

Butterworths Financial Regulation Service

Bulletin editor

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HM Treasury News

Government to sell part of its remaining shareholding in Lloyds through a trading plan

The Chancellor has set out (on 17 December 2014) the next stage in the government's plan to return Lloyds Banking Group to private ownership and get taxpayers' money back, by announcing that the government will sell part of its remaining shareholding in the firm through a trading plan.

The government received advice from UK Financial Investments that it would be appropriate to sell another part of the government's shareholding in Lloyds through a trading plan. The government agrees with that advice and has authorised the plan to be put in place.

The government remains committed to restoring Lloyds to private ownership in a way which gets the best value for the taxpayer, building on the success of previous share sales which have so far raised £7.4bn. Shares will only be sold where this objective is met.

The Chancellor George Osborne said:

'I can confirm today that the government is taking the next step in returning Lloyds Banking Group to private ownership.

The trading plan I'm initiating today is made possible by our long term economic plan which is delivering a more secure and resilient economy. It is another step in reducing our national debt and in getting taxpayers' money back.'

A trading plan involves gradually selling shares in the market over time, in an orderly and measured way. The trading plan was initiated on 17 December 2014 and sales may commence in the coming days. The plan will be in place for approximately six months.

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Shares will not be sold below the average price the previous government paid for them, which was 73.6p. The previous sales of the government's shares in Lloyds have raised £7.4bn, reducing the government's stake in the bank from around 40% to just under 25%.

Morgan Stanley will act as broker on behalf of HM Treasury to execute the trading plan.

HM Treasury 17.12.14

Government makes recommendations to strengthen financial regulators' enforcement decisions

The government has published a number of recommendations to ensure that the way the financial regulators, the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority ('PRA'), make enforcement decisions continues to be fair, transparent and efficient, following a review.

A key part of the government's long term economic plan is to strengthen Britain's banking system so that it is better placed to support customers and businesses, with firms and individuals in the industry conducting themselves to the highest standards.

That is why the government introduced a series of radical reforms to the banking sector, including creating the FCA and the PRA and giving them stronger powers to protect customers and the stability and integrity of financial markets on which they depend.

The ability to take strong enforcement action is a key part of this work, and the government wants to ensure that the regulators continue to make enforcement decisions that are fair, transparent and efficient. That is why HM Treasury announced a review of the institutional arrangements and processes used by the FCA and the PRA to make enforcement decisions in May this year.

Following the conclusion of the review, the government is today publishing recommendations including:

- a new independent decision-making committee for the PRA, with a dedicated and independent chair;
- a new, sign-posted, expedited procedure to access the Upper Tribunal so that those who wish to access this independent judicial process can do so directly;
- a regular independent review of the regulators' settlement processes;
- measures to enhance the accountability of the FCA and the PRA's decision makers, including by publishing annual reports and increasing their accountability to Parliament;
- removal of penalty discounts where those being investigated delay settlement;

- steps to encourage those being investigated to make early admissions to resolve cases more quickly;
- the FCA and the PRA should publish more information about their criteria for starting investigations, and their approaches to referring cases from supervision to enforcement, with more transparency around how the FCA and the PRA co-operate with each other; and
- more constructive communication between investigators and those being investigated, with greater senior involvement by the regulators.

The Chancellor, George Osborne, said:

‘A key part of our long term economic plan is to build a stronger banking system that is better placed to support customers and businesses, with firms and individuals in the industry conducting themselves to the highest standards.

That’s why we created new financial regulators and gave them stronger powers to protect customers and the integrity of financial markets on which they depend, and we’re committed to ensuring that these regulators can continue to act effectively and decisively.

Today’s recommendations will enhance the FCA and PRA’s capacity to deal with misconduct or tackle threats to financial stability swiftly, fairly and robustly.’

The review sits alongside the significant steps that the government has already taken to improve standards in banking and financial services, including by replacing the failed tripartite regulatory system.

HM Treasury 18.12.14

Code of conduct for operational Private Finance Initiative/Public Private Partnership contracts

The voluntary code of conduct sets out the basis on which public and private sector partners agree to work together to make savings in operational Public Private Partnership (‘PPP’) contracts. The code applies to all PPP contracts that signatories are parties to, such as Private Finance Initiative (‘PFI’) contracts, PF2 and other variants of PPP contracts.

The code sets out commitments from both public and private sector parties on constructive engagement, flexibility and improving operational efficiency. These commitments will support an overall improvement in contract management relationships and behaviours and the creation of a more effective working environment between customers and suppliers. This will help the public and private sectors work together on existing contracts for schools, hospitals and many other public infrastructure projects.

The launch of the code forms part of the government’s wider work on reducing the cost of PFI deals under the Operational Savings programme, which has already achieved savings of over £1.5bn since it launched two years ago. It has been developed with the support and engagement of relevant

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trade bodies and a cross-section of lenders, investors, construction contractors and facilities management providers. All parties to PPP contracts should be able to sign up to these commitments which reflect best practice in the sector.

HM Treasury 07.01.15

New basic fee-free bank accounts to help millions manage their money

For the first time, basic bank accounts will be truly fee-free, helping people to manage their money without fear of running up an overdraft. Accounts will be available to anyone who doesn't already have a bank account or who can't use their existing account due to financial difficulty.

The Economic Secretary to the Treasury, Andrea Leadsom, (on 15 December 2014) hailed a major agreement between the government and the banking industry to establish new basic bank accounts that will end bank charges if a direct debit or standing order fails.

New basic bank accounts will help people who do not have a bank account or who are frozen out of existing accounts because of previous money problems.

Following extensive negotiations with the banking industry to bring basic bank accounts up to scratch, nine high street banks and building societies covering over 90% of the UK current account market have agreed to offer a better deal to customers. The changes will minimise the risk that basic bank account customers will be forced into overdraft by fees or charges. In some cases, charges had been as high as £35 per failed item, and uncapped, meaning charges could accumulate to hundreds of pounds over time and drive people into serious debt.

Basic bank account customers will now also be offered services on the same terms as other personal current accounts that the banks provides, including access to all the standard over-the-counter services at bank branches and at the Post Office, and access to the entire ATM network.

There are an estimated 9m users of basic bank accounts in the UK.

This deal comes on top of the estimated £300m cost to the banking industry of providing basic bank accounts today. It is vital that banks offer products which are suitable for day-to-day transactions for all consumers.

The Economic Secretary, Andrea Leadsom, met Toynbee Hall's specialist financial advisers and people who may have found it difficult to access mainstream banking services in the past, to discuss how the new basic bank accounts will make a difference.

Andrea Leadsom said:

'I welcome the banks' agreement to remove these charges from their basic bank accounts.

This means that people who don't have an account, or who would struggle to get a standard account due to money problems, will be able to manage their money with certainty and clarity.

It will end people being effectively locked out of their basic bank accounts due to high fees and charges when their payments failed.

Ending this unfair situation is a real step forward for the banking industry's most vulnerable customers and improving access to banking is a key part of our long-term economic plan.'

BBA Chief Executive, Anthony Browne, said:

'Banks in the UK lead the way when it comes to providing accessible banking and take their responsibility seriously – the proportion of the population with no account at all is less than a third of that in the US and Europe. Now we will be helping even more people access banking services than ever before, as these accounts are designed for people who don't have a bank account today and are vulnerable.

These basic accounts will make it easier for more people to manage their money. They will have many features that will help people to budget, pay bills and save up.

We are delighted to be offering this service to those who will really benefit.'

Gillian Guy, Chief Executive of Citizens Advice, said:

'A good bank account is an essential ingredient to managing your money. Any barriers to essential banking services can make it even harder for people keep on top of their finances. Up until now, some basic bank account customers didn't get a debit card, were afraid of being hit with fees for unpaid direct debits and some were shut out of banking altogether.

Citizens Advice has been at the forefront of the campaign for decent basic bank accounts, and is pleased that the Government and banks have listened to the problems experienced by our clients. We look forward to continuing to work with the Treasury as well as with banks to make sure these new standards meet the needs of customers.'

Graham Fisher, Chief Executive of Toynbee Hall, said:

'The announcement today to create genuinely accessible and inclusive fee-free bank accounts for the most vulnerable people is a significant step forward in creating a truly financially inclusive society.

At Toynbee Hall we have helped a significant number of clients to set-up new bank accounts, which can at times be a difficult and frustrating process, but with these changes we will be able to help more people access this incredibly valuable financial product.'

The terms of the agreement are published today so that every customer knows what they can expect from their bank in future and the new accounts

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will be in place by the end of 2015. The terms of the agreement make clear that the accounts should be made available where people are ineligible for a bank's standard current account, and either:

- have no bank account;
- have a bank account elsewhere, but want to change provider; or
- have a bank account, but are in financial difficulty and want their bank to open a new, functional account for them.

Not all banks will apply these criteria in full – some may choose not to set any eligibility requirements and offer customers a choice from their full range of personal current accounts.

HM Treasury 07.01.15

New mortgage regulation legislation published

These new regulations, which are set out in the EU Mortgage Credit Directive (2014/17/EU), set common standards that EU members need to meet in order to protect consumers taking out loans to buy a residential property.

The government has already introduced a number of major reforms to mortgage lending, including creating new, stronger regulators with powers to ensure people only borrow what they can afford to repay, as well as tackle any future risks to financial stability from the mortgage market at a much earlier stage.

While Britain already complies with most of these new EU rules, the legislation implementing the Directive contains some changes which include:

- bringing the regulation of 'second charge' mortgage lending into line with 'first charge' mortgage lending. The government has intended to make this change for a number of years but chose to wait for these new EU rules to be implemented, in order to avoid excessive disruption to both lenders and customers; and
- introducing a new set of regulations for buy-to-let lending, where the lending is to consumers rather than for business purposes. This is not expected to affect the vast majority of buy-to-let lending which is done for business purposes and is therefore not subject to the Directive.

The changes will not come into effect until March 2016, but the government is putting these in place now in order to give mortgage lenders and customers as long as possible to prepare for them.

HM Treasury 26.01.15

£3m boost for Royal Navy charities from London Interbank Offered Rate funds

The Chancellor of the Exchequer, George Osborne, (on Friday 30 January) announced £3m for causes which support the families of the Royal Navy alongside projects which showcase Naval history.

Funding was announced as the Chancellor paid a visit to the Royal Navy Docks in Portsmouth as he confirmed that the money would come from the fines levied on banks for manipulating the London Interbank Offered Rate ('LIBOR') financial benchmark.

The projects set to benefit from the funding announced today include:

- £1m for the Royal Navy and Royal Marines Charity to support Royal Navy personnel and their families in Portsmouth through projects including refurbishing the Warrant Officers Mess in HMS Sultan and renovating Navy Mews to provide flats so families can spend time with their loved ones in Portsmouth if they are deploying;
- £1m for the Royal Navy and Royal Marines Charity to enable support for a number of projects including help for the Naval Families Federation; and
- £1m to support the Royal Navy Museum and the Royal Navy Heritage Flying Trust ('RNHF') to deliver historical projects and attract tourism to Portsmouth. The funding will go towards restoring the LCT 7074 (World War II landing Craft) and to fund essential long term repairs to the Swordfish historic flight – the first Carrier borne aircraft for the Royal Navy.

Chancellor of the Exchequer, George Osborne, said.

'It is fitting that the money paid in fines by people who demonstrated the poorest values in our society is used to support those who demonstrate the very best.

Servicemen sacrifice so much to keep our nation safe and we will invest £3 million investment into projects such as refurbishing the Mess at HMS Sultan and renovating the Navy Mews so they can spend times with their loved ones when they are deploying.

The money will also go towards supporting the Royal Navy Museum and the Royal Navy Heritage Flying Trust so that future generations will always know the stories of the sacrifices made by our hardworking servicemen and their families.'

This announcement follows the Chancellor's pledge in December last year that all proceeds from LIBOR fines would be spent during this Parliament on military and blue light causes.

So far, funding has been awarded to a range of projects from the Invictus Games to mental health support for ambulance, police and fire services.

HM Treasury 30.01.15

Bank of England and PRA News

Bank of England and HM Treasury announce extension to the Funding for Lending Scheme

The Bank of England and HM Treasury announced a one-year extension to the Funding for Lending Scheme ('FLS'). This extension will provide lenders

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with continued certainty over the availability of cheap funding to support lending to small and medium-sized enterprises ('SMEs') during 2015, even in the event of stress in bank funding markets.

The FLS has contributed to a substantial fall in bank funding costs since its launch in mid-2012. That has fed through to improvements in credit conditions for households and businesses. Reflecting the significant improvements in household credit conditions, the incentives in the FLS were re-focussed towards business lending in November 2013. The extension announced will continue to provide support to where it is most needed, by focussing the incentives in the scheme towards lending to SMEs in 2015.

The FLS extension will complement various other longer-term initiatives to improve the availability of credit to SMEs as they take root. These include:

- the British Business Bank's various programmes to make markets work better for SMEs;
- the joint Bank of England-European Central Bank ('ECB') initiative to improve the functioning of the securitisation markets, including securitisation of SME loans;
- the government's proposals in the Small Business, Enterprise and Employment Bill to mandate greater sharing of SME credit information and to require banks to share details of SMEs which have been declined finance;
- the Bank of England's consideration of widening access to credit data to support the provision of credit to SMEs through non-financial intermediary channels, such as trade credit;
- changes to the PRA's regulatory approach to make it easier to set up new banks; and
- a reduction in capital requirements for SME lending under EU legislation.

Following this announcement, the drawdown window for the FLS extension will remain open until 29 January 2016. Current participants in the FLS extension will remain part of the scheme unless they choose to opt out, and they will retain borrowing allowances earned by lending from 2013 Q2 to 2014 Q4. Participants will be able to earn further allowances by lending to SMEs in 2015, with such lending strongly incentivised by allowing participants to draw £5 in the scheme for every £1 of net lending to SMEs. Net lending to financial leasing corporations and factoring corporations – which can be important sources of finance for some SMEs – will continue to count towards allowances generated in 2015, pound for pound. All other terms of the FLS extension remain unchanged, with drawings continuing to be for a term of four years and attracting a fee of 25 basis points.

Although the Bank is not indemnified for the operation of the FLS, the exchange of letters published (on 2 December 2014) between the Governor of the Bank of England and the Chancellor of the Exchequer shows that the

Bank has sought and received an assurance from the government that the objectives of the extended FLS remain within the Bank's remit. The scheme will continue to be overseen by a Joint Oversight Board comprised of Treasury and Bank officials.

The Monetary Policy Committee ('MPC') has judged that there will be no material impact on the stance of monetary policy. The Financial Policy Committee welcomes these changes.

Commenting on these changes to the scheme, Mark Carney, Governor of the Bank of England said:

'By providing a backstop for funding for banks, the FLS has supported access to credit across the economy during an exceptional period. As the banking system has been returned to health, the need for that backstop has been reduced. The Scheme is not permanent so, as access to credit has returned to the mortgage market and large corporations, the Scheme has been tapered appropriately. The extension announced today concentrates the FLS on the one area where support remains warranted: the supply of credit to SMEs.'

Commenting on these changes to the scheme, George Osborne, Chancellor of the Exchequer said:

'The government's long term economic plan is working with the Funding for Lending Scheme playing a vital role in supporting the recovery. Now that credit conditions for households and large businesses have improved, it is right that we focus the scheme's firepower on small businesses, which are the lifeblood of our economy. That's also why we've reformed the banks, introduced the British Business Bank and are now focussing the Funding for Lending Scheme on supporting them.'

Bank of England 02.12.14

Bank of England announces measures to bolster transparency and accountability

The Bank of England published an independent report by former Federal Reserve Board Governor Kevin Warsh, following his review of the MPC's transparency practices and procedures.

The Bank also announced a series of significant transparency, accountability and governance enhancements designed to put the Bank at the forefront of international best practice and enhance its ability to fulfil its mission to promote the good of the people of the UK by maintaining monetary and financial stability.

Governor Warsh recommended that the Bank adopt reforms in service to what he called the 'Big 4' objectives: making sound policy decisions; communicating judgments effectively; ensuring accountability for its actions; and creating a fair and accurate historical record.

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The MPC welcomed Governor Warsh's report, accepted his recommendations, and announced the following changes to its practices:

- publication of both the minutes of its policy meetings and (in the relevant months) the *Inflation Report* at the same time as its policy decisions, starting in August 2015;
- publication of written transcripts of the meetings at which monetary policy is decided, and related staff policy briefing material, with an eight-year lag, as of the March 2015 policy meeting;
- alteration of its 2016 meeting schedule to provide scope to move to eight policy meetings a year;
- plan to hold four joint meetings between the MPC and the Financial Policy Committee ('FPC') in 2016.

Alongside these measures, the Bank also proposed a simpler structure for its governing bodies and a clearer commitment to accountability. These proposals seek to reinforce the intent of existing legislation and make the Bank as effective as possible in delivering the responsibilities given to it by Parliament. They include:

- aligning the status of the FPC and the PRA Board with the tried and tested model of the MPC;
- establishing the Bank's Court as unitary board, with executives and non-executives working together to govern the corporation;
- publishing, during 2015, the minutes of the Court meetings held between 1914 and 1987, thereby aligning its release of archives with best practice in Whitehall; and
- releasing, in January 2015, and in appropriately redacted form, the minutes of Court and related meetings during the crisis period of 2007–09, as requested by the Treasury Committee. In combination with the recent Plenderleith, Winters, and Stockton reviews, this provides a complete record of the Bank's activities during the crisis.

In announcing these measures, the Governor said:

'The Bank now has immense responsibilities for monetary stability, financial stability and for microprudential regulation. And with these responsibilities comes the need for effective transparency, genuine accountability and robust governance. Today I am pleased to announce the most significant set of changes to how we present and explain our interest rate decisions since the Monetary Policy Committee was formed in 1997. Alongside those measures, we have also proposed a number of additional changes that will mark a step change in the governance of this institution. These changes will enhance our transparency and make us more accountable to the British people.'

Bank of England 11.12.14

*PRA consultation papers***Consultation Paper 3/15: Solvency II: transitional measures and the treatment of participations**

This consultation paper seeks views on draft rules to implement Solvency II transitional measures for risk-free rates and technical provisions. The consultation also includes two draft supervisory statements: the first on the PRA's expectations regarding these transitional measures; and the second on the internal model treatment of participations. It follows Consultation Paper 16/14: *Transposition of Solvency II – Part 3* where the intention to publish this consultation paper was anticipated.

The consultation paper is of interest to all UK insurance firms within the scope of Solvency II and to the Society of Lloyd's. It should be read alongside the relevant European legislation, previous consultations on Solvency II, and relevant parts of the PRA Rulebook.

Summary of proposals covered by the consultation paper:

The proposed rules in this consultation paper are designed to ensure a smooth transition towards the full requirements of the new regime. The Directive specifies a transitional on risk-free rates, which firms must apply to the PRA for approval to use, and which is designed to enable firms to transition from their current discount rate requirements to the corresponding Solvency II requirements. The Directive also specifies a transitional on technical provisions, which firms must apply to the PRA for approval to use, and which is applied as a deduction from a firm's Solvency II technical provisions.

The draft supervisory statements in this consultation set out the PRA's expectations regarding the calculation and application process to be used for these transitional measures. They also set out the PRA's expectations of firms in relation to how participations in (re)insurance firms are reflected in the Solvency Capital Requirement at the solo level.

The PRA is required to transpose the Directive by Tuesday 31 March 2015 and the Solvency II regime will apply to all affected firms from 1 January 2016.

PRA 23.01.15**Consultation Paper 4/15: Depositor, dormant account and policyholder protection – amendments**

This consultation paper sets out proposals for transitional provisions and new rules in the PRA Rulebook and consequential amendments to the PRA Handbook that arise as a result of the rules being proposed in both the Depositor Protection and Policyholder Protection consultation papers (Consultation Paper 20/14: *Depositor Protection* ('CP20/14') and Consultation paper 21/14: *Policyholder Protection* ('CP21/14')) published in October 2014. In those previous consultations, this consultation paper was referred to as 'CP2'.

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The package of measures across the PRA's consultations (CP4/15, CP20/14 and CP21/14) helps minimise the adverse impact the failure of a PRA- authorised deposit-taker, dormant account fund operator or PRA- authorised insurer would have on UK financial stability and helps deliver effective compensation or continuity to eligible depositors, dormant account holders and policyholders.

PRA 30.01.15

FCA News

FCA introduces additional protection for consumers ahead of pension freedoms

The FCA has written to the CEOs of pension providers to outline plans to introduce additional protection for those accessing their defined contribution pension pot from April.

Under the new additional protection rules firms will be required to ask consumers about key aspects of the circumstances that relate to the decision they are making about their pension pot. These include issues such as health and lifestyle choices or marital status. This will come into force from April.

Providers will be required to give relevant risk warnings, such as warning of the tax implications of their decisions, in response to answers from consumers. Firms must also further highlight the availability of the government's new Pension Wise scheme or regulated advice.

Christopher Woolard, director of strategy and competition at the FCA, said:

‘The decisions consumers make about what to do with their pension pot are important and in some instances these choices are irreversible. We want to make sure that people have the help they need to make those choices.’

Firms will be required to deliver these messages in a direct and simple language which will be set out when the new rules are published.

FCA 26.01.15

FCA to gather evidence on how the PPI complaints process is working

The FCA is planning to gather evidence on current trends in complaints on Payment Protection Insurance ('PPI').

The FCA will use this evidence to assess whether the current approach is continuing to meet its objectives of securing appropriate protection for consumers and enhancing the integrity of the UK's financial system. The FCA will then consider whether further interventions may be appropriate – which could include a consumer communication campaign; a possible time limit on complaints; or other rule changes or guidance – or whether the continuation of the PPI scheme in its current form best meets its objectives.

The FCA expects this work to commence shortly and to give its view on the evidence collected in the summer.

While this work continues, the FCA expects firms to continue to deal with PPI complaints in accordance with its requirements.

Consumers who believe they were mis-sold PPI should continue to complain to the firm that sold it to them and to the Financial Ombudsman Service if they are not satisfied with the firm's response. Making such complaints is free to consumers and there is no need to use a claims management company.

Since January 2011, firms have handled over 14m PPI consumer complaints about the sale of PPI, upholding over 70% and paying £17.3bn compensation. The FCA's intensive work with firms has led them to improve their assessments of PPI complaints.

FCA 30.01.15

FCA confirms new Disclosure Rules and Transparency Rules

The FCA has confirmed that new Disclosure Rules and Transparency Rules ('DTRs') to report on payments to governments have entered into force. This follows an announcement on 12 December, which set out requirements under the Transparency Directive (2004/109/EC) for issuers involved in the extractive or logging of primary forest industries to produce annual reports on payments made to the governments in the countries they operate in.

The new rules, published today, will take effect for financial years beginning on or after 1 January 2015. The FCA has now published Policy Statement 15/1: *Early implementation of the Transparency Directive's requirements for reports on payments to governments, including feedback on CPI4/17 and final rules*, which sets out the rules that have come into force.

FCA 02.01.15

FCA to regulate seven additional financial benchmarks

The FCA will regulate seven additional major UK-based financial benchmarks in the fixed income, commodity and currency markets from 1 April 2015. This extends the FCA's initial regulation of LIBOR, as introduced by HM Treasury in 2013, and implements the recommendations of the Fair and Effective Markets Review.

This action applies the high standards the FCA expects of firms in relation to LIBOR to benchmarks in these vitally important markets, ensuring that market participants can be confident in the fairness and integrity of the benchmarks they use.

Martin Wheatley, Chief Executive of the FCA, said:

'I am determined to ensure that markets work well and preserve the UK's reputation as a centre of excellence for financial services – today's announcement is a vital step in achieving this. This builds on our work to strengthen LIBOR, and drive up standards on benchmarks across the board.'

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The FCA's consultation seeks views on extending its approach to regulating LIBOR to the firms that administer, and where appropriate, contribute data or information to the following benchmarks:

- SONIA (Sterling Overnight Index Average) and RONIA (Repurchase Overnight Index Average), which both serve as reference rates for overnight index swaps;
- WM/Reuters London 4pm Closing Spot Rate, which is the dominant global foreign exchange benchmark;
- ISDAFIX, which is the principal global benchmark for swap rates and spreads for interest rate swap transactions;
- London Gold Fixing and the LMBA Silver Price, which determine the price of gold and silver in the London market; and
- ICE Brent Index, traded on the ICE Futures Europe ('IFEU') exchange, which acts as the crude oil futures market's principal financial benchmark.

Benchmark administrators and firms that contribute to benchmarks will be FCA-authorized, and the FCA has proposed that a senior individual within each relevant firm should oversee compliance with the FCA's requirements.

Key requirements include identifying potentially manipulative behaviour, controlling conflicts of interest and implementing robust governance and oversight arrangements.

These proposals reflect the FCA's objective to ensure that markets work well and enhance market integrity.

The consultation closes on 30 January 2015; the FCA expects to publish final rules during the first quarter of 2015.

FCA 22.12.14

FCA consultation papers

Consultation Paper 14/32: Bringing additional benchmarks into the regulatory and supervisory regime

Following misconduct related to the LIBOR benchmark, the FCA was given powers to regulate benchmarks specified by the government in April 2013. Currently, LIBOR is the only regulated benchmark.

The government's Fair and Effective Markets Review has recommended an additional seven benchmarks that should be regulated by the FCA. The Treasury subsequently consulted on the legislative measures to specify further benchmarks to be regulated by the FCA and has published feedback from the consultation process.

The benchmarks that are being brought into the regulatory scope are:

- Sterling Overnight Index Average ('SONIA');

- Repurchase Overnight Index Average ('RONIA');
- ISDAFIX;
- WM/Reuters ('WMR') London 4pm Closing Spot Rate;
- London Gold Fixing (soon to be replaced by the LBMA Gold Price);
- LBMA Silver Price; and
- ICE Brent Index.

The FCA will regulate these benchmarks from April 2015 and consultation closed on 30 January 2015.

FCA 22.12.14

Consultation Paper 15/2: Financial Services Compensation Scheme – Management Expenses Levy Limit 2015/16

The FCA and the PRA are consulting on the Management Expenses Levy Limit ('MELL') for the Financial Services Compensation Scheme ('FSCS') for 2015/16.

The MELL proposed for 2015/16 is £74.4m, consisting of:

- FSCS management expenses of £69.1m: this is the minimum amount that will be levied for 2015/16; and
- a contingency reserve of £5.3m that allows the FSCS to levy additional funds, most likely at relatively short notice, without formal consultation by the FCA and the PRA to meet contingencies that were not foreseen when the annual levy was raised.

FCA 19.01.15

FCA bans and fines

Execution Noble & Co Ltd

The FCA has fined sponsor firm Execution Noble & Co Ltd ('ENCL') £231,000 for breaches of the Listing Rules in relation to sponsors. ENCL failed to tell the FCA's UK Listing Authority ('UKLA') that two thirds of its sponsor team – including the individuals responsible for leading and executing sponsor services – had left between June and November 2013, and continued to market itself as a competent sponsor throughout this period. This is the first use of the FCA's power to fine sponsors, introduced in 2013.

06.01.15

Reckitt Benckiser Group Plc

The FCA has fined Reckitt Benckiser Group Plc £539,800 for inadequate systems and controls to monitor share-dealing by its senior executives in its own shares. This contributed to late and incomplete disclosure to the market of share dealings by two senior executives.

20.01.15

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Arch Financial Products LLP

The Upper Tribunal has upheld the decision of the FCA to issue a public censure against Arch Financial Products LLP ('Arch'), and to prohibit Robin Farrell, its chief executive, and Robert Addison, a senior partner and former compliance officer, from performing any role in regulated financial services. Penalties of £650,000 and £200,000 have been imposed on Mr Farrell and Mr Addison respectively. The Tribunal also upheld the FCA's decision that it would have fined Arch £9m for its misconduct, were it not for the firm's financial position.

20.01.15

EU AND INTERNATIONAL

European Central Bank Announces a Modification to the Interest Rate applicable to Future Targeted Longer-term Refinancing Operations

The Governing Council of the European Central Bank ('ECB') decided that the interest rate for the remaining six targeted longer-term refinancing operations ('TLTROs') would be equal to the rate on the Eurosystem's main refinancing operations ('MROs') prevailing at the time when each TLTRO is conducted.

With this decision, the ten basis point spread over the MRO rate which was applied in the first two TLTROs is eliminated for the TLTROs to be conducted between March 2015 and June 2016. This decision supports the effectiveness of the operations by reflecting the reduction in term premia on market-based funding instruments for banks that has been observed since the announcement of the TLTROs on 5 June 2014.

This decision confirms the intention of the Governing Council to underpin the effectiveness of the TLTROs as key instruments supporting lending to the non-financial private sector, thereby enhancing monetary policy transmission and reinforcing the accommodative monetary policy stance.

The change will be implemented in an amendment to the Decision of the ECB of 29 July 2014 on measures relating to targeted longer-term refinancing operations (ECB/2014/34) which will be published before the next TLTRO operation in March 2015.

ECB 22.01.15

ECB Publishes Revised Ethics Framework and New Code of Conduct for Supervisory Board Members to Reflect Supervisory Tasks

The ECB has published a revised Ethics Framework for all ECB staff. The revision became necessary to reflect new tasks in banking supervision. It fulfils the requirements of the SSM Regulation (Article 19(3) of Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks

on the European Central Bank concerning policies relating to the prudential supervision of credit institutions), which calls for a Code of Conduct for ECB staff involved in banking supervision.

The revised framework entered into force on 1 January 2015. It strengthens the rules on avoiding conflicts of interest, as well as the rules governing gifts and hospitality, private financial transactions and professional secrecy. It also establishes a Compliance and Governance Office ('CGO'), which will advise ECB staff and monitor compliance.

In parallel, the ECB has also published the Code of Conduct for members of the Supervisory Board of the ECB. This code lays down rules on avoiding conflicts of interest, including provisions on cooling-off periods and the acceptance of invitations, as well as rules regarding activities undertaken in a personal capacity.

ECB 22.12.14

Basel Committee Consults on Capital Floors

The Basel Committee on Banking Supervision has published a consultative paper on the design of a capital floor framework based on standardised, non-internal modelled approaches.

The Committee's proposed floor would ensure that the level of capital across the banking system does not fall below a certain level. The floor is also meant to mitigate model risk and measurement error stemming from internally-modelled approaches. It would also enhance the comparability of capital outcomes across banks.

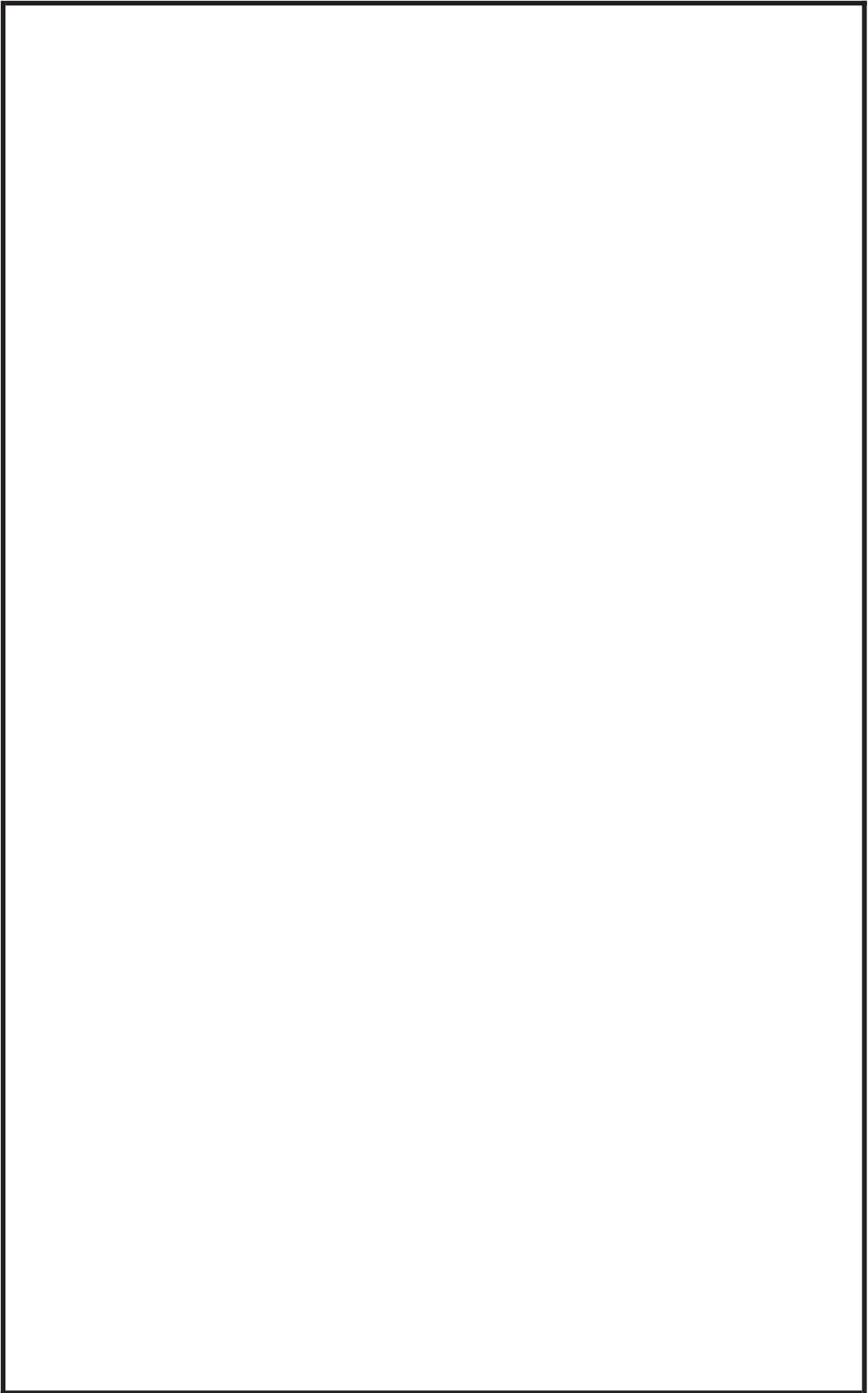
As noted in the Committee's November 2014 report to the G20 Leaders, the Committee is taking steps to reduce variation in capital ratios between banks. This new consultative paper is part of a range of policy and supervisory measures from the Committee that aim to enhance the reliability and comparability of risk-weighted capital ratios.

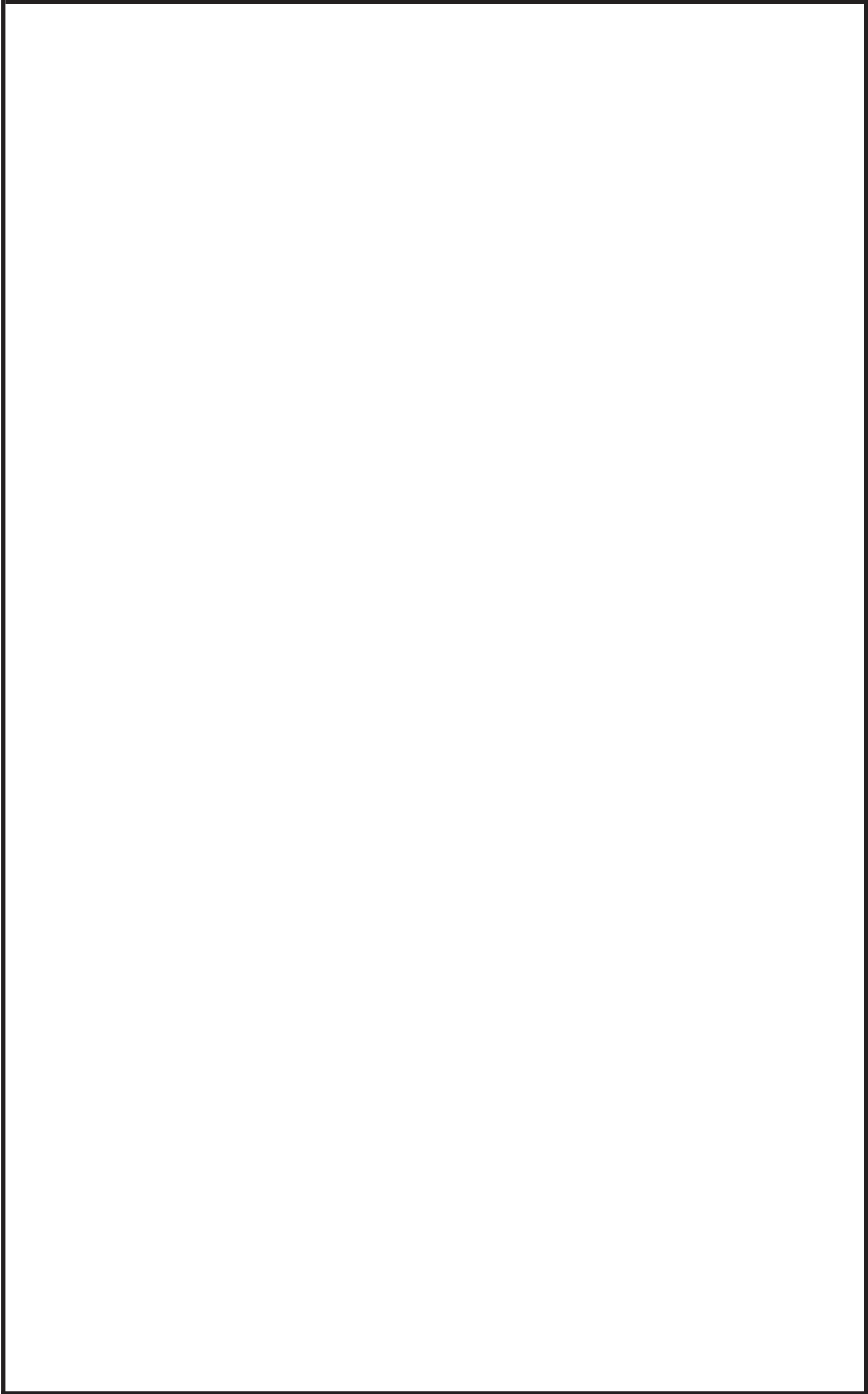
The Committee is revising the Basel framework's standardised approaches for regulatory capital and has also published today *Revisions to the Standardised Approach for Credit Risk*. The proposed capital floor framework will be based on the finalised versions of these standardised approaches, and would replace the existing transitional capital floor based on the Basel I framework.

The floor's calibration is outside the scope of this consultation. The Committee will consider the calibration of the floor alongside its work on finalising the revised standardised approaches to credit risk, market risk and operational risk, taking into account its ongoing review of the capital framework and its balance of simplicity, comparability and risk sensitivity.

The consultation period closes by Friday 27 March 2015.

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