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RECENT DEVELOPMENTS UK

HM Treasury News

Government sets out options to include peer-to-peer loans in ISAs

At Budget the Chancellor announced a radical reform of the ISA system, turning it into a simpler product with equal subscription limits for cash, and stocks and shares, and increasing the overall limit to £15,000. He also announced that ISA eligibility would be extended to include peer-to-peer loans in order to increase choice for savers about how they invest.

The government published (on 17 October 2014) a consultation on how best to implement these changes, including whether peer-to-peer ('P2P') loans should be included in existing stocks and shares ISAs, or whether they would be best suited to a new, third type of ISA.

Financial Secretary to the Treasury David Gauke said:

> 'We want to support savers at all stages of their life and make sure they have greater flexibility and choice over how they invest and access their savings.
>
> That's why as part of our long-term economic plan we announced a radical package of measures at Budget – reducing taxes for the lowest income savers, reforming ISAs and giving people flexibility over their pensions.
>
> P2P lending is an exciting, innovative new sector and it's right that investors who want to lend money via P2P platforms should be able to hold these loans in their ISA alongside more traditional investments.'

The P2P lending sector matches up individuals with money to lend with individuals or small businesses looking to borrow money, and has been growing at a rate of over 100% per year with over £16bn lent via P2P to date. At the moment, the interest that lenders earn from lending money via P2P

platforms is taxable, but once P2P loans can be held in ISAs then it will be possible to earn interest entirely tax free.

Allowing P2P loans to be held in ISAs will provide greater choice to ISA investors, and will support the government's aim to diversify the different sources of finance that are available to borrowers by encouraging the growth of the P2P lending sector.

HM Treasury 17.10.14

UK and Singapore agree to increase financial services cooperation

During the state visit by President Tan of Singapore to the UK in October 2014, the Economic Secretary to the Treasury, Andrea Leadsom, who recently visited Singapore, announced that the first round of the UK-Singapore Financial Dialogue and Renminbi forum will take place in Singapore on 27–28 January 2015.

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 market. The forum will be led by the private sector and focus on increasing cooperation between the UK and Singapore markets.

HM Treasury 24.10.14

Next step taken in stamping out international tax evasion

The UK, alongside 50 other countries and jurisdictions from across the globe, is taking the next step in stamping out tax evasion by signing a new agreement at the Global Forum in Berlin (29 October 2014) to automatically exchange information.

Under the agreement, unprecedented levels of information, including account balances, interest payments and beneficial ownership, will be shared with the UK from countries across the world in an international clampdown on tax evasion.

This will increase the ability of HM Revenue and Customs ('HMRC') to clamp down on tax evaders, providing HMRC with the details of billions of pounds of assets held overseas by UK taxpayers.

Speaking ahead of the signing ceremony in Berlin, the Chancellor of the Exchequer, George Osborne, said:

> 'Today marks a negotiating triumph for Britain, and our close ally Germany, in the fight against tax evasion.

> It was three years ago when, with my German colleague Wolfgang Schäuble, I launched a campaign for a new international deal to catch people who evade their taxes by hiding their money overseas.
>
> I never expected that within such a relatively short period we would succeed in getting 51 countries to sign up to this agreement.
>
> Today we strike a blow on behalf of hardworking taxpayers who are cheated when rich people don't pay their taxes.
>
> Today we send a clear message to those who still think they can escape making a fair contribution to our public services and to reducing our deficit: you can hide no more; we are coming to get you.'

The UK has been leading the international fight against tax evasion, including through its G8 Presidency, and has played a crucial role in driving both the development and the early implementation of the new global standard adopted by the Organisation for Economic Co-operation and Development ('OECD') in July this year.

The global standard of automatic information exchange to tackle tax evasion was developed by the OECD and agreed in July 2014.

51 countries and jurisdictions, including all G5 countries, are signing the multilateral competent authority agreement under which information will be exchanged at a signing ceremony at the Global Forum in Berlin.

Together with France, Germany, Italy and Spain the UK launched an initiative for early adoption of the new standard in April 2013. In total, 57 countries and jurisdictions – known as the Early Adopters Group – have now committed to a common implementation timetable which will see the first exchange of information in 2017 in respect of accounts open at the end of 2015 and new accounts from 2016.

A further 34 countries have committed to implement the new global standard by 2018.

The full list of countries committed to first exchange in 2017 or 2018 was released by the Global Forum in their annual report at the end of the 29 October plenary session.

HM Treasury 30.10.14

Government's aggregates levy credit scheme in line with state aid rules

The European Commission published (on Monday 10 November) full details of its decision to rule in favour of the government's aggregates levy credit scheme ('ALCS'). The decision confirms that the scheme was in line with state aid rules, ending uncertainty for quarry operators in Northern Ireland.

The aggregates levy is an environmental tax on commercially exploited aggregates. The credit scheme gave an 80% tax credit for aggregates originating in Northern Ireland in return for quarries meeting environmental standards. The scheme ran from 1 April 2004 to 30 November 2010.

The Commission was forced to investigate the credit scheme after the British Aggregates Association ('BAA') claimed that the scheme provided unlawful state aid. The Commission originally approved the scheme in 2004 and has again agreed with the UK government that the scheme does not provide unlawful aid, ending uncertainty for the industry in Northern Ireland.

The UK government was required to suspend the ALCS from 1 December 2010 during the Commission investigation, but is committed to reinstating the scheme.

However, this can only be done if the scheme receives further approval from the Commission on whether it meets the latest state aid rules. The government will work with the industry in Northern Ireland to make the case for this, and needs to await the outcome of a further Commission investigation into the levy.

Exchequer Secretary to the Treasury, Priti Patel, said:

> 'We welcome this decision, which ends a period of unnecessary uncertainty for quarry operators in Northern Ireland. We remain committed to reinstating the credit scheme as soon as possible.'

The Commission's decision also sets out the requirement for the UK to implement a scheme which will reimburse 80% of the levy paid on aggregate imported into Northern Ireland from other member states between 1 April 2004 and 30 November 2010. The government will legislate in 2015 for this and more details will be set out shortly by HMRC.

HM Treasury 10.11.14

Germany and UK agree joint proposal for rules on preferential IP regimes

The proposal is based on the Modified Nexus Approach proposed by the OECD, which requires tax benefits to be connected directly to research and development ('R&D') expenditures, but amends these rules to address concerns expressed by some countries and seeks to address outstanding issues in relation to qualification of expenditures, grandfathering and tracking qualifying R&D expenditure.

The proposal is designed to bridge differing views of the OECD and G20 member countries on the application of the Modified Nexus Approach. Germany and the UK will present this to the OECD Forum on Harmful Tax Practices and seek formal approval by the OECD and G20 at the January meeting of the OECD's Committee on Fiscal Affairs.

Both Germany and the UK remain fully committed to the successful conclusion of the G20/OECD Base Erosion and Profit Shifting ('BEPS') negotiations by the end of 2015, and to making the necessary progress on all Actions within this project in order to do so. The proposal was developed through bilateral discussions between the two countries, seeking to achieve a balance between maintaining countries' ability to offer such regimes and preventing misuse of them.

The proposal seeks to achieve this through reinforcing the Nexus Approach to ensure substantial activity is undertaken in the jurisdiction offering the relief, whilst better reflecting the commercial realities of R&D investment by business. It also makes necessary provision for transitional arrangements between existing and new rules, and proposes further work to develop practical means of implementing the Modified Nexus Approach.

Announcing the proposal, Chancellor of the Exchequer George Osborne said:

> 'This is a great deal for Britain – we protect our vital scientific research while making sure there are international rules that stop aggressive tax avoidance. Our joint proposal balances the need to allow countries that wish to have these regimes to do so, whilst ensuring that they operate by rules that prevent abuse. This demonstrates the strength of our commitment to the BEPS project that we both helped initiate, and our determination to ensure that we conclude this by the end of 2015.'

Finance Minister Wolfgang Schäuble said:

> 'We have reached an important agreement on patent boxes. Preferential tax treatment of intellectual property must be dependent on substantial economic activity. More and more countries are speaking out against allowing too much leeway for large multinationals to minimise their taxes. Just because something is legal, does not mean it is fair in tax terms. Multinationals must contribute their fair share to public budgets – just like any other company has to.'

HM Treasury 11.11.14

Government to stop charities losing out on Gift Aid

According to National Audit Office ('NAO') estimates there are donations of around £2.3bn where Gift Aid is not used. Though not all of these donations will be eligible for Gift Aid, the government is working with charities to boost the number of eligible donations.

One way it hopes to do this is by improving the model Gift Aid declaration form, as research published (on 17 November) shows that understanding of Gift Aid is low and that donors do not always make the link between tax they've paid and Gift Aid claimed by the charity.

The model Gift Aid declaration is used by a large number of charities, particularly smaller ones, to help them collect the declarations which are needed to claim Gift Aid on donations. Possible improvements include making the language used about Gift Aid more straightforward to enable donors to decide if their donations qualify for relief.

Exchequer Secretary to the Treasury, Priti Patel, said:

> 'Gift Aid is an important tax relief for charities which helps to provide essential revenue to charitable causes. This research shows that there is more that government can do to boost eligible donations which is why

> we are simplifying the declaration forms to make sure donors understand when they're eligible so that charities can maximise the financial donations they receive.
>
> We hope that this research will help to raise awareness and boost Gift Aid on eligible donations.'

Emma Greenwood, head of policy development at Cancer Research UK, said:

> 'Gift Aid is the most widely used form of tax-efficient giving in the UK, and we believe it's hugely important. Gift Aid works best when it is simple, and we welcome the government's commitment to simplifying the declaration form to help donors better understand the scheme. It is important that any changes made to the Gift Aid scheme are "future-proofed" as much as possible.'

The research came as part of an announcement made in Budget 2014 that the government will encourage more donors to use Gift Aid on eligible donations and encourage smaller charities to register for the reliefs they are entitled to.

Further ways HMRC believes it can improve its model Gift Aid declaration form include:

- avoiding excess detail or dense formatting;
- breaking up the information to make it easier to digest; and
- changing the layout significantly so donors pay more attention to the information.

HM Treasury 17.11.14

Consultation launched on extending new, stronger standards for bankers to all banks in Britain

The government has launched a consultation (on 17 November) on proposals to extend new tougher standards for bankers to UK branches of foreign banks. As a result of the proposals, the Senior Managers and Certification Regime, which ensures that the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority ('PRA') can fine or sanction senior bank managers for misconduct that occurs in their areas of responsibility, would cover all banks that have a presence in Britain.

Strong and successful financial services that set the highest standards are an essential part of building a resilient economy. Senior managers must also be held accountable for misconduct. That's why the government introduced the Senior Managers and Certification Regime for UK banks in the Banking Reform Act in 2013. The Chancellor then announced in his Mansion House speech in June 2014 that the government intended to extend this regime to cover all banks operating in Britain.

A key part of the government's long-term economic plan is to strengthen the banking system so that it is better placed to support Britain's customers and

businesses. By improving standards and accountability in the banking sector, the Senior Managers and Certification Regime does just that.

This announcement builds on the measures the government has already taken to strengthen the regulation of the financial services industry, including the creation of two new, stronger financial regulators last year, the PRA and the FCA, to replace the flawed, tripartite system which was in place during the financial crisis.

In June this year the government also announced the establishment of the Fair and Effective Markets Review ('FEMR'), which will make recommendations on what needs to be done to reinforce confidence in the fairness and effectiveness of financial markets in June 2015.

Economic Secretary to the Treasury, Andrea Leadsom, said:

> 'A key part of our long term economic plan is to strengthen Britain's banking sector so that it works better for customers and businesses. Ensuring that our banks are properly run is vital for the health of our economy.
>
> As this consultation makes clear, the government is determined to tackle unacceptable behaviour by holding senior bankers fully accountable. We are determined to make sure that all banks in Britain operate with the highest standards.'

The consultation will run until 30 January 2015.

HM Treasury 17.11.14

Help to Buy helps 71,000 people

Help to Buy, the government's flagship housing scheme, has helped more than 71,000 people across the country buy a new home, official statistics published (on 28 November 2014) have revealed.

The latest figures show how Help to Buy, introduced by this government in April last year, is opening up home ownership to thousands and supporting the government's long-term plan to help hardworking people secure a better future for their families.

In total, over 66,000 households have been helped by Help to Buy: mortgage guarantee and equity loan. Help to Buy continues to overwhelmingly benefit first-time buyers, with the vast majority of sales outside of London and at prices well below the national average.

The scheme was introduced to support hard-working people who can afford a mortgage, but struggle to save the deposits required by lenders in the wake of the financial crisis.

Together with the government's NewBuy scheme – which offers 95% mortgages for those buying new-build properties, the number of new home owners has reached more than 71,000.

HM Treasury 28.11.14

Bank of England and PRA News

Bank of England announces proposals to strengthen financial system through structural reform

The Bank of England has published four papers that propose changes to improve the resilience and resolvability of deposit-takers and reduce the disruption to customers and the system if a deposit-taker or insurer fails.

Following recommendations made by the Independent Commission on Banking, the government introduced legislation to allow for ring-fencing of core banking services in the UK from activities associated with trading and financial interconnectedness. These changes are intended to ensure that ring-fenced banks, and groups containing ring-fenced banks, can be resolved in an orderly manner with minimal disruption to the provision of core services.

From 1 January 2019, banks with core deposits greater than £25bn (broadly those from individuals and small businesses) will be required to ring-fence their core activities. To prepare for this, the PRA is consulting on three areas of ring-fencing policy: the legal structure of banking groups; governance; and continuity of services and facilities.

All banks that expect to reach the threshold for being subject to ring-fencing requirements by 2019 must submit a preliminary plan of their anticipated legal and operating structures to the PRA by 31 December 2014.

The PRA is also consulting on changes to enhance depositor and insurance policyholder protection. For depositors, the proposed changes implement the requirements for deposit-takers under the European Deposit Guarantee Schemes Directive (2014/49/EU), as well as proposing new rules which would allow customers to continuously access the deposits covered by the Financial Services Compensation Scheme ('FSCS') if their deposit-taker fails. The proposals aim to provide a mechanism to transfer accounts to another financial institution in the event of a deposit-taker's failure or enable faster pay-out of compensation. The proposals also introduce additional FSCS coverage for deposits that are temporarily higher than the £85,000 compensation limit, e g house purchase or personal injury compensation.

For insurance policyholders, the PRA is proposing changes to the insurance limits for FSCS compensation to increase protection for policyholders in the event of an insurer failing. This would increase the limit to 100% of cover for annuities, pure protection, claims arising from death or incapacity and professional indemnity insurance. This reflects the potential for significant adverse consequences to policyholders, and the wider financial system, of cover being disrupted. The limits for all other types of insurance remain the same.

The PRA is also publishing a discussion paper on operational continuity in resolution. These proposals will help ensure deposit-takers make the appropriate changes to enable critical functions to operate effectively at all times, even if the deposit-taker fails.

Andrew Bailey, Deputy Governor of the Bank of England and Chief Executive of the PRA, said

> 'Improving the resilience and resolvability of firms has been at the heart of international and domestic reforms since the financial crisis. Ring-fencing will improve banks' resilience, by protecting them from shocks, and facilitate orderly resolution – both of which are needed for a stable financial system.
>
> These proposals will allow customers to have continuous access to the money in their bank account – or receive payment from the FSCS if this is not possible. Additionally, the increase in FSCS limits for certain types of insurance will mean policyholders who may find it difficult to obtain alternative cover, or who are locked into a product, have greater protection if their insurer fails.'

Bank of England 06.10.14

US and UK officials meet to discuss key components for the resolution of a global systemically important bank

The heads of the Treasuries and leading financial regulatory bodies in the US and the UK participated (on 13 October) in an exercise designed to further the understanding, communication, and cooperation between US and UK authorities in the event of the failure and resolution of a global systemically important bank, or G-SIB.

The event was hosted by Federal Deposit Insurance Corporation Chairman Martin Gruenberg. Additional participants from the US were Treasury Secretary Jacob J Lew, Board of Governors of the Federal Reserve System Chair Janet Yellen, Comptroller of the Currency Thomas Curry, US Securities and Exchange Commission Chair Mary Jo White, US Commodity Futures Trading Commission Chairman Timothy Massad, Federal Deposit Insurance Corporation Vice Chairman Thomas Hoenig, Federal Deposit Insurance Corporation Board Member Jeremiah Norton, Federal Reserve Board Governor Daniel Tarullo, Federal Reserve Bank of New York President William Dudley, and Deputy Treasury Secretary Sarah Bloom Raskin.

Participants from the UK were Chancellor of the Exchequer George Osborne, Bank of England Governor Mark Carney, Deputy Governor for Financial Stability Sir Jon Cunliffe, Deputy Governor for Prudential Regulation and Chief Executive Officer of the PRA Andrew Bailey, Deputy Governor for Markets & Banking Minouche Shafik, and FCA Chief Executive Martin Wheatley.

The exercise's high level discussion furthered understanding among these principals regarding G-SIB resolution strategies under US and UK resolution regimes, aspects of those strategies requiring coordination between US and UK authorities, and key challenges to the successful resolution of US and UK G-SIBs. This exercise builds on prior bilateral work between US and UK authorities, which, since late 2012, has included the publication of a joint

paper 'Resolving Globally Active, Systemically Important, Financial Institutions' on G-SIB resolution, participation in detailed simulation exercises for G-SIB resolution, and participation in other joint G-SIB resolution planning efforts.

The exercise demonstrates the continued commitment of the US and the UK since the financial crisis to promote a safer and sounder financial system by cooperating to address issues involved in the orderly resolution of large and complex financial institutions without cost to taxpayers. Both countries reiterated their commitment to the Financial Stability Board's ongoing work concerning G-SIB resolution. The exercise was timed to coincide with the International Monetary Fund annual meeting.

Bank of England 13.10.14

PRA fines Royal Bank of Scotland, Natwest Bank and Ulster Bank £14m for IT failures

The PRA has fined Royal Bank of Scotland Plc ('RBS'), National Westminster Bank Plc ('Natwest') and Ulster Bank Ltd ('Ulster Bank') £14m for inadequate systems and controls which led to a serious IT incident in 2012. This is the first financial penalty the PRA has imposed since it came into being in April 2013. The FCA has separately fined the banks for the same incident.

In April 2013, the PRA and FCA announced that they would investigate the RBS, Natwest and Ulster Bank IT incident which led to widespread disruption to customers and the financial system. A joint investigation was considered necessary because the incident impacted upon the objectives of both the PRA and the FCA.

The IT incident, which began on 18 June 2012, directly affected at least 6.5m customers in the UK, 92% of whom were retail customers. The IT incident had the potential to have an adverse effect on the safety and soundness of RBS, Natwest and Ulster Bank as it impacted upon:

- the ability of the banks' retail customers to access their accounts;
- the ability of the banks' commercial customers to access their internet banking service, preventing them from accessing their accounts or making payments;
- customers of other institutions who were unable to receive payments from the banks' affected customers; and
- the ability of the banks to fully participate in clearing. An efficient clearing system is fundamental to the efficient operation of the financial markets.

Disruption to the majority of RBS and Natwest systems lasted until 26 June 2012, and Ulster Bank systems until 10 July 2012. Disruptions to other systems continued into July 2012. The cause of the IT incident was the failure

of the banks to have the proper controls in place to identify and manage exposure to the IT risks within their business.

Properly functioning IT risk management systems and controls are an integral part of a firm's safety and soundness. The PRA considers that the IT incident could have threatened the safety and soundness of the banks and could have, in extremis, had adverse effects on the stability of the financial system in that it interfered with the provision of the banks' core banking functions, impacted third parties and risked disrupting the clearing system.

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

> 'The severe disruption experienced by RBS, Natwest and Ulster Bank in June and July 2012 revealed a very poor legacy of IT resilience and inadequate management of IT risks. It is crucial that RBS, Natwest and Ulster Bank fix the underlying problems that have been identified to avoid threatening the safety and soundness of the banks.'

The banks agreed to settle at an early stage and were therefore entitled to a 30% discount, without which they would have been fined £20m.

Bank of England 20.11.14

PRA consults on proposals to improve responsibility and accountability in the insurance sector

The PRA has published a consultation paper introducing a new accountability regime for the insurance sector. The proposals aim to embed a clearer system of accountability and responsibility for senior individuals working for insurance firms and groups.

In July 2014, the PRA consulted on a similar regime for the banking sector, as required by the Banking Reform Act 2013. Although many of the key legislative powers in the Banking Reform Act do not apply to insurers, the PRA believes that there should be a regulatory framework which reinforces similar standards of fitness and propriety, conduct, and accountability for individuals in positions of responsibility at both insurers and banks. The regime for insurers is not identical to that for banks, given the differences in business models and risks posed to the PRA's objectives. Specifically, none of the potential criminal sanctions, nor the 'presumption of responsibility' in the banking regime, will apply to any of the individuals in 'senior insurance management functions'.

The new regime also takes account of the need to introduce measures relating to governance and the fitness and propriety of individuals as part of Solvency II.

The Senior Insurance Manager's Regime will apply to senior managers who are running insurers, or who have responsibility for key functions. As such, the PRA proposes a more focused range of individuals within insurance firms who will be subject to regulatory pre-approval. These are individuals

who would be held responsible and accountable for ensuring the ongoing safety and soundness of their firm and the appropriate protection of policyholders.

The regime will apply to

- the Chief Executive Officer;
- the Chief Finance Officer;
- the Chief Risk Officer;
- the Head of Internal Audit;
- the Chief Actuary;
- the With-Profits Actuary (for life insurers writing with-profits business);
- the Chief Underwriting Officer (for general insurance and reinsurance firms, and managing agents at Lloyd's); and
- the Underwriting Risk Oversight Function (for the Society of Lloyd's).

Firms will have to allocate certain responsibilities, including specific responsibility for developing and embedding the culture of the firm, to one or more of these individuals. The PRA is also proposing to introduce new conduct standards for these individuals.

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

> 'Ensuring that senior managers of insurers are accountable supports our objective that firms should be run in a safe and sound manner. Policyholders are best served by insurance companies with senior managers who can be held to account and who are individually responsible for the decisions they make.'

Bank of England 26.11.14

FCA News

Wonga to make major changes to affordability criteria following discussions with the FCA

Wonga has entered into an agreement, known as a voluntary requirement ('VREQ'), with the FCA that requires it to make significant changes to its business immediately.

When it took over regulation of consumer credit in April of this year, the FCA requested information about the volume of Wonga's relending rates. The information received suggested that Wonga was not taking adequate steps to assess customers' ability to meet repayments in a sustainable manner.

The FCA has agreed an approach with Wonga for remedial redress for those customers who were affected by inadequate affordability assessments:

- Approximately 330,000 customers who are currently in excess of 30 days in arrears, will have the balance of their loan written off and will owe Wonga nothing.
- Approximately 45,000 customers who are between 0 and 29 days in arrears will be asked to repay their debt without interest and charges and will be given an option of paying off their debt over an extended period of four months.

Wonga committed to contact all customers by 10 October to notify them if they will be included in the redress programme. Customers should now continue to make payments unless they are told to stop by the firm. Borrowers who are experiencing financial difficulty should contact Wonga to discuss their options.

The FCA will continue to work with Wonga to identify whether there is any other remedial action required. If necessary, further details will be communicated by the firm in due course.

Clive Adamson, Director of Supervision, said:

> 'We are determined to drive up standards in the consumer credit market and it is disappointing that some firms still have a way to go to meet our expectations. This should put the rest of the industry on notice – they need to lend affordably and responsibly.
>
> It is absolutely right that Wonga's new management team has acted quickly to put things right for their customers after these issues were raised by the FCA.'

Effective today, Wonga has introduced new interim lending criteria that should improve customer outcomes. It is also working to put in place a new permanent lending decision platform as soon as possible. The FCA has also required Wonga to appoint a Skilled Person to monitor the new lending decision platform to ensure it has the desired effect; the Skilled Person will report to the FCA and give an independent view of the firm's activities.

FCA 02.10.14

FCA confirms price cap rules for payday lenders

People using payday lenders and other providers of high-cost short-term credit will see the cost of borrowing fall and will never have to pay back more than double what they originally borrowed, the FCA confirmed (on 11 November).

Martin Wheatley, the FCA's chief executive officer, said:

> 'I am confident that the new rules strike the right balance for firms and consumers. If the price cap was any lower, then we risk not having a viable market, any higher and there would not be adequate protection for borrowers.

> For people who struggle to repay, we believe the new rules will put an end to spiralling payday debts. For most of the borrowers who do pay back their loans on time, the cap on fees and charges represents substantial protections.'

The FCA published its proposals for a payday loan price cap in July. The price cap structure and levels remain unchanged following the consultation. These are:

(1) **Initial cost cap of 0.8% per day – lowers the cost for most borrowers.** For all high-cost short-term credit loans, interest and fees must not exceed 0.8% per day of the amount borrowed.

(2) **Fixed default fees capped at £15 – protects borrowers struggling to repay.** If borrowers do not repay their loans on time, default charges must not exceed £15. Interest on unpaid balances and default charges must not exceed the initial rate.

(3) **Total cost cap of 100% – protects borrowers from escalating debts.** Borrowers must never have to pay back more in fees and interest than the amount borrowed.

From 2 January 2015, no borrower will ever pay back more than twice what they borrowed; and someone taking out a loan for 30 days and repaying on time will not pay more than £24 in fees and charges per £100 borrowed.

FCA 11.11.14

FCA consultation papers

Consultation paper 14/24: Charges in workplace personal pension schemes

In this paper the FCA outlines proposed new rules for a charge cap for default funds used for automatic enrolment in workplace pension schemes and for banning certain charging practices.

The automatic enrolment of employees into workplace pension schemes began in July 2012. By 2018, it is estimated that between eight and nine million people will be newly saving, or saving more, in a workplace pension scheme. Many of these will be on low incomes and will not have made any active choice about how their pension savings are invested.

Automatic enrolment means that it is even more important to ensure that workplace pension schemes deliver the best possible value for money. The FCA has been working with the Department for Work and Pensions ('DWP') and the Pensions Regulator to design measures that will help to ensure that all workplace pension schemes are high quality and offer value for money.

These measures include:

- new governance standards;
- a proposed charge cap on default funds;

- the banning of certain charging practices; and
- measures to improve the disclosure of costs and charges.

In this paper the FCA outlines proposed new rules for a charge cap for default funds used for automatic enrolment in workplace pension schemes and for banning certain charging practices. The intention is to protect members from high charges and paying for advisory services that they do not need, or that are provided to their employer. Consultation closes by 31 December 2014.

FCA 30.10.14

Consultation paper 14/23: Restrictions on the retail distribution of regulatory capital instruments

In this paper the FCA is consulting on rules to restrict the retail distribution of contingent convertible securities ('CoCos') and on requirements on the retail distribution of mutual society shares. In August 2014 the FCA announced the introduction of temporary product intervention rules restricting the retail distribution of CoCos. The rules entered into force on 1 October 2014. In this paper the FCA is consulting on permanent rules to replace the temporary rules when they expire on 1 October 2015. The FCA is also consulting on new requirements that would apply when mutual society shares are sold to ordinary retail investors.

Consultation closes by 29 January 2015.

FCA 29.10.14

FCA bans and fines

Swinton Group Ltd

The FCA fined three former senior executives of Swinton Group Ltd £928,000. The FCA's action follows previous enforcement action taken against Swinton: in 2013 it was fined £7.4m after it adopted an aggressive sales strategy that resulted in mis-sales of monthly add-on insurance policies; and in 2009 the firm was fined £770,000 for failures in its sales of PPI.

05.11.14

Citibank, HSBC, JPMorgan, RBS and UBS AG

The FCA imposed fines totalling £1,114,918,000 ($1.7bn) on five banks for failing to control business practices in their G10 spot foreign exchange trading operations: Citibank NA £225,575,000 ($358m), HSBC Bank Plc £216,363,000 ($343m), JPMorgan Chase Bank NA £222,166,000 ($352m), The Royal Bank of Scotland Plc £217,000,000 ($344m) and UBS AG £233,814,000 ($371m).

12.11.14

Chase de Vere Independent Financial Advisers Ltd

The FCA has fined Chase de Vere Independent Financial Advisers Ltd £560,000 for failures surrounding the sale of Keydata products.

17.11.14

EU AND INTERNATIONAL

European Central Bank Assumes Responsibility for Euro Area Banking Supervision

The European Central Bank ('ECB') assumed (on 4 November) responsibility for the supervision of euro area banks, following a year-long preparatory phase which included an in-depth examination of the resilience and balance sheets of the biggest banks in the euro area.

The Single Supervisory Mechanism ('SSM') is a new system of banking supervision, comprising the ECB and the national competent authorities of the participating countries. Its main aims are to contribute to the safety and soundness of credit institutions and the stability of the European financial system and to ensure consistent supervision.

The ECB will directly supervise 120 significant banking groups, which represent 82% (by assets) of the euro area banking sector. For all other 3,500 banks the ECB will also set and monitor the supervisory standards and work closely with the national competent authorities in the supervision of these banks.

Danièle Nouy, Chair of the Supervisory Board of the ECB, said:

> 'Much has been achieved to prepare for ECB Banking Supervision. We now have a unique opportunity to develop a culture of supervision that is truly European, building on the best practices of supervisors from across the euro area.'

Sabine Lautenschläger, Vice-Chair of the Supervisory Board and Executive Board member of the ECB, said:

> 'European-level banking supervision will improve and strengthen financial stability, ensuring a level playing field in the supervisory requirements to be met by banks.'

The ECB assumes the supervisory tasks conferred on it by the SSM Regulation one year after the Regulation entered into force. Over the past year, much preparatory work has been undertaken, including the completion of the comprehensive assessment, a health check of the biggest banks, as well as the adoption of legal acts defining how the SSM operates and the establishment of new governance structures at the ECB.

ECB 04.11.14

EU Launches Investment Offensive to Boost Jobs and Growth

The European Commission announced a €315bn Investment Plan to get Europe growing again and get more people back to work.

The Plan is built on three main strands:

- the creation of a new European Fund for Strategic Investments ('EFSI'), guaranteed with public money, to mobilise at least €315bn of additional investment over the next three years (2015–2017);
- the establishment of a credible project pipeline coupled with an assistance programme to channel investments where they are most needed; and
- an ambitious roadmap to make Europe more attractive for investment and remove regulatory bottlenecks.

According to European Commission estimates, taken as a whole, the proposed measures could add €330–€410bn to EU GDP over the next three years and create up to 1.3m new jobs.

European Commission 26.11.14

Net Stable Funding Ratio Finalised by Basel Committee

The Basel Committee on Banking Supervision has today issued the final standard for the Net Stable Funding Ratio ('NSFR'), as endorsed by the Committee's governing body, the Group of Central Bank Governors and Heads of Supervision ('GHOS').

The NSFR is a significant component of the Basel III reforms. It requires banks to maintain a stable funding profile in relation to their on- and off-balance sheet activities, thus reducing the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that could increase the risk of its failure and potentially lead to broader systemic stress. The NSFR will become a minimum standard by 1 January 2018. The Committee is currently developing disclosure standards for the NSFR and expects to publish them for consultation around year end.

Stefan Ingves, Chairman of the Basel Committee and Governor, Sveriges Riksbank, said:

> 'A key lesson from the crisis has been the need to prevent overreliance on short-term, volatile sources of funding. The NSFR does this by limiting the use of volatile short-term borrowings to fund illiquid assets. In finalising the standard, the Committee has essentially completed its regulatory reform agenda, undertaken to promote a more resilient banking sector following the financial crisis.'

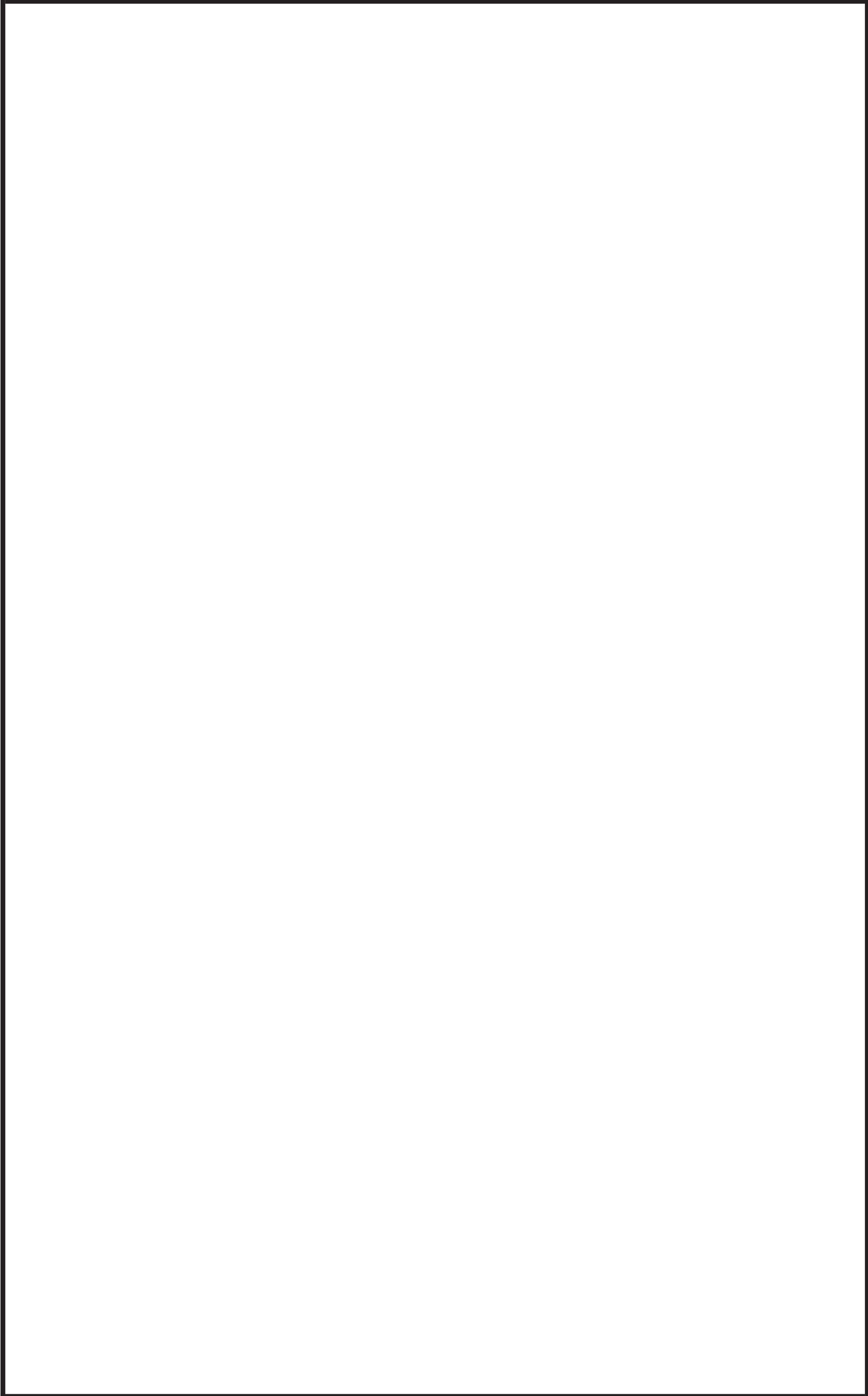
The final NSFR retains the structure of the January 2014 consultative proposal. The key changes introduced in the final standard published (30 October) cover the required stable funding for:

- short-term exposures to banks and other financial institutions;
- derivatives exposures; and
- assets posted as initial margin for derivative contracts.

In addition, the final standard recognises that, under strict conditions, certain asset and liability items are interdependent and can therefore be viewed as neutral in terms of the NSFR.

Proposals on the NSFR were first published in 2009, and the measure was included in the December 2010 Basel III agreement. At that time, the Committee put in place a rigorous process to review the standard and its implications for financial market functioning and the economy. In January 2014 the Committee issued a revised standard that was recalibrated to focus on the riskier types of funding profile employed by banks while improving alignment with the Liquidity Coverage Ratio ('LCR') and reducing cliff effects in the measurement of available and required stable funding.

BIS 31.10.14



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