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RECENT DEVELOPMENTS UK

HM Treasury News

Tax changes came into effect 1 April 2015

The following tax changes came into effect on Wednesday 1 April 2015:

- the Corporation Tax rate has been reduced to 20%;
- the new Diverted Profits Tax has been introduced;
- the bank levy has increased from 0.156% to 0.21%;
- Air Passenger Duty has been restructured – abolishing bands C and D;
- hospice charities, blood bikes, search and rescue, and air ambulance charities will be eligible for VAT refunds;
- business rates changes (England only)
  - the business rates multiplier has increased from 48.2p to 49.3p (47.1p to 48.0p for small business multiplier). This includes the 2% inflation cap,
  - the Small Business Rate Relief scheme has doubled for a further year – providing 100% relief for businesses with a single property with a rateable value of less than £6,000, and tapered relief with a rateable value of £6,000–£12,000, and
  - the business rates discount for shops, pubs, cafes and restaurants with a rateable value of £50k or below has increased from £1,000 to £1,500;
- the cultural test for high-end television tax relief has been modernised and the minimum UK expenditure requirement for all television tax reliefs has reduced from 25% to 10%;

- a new tax relief on the production of children's television has been introduced;
- the amount of banks' annual profit that can be offset by carried forward losses has been restricted to 50%;
- two new bands for the Annual Tax on Enveloped Dwellings ('ATED') have been introduced;
- Capital Gains Tax exemption for wasting assets will only apply if the corporate selling the asset has used it in their own business;
- an investment allowance for North Sea oil and gas, replacing the existing offshore field allowances and simplifying the existing regime, has been introduced;
- a reduced rate of fuel duty to methanol will apply – the rate is 9.32p per litre;
- fuels used to generate good quality electricity by CHP (combined heat and power) plants for onsite purposes are exempt from the Carbon Price Floor;
- Climate Change Levy main rates have increased in line with RPI;
- the VAT registration threshold has increased from £81,000 to £82,000 and the deregistration threshold from £79,000 to £80,000;
- the Scottish government's Land and Buildings Transactions Tax ('LBTT') will replace Stamp Duty Land Tax in Scotland;
- the associated companies rules have been replaced with simpler rules based on 51% group membership; and
- the standard and lower rates of landfill tax have been increased in line with RPI.

HM Treasury 01.04.15

Lloyd's share sales raise over £10bn for the taxpayer

The government has sold another £500m of Lloyd's Banking Group shares through the trading plan launched in December 2014, taking the total raised for the taxpayer to over £10bn. Over half of the amount invested by the taxpayer in Lloyd's has now been recovered.

The latest sales mean that the government's shareholding in Lloyd's is now below 20%, down from around 40% in 2009. All shares sold through the trading plan have been sold above the average price paid for them, which was 73.6p.

The Chancellor of the Exchequer, George Osborne, said:

> 'I'm delighted that we've now raised over £10 billion from selling our shares in Lloyds Bank. This means we have recovered over half of the taxpayers' money put into Lloyds, and now own less than 20% of the bank.

> These sales have only been made possible by our long term economic plan, and we are determined to build on this success, and to continue to return Lloyds to the private sector and reduce our national debt.'

A trading plan involves gradually selling shares in the market over time, in an orderly and measured way. The trading plan was launched on 17 December 2014 and will end no later than 30 June. Over £2.5bn has been raised for the taxpayer through the trading plan so far.

At the 2015 Budget the Chancellor announced that the government will sell at least £9bn of Lloyd's shares in 2015/16.

As required by Financial Conduct Authority ('FCA') rules, Lloyd's Banking Group announced that the government's shareholding in the bank has crossed through a one percentage point threshold. This announcement therefore notifies the market that the government has reduced its shareholding in Lloyd's to below 20%.

HM Treasury 12.05.15

HM Treasury publish open letters between the Governor of the Bank of England and the Chancellor of the Exchequer

The remit for the Monetary Policy Committee ('MPC') requires an exchange of open letters between the Governor of the Bank of England and the Chancellor of the Exchequer if inflation moves away from the target by more than one percentage point in either direction.

HM Treasury believe that the open letter system, required in the remits for the MPC since 1997, provides a formal mechanism of transparency and accountability in the event of any appreciable deviations from target.

The remit set in January 2015 requires that the open letter from the Governor should be published alongside the first routine publication after the meeting of the MPC that follows the release of the Consumer Price Indices ('CPI') data – i e minutes of the MPC meeting that followed the publication of the CPI data or, in relevant months, Inflation Report. The letter should refer as necessary to the Bank's latest Inflation Report and forecasts, covering the MPC's judgments on the trade-offs inherent in setting monetary policy. The reason for publishing the letter at that time is to allow the MPC time to form and communicate its strategy towards returning inflation to the target after consideration of the trade-offs, resulting in a more meaningful exchange about the MPC's strategy. As has been the case since 1997, the Governor is required to send a further letter after three months if inflation remains more than one percentage point above or below the target.

The Governor's letter should set out:

- the outlook for inflation and the reasons why inflation has moved away from the target or is expected to move away from the target;
- the policy action the committee is taking in response;

- the horizon over which the committee judges it is appropriate to return inflation to the target;
- the trade-off that has been made with regard to inflation and output variability in determining the scale and duration of any expected deviation of inflation from the target; and
- how this approach meets the government's monetary policy objectives.

Open letters between HM Treasury and Bank of England, May 2015, can be seen on https://www.gov.uk/goverment/publications/open-letters-between-hm-treasury-and-bank-of-england-may-2015.

HM Treasury 13.05.15

More than a million buy popular pensioner bonds

More than a million older savers have bought over £13bn of the government's 65+ pensioner bonds, which came off sale on 15 May 2015. These sales figures mean that the bonds have been the biggest selling retail financial product in Britain's modern history.

With annual interest rates of 4% for the three-year bonds and 2.8% for the one-year bonds, the government's 65+ pensioner bonds have offered savers the best available rates in the market.

Chancellor George Osborne said:

> 'The 65+ pensioner bonds have been a huge success. They're now helping over a million older savers who have done the right thing, by boosting the return on their savings and securing a more comfortable financial future.
>
> It's part of our long term plan to support savers and boost peoples' financial security at all stages of life.'

The government had originally allocated £10bn for these bonds. However, in February the Chancellor announced that they would be on sale for four months, until 15 May 2015, to ensure that those aged 65 and over who wanted to benefit from their market leading rates had time to do so.

A key part of the government's long-term plan is to support savers at all stages of their lives and help people secure their financial futures. That is why the government announced at Budget 2014 that National Savings and Investments ('NS&I') would launch two fixed-rate, market-leading savings bonds, and why the Chancellor confirmed in December last year that the interest rates these bonds would pay are significantly higher than any others currently offered in the market.

HM Treasury 16.05.15

Government creates new company to deliver record asset sales programme

The Chancellor has announced the creation of a new government-owned company, UK Government Investments ('UKGI'), as part of the government's plan to deliver the biggest ever sale of publicly-owned corporate and financial assets in 2015–16, exceeding £23bn in real terms for the first time.

Speaking at the CBI annual dinner, the Chancellor said that the two bodies that currently manage most of the taxpayer stakes in businesses across the economy – the Shareholder Executive ('ShEx') and UK Financial Investments ('UKFI') – are to be brought together under a single holding company.

The new company, UKGI, will make it easier for government experts to work together in order to deliver a key part of the government's long-term plan – the sale of a wide range of publicly-owned assets in a way that secures good value for money for taxpayers. These will include sale of shares in Lloyd's Banking Group, UK Asset Resolution assets, Eurostar and the pre-2012 income contingent repayment student loan book.

The new company will also help the government achieve its aim to run large, publicly-owned delivery bodies more efficiently, as well as learn from private sector expertise to improve the performance of those taxpayer-owned assets not being sold.

Chancellor of the Exchequer, George Osborne, said:

> 'If we want a more productive economy, let's get the government out of the business of owning great chunks of our banking system – and indeed other assets that should be in the private sector. To help that happen I can tell you that we're merging UK Financial Investments and the Shareholder Executive into one organisation, to return government investments back to the private sector.'

UKGI will be a government company or 'GovCo' which will be wholly owned by HM Treasury. It will operate through two divisions; the UKFI division will be the existing UKFI company (with its current board, articles and framework agreement) and made a subsidiary of UKGI. It will continue to operate at arm's length. ShEx will not be incorporated into a separate company but instead will operate as a division of UKGI, overseen by an advisory board and will continue to work on corporate finance and governance issues across government.

The two divisions will continue to operate under the names of ShEx and UKFI, which are well-known to their customers and key contacts, but will have common IT and other operating platforms, as well as being co-located, in order to save money and increase efficiency.

UKGI's board will be chaired by Robert Swannell, with James Leigh-Pemberton serving as Executive deputy chairman and continuing to lead UKFI full-time. Mark Russell will be the company's new Chief Executive Officer, with other board members coming from the existing ShEx and UKFI boards.

The transition to the new company will take place over the coming months, with the aim that it is fully up and running in Autumn 2015.

The previous highs for sales of publicly-owned corporate and financial assets were in 1991 and 1987 (£22.8bn and £22.9bn respectively in 2015 prices). In cash terms, the previous high was 1991 at £11.8bn.

HM Treasury 20.05.15

Government ends six figure exit payouts

Redundancy payments for the best-paid public sector workers will be capped below six figures as part of the Enterprise Bill in the Queen's Speech, the government has announced.

This will ensure fairness and value for money for the taxpayer, and could save millions of pounds – in 2013, nearly 2,000 (1,838) public sector employees received payouts over £100,000.

The government is minded to cap payouts at £95,000, but will consult on details such as the exact amount and public sector employers that are covered as part of the legislative process.

Reforms made last Parliament to claw back exit payments made to public sector workers who return to the same part of the public sector in a short time will also be implemented as planned.

Chancellor of the Exchequer, George Osborne, said:

> 'It is not right that working people should have to fork out for golden parachutes worth hundreds of thousands of pounds for public sector workers when they are made redundant.
>
> That's why we are delivering on our pledge to end six figure pay offs for the best paid public sector workers, ensuring fairness and value for money for the taxpayer.

Chief Secretary to the Treasury, Greg Hands, said:

> 'We are delivering our manifesto commitment to end six figure payoffs for the best paid public sector workers.
>
> It is wrong that hard-working taxpayers, many on low salaries, have to fund huge pay outs when well-paid people get made redundant.
>
> These reforms will ensure fairness and value for money across the public sector.'

HM Treasury 23.05.15

Bank of England and Prudential Regulation Authority News

Publication of the Review of the Code of Conduct for the Authentication of Machine-Dispensed Banknotes

Cash Services, the industry body for notes and coins, published (on 22 April 2015) a review of the first implementation phase of the *Code of Conduct for the Authentication of Machine-Dispensed Banknotes* ('the Code'). It also published a revised version of the Code, and both this and the review are available to download from the Cash Services and Bank of England websites.

The Code requires Bank of England banknotes that come out of note-dispensing machines (e g ATMs and self-service checkouts in shops) to have been machine-authenticated prior to being received by members of the public. It applies authentication standards to those businesses that self-fill these machines using banknotes tendered by their customers (a process known as 'local recycling'). This helps to ensure that the public can continue to trust that the banknotes they receive from these machines are genuine, maintaining confidence in the UK's currency. Counterfeit levels are very low, and the Code ensures that the risk of a member of the public receiving a counterfeit from a machine is not increased by the rise of local recycling.

Following an industry consultation, the Code was launched in July 2013 with a staggered implementation timetable. The first major implementation milestone was reached in September 2014 and this review follows that milestone, allowing conclusions to be drawn on the impact of the Code so far and possible changes for the future. Although the Code is voluntary, it should be followed by any organisation that operates automated banknote-dispensing machines. The current level of compliance with the Code is high, with 75% of all relevant ATMs and self-service checkouts compliant. This provides members of the public assurance that only machine-authenticated notes are dispensed by the majority of machines from which they may receive a Bank of England note.

A number of requirements and definitions have been clarified in the Code as a result of the review. The review also gives consideration to a number of more substantive changes to the scope of the Code which will be consulted upon in the future, including how the Code can be expanded to cover Scottish and Northern Ireland banknotes, and whether the compliance timetable and reporting process for the Code should be extended to cover machines in other sectors (e g transport or parking ticket machines dispensing banknotes as change).

Commenting, Victoria Cleland, Chief Cashier and Director of Notes Directorate, Bank of England, said:

> 'It is important that the public continue to have confidence in our banknotes. The Code is another key step by the cash industry to support this confidence, and I would like to congratulate and thank those who are compliant and urge others to follow suit.'

Maurice Cleaves, Interim Chief Executive of the Payments Council, said:

> 'Nowadays customers are likely to come across note-dispensing machines more than ever before. This Code was established to put further protection measures in place so that anyone receiving a note in this way can have peace of mind that it is genuine. Upholding trust in the UK's currency is a vital role and, even though it's less than two years old, the Code is helping to achieve exactly that.'

Bank of England 22.04.15

Launch of public nominations period for the next £20 banknote

At an event at the Victoria and Albert Museum in London, the Governor of the Bank of England, Mark Carney, announced that the next £20 note will celebrate Britain's achievements in the visual arts and he launched a public nomination period to seek people's views as to who should be recognised on the next £20 note.

Members of the public will have two months to nominate people of historic significance from the visual arts including artists, sculptors, printmakers, designers, craftspeople, ceramicists, architects, fashion designers, photographers and filmmakers – whose work shaped British thought, innovation, leadership, values and society. The public can nominate characters from within the field of visual arts on the Bank's website.

The public nomination programme is the first to be held under the Bank's new character selection process which was put in place to ensure that the choice of characters for the Bank's notes commanded broad respect and legitimacy. In line with principles announced in December 2013, the field of visual arts was chosen by a new Banknote Character Advisory Committee. The Committee is chaired by Deputy Governor Ben Broadbent and comprises Chief Cashier Victoria Cleland and independent experts Sir David Cannadine, Baroness Lola Young of Hornsey and Sandy Nairne.

In conjunction with this launch, the Governor has also announced the appointment of three further independent members to join the Committee, with expertise in the field of visual arts – John Akomfrah, Alice Rawsthorn, and Andrew Graham-Dixon who also spoke at the event. Following the two-month nominations period, the full Committee, with input from public focus groups, will draw up a shortlist of characters from which the Governor will make the final choice. The selected character will be announced during spring 2016. The new £20 note will be introduced into circulation in three to five years.

Bank of England 19.05.15

Bank of England consultation paper: 'The Bank of England's power to direct institutions to address impediments to resolvability'

The Bank of England, as the UK resolution authority, launched on 22 May 2015 a three-month consultation on its proposed approach to exercising its

statutory power to direct institutions to address impediments to their resolvability. The purpose of the consultation paper is to describe the context of this new power, which was introduced into the UK special resolution regime following transposition of the Bank Recovery and Resolution Directive (2014/59/EU), and to consult on a proposed Statement of Policy regarding that power, as required by s 3B(9) of the Banking Act 2009.

In order for resolution to be feasible and credible, institutions need to be organised and operate in a way that facilitates either the effective use of the stabilisation powers contained in the special resolution regime or, if appropriate, the winding up of the relevant institution.

The Bank of England prepares resolution plans for all institutions within scope of the special resolution regime. Resolution planning aims to develop a set of actions that would be taken by the Bank of England and relevant stakeholders (including other UK and overseas authorities) in the event that an institution fails, and includes:

(a) gathering information to facilitate resolution;

(b) conducting resolvability assessments;

(c) developing resolution strategies; and

(d) enhancing resolvability.

Resolvability assessments and the actions flowing from them are therefore a key part of resolution planning on a 'business as usual' basis, before an institution actually encounters distress. The Bank of England will work with institutions to ensure that any impediments that are identified through resolvability assessments are addressed. Where necessary, this could involve the use of the Bank of England's power to direct the institution to take action. The proposed Statement of Policy explains the Bank of England's general approach to and process for using the power of direction, and includes a non-exhaustive list of examples of how the power could be applied.

The Bank of England's power of direction applies to:

(a) banks, building societies and certain investment firms (ie those that deal as principal and are required to hold initial capital of €730,000), that are authorised by the Prudential Regulation Authority ('PRA') or the FCA;

(b) parent companies of such institutions that are financial holding companies or mixed financial holding companies; and

(c) PRA or FCA-authorised financial institutions that are subsidiaries of such institutions or such parent companies.

The Bank of England welcomes comments from interested parties on the proposed Statement of Policy by 22 August 2015.

Bank of England 22.05.15

The implementation of ring-fencing: legal structure, governance and the continuity of services and facilities – PS10/15

The PRA is required under the Financial Services and Markets Act 2000 (as amended by the Financial Services (Banking Reform) Act 2013) to make policy to implement the ring-fencing of core UK financial services and activities.

This policy statement will be of interest to banks which will be required to ring-fence their core activities. This will include banking groups with core deposits greater than £25bn. It will also be of interest to financial and other institutions and customers who have dealings with ring-fenced bodies.

The policy statement provides feedback on the responses received to Consultation Paper 19/14: *The implementation of ring-fencing: consultation on legal structure, governance and the continuity of services and facilities* ('CP19/14') published in October 2014, and the amendments to the draft rules and supervisory statements included in CP19/14. The policy statement covers three areas:

– legal structure arrangements of banking groups subject to ring-fencing;

– governance arrangements of ring-fenced bodies; and

– arrangements to ensure continuity of services and facilities to ring-fenced bodies.

The PRA does not consider that the responses to the consultation necessitate major changes to its proposed approach to implementing ring-fencing. But the PRA has made a number of amendments to the draft rules and supervisory statements published in CP19/14, mainly to add clarity and certainty. Updated 'near final' versions of the rules and supervisory statements are included in the policy statement.

The government has stated its intention for ring-fencing to take effect from 1 January 2019. The PRA intends to undertake a further consultation during 2015, and to publish final rules and supervisory statements covering the policy proposed in these two consultations during 2016 H1, to provide firms with sufficient time for implementation. The PRA's 'Structural reform' webpage summarises development to date and what's coming up on policy and implementation of the new regimes.

PRA 28.05.15

FCA News

Banking complaints up as total complaints fall by 7%

The latest complaints data published by the FCA shows financial services firms received 2,183,540 new complaints (including those related to payment protection insurance ('PPI')) between July and December 2014. Overall complaints decreased by 7% compared to the previous six months and by 12% from the same period last year.

However, excluding PPI, complaints increased by 1% to 1,124,622 between the first and second halves of 2014 and by 2% when compared with the same period in 2013. This increase was mainly caused by an 8% rise in the number of complaints relating to banking and credit cards group of products over the six months to the end of December. All other product categories showed decreases in the period.

PPI accounted for less than half (48%) of complaints for the first time in the last three years but remained the most complained about product with 1,058,918 opened complaints in 2014 H2. The number of PPI complaints opened decreased by 14% to 1,058,918 in the second half of 2014 compared to the first six months of the year.

The total redress paid increased by 4% to £2.44bn in the second half of 2014, from £2.34bn in the first half of the year. 88% of this amount (£2.15bn) related to general insurance and pure protection products, which include PPI. The redress paid in relation to banking and credit card products increased by 64% to £145m between July and December. This constituted 6% of the total redress paid in the last six months of the year against 4% in the previous period.

The top five most complained about firms, in terms of the number of complaints received in the second half of 2014, were:

(1) Barclays Bank – 276,626 (a decrease of 1% since the first half of 2014);

(2) Lloyds Bank – 242,782 (a decrease of 8% since the first half of 2014);

(3) Bank of Scotland – 231,869 (a decrease of 13% since the first half of 2014);

(4) HSBC – 152,148 (an increase of 16% since the first half of 2014); and

(5) National Westminster Bank– 126,507 (a decrease of 10% since the first half of 2014).

The top five most complained about products and services in the second half of 2014 were:

(1) PPI – 1,058,918 complaints (down 14% compared to the previous six months);

(2) current accounts – 385,818 complaints (up 22% compared to the previous six months);

(3) other general insurance – 318,326 complaints (down 0.16% compared to the previous six months);

(4) credit cards –109,487 complaints (down 14% compared to the previous six months); and

(5) savings, including cash ISAs, and other banking – 84,352 complaints (up 5% compared to the previous six months).

By product group, the firms with the largest number of complaints opened in the second half of 2014 were:

Banking and credit cards

(1) Barclays Bank – 109,994;

(2) Santander UK – 82,953;

(3) National Westminster Bank – 68,027;

(4) HSBC Bank – 66,109; and

(5) Lloyds Bank – 57,359.

Home finance (mortgages and equity release products)

(1) Bank of Scotland – 11,601;

(2) Santander UK – 9,728;

(3) Barclays Bank – 5,451;

(4) HSBC Bank – 5,447; and

(5) Nationwide Building Society – 5,047.

General insurance and pure protection (including PPI)

(1) Lloyds Bank – 183,652;

(2) Bank of Scotland – 179,250;

(3) Barclays Bank – 157,822;

(4) MBNA – 95,217; and

(5) HSBC – 76,968.

Decumulation, life and pensions

(1) The Prudential Assurance Company Ltd – 6,209;

(2) Friends Life Ltd – 5,188;

(3) Aviva Life Services UK Ltd – 4,153;

(4) Phoenix Life Ltd – 3,864; and

(5) Scottish Widows Plc – 3,382.

Investments

(1) Santander UK – 4,278;

(2) Barclays Bank – 2,576;

(3) Yorkshire Building Society – 2,240;

(4) HSBC – 1,853; and

(5) Bank of Scotland – 1,059.

The FCA publishes complaints data received from firms every six months, alongside aggregated figures covering the whole industry. The FCA requires firms which receive 500 or more complaints in a six-month period to publish the information on their websites.

Last year the FCA consulted on changes to its complaint handling rules. The proposed reforms will further improve the system, making it less bureaucratic for firms, easier for consumers and will provide the FCA with improved intelligence on complaints. This followed a review which found that while some improvements and innovations have already been made firms could and should be doing more. In particular, firms did not always consider the impact on consumers when designing and implementing processes and procedures.

FCA 31.03.15

FCA review reveals shortcomings in the provision of premium finance for general insurance

An FCA review has revealed that insurers and insurance intermediaries are not always providing customers with clear information about the different payment options available, when buying general insurance products.

The FCA thematic review of premium finance focused on the online sale of home and car insurance and followed the customer journey up to the point where purchasers are required to input their payment details. The review included 13 insurers and 30 insurance intermediaries (including four price comparison websites).

Linda Woodall, acting director of supervision at the FCA, said:

> 'Consumers should expect clear information about the payment options available to them. Regardless of whether people choose to pay upfront or in instalments, it's important that they can see exactly what they are signing up for and how much it costs so they can decide whether they are getting a fair deal.'

The FCA's findings reveal that insurers and intermediaries do not always provide clear and easily understandable information about the overall cost of paying for insurance, meaning that consumers could struggle to compare the difference between paying upfront or in instalments. In some cases, people may not realise there is a price difference between the two.

If a firm is providing regulated credit or is acting as a credit broker, they are required to provide a representative example setting out the interest rate, any fees or charges, a representative annual percentage rate ('APR') and the total amount payable. However, FCA researchers found a number of cases where this was either not provided or the example did not include all of the required information, potentially limiting a customer's ability to make an informed choice about how to pay.

The FCA review also identified a wide range of APRs, highlighting the importance to customers of having appropriate information to be able to

compare pricing and understand the impact that the cost of finance has on the overall cost of an insurance product.

The FCA also found:

- an adequate explanation of a proposed credit agreement was not always provided sufficiently early in the customer journey to enable customers to make informed decisions;
- firms acting as a credit broker did not always disclose the name of the credit provider or details of their relationship with the firm; and
- in some cases it was not made clear that a fee would be charged.

The FCA expects all firms to consider the findings of the review and take action where necessary. It is also following up with individual firms where it found specific examples of failings and poor practice.

FCA 11.05.15

FCA reviews highlights gap between insurance claims service and small and medium enterprises' expectations

The FCA launched a thematic review into claims handling for small and medium enterprises ('SMEs') because of the vital role that small businesses play in the health of the UK economy. Whilst SMEs' insurance needs can be relatively complex, the FCA's review found that they are also less likely to be sophisticated customers and many have similar knowledge and experience to retail consumers when buying general insurance products.

The FCA assessed 25 firms involved in the settlement and management of claims, including five insurers, ten insurance intermediaries (including five managing general agents) and ten loss assessing firms. It also looked at the claims experiences of 100 SMEs. The review focussed on larger claims of over £5,000.

Linda Woodall, acting director of supervision at the FCA, said:

> 'In an area where any delay could have a serious impact on a business or someone's livelihood, it is vital that claims are taken seriously and processed promptly – that means putting customers at the very heart of the process.
>
> We expect all firms to carefully analyse the findings of the review and make any necessary changes to their approach to ensure that SME claimants are treated fairly.'

In 2014, a thematic review revealed that the retail claims experience for individuals was broadly positive. In contrast, the FCA found that there was often a gap between SMEs' expectations of the claims process and the service that they actually received, with some customers feeling that they had not been treated fairly. For example, in a significant number of cases, poor communication with the claimant led to delays in reaching a settlement.

The FCA also uncovered numerous examples of poor practice in the handling of claims, including:

- delays in the initial visit by loss adjusters, in some cases it was three weeks before the first visit took place;
- claimants feeling unclear about what actions they should take to minimise disruption to their business;
- dissatisfaction among SMEs about a lack of clarity over who, among the different parties involved in claims handling, was responsible for driving claims outcomes; and
- lack of clarity over the next steps in the claims process.

In addition, in a significant number of cases the sums insured were inadequate to cover the loss incurred, highlighting the importance for businesses to accurately assess exactly how much cover they need in the event of a major disruption.

The FCA expects customers to be at the heart of how firms run their businesses and for firms to handle claims promptly and clearly communicate the reasons for any delays in the process.

The regulator will also engage with firms, senior figures in the industry, and relevant trade bodies to discuss the findings of the review, its expectations, and the changes that may be required to improve outcomes for SME customers.

The FCA will also provide feedback to the firms included in the review. Where appropriate, firms may be asked to carry out an internal review to determine whether individual instances of poor claims handling reflects widespread issues within the firm.

FCA 22.05.15

FCA consultation papers

Consultation paper 15/17: Capital resources requirements for Personal Investment Firms ('PIFs')

Alongside the Retail Distribution Review ('RDR') to improve the standards in the retail investment market, the then regulator, the Financial Services Authority ('FSA'), proposed new prudential requirements for personal investment firms ('PIFs'). These rules were meant to ensure that PIFs are sufficiently able to deliver on their longer-term commitments. However, following subsequent feedback, the FCA deferred implementation of these rules pending further review, which the FCA is now doing in this consultation paper. As before, the aim remains to require a proportionate level of capital resources for PIFs to absorb routine losses and legitimate redress claims against them, as well as to provide time to make appropriate arrangements in the case of market exit.

Summary of the FCA proposal:

Chapter 3 of this consultation paper outlines the FCA's proposed rules for establishing the amount of capital resources a PIF must hold. The proposals are based on setting the requirements as a function of regulated income. The vast majority of PIFs are categorised as 'B3' (activities restricted to advising on or arranging retail investment products without holding client money) for the purposes of the Interim Prudential Sourcebook for Investment Businesses ('IPRU(INV)').

The summarised proposals for the majority of PIFs are to have capital resources requirements that are the higher of:

- a new minimum capital resources requirement of £20,000. This will replace the £10,000 minimum of own funds currently required; and
- the introduction of a new income based requirement. Under this PIFs must hold capital resources that are at least equal to a percentage of the relevant annual income amount earned in the previous year. This will be set at 5% for most PIFs. This calculation replaces the current expenditure-based requirement (EBR) for PIFs with more than 25 advisers.

The new requirements will not commence until 30 June 2016. Then there will be a 12-month transitional period during which the minimum requirement will be £15,000.

There are also other categories of PIFs than B3 firms (see Annex 4 of the consultation paper for detailed descriptions).

Wherever possible the FCA proposes to apply the same broad requirements to all categories of PIF, subject to any minimum requirements that are set by EU law and the interaction with prudential rules in other chapters of the FCA Handbook of rules and guidance when conducting non-PIF business. In particular, for those PIFs which have permission to trade as principal, hold client money or manage portfolios, the FCA proposes that the new income based requirement be set at a level of 10% of relevant annual income.

This paper will be relevant to:

- firms that provide financial advice – both PIFs and competing firms subject to other prudential regimes – and potential new market entrants;
- consumers and consumer organisations;
- professional and trade bodies representing PIFs and other types of financial advisers;
- providers of investment and protection products and services distributed through PIFs;
- providers of professional indemnity insurance ('PII') to PIFs; and
- providers of investment platform, professional and other services to PIFs.

All comments should be sent be 7 September 2015.

FCA 28.05.15

FCA bans and fines

Moorhouse Group Ltd

The FCA fined Moorhouse Group Ltd £159,300 for failures in relation to the oversight and control of its telephone sales and in particular the sale of commercial vehicle add-on insurance products during 2012. Moorhouse failed to disclose appropriate information about the limitations and exclusions of commercial vehicle add-on products to consumers before they were sold. Without balanced information there was a risk that consumers were not able to make an informed decision as to whether the product was suitable for them.

23.04.15

Deutsche Bank AG

The FCA handed Deutsche Bank AG a £227m ($340m) fine, its largest ever for LIBOR and EURIBOR-related (collectively known as IBOR) misconduct. Between January 2005 and December 2010, trading desks at Deutsche Bank manipulated its IBOR submissions across all major currencies. The fine is so large because Deutsche Bank also misled the regulator, which could have hampered its investigation.

23.04.15

Paul Reynolds

The FCA fined Paul Reynolds (formerly known as Paul Brian Reynolds) £290,344 and banned him from performing any function in relation to regulated activities on the basis that he is not fit and proper because he lacks integrity. Between 2005 and 2010, while he was an approved person at Aspire Personal Finance Ltd, Mr Reynolds recommended a number of complex and high risk products to his clients, many of whom were on low incomes and had little or no investment experience. Mr Reynolds was aware that he could not justify the suitability of these products for his clients.

20.05.15

Barclays Bank Plc

The FCA imposed a financial penalty of £284,432,000 on Barclays Bank Plc for failing to control business practices in its foreign exchange (‘FX’) business in London. This is the largest financial penalty ever imposed by the FCA, or its predecessor the FSA. Barclays’ failure adequately to control its FX business is particularly serious in light of its potential impact on the systemically important spot FX market. The failings occurred throughout Barclays’ London voice trading FX business, extending beyond G10 spot FX trading into EM spot FX trading, options and sales, undermining confidence in the UK financial system and putting its integrity at risk.

20.05.15

EU AND INTERNATIONAL

European Central Bank and Bank of England Announce Measures to Enhance Financial Stability in Relation to Centrally Cleared Markets in the EU

The European Central Bank (‘ECB’) and the Bank of England (‘BoE’) announced a series of measures aimed at enhancing financial stability in relation to centrally cleared markets within the EU.

- The ECB and the BoE have agreed enhanced arrangements for information exchange and cooperation regarding UK Central Counterparties (‘CCPs’) with significant euro-denominated business.
- The ECB and the BoE are extending the scope of their standing swap line in order, should it be necessary and without pre-committing to the provision of liquidity, to facilitate the provision of multi-currency liquidity support by both central banks to CCPs established in the UK and euro area respectively. CCP liquidity risk management remains first and foremost the responsibility of the CCPs themselves.

This announcement follows the judgement on 4 March by the General Court of the EU. In light of these agreements the ECB and UK government, as set out in the UK government’s announcement, have agreed to a cessation of all legal actions covering the three legal cases raised by the UK government.

ECB 29.03.15

Financial Integration in Europe Rebounds, ECB Report Finds

Overall, financial integration in Europe has returned to a level close to that recorded before the sovereign debt crisis, the ECB said in a new report published at a Conference on Financial Integration and Stability held together with the EU Commission in Brussels.

The report, which is produced annually, finds that financial integration in the euro area has made good progress in most market segments and increased in 2014, in comparison with the level recorded in 2013, as measured by the composite indicator on financial integration, FINTEC. This progress can be seen across the money, bond, and banking market segments, while the picture for the equity market segment is more mixed.

Financial integration has improved as a result of, inter alia, the establishment of the Banking Union, in particular the Single Supervisory Mechanism and the comprehensive assessment of banks that preceded its taking up operations, as well as the Single Resolution Mechanism. Moreover, the series of unconventional monetary policy actions taken by the ECB have helped counter financial fragmentation.

The report says it remains crucial to fully implement the Banking Union in order to sustain the progress made in financial integration, promote its further development and limit the potential negative side effects of financial fragmentation in a crisis situation.

> 'European financial integration has improved over the past two years, and that has also been to the benefit of the access to finance by firms. Our measures have reduced financial fragmentation and, since last year, both the level and the dispersion of credit interest rates have been reduced, especially for small and medium-sized enterprises. Much remains to be done to deepen financial integration further. The Capital Markets Union project, launched by the Commission, can make a positive contribution to that goal,'

said Vítor Constâncio, Vice-President of the ECB.

The four market segments in detail

In the money markets, the share of unsecured overnight cross-border transactions has returned to the levels observed before the Lehman default. Moreover, the dispersion of money market rates at various maturities across euro-area countries declined throughout most of 2014. The rise in confidence that this access to greater cross-border short-term funding signals is also reflected in the lower levels of excess liquidity held in the banking sector.

Indicators also show that the fragmentation in euro area bond markets (for sovereigns, banks and non-financial corporates) receded further in 2014, as result of at least three main factors:

(a) the implementation of structural reforms in distressed countries;

(b) progress on euro area financial architecture reforms; and

(c) the ECB's monetary policy measures.

Search for high-yielding debt securities abroad may also play a role in the convergence of corporate rates and would need to be monitored carefully from a financial stability perspective.

Financial integration also improved in the euro area banking markets in 2014. The cross-border dispersion of retail rates on loans to, and deposits held by, non-financial corporates continued to decline, and the gap between such rates in distressed and non-distressed countries became smaller in 2014. The fact that the narrowing of the gap is particularly visible for small retail loans indicates the success of some policy initiatives aimed at restoring SME financing, which plays a crucial role in restoring sound economic growth in distressed countries.

Progress in equity market integration is less clear than in the case of the money, bond and banking markets. Price-based indicators show, for example, a persistently higher fragmentation of equity markets among distressed countries relative to non-distressed countries. Quantity-based indicators exhibit a stable level of intra-euro area cross-border equity holdings. The

diversification observed to equity outside the euro area, at the expense of domestic holdings, may have some benefits for financial stability.

ECB 27.04.15

Bank for International Settlements, ECB and International Monetary Fund publish Handbook on Securities Statistics

The Bank for International Settlements ('BIS'), the ECB and the International Monetary Fund ('IMF') jointly released the *Handbook on Securities Statistics*.

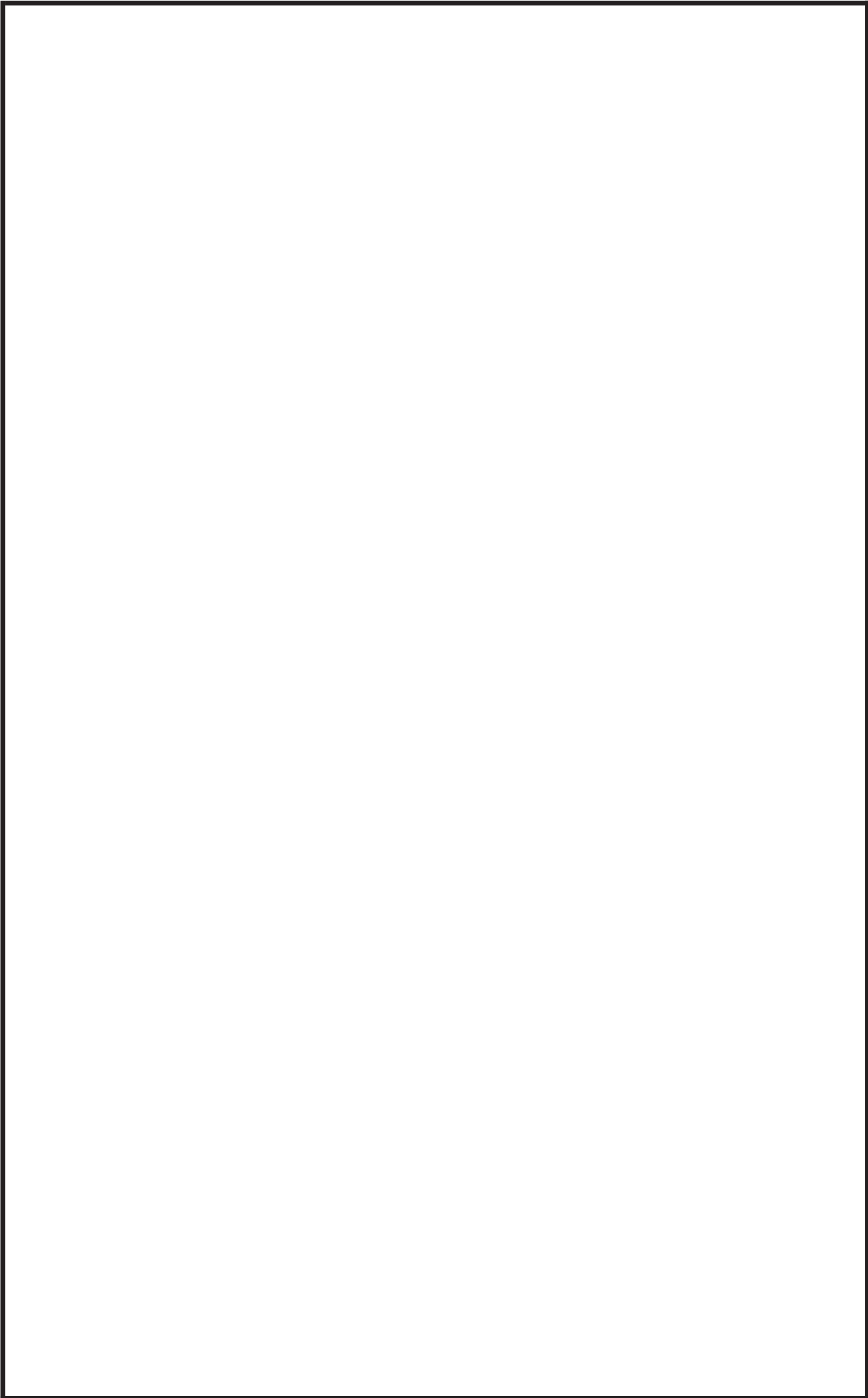
The importance of securities markets in intermediating financial flows, both domestically and internationally, underscores the need for relevant, coherent and internationally comparable statistics. This need was recognised by the G20 Data Gaps Initiative, launched in the aftermath of the 2007–08 global financial crisis with the support of the G20 finance ministers and central bank governors and the IMF's International Monetary and Financial Committee.

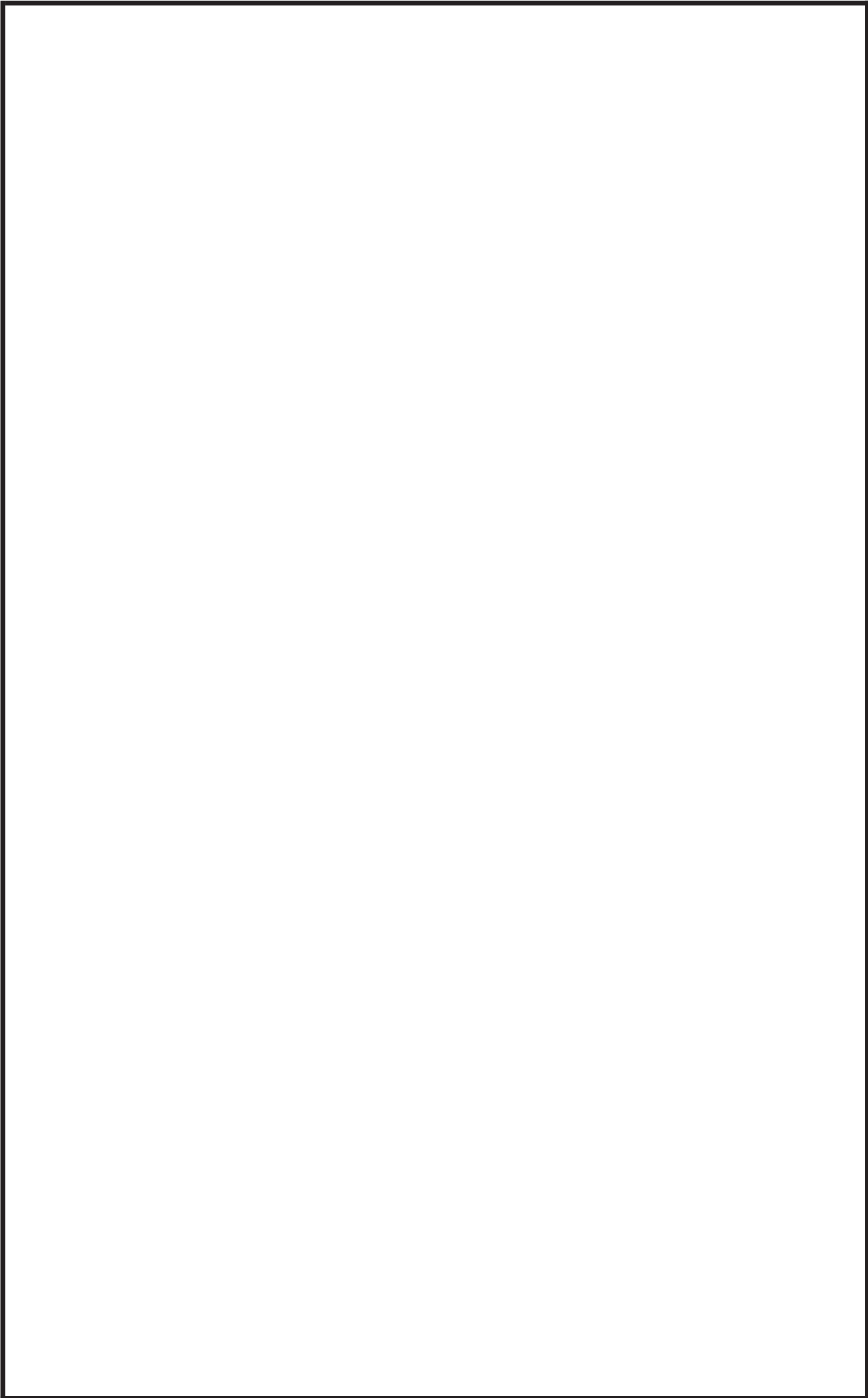
Good securities data, along with monetary and financial statistics, provide important indications on the level of diversification of financial intermediation. The Handbook supports this analysis by strengthening the collection of securities data through conceptual advice and guidance to harmonise the presentation of securities statistics. It describes the main features of debt and equity securities as well as the institutional units and sectors as issuers and holders of securities, and discusses the statistical recording rules to be applied.

The Handbook is a milestone in that it is the first publication of its kind dealing exclusively with the conceptual framework for the compilation and presentation of securities statistics. Prepared jointly by the BIS, the ECB and the IMF working in close cooperation, the Handbook has also benefited from comments by experts from national central banks, national statistical agencies and international organisations.

It is expected that the Handbook will be widely applied, fostering harmonisation of the international securities statistics that support global economic, financial and macro-prudential analyses.

BIS 12.05.15





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