them to originate and monitor the loans that they make prudently. Third, investors need to have access to a sufficient history of data to understand how the loans that underlie a securitisation will perform across a wide variety of circumstances.

The credit data discussion paper considers how improving the availability of credit data might deliver benefits for the provision of credit through both direct channels, such as bank lending, and indirect channels, including securitisation. The availability of UK credit data could be improved by broadening access to UK credit reporting systems and enhancing available data, by making information available from publicly-owned sources.

Where access to credit data is constrained it can create a barrier to entry and expansion, so improving the availability of credit data should support more informed credit decisions by lenders and enhance competition, which should in turn improve the availability and stability of credit.

Access to good credit data would also greatly assist the work of the authorities. For example, it could inform judgement over the use of macroprudential tools, provide input for bank stress tests, and help support more informed policy decisions across the authorities more broadly. There are a number of risks that may arise from seeking to make data more widely available which would need to be managed, but to the extent that the benefits outweigh the costs, the discussion paper outlines several delivery options. These include solutions that involve the credit reference agencies or the possible establishment of a Central Credit Register.

The Bank would welcome comments from interested parties on all aspects of these discussion papers as it aims to find ways that credit markets can be made to function more effectively for the benefit of the UK economy.

Bank of England 30.05.14

Prudential Regulation Authority News

Bank of England sets out the Prudential Regulation Authority's Annual Funding Requirement

The Bank of England is consulting on the regulatory fees and levies required to support the Prudential Regulation Authority's ('PRA's') strategic priorities and business aims for the fee year 2014/15. The fees from individual firms are based on the size of their business. Consequently, those firms that could potentially cause the greatest harm to the stability of the UK financial system will be the main contributors to the PRA's funding needs. The Financial Conduct Authority ('FCA') has separately set out its own Annual Funding Requirement.

The PRA has an estimated surplus of £19.6m from the fees levied in 2013/14. This will be refunded to firms as part of the 2014/15 fee collection process. Taking this into account, the PRA's proposed Annual Funding Requirement for 2014/15 is £227.2m which is a decrease of 4% on the 2013/14 Annual Funding Requirement of £235.5m. The PRA will maintain its commitment to exercising budget discipline to provide value for money for regulated firms.

The Annual Funding Requirement is the amount of money that the PRA needs to raise to fund the regulatory activities required to meet its statutory objectives set out by Parliament. The PRA's Annual Funding Requirement for 2014/15 reflects the budget for ongoing regulatory activities, recovery of transition costs, refund of the surplus on the Annual Funding Requirement for the 11-month period from 1 April 2013 to 28 February 2014 and refund of the surplus on the prior year IMAP Solvency II Special Project Fee.

The PRA's 2014/15 budget reflects the cost of the PRA's expanded remit in relation to specific new policy initiatives or where the scope of the work being undertaken is at a substantially enhanced level or to a shortened timescale, such as the implementation of the Banking Reform Bill. This includes:

- developing a framework for regular stress testing of the UK banking system to assess capital adequacy in line with Financial Policy Committee recommendations;
- delivering structural reform of financial services firms, with ring-fencing and loss-absorbing-capacity proposals;
- implementing Parliamentary Commission on Banking Standards requirements; and
- facilitating effective competition for services provided by PRA-authorised persons carrying out regulated activities as a secondary objective.

The Financial Services Act 2012 created two new regulators – the FCA and the PRA – which were set up as a subsidiary of the Bank of England. The Bank of England spent £73.9m (excluding capital expenditure) on regulatory reform and the creation of the PRA, which will be recovered over a period of five years from 2013/14 to 2017/18. Recovery of the outstanding amount will

result in an amount of £14.8m per year to be added to the PRA's Annual Funding Requirement from 2015/16 through 2017/18.

Bank of England 02.04.14

FCA News

FCA research shows many consumers paying too much for overdrafts

The FCA has published research into the £8bn overdraft market a week after it took over responsibility for 50,000 consumer credit firms. The findings show overdrafts still aren't providing good value, with many consumers confused about the costs.

Christopher Woolard, director of policy, risk and research at the FCA, says:

> 'Just about everybody who banks can have access to some sort of overdraft facility – whether they've signed up for it or not. The sheer size of this market is huge and with overdrafts bolted on to over 30 million UK current accounts, we want to make sure it is working well for consumers.'

The FCA looked at both arranged overdrafts, those that come as part of a current account package, and unarranged overdrafts, where firms allow customers to go beyond their overdraft limit.

The FCA's research shows that using an arranged overdraft can quickly become habit, with many consumers giving little thought to the actual cost of interest or fees.

As consumers tend not to consider overdrafts when deciding on a current account and do not switch on the basis of overdrafts, there is little pressure on banks to provide good value overdrafts.

Recent measures agreed between industry, the OFT and the government, such as text alerts for unarranged overdrafts, have helped to improve things, but unarranged overdrafts still carry high charges and the terms set by banks can be so complex and opaque that even the most astute consumer could struggle to understand what they are paying for.

Research shows:

- many people do not realise how much overdrafts can cost and are confused by unarranged overdrafts;
- consumers often do not see arranged overdrafts as borrowing and quickly become accustomed to using them, sometimes viewing them as an extension of their income. The presentation of this as 'available funds' reinforces this;
- repayments are often driven by income coming in rather than as scheduled payments to clear an outstanding balance; and
- there may be incentives for firms to raise revenue by increasing overdraft limits, these extensions are often perceived by customers as their bank 'trusting' them.

A number of banks have claimed that overdrafts subsidise ‘free’ current accounts, but the FCA thinks the situation is more complicated than this. There is evidence that personal current accounts help banks to sell a range of more profitable products. One aspect of this is cash savings, which the FCA is currently exploring through a market study.

The FCA will now be investigating how providers set and monitor overdraft limits and their governance and strategies for doing so. As part of these next steps, the FCA will also consider making some voluntary measures mandatory in autumn 2014.

The FCA will also work alongside the Competition and Markets Authority to make sure any actions complement (and do not duplicate) its current work updating the OFT’s 2013 review of the current account market.

The research is part of the FCA’s new approach to consumer credit and its remit to closely monitor how firms treat their customers.

FCA 10.04.14

New mortgage rules come into force

From 26 April 2014, new rules from the FCA come into force which will put common sense at the heart of the mortgage market and prevent borrowers ending up with a mortgage they cannot afford.

The key changes, which are the outcome of the FCA’s mortgage market review (‘MMR’), mean that most people will get help from an adviser before taking out a mortgage. Borrowers should also have greater certainty about whether they can afford their mortgage both now and in the event of future interest rate rises.

Martin Wheatley, Chief Executive of the FCA, said:

> ‘There has been huge effort both by the regulator and the industry to get to where we are today. Since the crisis, lenders have been taking a far more sensible approach to mortgage lending, and the MMR is designed to ensure that this common-sense approach continues. We do not want to see mortgage lending return to the practices of the past where people were taking out mortgages they simply couldn’t afford.
>
> While for some borrowers the questions being asked may seem more detailed, they should feel confident that practices which led to hardship and anxiety for consumers in the past will not be repeated.’

The new regime will prevent a return to self-certification mortgages, as from now, lenders must always check a borrower’s income. Those looking to take out interest-only mortgages will also see immediate changes. The new rules mean that lenders will ask to see plans for repaying the full loan once the interest-only period ends, instead of relying on increased house prices as the only repayment plan.

The MMR changes come after five years of close working between the FCA, the industry and consumer groups to create and implement the new regime

which comes into force on 26 April 2014. The FCA has produced a guide for consumers on the new mortgage rules which will be available in branches of high street lenders and estate agents. This explains, for example, what details borrowers will need to provide of their monthly outgoings on basic household expenses and other commitments.

FCA 26.04.14

FCA sets out expectations for investment managers on dealing commission

Investment managers should only use client dealing commission to pay for substantive research or costs related to executing trades, the FCA said as it published a policy statement on forthcoming changes to dealing commission rules.

The changes reinforce the current rules and provide greater clarity on what investment managers can pay for using client dealing commission – worth approximately £3bn per year. Firms that already meet the rules will not need to make significant changes to the way they operate.

FCA Chief Executive, Martin Wheatley, said:

> 'Investors should be confident that dealing commission is only used to buy execution or research services that deliver real value. These changes offer firms a real opportunity to show they put their clients first and strengthen the industry's reputation for transparency.'

The UK is a global centre for investment management, and the sector is vital to the UK's economy, investing over £5 trillion on behalf of clients across the world. The FCA's work on dealing commission reflects its priorities for the sector – it expects firms to ensure that:

- they are acting as good agents and taking proper account of investors' interests;
- they spend their clients' money as though it was their own, seeking to manage costs with as much tenacity as they pursue returns; and
- clients are given easily understood information on the risks and costs of the service, and investment decisions reflect their stated objectives.

The changes on dealing commission come into force on 2 June 2014 and are a result of extensive industry consultation. They will prevent investment managers using dealing commission to pay for access to senior staff at firms they invest in (corporate access).

The changes also clarify which costs investment managers can pass on to their clients through dealing commission, including specific guidance on mixed use assessments, where substantive research is bundled together with services that firms cannot pay for using dealing commission. Past reviews found that controls on how dealing commission is spent could be improved and in 2012 the FCA asked firms to confirm their controls were effective.

The FCA has a statutory objective to secure appropriate protection for consumers and enhance market integrity.

FCA 08.05.14

Consumer credit firms must raise advertising standards, says FCA

Credit firms need to do more to ensure their adverts and promotions do not mislead potential customers. The findings come as FCA statistics show that one in five adverts from consumer credit firms, for products including payday loans, fell short of the FCA's financial promotion expectations – although most firms were quick to make changes once the shortcomings were pointed out.

The rules state that any advert must be clear, fair and not misleading for consumers. The FCA examined over 500 advertisements for a range of consumer credit products after assuming responsibility for the sector on 1 April 2014 and found a number of examples where key information which should have been included in the advertisement was either missing or difficult to find.

Clive Adamson, Director of Supervision at the FCA, said:

> 'It is particularly important in this sector that advertisements for financial products enable customers to make informed decisions. We think that more can be done to ensure that advertisements are fair, clear and not misleading.
>
> Firms have responded well when challenged about ads which have not met the standards. We will continue to work with firms and monitor their performance in this area to ensure the high standards we are looking for are met.'

The FCA found examples where consumers were encouraged to hit the 'apply' button for a product before having a chance to access important information, a tactic which is against its rules.

Other examples which did not meet the regulations included firms:

- targeting young audiences with promotions for products that consumers must be over the age of 18 to use, such as distributing branded colouring-in sheets with their pamphlets for high-cost, short-term loans;
- claiming that their product would help repair credit ratings; and
- claiming a product will clear a customer's debt, when in fact it is just substituting one debt for another.

In total, 108 promotions were identified as not meeting the rules with examples of poor advertising across all mediums including print, online, in-store and direct mail. Of the 108, 75 firms have responded, all of whom have amended or withdrawn multiple promotions. The remaining firms are in the process of responding.

The FCA will continue to monitor these promotions and will be working with firms to help them comply with the rules and improve standards to the benefit of consumers. The FCA also acts on complaints received from the public and via the Advertising Standards Authority.

FCA 16.05.14

FCA consultation papers

Consultation Paper CP14/6: FCA regulated fees and levies: rates proposals 2014/15

The FCA is funded entirely by the fees and levies recovered from the firms it regulates – the FCA receives no subsidies from other sources. The proposals in this consultation paper will enable the FCA to raise the funding for the FCA, the ombudsman (excluding case fees) and the MAS to meet their statutory objectives in 2014/15. This forms the second part of the consultation on 2014/15 fees.

In October, the FCA consulted on proposed changes to the underlying policy of the fee and levy regimes of the FCA, the ombudsman service, and the MAS. In this paper, the FCA gives feedback to the responses it received to CP13/14: *Regulatory fees and levies: policy proposals for 2014/15*, published in October 2013.

The FCA does not consult on any proposals affecting the Financial Services Compensation Scheme ('FSCS') in this consultation paper.

FCA 23.05.14

Consultation Paper CP14/7: Consumer credit interim permission fees for local authorities

Local authorities did not require consumer credit licences from the OFT. The legislation implementing the transfer of consumer credit regulation to the FCA provided that a local authority would be treated as having an interim permission ('IP') to continue the regulated activities it had been carrying on in the year preceding 1 April 2014, provided it notified the FCA by 31 March 2014 of its wish to obtain IP and paid the required fee of £350. However, the legislation specifying the scope of the regulated activities for which local authorities needed permission was not made until 13 February 2014.

This did not leave sufficient time for all local authorities to notify the FCA by 31 March 2014. The government is expected to address this issue by introducing a statutory instrument extending the notification period for local authorities until 30 September 2014.

The IP fees provisions in our Fees Rules ('FEES') lapsed on 14 April 2014. The FCA is therefore proposing a consequential amendment to FEES 8 to reinstate its ability to charge local authorities an IP fee on the same basis as it would have done before 14 April 2014.

Because the FCA needs to introduce the fees when the statutory instrument comes into effect, it is asking for responses by 12 June 2014 so that the rules

can be approved at its Board meeting on 26 June and implemented from 27 June. The rules will lapse on 30 September.

FCA 29.05.14

FCA bans and fines

Barclays Bank Plc

The FCA has fined Barclays Bank Plc £26,033,500 for failing to adequately manage conflicts of interest between itself and its customers as well as systems and controls failings, in relation to the Gold Fixing. These failures continued from 2004 to 2013.

FCA 23.05.14

Martin Brokers (UK) Ltd

The FCA has fined Martin Brokers (UK) Ltd ('Martins') £630,000 for misconduct relating to the London Interbank Offered Rate ('LIBOR'). Martins would have been fined £3,600,000 but for the fact that the firm was able to show that it could not pay a penalty of this amount in addition to the other regulatory fines that Martins faces in relation to LIBOR.

FCA 15.05.14

John Christopher Hughes

The FCA has banned John Christopher Hughes from performing any function in relation to any regulated activity in the financial services industry for failings related to US$2.3bn of unauthorised trading losses by another trader Kweku Mawuli Adoboli. The FCA found that Hughes is not a fit and proper person.

FCA 01.05.14

Invesco Asset Management Ltd and Invesco Fund Managers Ltd

The FCA has fined Invesco Asset Management Ltd and Invesco Fund Managers Ltd ('Invesco Perpetual') £18,643,000 for exposing investors to greater levels of risk than they had been led to expect.

FCA 28.04.14

Andrew Rees and Timothy Hughes

Andrew Rees and Timothy Hughes, partners at 1 Stop Financial Services, have been banned by the FCA from performing any significant influence function in relation to any regulated activity. Mr Rees and Mr Hughes had advised customers to switch into self-invested personal pensions ('SIPPs'), which enabled those customers to invest in unregulated and often high-risk products, regardless of whether those products were suitable for the customers. 1 Stop has now ceased trading and has applied to cancel its FCA permissions.

FCA 17.04.14

EU AND INTERNATIONAL

European Central Bank Launches Public Consultation on Draft European Central Bank Regulation on Supervisory Fees

The European Central Bank ('ECB') has published a draft ECB Regulation on supervisory fees for public consultation. The ECB will take over as supervisor of euro area banks in November 2014 as part of the Single Supervisory Mechanism ('SSM'). The SSM will directly supervise up to 130 institutions and work with national competent authorities to oversee smaller banks.

The SSM has been established to contribute to the safety and soundness of the euro area banking system and to help restore confidence in the banking sector, through independent, integrated European supervision for all euro area and other participating member states. It aims to increase financial stability and integration in Europe and harmonise supervisory practices, for the benefit of banks under its supervision.

The draft regulation sets out the arrangements under which the ECB will levy an annual supervisory fee for the expenditures incurred in relation to its new role, from November 2014 onwards.

It establishes the methodology for:

- determining the total amount of the annual supervisory fee;
- calculating the amount to be paid by each supervised bank or banking group; and
- collecting the annual supervisory fee.

Under the EU Regulation governing the Single Supervisory Mechanism ('the SSM Regulation'), the ECB is required to levy an annual supervisory fee on the directly and indirectly supervised banks in order to recover its expenditures for supervision, which are estimated at about €260m for 2015.

While the exact figure can only be confirmed in 2015, a preliminary analysis has shown that for 2015 the annual fee for a directly supervised bank may range from €150,000 to €15m, with most paying between €0.7m and €2m. Similarly, some 75% of the smaller, indirectly supervised banks may pay between €2,000 and €7,000 per year, while the bigger banks in this category may be levied with an amount of about €200,000.

The consultation opens on 27 May for a seven-week period, until 11 July 2014.

The consultation documents, comprising the draft ECB Regulation on supervisory fees, an explanatory report, and a Q&A note, are published in the 'Banking Supervision' section of the ECB's website.

The ECB will hold a public hearing on the consultation documents on 24 June 2014, at its premises in Frankfurt. A webcast of the hearing will be

made available on the ECB's website. Information on registering for the public hearing and on how to submit a comment on the consultation documents can also be found in the 'Banking Supervision' section of the website.

Following the public consultation, the ECB will publish the comments received along with an evaluation and its responses. The ECB Regulation on supervisory fees will enter into force before the ECB assumes its supervisory tasks on 4 November 2014.

ECB 27.05.14

Point of Sale Disclosure in the Insurance, Banking and Securities Sectors – Final Report Published by the Joint Forum

The Joint Forum released its final report on *Point of sale disclosure in the insurance, banking and securities sectors*.

The report identifies and assesses differences and gaps in regulatory approaches to point of sale ('POS') disclosure for investment and savings products across the insurance, banking and securities sectors, and considers whether the approaches need to be further aligned across sectors. It sets out eight recommendations, for use mainly by policymakers and supervisors to assist them in considering, developing or modifying their POS disclosure regulations:

(1) Jurisdictions should consider implementing a concise written or electronic POS disclosure document for the product sample identified in this report, taking into account the jurisdiction's regulatory regime.

(2) The POS disclosure document should be provided to consumers free of charge, before the time of purchase.

(3) A jurisdiction considering POS disclosure should consider requiring that a POS disclosure document disclose key characteristics including costs, risks and financial benefits or other features of a given product and any underlying or referenced assets, investments or indices, irrespective of the financial sector from which the products are derived.

(4) The POS disclosure document should be clear, fair, not misleading and written in a plain language designed to be understandable by the consumer.

(5) The POS disclosures should include the same type of information to facilitate comparison of competing products.

(6) The POS disclosure document should be concise, set out key information about a product and may include, as appropriate, links or refer to other information. It should make clear that it does not provide exhaustive information.

(7) Allocation of responsibility for preparing, making available and/or delivering the POS disclosure document should be clearly established, and the POS disclosure document should identify which entity is responsible for its content.

(8) A jurisdiction considering POS disclosure should consider how to use its capabilities and powers to implement these POS recommendations, taking into account the jurisdiction's regulatory regime.

Mr Thomas Schmitz-Lippert, Chairman of the Joint Forum and Executive Director, International Policy at the German Federal Financial Supervisory Authority ('BaFin'), stated:

> '[I]t is critically important for consumers across all financial sectors to receive adequate product disclosure at the point of sale. The final document recommends basic guidance for policymakers and supervisors to achieve this objective. The Joint Forum will continue to address issues in the area of consumer protection as they gain prominence in the global regulatory community.'

An earlier version of this report was issued for consultation in August 2013. The Joint Forum thanks those who provided feedback and comments as these were instrumental in finalising the report and its recommendations. The changes made to the consultative document are explained in an annex to the final report.

Bank for International Settlement 30.04.14

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